CITY OF CARDIFF COUNCIL
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CABINET MEETING: 28 JULY 2016

CABINET PROPOSAL

AGENDA ITEM:

BUDGET STRATEGY REPORT 2017/18 AND THE MEDIUM TERM

Reason for this Report

1. To consolidate and update the financial strategy of the Council in readiness for the preparation of the 2017/18 revenue and capital budgets. This will include outlining the timetable for the budget process in order to present the Budget Report to Council in February 2017.

2. The Report will outline and update the budget reduction requirement that the Council is facing over the medium term. It will set out the strategy to address the budget gap in the forthcoming financial year as well as across the life of the medium term financial plan (MTFP). Consideration will be given to the future outlook for the Council beyond the timeframe of the MTFP, although these projections are highly caveated given the number of unknown variables.

3. The Budget Strategy Report will highlight the ongoing severity of the financial challenge and consider its impacts on the financial resilience of the Council. The policies, budget assumptions and tools that underpin the Budget Strategy will be crucial in moving the Council forward on a financially sustainable basis.

Structure of the Report

4. The Report contextualises the budget strategy by considering the internal and external backdrop against which it is being prepared. The Report revisits the Medium Term Budget Reduction Requirement that was identified in the 2016/17 Budget Report and sets out updates, both in terms of the quantum that will need to be identified over the next three years and the strategy to address it. The Report also includes updates in respect of the Capital Programme.

5. The following table provides a quick reference guide to the key sections of the Report. A short overview of the strategy in the format of questions and answers is included at Appendix 1.

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Approach to Budget Strategy	**51**	Recap of 2016/17 Approach as the basis for 2017/18. Overview of 2017/18 work to date and work-plan
Strategy to address the Budget Gap	**58**	A recap of the budget strategy set out in the 2016/17 Budget Report and refresh and review of that position.
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General Background

Economic Position

6. This Report is written in the context of a prolonged period of significant financial restraint. The implications of the Autumn Statement and Spending Review and of the Chancellor's March 2016 Budget are a continuation of implied real cuts to day to day spending on public services and administration in 2017/18 and 2018/19. The outcome of the EU Referendum on 23 June 2016, for the UK to leave the European Union has raised significant uncertainty and speculation

regarding the future economic position of the country. This is referred to at the end of this section but will need careful monitoring over coming months as the situation starts to be afforded more clarity.

7. The Chancellor's budget announcement in March 2016 set out the economic context based on figures produced by the Office for Budget Responsibility (OBR.) The economic figures showed a deterioration on November 2015 figures. Some of the main indicators from this statement were:-

- Forecast growth of 2% this year and 2.2% in 2017; a revision downwards from the growth prediction of 2.4% in the November 2015 Spending Review
- Forecast inflation to be below the target rate of 2% in 2016, returning gradually to 2% in 2018
- National debt forecast to peak at 83.7% in 2015/16 before falling from 2016/17 to 74.7% of GDP in 2020/2021.

8. The OBR Report set out that risks to the global economic outlook remain significant, with slower growth in China, shifting prospects of oil supply and the outlook for US monetary policy among the key sources of uncertainty. It should be noted that the OBR report, and therefore the Chancellor's budget, were predicated on the UK remaining in the European Union following the referendum. This is because the OBR is required to base forecasts on current Government policy and not to consider alternatives.

9. The result of the UK referendum on 23 June 2016 to leave the EU, has placed a number of uncertainties around the economy. Immediate impacts that occurred in the week following the referendum include the downgrading of the UK's triple-A rating by a number of credit agencies and a reduction in the exchange rate of the pound. The short term consequences of these changes have been a reduction in the PWLB borrowing rate and, given that the price of oil is based on dollars, an increase in fuel prices is anticipated shortly.

10. Impacts over the medium to longer term are extremely difficult to predict. The UK is not expected to invoke Article 50 of the Treaty of Lisbon, to instigate withdrawal proceedings until the autumn following the appointment of a new Prime Minister and the ensuing details of UK's exit from the EU will need to inform future financial forecasts. There were originally some indications that there may be an Emergency UK Budget in the immediate aftermath of a "Leave" vote. Whilst the immediate threat of an emergency budget has been removed, this is still considered a possibility following the appointment of a new Prime Minister later in the autumn. The impact of this along with potential changes to the Welsh block grant and Welsh Government's (WG's) subsequent decisions regarding its grant distribution are all factors that could impact future Local Government Settlements.

Welsh Government Context

11. The 2016/17 financial settlement set out an average decrease in Aggregate External Finance (AEF) of 1.4% across Wales, with individual Authority reductions ranging from between 0.1% and 4%. Cardiff experienced a 0.1% reduction in AEF which in cash terms equates to a £301,000 loss of general funding compared to 2015/16. The settlement was for one year only and no indicative figures were provided in respect of the financial years 2017/18 and

beyond.

12. Ongoing budget reductions of the scale required to achieve a balanced position require difficult decisions with appropriate lead in times. These should be based on sound evidence and implemented in a planned and rational way. The absence of multi-year settlement information is therefore extremely challenging from a financial planning perspective. For Cardiff, a 1% fluctuation in AEF equates to £4.3 million in cash terms and therefore minor changes in percentage terms can have a significant impact on planning. This situation was exacerbated in 2015/16 when the timing of the Autumn Comprehensive Spending Review delayed publication of the WG Budget and in turn, the Local Government Settlement. As a result, Welsh Local Government received indicative funding figures just three months in advance of budget-setting date.

13. In the absence of indicative funding figures for 2016/17, the Council had assumed a funding reduction of 3% which was in line with the decrease experienced in 2015/16 and with warnings from the WG to expect further challenging settlements. Whilst the 0.1% reduction Cardiff received was significantly better than anticipated, it is testament to the scale of the ongoing financial challenge that a negative settlement accompanied by unfunded financial pressures of over £30 million was perceived as good news.

14. Settlement announcements are expected to revert back to usual timeframes this year, and the Provisional Settlement is anticipated in October 2016. However, as noted above, there is the potential for an emergency budget following the appointment of a new Prime Minister and the timing and content of any such budget may have implications for settlement dates.

15. Whilst confirmation of funding levels remains a key risk, the Council used the opportunity afforded by the better than anticipated 2016/17 settlement to strengthen its ongoing financial resilience. As part of this, a £4 million financial resilience mechanism was established. The mechanism, which is equivalent to approximately 1% of Aggregate External Finance supports one off investment in priority areas, and is available for release in subsequent years in the event that the settlement is worse than the 1% reduction assumed in the Medium Term Financial Plan.

16. In its response to the Welsh Government Budget, the Welsh Local Government Association (WLGA) recognises that the WG is also faced with real term budget reductions. In this context, rather than seeking to achieve greater funding for Welsh Local Government, the WLGA sought WG recognition of the gravity of the situation with a call for the accurate and transparent reporting of information and maximisation of flexibility. The WLGA highlighted a number of ways in which it felt a new relationship based on these principles could be achieved and these included:-

- More direct links between any schools protection and AEF
- Greater equity in the consideration of preventative services such as social services and housing
- De-hypothecation of specific grants
- Greater co-ordination across Welsh Governments department in policy making that affects Local Government
- A thorough review of the costs and benefits of audit and regulation

- Greater clarity for the future with the issue of multiyear settlements
- Recognition that in times of increasing financial risks, a council making cuts also needs to increase reserves to reflect the volatility of its budget
- Full consideration of the devolution of powers to Councils, including retention of business rates growth
- Realism in terms of new legislative duties of Council and more robust assessment of their financial impact

17. The WLGA also highlighted that between 2009/10 and 2015/16, specific grant funding has increased from £680 million to over £900 million as new initiatives have grown more quickly than older grants are rolled into the settlement. The WLGA believe that many grants are aimed at achieving similar outcomes, often over-lapping or duplicating activity whilst at the same time restricting how authorities design services delivery to achieve outcomes, potentially to the detriment of innovation. Cited examples within the Alleviating Poverty Programme include Communities First (£29 million), Families First (£43 million), Flying Start (£76 million) and Supporting People (£124 million.)

Council Background

Corporate Plan

18. The Council approved its Corporate Plan for the period 2016-2018 in February 2016. The plan sets the Council's strategic direction and provides a framework to underpin more detailed service plans and performance management objectives. With reducing funding and increased demand for services, Councils must be clear about their priorities. For Cardiff, the Corporate Plan 2016-18 identifies these as:

    - Priority 1 – Better education and skills for all
    - Priority 2 – Supporting vulnerable people
    - Priority 3 – Creating more and better paid jobs
    - Priority 4 – Working together to transform services

19. The Corporate Plan is aligned with the vision for Cardiff to be Europe's Most Liveable Capital City, and with the seven jointly agreed outcomes included in the Single Integrated Plan – "What Matters" that are aimed at delivering this vision. The Corporate Plan together with significant issues identified through the Council's Statement of Internal Control, the Corporate Risk Register and performance management report are reflected in the financial strategy for 2017/18 and beyond.

20. The Budget Strategy is aligned with Corporate Plan priorities as far as possible. Clearly, opportunities for investment are restrained in the current climate, although the budget strategy does include growth for schools over the medium term. Whilst savings must inevitably be found to balance the budget, their themes are aligned with corporate plan priorities wherever possible. Other savings aim to focus on internal processes and overheads to avoid significant impact on front line services. In addition, the current capital programme includes sums to support organisational change and to enhance the city centre to attract new businesses.

Wales Audit Office Corporate Assessment Follow On Report

21. The Auditor General for Wales must report on an annual basis on how well Welsh Councils are planning for improvement in service delivery. In addition, every four years, the Auditor General must conduct a Corporate Assessment of every local authority in Wales. Cardiff Council was the subject of corporate assessment in March 2014. The ensuing Report was critical of the Council's performance and recommended that the then newly established Organisational Development Programme must ensure the resolution of the issues identified in the Assessment. The Report committed the Wales Audit Office (WAO) to carry out a follow on corporate inspection in 2015 to determine whether the issues identified in the Corporate Assessment Report had been satisfactorily resolved.

22. The Wales Audit Office follow on visit was undertaken in October 2015 and the Corporate Assessment Follow On report was published on 26 February 2016. The report contained one statutory recommendation and 14 proposals for improvement relating to the key areas of leadership and management, governance, performance reporting and corporate enablers, including financial planning processes. The statutory recommendation was that the Council ensure that all proposals for improvements be delivered within 12 months.

23. The Follow On Report's recommendations in respect of financial planning processes were consistent with a simultaneous review that the WAO undertook that was part of a wider review into the financial resilience of Welsh Local Government. The latter review was aimed at forming an assessment as to whether the council effectively manages budget reductions in order to ensure ongoing financial resilience and the three key areas of financial planning, financial control and financial governance were considered.

24. The conclusion of WAO in reporting on the Council's financial resilience was that the "The Council has improved its arrangements for financial planning and has sound financial control and governance arrangements but now needs to develop robust plans to support the timely delivery of its savings proposals". The Council's financial control and governance arrangements were assessed as low risk, and financial planning as medium risk. This was consistent with the findings of the WAO follow on report which recognised that the Council has improved its MTFP arrangements and had raised the profile of financial resilience but made four specific recommendations to further strengthen financial planning processes.

25. The Corporate Assessment Follow On report's four specific recommendations in relation to financial planning processes were encapsulated by two themes; savings planning and integration between the MTFP and other plans. In respect of the latter, the report recommended that links between improvement planning arrangements and service plans could be more explicit, and that savings proposals should be linked to the Organisational Development Programme (ODP) where relevant and driven by the ODP board. From a planning perspective, the Report recommended that all budget savings plans should be as fully developed as appropriate with realistic timescales identified at the time the annual budget is set.

26. It should be noted that the focus of the WAO assessment was on the delivery of 2014/15 savings plans and the 2015/16 financial planning period. The budget

process is subject to regular review and a number of improvements had already been taken forward as part of 2016/17 Budget Strategy, which did not form part of WAO's review and subsequent report. These were outlined in the response to the follow on report and summarised below.

- The 2016/17 Budget Strategy was the product of earlier and more collaborative target setting
- There was a further marked shift from incremental budgeting with emphasis on how budgets could be reshaped over the medium term to address the financial challenge
- There was increased focus on the whole of the Council's budget with detailed consideration of opportunities for savings within areas of "addressable spend"
- There was continued focus on the importance of Budget Strategy Assumptions as part of the solution over both one and three years including council tax, cap on schools growth and use of earmarked reserves
- Financial resilience was given a high profile throughout the 2016/17 process, and advantage was taken of the opportunity afforded by the better than anticipated settlement to strengthen future resilience
- Directorates undertook regular review of the planning status of proposals and frequent updates were provided to Senior Management Team and Informal Cabinet in this respect
- Links were made between medium term savings proposals and the ODP's focus on the shift to online services, facilitating alternative delivery models, increasing revenue from commercial activity and reducing the council's asset base. Issues arising from both Organisational Development and development of budget strategy were considered at SMT on a recurring basis.
- As outlined in the 2016/17 Budget Report, the above culminated in a more detailed response to the medium term budget reduction requirement than in previous years and this has provided a firm foundation for the 2017/18 approach, requiring less time and effort to be spent on target-setting exercises in the early part of 2016/17 enabling more focus on challenging and planning draft 2017/18 proposals.

27. The above highlight that progress had already been made in a number of respects but that this was not reflected in WAO's report. These improvements will be embedded and developed as part of the 2017/18 budget process.

Organisational Development

28. As noted in the previous section, in May 2014, the Cabinet established a comprehensive ODP, based on co-operative principles which was designed to reshape the Council in response to a range of critical challenges, including the financial challenges facing the Council, demand-led pressure on services and the need to improve performance. To date, the programme has driven improvement and change across a range of areas including improvements in the way the Council uses its assets, continued collaboration across sub-regional partnerships to deliver social services, working to ensure the Council has residents at the heart of its approach through development of Community Hubs and the continuing implementation of the Council's Customer

Relationship management system aimed at improving customer experience. The financial benefits of changes in many of these areas have been reflected in previous budgets through for example, budget savings in relation to office accommodation, Hubs and the use of capital receipts to support the 2015/16 capitalisation direction.

29. As previously noted, there are clear links between medium term savings themes and the next steps of the ODP; these include the shift to online services, customer focus and enabling technology, increasing revenue from commercial activity and strategic commissioning. There is regular interaction between the finance section and the Organisational Development team to ensure that frequent information sharing takes place and issues arising from both Organisational Development and financial planning are considered by SMT on a recurrent basis. All projects within the ODP are required to have effective financial plans in place which link to the MTFP. The ODP will be an essential part of releasing budget savings in a manner that conserves financial resilience as far as possible.

Risk and Financial Resilience
Risk

30. The risk assessment carried out as part of the 2016/17 budget preparation identified significant financial and operational challenges over the medium term. In addition to considering the risks associated with individual savings and financial pressures, a number of additional Council risks were identified. These can be categorised under six themes, three of which have a more internal focus, whilst the other three are largely externally determined. These risks are summarised in the table below:-

	Theme	Identified Risks
INTERNAL	SAVINGS	• The significant amount of savings predicated on the success of preventative strategies and the difficulty of tracking their impact in terms of financial monitoring. • The necessity to deliver budgeted savings from reshaping services and other change proposals not yet fully defined. • The significant level of savings based on commercial and income initiatives that are yet to be tested in the market. • The need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays to delivery of the proposal has on the budget monitoring position • The cumulative impact of achieving the savings, within the 2016/17 budget in addition to the unachieved 2015/16 savings which remain to be realised.

	Theme	Identified Risks
	ORGANISATIONAL CHANGE	• The potential implications arising from the implementation of alternative delivery models for certain Council services. • The service impact of an ongoing reduction in headcount expected to take place over the medium term but also the changing impact of alternative delivery models on the nature of the workforce. • The impact of the potential adoption of alternative models of service delivery and the requirement to test consequential costs and benefits of the change, for example working through any potential TUPE implications. • The impact of functions delivered as part of a collaborative arrangement should the planned benefits not be realised. • The impact of the ongoing uncertainty in respect of the outcome of local government reorganisation.
	CAPITAL ASPIRATION	• The level of additional borrowing undertaken in previous years and proposed will require more revenue resources to be used for capital financing in future years or the use of WG's new powers of borrowing. • Capital schemes that are approved on the basis of generating savings, increasing income or capital receipts but which fail to do so will also increase pressure on the revenue budget. • The increasing financial exposure to the Council of the SOP consolidated financial model as the size of the programme and associated risks increase.
EXTERNAL	FUNDING	• The potential impact on RSG funding if allowances for sparsity are included in future settlements and also any redistributive impact of specific grants transferred into the Settlement. • The challenging financial position in respect of reducing WG resources, increasing financial pressures against a reducing controllable base budget together with increasing volatility and uncertainty in respect of hypothecated grants. • The impact on Cardiff Bus, which is wholly owned by the Council, should the WG make significant reductions to the reimbursement rate in respect of concessionary fares in 2016/17.
	DEMAND	• Reducing demand for services where the Council has historically charged for the activity, creating an income shortfall. • The ability to react to new demands resulting from welfare reforms as they are progressively implemented together with financial risks in respect of the CTRS. • Continuing demographic demand for social care services
	OTHER	• The impact of welfare reforms, in particular the phased implementation of Universal Credit during 2016/17, on the ability of individuals to contribute to the cost of services provided where relevant. • The risk of WG levying fines if the Council fails to realise recycling or land fill diversion rates.

31. The impact of these challenges are reviewed as part of the financial monitoring process and through the Corporate Risk Register, both of which are regularly reported to the Cabinet and Senior Management Team. The Council's Audit Committee also regularly review the Corporate Risk Register. Given the risks identified, care will continue to be taken that changes to service delivery and business processes do not impact negatively on the financial control environment. In addition, new risks will continue to be identified and monitored throughout the budget preparation period. Examples of these include the potential impact of the EU referendum as highlighted earlier in the report but also the need for successful implementation of new systems and processes such as the Customer Relationship Management arrangements.

Financial Resilience

32. The Council has met a budget reduction requirement of over £30 million for 2016/17, building on £113 million in the previous three years with a further £73 million requirement anticipated over the next three. The 2016/17 Budget Report, and earlier reports recognised that the financial outlook is such that radical changes must continue to be made to the shape of the organisation in order for it to remain operational and resilient. In this context, the significance of reviewing the financial standing, risks and resilience of the Council cannot be understated. The development of a deliverable Budget Strategy is a key document in this respect.

33. Key messages in respect of financial resilience included in the 2016/17 Budget Report included:-

- The need to deliver significant levels of savings during a period of prolonged financial austerity, particularly given the impact that delays to delivery of proposals have on the budget monitoring position
- The cumulative impact of achieving 2016/17 savings in addition to the unachieved 2015/16 savings which remain to be realised
- The significance of addressing a further £73 million gap, building on £28.8 million in the current year and £135 million in the five years preceding that.
- The complexity associated with delivering the radical change required to continually reshape the organisation, including the delivery of new operating and delivery models
- The increasing ratio of capital financing charges to controllable revenue budgets as controllable budgets reduce, impacting on the relative affordability of the capital programme

34. During recent years, much emphasis has been placed on raising the profile of financial resilience and briefing and training sessions for both Members and officers have taken place in this respect. The Council regularly prepares Financial Resilience Snapshots which are designed to give an overview of the financial health of the Council at intervals throughout the year. By combining past, present and future information, the snapshots provide a rounded view of performance and enable emerging issues and trends to be identified. The Council has also increased the level of benchmarking that it undertakes with organisations facing similar financial challenges.

35. The snapshot included at Appendix 3 provides an overview of the financial

health of the Council at the time of setting the Budget Strategy for 2017/18. It reflects the Budget Strategy reflected in this report, the 2015/16 Outturn Report and the draft Statement of Accounts for 2015/16. The Council's Statement of Accounts are a key document in assessing financial resilience. The draft Statement of Accounts for 2015/16 were reviewed by Audit Committee on the 27 June 2016 prior to the Corporate Director for Resources signing them as the Responsible Finance Officer. The accounts are currently on public deposit and will be audited over the summer, with the audited accounts due for presentation to Council in September.

36. In recognition that development of the 2017/18 budget over the next six months will be informed by the budget monitoring position, the snapshot includes information on the 2015/16 Outturn and the level of savings achieved in 2015/16. It should be noted that whilst the Council's outturn for 2015/16 was favourable and allowed additional monies to be set aside in useable reserves, the position at a directorate level was an overspend of £4.635 million partially offset by the general contingency of £4 million. The delivery of delayed savings, in addition to those included in the 2016/17 Budget will remain a key area of risk to be monitored as the year progresses. It should be noted that the 2016/17 budget sought to improve this risk through the writing out of £3 million unachieved prior year savings. Monitoring of savings has already commenced in the current year with regular consideration at Senior Management Team and timetabled discussion with Cabinet Members.

37. Reserves are an important part of financial resilience as in times of uncertainty, they provide a backstop against volatility. The unaudited accounts show that the level of the Council's General Fund Reserve is £15.255 million. This is an increase of £2.696 million on the previous year's balance however, this includes £1 million that has been transferred for use in funding the 2016/17 budget, in line with the 2016/17 Budget Report proposals. After adjusting for this, the Council's General Reserve, stands at 2.5% of its net revenue expenditure; a slight improvement on the 2.2% from the previous year. Whilst, 2015/16 comparative information is not yet available, this level is below the Welsh average as at 31 March 2015. The snapshot shows an increase in earmarked reserves which now stand at 9% of the net revenue budget, taking them back up from the comparatively low levels held in recent years. A significant element of the increase in earmarked reserves at 2015/16 outturn related to the early repayment of sums previously borrowed from reserves to fund severance costs. Other transfers to reserves were aimed at improving financial resilience in respect of some of the risk areas identified in the previous section, including for example, the waste and welfare reform reserves.

38. The Council's arrangements for holding and utilising reserves is set out in its Financial Procedure Rules. Members, following advice from the Section 151 Officer will consider the level of reserves held and whether any amounts should be used in support of the budget setting process. General practice is to avoid over-reliance on reserves as general budget funding for several reasons. These include firstly, their finite nature which creates an immediate funding gap to be filled in the following year, secondly, the need to conserve the resilience they can provide in times of challenge and significant cumulative savings requirements and finally, the fact that cash balances can help the Council avoid short term borrowing and its associated costs.

39. A careful balance needs to be struck when deciding how reserves may be used in support of the budget. The Budget Strategy Planning Assumptions section of this report, sets out the suggested use of both general and earmarked reserves for 2017/18 and the medium term. The improved position on earmarked reserves strengthens the Budget Strategy assumption of annual use of reserves in support of the budget. In addition, the healthier level of reserves can be used to further improve the Council's financial resilience through their considered use to assist the funding of one-off investment requirement to support transformation and to allow an element of lead in time to more challenging savings.

The 2017/18 and MTFP Budget Reduction Requirement

40. The 2016/17 Budget Report identified a budget reduction requirement of £24.7 million for 2017/18 and £73 million over the three year MTFP period. A budget reduction of £73 million over a three-year period, is lower than in recent budget rounds but is still highly material and needs to be viewed in the context of the £190 million in savings over the ten year period 2006/07 – 2015/16 with over 50% of these between 2013/14 and 2016/17.

41. The £73 million is considered a base case scenario and is predicated upon the Council receiving Welsh Government funding decreases of 1% each year. The table below summarises the components of the 2017/18 gap as at February 2016.

	Medium Term Budget Gap			
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**TOTAL £000**
Pay and Price Inflation	6,445	5,840	5,464	**17,749**
Schools Growth	7,770	7,049	7,186	**22,005**
Capital Financing, Commitments & Realignments	(2,785)	(1,178)	2,067	**(1,896)**
Non Schools Demographic Growth	3,900	3,900	3,900	**11,700**
Emerging Financial Pressures	3,000	3,000	3,000	**9,000**
Fall out of 2016/17 Reserve Funding	2,070	0	0	**2,070**
Estimated 1% funding reduction	4,263	4,220	4,136	**12,619**
TOTAL	**24,663**	**22,831**	**25,753**	**73,247**

42. The following table contains additional detail on the pressures included within the above table and summarises the assumptions that underpinned them as included in the February 2016 Budget Report. Areas marked with an asterisk have undergone review and refresh since February 2016 and further detail on these updates is set out in the section on review and update of the Budget Reduction Requirement.

Plan Area	Pressures covered and key assumptions
Pay and Price Inflation	• **Pay Award for non-schools staff * –** reflects the offer made to Trade Unions in Dec 2015 • **Voluntary Living Wage (VLW) Uplift** – the Council is a VLW Council. As the 2017 rate is not yet known, the plan assumes an uplift in line with 2016 • **Actuarial Review of LGPS** - the valuation date is 31 March 2016. The review findings are not yet confirmed. The MTFP assumes that employer's contributions may increase from 22.9% to 23.4% with the increase stepped over a three year period. • **Pensions Auto-enrolment** - the plan assumes some additional pension scheme members at the Auto-Enrolment date of 1 October 2017. It is assumed most people will continue to opt out, but for prudence a 10% take up is included. • **Incremental Drift** – the estimated cost of annual pay scale progression • **Exceptional Price inflation** – generally, directorates are required to absorb price inflation with their existing resource base. However, the plan includes provision for specific fee uplifts in unavoidable areas.
Schools Growth	• **Pay Award *** – for non-teaching staff, assumptions are as above. For teaching staff, in the absence of a confirmed award a 1% uplift has been assumed • **Incremental Drift** – the estimated cost of annual pay scale progression • **Pupil Number Growth * –** the estimated annual growth from rising pupil numbers • **Other Demographic Growth * -** growth that relate to needs pressures rather than purely pupil numbers – including breakfast initiatives, free schools meals, complex needs enhancement etc.
Capital Financing, Commitments & Realignments	• **Capital Financing *** – figures reflect the incremental changes in the cost of servicing debt. These incorporate the impact of a change in Minimum Revenue Provision (MRP) policy from 4.5% to 4% p.a. in 2017/18 to align the provision of debt on supported borrowing with WG assumed levels. Capital financing costs reflect the 2016/17 capital programme, with no assumption of any further new scheme approvals in 2017/18 and onwards. • **Commitments –** the commitment figure for 2017/18 includes the estimated cost of the Apprenticeship Levy due to take effect from 1 April 2017. The MTFP also includes provision for commitments associated with the Central Enterprise Zone and hosting of the Volvo Round the World Yacht Race. • **Realignment – general contingency -** As part of the 2014/15 budget a £4million general contingency budget was established in recognition of the financial challenge faced. It is anticipated that the annual savings requirement over the medium term will be lower than in 2014/15 and 2015/16 and it is therefore considered prudent to release £1million of the general contingency in 2017/18. • **Realignment – severance budget * -** The plan included a £4million realignment downwards of the voluntary redundancy budget over the first two years. This adjustment is based on a reset of the number of anticipated leavers included within the voluntary severance model. The number of staff leaving the Authority on severance is significantly lower than in previous years. In addition, the nature of savings has shifted, with alternative delivery models forming a key component of the medium term financial plan
Non-Schools Demographic	• Over recent years, Cardiff has had one of the fastest growing populations of any UK core city. This trend will continue with statistical

Plan Area	Pressures covered and key assumptions
Growth	projections suggesting significant population growth out to 2034. • Anticipated growth is in age groups in which demand for services can be more costly • Most growth within this section of the plan is in the area of social services. As well as growth in numbers, the plan also provides for increasing complexity of demand in Children's Services.
Emerging Financial Pressures	• The plan includes £3million per annum to address emerging financial pressures (equating to approx. 0.5% of net budget). This sum has been included in recognition that it is impossible to foresee all issues, and that in reality, additional burdens may arise as the year progresses – legislation/policy/grant fall out. The figure will be reviewed as necessary as the start of the financial year 2017/18 draws nearer.
Fall out of 2016/17 Reserve Funding	• The 2016/17 budget included £2.070 million use of reserves. The plan reflects the fall out of this sum in 2017/18. The budget planning assumptions section resets the levels of earmarked reserves to be used in each year of the MTFP. Starting afresh in this manner ensures that use of reserves are given suitable focus and Member engagement.
Estimated 1% funding reduction	• In the absence of indicative figures, the MTFP assumes an AEF reduction of 1% p.a. • This reflects WLGA modelling which considered a number of scenarios based on WG affording differing levels of protection for the rest of the Welsh public Sector. 1% was considered a "middle of the road" scenario between the most optimistic estimates of a modest increase in funding and the least pessimistic estimates of a 2-2.5% reduction. • A 1% funding reduction equates to £4.3million and therefore the absence of indicative figures is a risk • As part of strengthening financial resilience in the 2016/17 budget, a £4million financial resilience mechanism was established to assist with future funding settlements being worse than anticipated

Review and Update of the Budget Reduction Requirement

43. As already noted, the budget reduction requirement is a dynamic figure which must be regularly reviewed to ensure preparedness from a planning perspective. The table below sets out the components of the MTFP that were scheduled for refresh during the first quarter of 2017/18. In addition, reactive refresh has taken place to reflect the 2015/16 outturn position and the Chancellor's March 2016 budget. In some instances such as pay awards, review and refresh has confirmed assumptions already included within the Medium Term Financial Plan. In others area such as demographic growth further review will be required as the year progresses and finally some areas have been updated as part of this Report including future Teacher's Pension costs.

Area of Refresh	Influential Factors
Pay and Prices	Finalisation of pay award negotiations, shape of workforce
Schools Growth	Demographic updates and updates on pay awards
Commitments	Further Government announcements on the operation of the Apprenticeship Levy
Realignments	Most recent profile of leavers (VS) and in year monitoring

44. Since the MTFP was published in February, the National Joint Committee pay award has been agreed. The award covers both 2016/17 and 2017/18 and is based on an uplift of 1% with higher increases on lower spinal points. The agreed award is in line with the December 2015 offer upon which the MTFP had already been based and therefore no amendments are required in this respect. A further refresh of the pay calculation will take place in the autumn, to reflect the shape of the workforce at that time and to factor in confirmed Voluntary Living Wage uplift which is usually announced in November. The National Living wage is an area that will need to be kept under close review in coming months. Whilst the impact on Cardiff's own workforce in this respect is anticipated to be minimal given that the Council is already a Voluntary Living Wage Organisation, the impact on external pricing, especially in the area of Social Services could result in significant pressures.

45. An update to the capital financing figures has been undertaken resulting in a £335,000 reduction to the estimated requirement for 2017/18. The update reflects the fact that as part of 2015/16 outturn, premia in relation to repayment of debt rescheduling were charged to the revenue account in full. This released the commitment within the capital financing budget to repay these sums over future years.

46. The Chancellor's March budget announced a reduction in the discount rate used to set employer contributions to unfunded public service pension schemes from 3% above CPI to 2.8% above CPI. This is expected to impact on employers from April 2019. As a funded scheme, the Local Government Pension Scheme (LGPS) will not be affected however, as an unfunded scheme, the Teacher's Pension Scheme will be affected. The estimated impact on the Teacher's pension budget for inclusion in 2019/20 within the MTFP is currently £1.7 million. This is based on an estimated Superannuation Rate of 18.10% in September 2019.

47. MTFP estimates in respect of pupil numbers have been refreshed to update year group funding values, and year group AWPU values as per the 2016/17 delegated schools funding formula. Mainstream pupil numbers have been reviewed with January 2016 PLASC data used to estimate pupil numbers at 2016. These changes suggest a required increase of £240,000 to figures included in the first year of the MTFP. This is offset by a minor increase in estimated Special Resource Base growth requirements having taken into

account SEN review proposals. The net impact is a £202,000 increase in demographic pressure for 2017/18. It is not proposed that this increase is reflected within the budget reduction requirement at this stage. This is because in 2015/16 actual expenditure in relation to other schools' growth areas, specifically School Breakfast Initiatives and Free School Meals were lower than anticipated. Further review is due to take place but it is anticipated that sums included in the plan for the latter areas can redirected into pupil number growth upon September refresh.

48. The Apprenticeship Levy was scheduled for refresh during the first quarter in order to reflect within the MTFP any further clarity that might have emerged with regards the detailed operation of the scheme. It is confirmed that the levy will apply to both public and private sector employers at a rate of 0.5% on pay-bills in excess of £3 million and it is anticipated that Wales' share of the funding will be allocated in line with the Barnett Formula although this remains to be confirmed. However, WG have yet to confirm how they will distribute the fund in support of Welsh apprenticeships. This area will be kept under review as the year progresses.

49. The voluntary redundancy realignment was scheduled for refresh during the first quarter of the year in order to reflect the 2015/16 outturn position on severance and its implications for the voluntary severance model. The 2015/16 outturn on voluntary redundancy was less than previously anticipated and in general terms, the number of staff leaving the Council on voluntary redundancy has fallen in recent years. Traditionally, a high proportion of annual savings budgets had been found through reductions in staff posts and restructures. The opportunities for these savings are reducing and less are anticipated in the future unless they are linked to technological reform. The medium term plan had already reflected a significant reduction in severance requirements over the first two years of the plan. Opportunity was taken from the lower than anticipated 2015/16 severance cost to make early repayment in respect of sums previously borrowed from reserves and this resulted in an increase in 2017/18 addressable spend savings as outlined in a subsequent section of this report. However, releasing higher sums in the first year of the plan will reduce the level of reduction originally planned in 2018/19, and this is reflected in the update.

50. Taking into account the updates outlined above, the updated Medium Term budget gap upon which this Report is based is £75.297 million. The increase since February 2016 is largely the result of an estimated increase in Teachers Pension costs in 2019/20 based on announcements in the Chancellor's March 2016 budget. The budget reduction requirement for 2017/18 has reduced slightly to £24.328 million; a result of decisions taken at outturn 2015/16 to repay premia in respect of debt rescheduling. This is summarised in the following table:-

	Updated Medium Term Budget Gap			
	2017/18 £000	2018/19 £000	2019/20 £000	TOTAL £000
Medium Term Budget Gap at Feb 2016	24,663	22,831	25,753	**73,247**
Capital Financing Update	(335)			**(335)**
Teachers' Pension Scheme Update			1,700	**1,700**
Voluntary Severance		685		**685**
Medium Term Budget Gap at July 2016	24,328	23,516	27,453	**75,297**

Approach to Budget Strategy

Recap of 2016/17 Position

51. The February 2016 Budget Report identified a final budget gap of £33m for 2016/17. The approved budget addressed this shortfall through savings amounting to £28.835 million and a 3.7% increase in the rate of Council Tax.

52. The Budget Strategy for 2016/17 involved a marked shift from incremental budgeting, with the adoption of an approach that was aimed at understanding services at their most basic level, facilitating discussion on corporate priorities and the future shape of the organisation and considering how base budgets could be reshaped accordingly. These discussions resulted in a framework for directorate savings targets over both one and three years, recognising that flexibility would be required to review and adapt the incidence of savings as detailed budget work progressed and to reflect emerging issues. The better than anticipated 2016/17 funding settlement which has already been referred to above, provided an opportunity for further review and in unpacking its impact the Council sought to improve financial resilience for 2016/17 and beyond in a number of respects. These included: -

    i) **Review of budget planning assumptions** – to reduce the use of one year only solutions, to take out areas of high risk and to support key corporate priorities

    ii) **Reduction of future risk** – through introduction of a new mechanism to improve financial resilience and enable one off investment and development in priority areas

    iii) **Review financial pressures** – to address emerging risk areas, to review areas of high risk or uncertainty and to address corporate priorities

    iv) **Review savings proposals** – to address the pace and scale of the most challenging 2016/17savings proposals and to improve the financial position for 2017/18 and beyond by re-profiling some proposals back to later years. It should also be noted that savings proposals in respect of prior years that were recognised as no longer being technically achievable, were written out as part of the 2016/17 budget process.

Overview of Approach – 2017/18 and Beyond

53. The 2016/17 approach has provided a sound foundation from which to take forward detailed work on the 2017/18 Budget Strategy. In particular, the more detailed response to the medium term budget reduction requirement outlined in the 2016/17 Budget Report has enabled work to commence on development and review of proposals earlier in the year, without the need to revisit a detailed target-setting exercise.

54. Preparation for the 2017/18 Budget has sought to build on the momentum generated in 2016/17 by bringing forward the usual focus for Budget Strategy Tasks by at least one quarter. Directorates are currently in the process of developing more detailed savings plans and testing achievability, a process that will need to be closely informed by the progress towards 2016/17 savings.

55. As part of ongoing work in relation to Budget Strategy, the budget reduction requirement is kept under close review and as part of first quarter work on the budget, review, update and refresh has taken place as described in earlier sections.

56. There are two key areas of focus in addressing the budget reduction requirement and Budget Strategy development is aimed at identifying a combination of these that strikes a suitable balance between statutory duty, corporate priorities and financial resilience. The two areas are outlined below with greater detail included in subsequent sections of the Report.

1. **Set a framework for assumptions around a) Council Tax Income b) Restrictions to Schools Growth and c) Use of Earmarked Reserves**

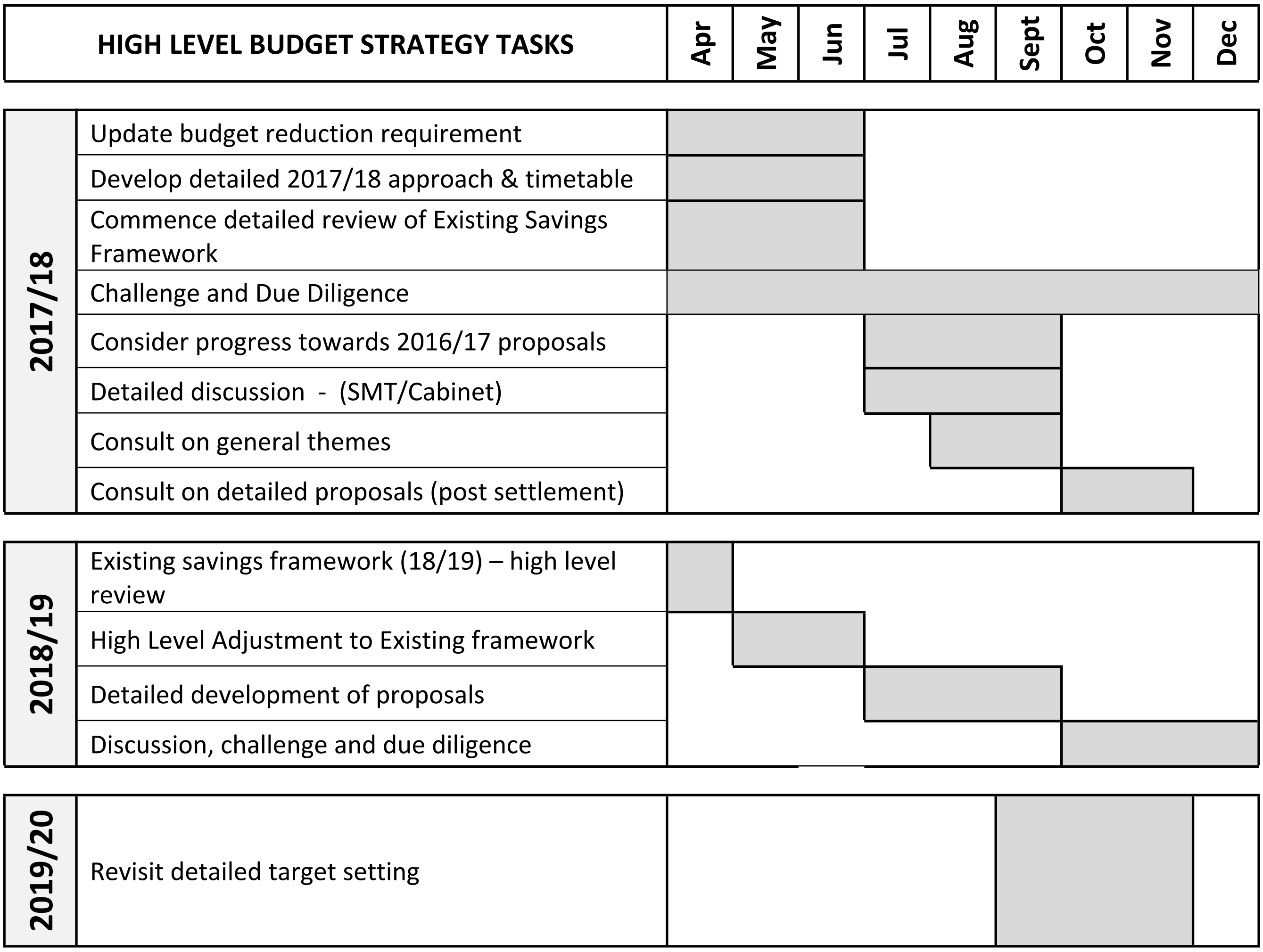
   The 2017/18 Budget Strategy emphasised that identification of savings from within the Council's controllable base budget will be an insufficient solution to the medium term budget reduction requirement. All areas of the Council's budget, funding sources and cash balances are considered as part of the solution to the budget gap. The detailed consideration that have taken place in respect of these are outlined in paragraphs 62 to 68.

2. **Reduce Existing Budgets through savings**

   As noted above, the 2016/17 budget process, set a clear direction for savings targets over the medium term and directorates are currently in the process of testing achievability and developing detail in respect of draft 2017/18 savings proposals. Further information on the areas in which savings are being targeted is included in the savings section in this report. It is intended that early consultation on these areas will take place over the summer as part of the "Ask Cardiff" survey and that this will pave the way for more detailed consultation in the autumn, at which point the Council should also be in receipt of the 2017/18 Provisional Settlement.

57. The budget timetable is predicated upon directorates undertaking further work on 2018/19 proposals over the summer to enable collective review and discussion by Senior Management Team and Cabinet during the autumn.

Focus will then shift to more detailed target setting for 2019/20. Over the winter months, work will commence on rolling the MTFP forward one year into 2020/21 for inclusion in the February 2017 Budget Report. A brief overview of this timetable is included overleaf.



Budget Strategy to Address Medium Term Reduction Requirement (Budget Report 2016/17)

58. As noted in earlier sections, the 2016/17 Budget Strategy set the direction of travel for addressing the level of savings required over the medium term through the adoption of an approach aimed at understanding services at their most basic level and considering how base budgets could be reshaped over the medium term. These discussions resulted in a framework for directorate savings targets over both one and three years, recognising that flexibility would be required to review and adapt the incidence of savings as detailed budget work progressed and to reflect emerging issues.

59. The February 2016 Budget Report set out the framework for savings which emanated from this exercise and outlined Budget Strategy Assumptions for the medium term. These included:-

- An annual cap on schools' non-demographic growth of 30% per annum
- A council tax increase of 3.7% per annum in line with the 2016/17 increase
- An annual draw down from reserves of £1.5 million which was a sum considered to strike a balance between protecting financial resilience and

facilitating a balanced budget.

60. A reminder of the budget strategy assumptions and framework for savings that were included in the 2016/17 Budget Report are set out in the table below.

Budget Strategy Overview (at 2016/17 Budget Report)

	2017/18 £000	2018/19 £000	2019/20 £000	TOTAL £000
Budget Reduction Requirement	**24,663**	**22,831**	**25,753**	**73,247**
Strategy to Address Budget Reduction Requirement Per 2016/17 Budget Report				
Budget Strategy Assumptions				
Cap on Schools Growth - @ 30%	1,253	1,163	1,073	**3,489**
Council tax at 3.7%	4,451	4,616	4,786	**13,853**
Use of Earmarked Reserves	1,500	1,500	1,500	**4,500**
Total Assumptions	**7,204**	**7,279**	**7,359**	**21,842**
Addressable Spend Savings	**3,000**	**3,000**	**3,000**	**9,000**
Directorate Savings				
Being a Commercially Minded Council	7,787	7,472	9,388	**24,647**
Ensuring Public Services are Accessible	583	645	810	**2,038**
Greater Alignment of our Services	3,296	3,198	4,018	**10,512**
Targeting Services and Early Intervention	2,793	1,237	1,178	**5,208**
Total Directorate Savings	**14,459**	**12,552**	**15,394**	**42,405**
Total Strategy to Address Gap	**24,663**	**22,831**	**25,753**	**73,247**

61. The next section sets out how the above position has been updated in preparing this report in order to reflect:-

1. Review of budget strategy assumptions
2. Review of the savings framework to reflect work that is ongoing within directorates to test the achievability of savings proposals and develop more detailed savings plans; a process that will need to be closely informed by the progress towards 2016/17 savings.
3. The increase of the budget gap to £75.3 million over the three year period with a £335,000 reduction in the requirement for 2017/18

Budget Strategy to Address Medium Term Reduction Requirement – Updated

62. Budget Assumptions represent almost 30% of the proposed approach to address the budget reduction requirement and are therefore a material part of Budget Strategy. Assumptions will need to be revisited frequently throughout the budget process to ensure their ongoing achievability and acceptability. Any

changes will have a significant impact on medium term savings requirements. As part of the preparatory work for this Report, assumptions have been reviewed as summarised below.

63. The updated MTFP includes total growth of £23.7 million in respect of Schools budgets. The table below analyses the components of this sum.

	Medium Term Budget Gap			
	2017/18 £000	**2018/19 £000**	**2019/20 £000**	**TOTAL £000**
Demographic Growth (Mainstream Pupil Numbers and Special Schools Places Purchased)	2,428	2,112	2,569	**7,109**
Other Demographic Pressures (Needs)	1,167	1,062	1,042	**3,271**
Pay and Price Inflation	4,175	3,875	5,275	**13,325**
Total Growth	**7,770**	**7,049**	**8,886**	**23,705**
30% cap on pay and price inflation	**(1,253)**	**(1,163)**	**(1,582)**	**(3,999)**
Net Schools Growth	**6,517**	**5,886**	**7,304**	**19,706**
Percentage of Schools Budget	**3%**	**2.6%**	**3.2%**	**9.1%**

64. The Budget Strategy is predicated upon Schools being awarded 100% of the demographic growth relating to mainstream pupil numbers and their associated needs with annual non-demographic growth capped by 30% as illustrated above. Whilst this approach is consistent with the direction set in the February 2016/17 Budget Report, it should be noted that in terms of quantum, the value of the cap has increased by £0.5 million in 2019/20. This is a direct result of the £1.7 million increase to non-demographic growth in that year to reflect announcements made in the Chancellor's March 2016 budget with regards unfunded pension schemes.

65. After application of the cap, the budget strategy provides £19.7 million growth for schools over the three year plan period, in alignment with the corporate plan priority to provide better education and skills and ensure that every Cardiff school is a good school. This investment is equivalent to 9.1% of the existing schools budget and will increase schools' budgets from £216 million to £236 million over the plan period. There are currently no official announcements in respect of future Welsh Government protection requirements and this area will be kept under review as the year progresses.

66. The assumption of a 3.7% annual council tax increase, generating net income of £13.853 million, has been retained over the life of the plan. This assumption will be revisited at intervals throughout the year including at provisional settlement when the overall funding position for 2017/18 is afforded more clarity and in December 2016 when the Council tax base is set.

67. The assumption of an annual reserve draw-down of £1.5 million per annum has also been retained. In line with best practice, careful annual scrutiny is given to earmarked reserves, their planned profile of use and the specific reserves for release in support of general budget funding. In addition to the use of £1.5 million as set out above, ongoing budget work will consider the extent to which earmarked reserves may be used to support the delivery of specific savings proposals by providing one-off funding to cover an element of lead-in time.

68. The above updates result in a revised set of budget assumptions as highlighted below. This leaves a total of £52.945 million to be identified through savings over three years, with £17.124 million in 2017/18.

	2017/18 £000	2018/19 £000	2019/20 £000	TOTAL £000
Updated Budget Reduction Requirement	**24,328**	**23,516**	**27,453**	**75,297**
Budget Strategy Assumptions				
Cap on Schools Growth - @ 30%	1,253	1,163	1,583	**3,999**
Council tax at 3.7%	4,451	4,616	4,786	**13,853**
Use of Earmarked Reserves	1,500	1,500	1,500	**4,500**
Total Assumptions	**7,204**	**7,279**	**7,869**	**22,352**
Amount to be identified through Savings	**17,124**	**16,237**	**19,584**	**52,945**

Addressable Spend

69. The 2016/17 Budget Report set a target of £3 million per annum to be found from areas of addressable spend. The term addressable spend is used to refer to components of the Council’s budget in which it is more difficult for individual directorate to propose savings. This is for a number of reasons, some examples of which are that budgets in this area are :-

1. Delegated to schools and have previously been the subject of WG protection and are experiencing significant demographic pressure

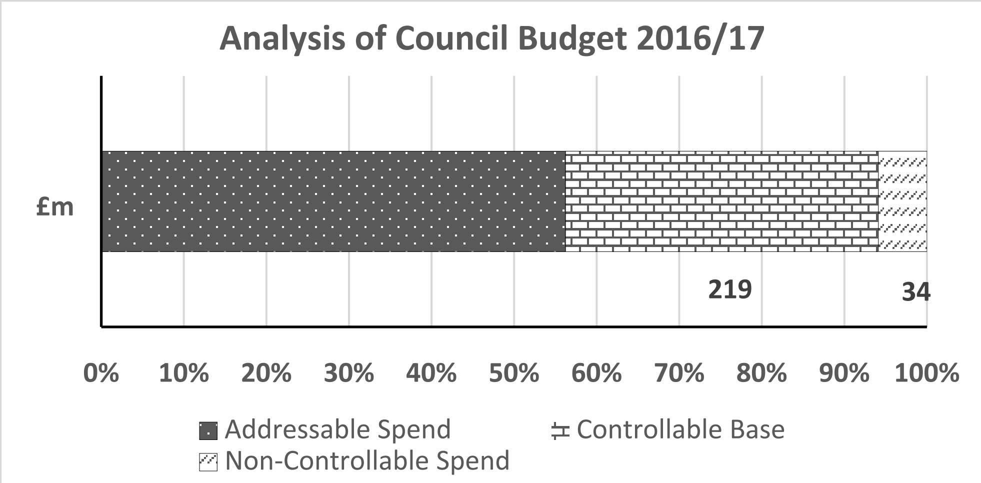
2. Externally set such as the £17 million fire levy budget

3. Are a part of corporate financial planning and resilience, for example the £5 million insurance budget

4. Are necessary to service debt, for example the £37 million capital financing budget required to support borrowing in relation to the capital programme

70. The graph overleaf illustrates that these budgets accounts for 56% of the Council’s overall cash limit. Therefore, whilst they are more difficult to cut, they cannot be ignored in setting the Council’s budget strategy. The Councils’ controllable savings base, also highlighted in the graph below has made significant savings over many years. It contains areas of statutory duty and significant demand pressures including the Social Services budget of over £140

million. The controllable base budget will not be capable of meeting the future budget gap in isolation whilst maintaining statutory responsibilities and this is highlighted further in the future outlook section.



71. In order to ensure that addressable spend budgets are given appropriate consideration as part of the budget solution a three pronged approach is adopted.

i) The contribution that delegated school's budgets play in respect of budget strategy are set as part of budget strategy assumptions through a cap on school's non-demographic growth. This ensures that adequate visibility and discussion is afforded to the need to invest in schools to recognise both WG protection requirements and Corporate Plan priorities but that this needs to be balanced to reflect that the School's budget accounts for 37% of the Council's overall budget.

ii) Some addressable spend budgets are highly technical in nature such as the capital financing budget which is interlinked with decisions on the capital programme and fluctuate upwards or downwards based on the contents of the capital programme and other external factors such as interest rates. Budgets of this nature are scheduled for regular review and refresh of the budget reduction requirement to ensure appropriate ongoing challenge

iii) Finally, some areas are corporate in nature, such as savings contingency budgets, insurance budgets, property budgets and levy budgets whilst others have a dual directorate emphasis such as school transport. The Council has identified champions in these areas (Elected Member and SMT) in order to proactively identify and drive out savings. The 2016/17 Budget Report targeted £3 million per annum in this respect. These savings are termed addressable spend savings and involve the Council taking proactive measures to reduce these budgets. This is distinct from annual budget fluctuations or realignments which would be captured as changes to the budget gap.

72. It was noted above that in setting this budget strategy report, the Council has taken into account the 2015/16 Outturn Report. As part of 2015/16 outturn, the Council took proactive steps to make early repayments in respect of sums borrowed from earmarked reserves in respect of voluntary redundancy and to

the pension fund in respect of pension strain payments. This has had the effect of increasing the addressable spend savings anticipated for 2017/18 to £3.9 million. This is reflected in the Budget Strategy below and leaves a residual sum of £43 million to be found from directorate savings over the three-year period with £13 million in 2017/18.

	2017/18 £000	2018/19 £000	2019/20 £000	TOTAL £000
Updated Budget Reduction Requirement	**24,328**	**23,516**	**27,453**	**75,297**
Budget Strategy Assumptions				
Cap on Schools Growth - @ 30%	1,253	1,163	1,583	**3,999**
Council tax at 3.7%	4,451	4,616	4,786	**13,853**
Use of Earmarked Reserves	1,500	1,500	1,500	**4,500**
Total Assumptions	**7,204**	**7,279**	**7,869**	**22,352**
Addressable Spend Savings	**3,910**	**3,000**	**3,000**	**9,910**
Directorate Savings Required	**13,214**	**13,237**	**16,584**	**43,035**

73. The 2016/17 Budget Report identified the framework for directorate savings set out in the following table. These were identified in the directorate clusters and savings themes. As noted above, this framework emanated from the 2016/17 approach to budget strategy which involved a collaborative approach to target setting and understanding of how budgets would be reshaped over the medium term.

	2017/18						
Savings Theme	**Comm's & Wellbeing £000**	**Place £000**	**Corporate £000**	**Total £000**	**2018/19 £000**	**2019/20 £000**	**TOTAL £000**
Being a Commercially Minded Council	4,428	2,757	602	**7,787**	**7,472**	**9,388**	**24,647**
Ensuring Public Services area Accessible	150	50	383	**583**	**645**	**810**	**2,038**
Greater Alignment of Services	1,472	1,003	821	**3,296**	**3,198**	**4,018**	**10,512**
Targeting Services and Early Intervention	2,793	0	0	**2,793**	**1,237**	**1,178**	**5,208**
TOTAL	**8,843**	**3,810**	**1,806**	**14,459**	**12,552**	**15,394**	**42,405**

74. As part of budget strategy work during the first quarter of 2016/17, directorates have commenced work on reviewing the savings framework. It was accepted at the outset of the 2016/17 process that directorates would need to be given the flexibility to adjust and amend this framework as time progressed to take account of emerging issues and, given that proposals build on proposals in the current year, to take account of in-year progress towards savings.

75. The revised framework for savings for 2017/18 and beyond is set out below. The themes used in the 2016/17 Budget Report have been updated to align with general budgetary questions that will form part of the Ask Cardiff consultation over the summer months. The ethos of the themes is broadly consistent with those used in the budget report but should provide additional clarity to members of the public. There is also synergy between these themes and the Council's corporate plan priorities.

	2017/18			
	Comms & WellBeing £000	Place £000	Corporate £000	Total £000
Income Generation	1,127	1,289	391	2,807
Working with Partners & Others	727	1109	0	1,836
Use of Technology	200	138	372	710
Review of Subsidies and Grants	473	245	134	852
Internally Facing Proposals	3557	837	670	5,064
Second/Third year of Proposals	2709	0	89	2,798
TOTAL	**8,793**	**3,618**	**1,656**	**14,067**

TARGET	**13,214**
DIFFERENCE	**(853)**

76. The above table shows an overprovision of savings in relation to 2017/18. In undertaking this work, directorates were asked to maintain the overall figure targeted for them within the existing savings framework. The over-provision provides flexibility to test and address the achievability of savings and to take account of consultation feedback, reviewing the potential to delay some to later years if required. The following table sets out the updated position over three years. As noted in the earlier section on approach, detailed review of 2018/19 savings will take place over the summer followed by further review of 2019/20 over the autumn, which at present is more general in nature.

	2017/18 and 2018/19			2019/20	
	Comms & WellBeing £000	Place £000	Corporate £000	TBC £000	Total £000
Income Generation	1,906	1,640	894	2,738	7,178
Working with Partners & Others	2,959	1,247	2,189	3,944	10,339
Use of Technology	425	558	672	1,021	2,676
Review of Subsidies and Grants	723	405	173	802	2,103
Internally Facing Proposals	5,007	2,127	1,121	5,091	13,346
Second/Third year of Proposals	3,576	0	89	2,260	5,925
Service Reduction/Redesign	520	0	388	560	1,468
TOTAL	**15,116**	**5,977**	**5,526**	**16,416**	**43,035**

TARGET	**43,035**
DIFFERENCE	**0**

77. The themes identify that, as in recent years, income generation is a key driver for the Council. It should be noted that as the Council pushes forward to develop a more commercial approach, significant elements of the Council's existing income budget will no longer fall under the Council's control. It is reasonable therefore to assume, that as the Council reshapes itself and progresses with alternative delivery models, the scope to generate income will

be affected. It is important to bear in mind that as the Council reshapes itself, the nature of savings and key savings drivers will need to shift focus too and this will play an important part in the review of the 2019/20 position later in the year.

Summary Overview

78. The table on the next page draws together the detailed consideration of all aspects of Budget Strategy set out in earlier sections into a summarised overview.

Estimated Budget Reduction Requirement	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**TOTAL £000**
Pay and Price Inflation	6,445	5,840	5,464	**17,749**
Schools Growth	7,770	7,049	8,886	**23,705**
Capital Financing, Commitments & Realignments	-3,120	-493	2,067	**-1,546**
Non Schools Demographic Growth	3,900	3,900	3,900	**11,700**
Emerging Financial Pressures	3,000	3,000	3,000	**9,000**
Fall out of 2016/17 Reserve Funding	2,070	0	0	**2,070**
Estimated 1% funding reduction	4,263	4,220	4,136	**12,619**
Budget Reduction Requirement	**24,328**	**23,516**	**27,453**	**75,297**

Strategy to Address Budget Reduction Requirement				
Budget Strategy Assumptions				
Cap on Schools Non-Demographic Growth @ 30%	1,253	1,163	1,583	**3,999**
Council tax at 3.7%	4,451	4,616	4,786	**13,853**
Use of Earmarked Reserves	1,500	1,500	1,500	**4,500**
Total Assumptions	**7,204**	**7,279**	**7,869**	**22,352**
Addressable Spend Savings	**3,910**	**3,000**	**3,000**	**9,910**
Directorate Savings				
Income Generation	2,807	1,633	2,738	7,178
Working with Partners & Others	1,836	4,559	3,944	10,339
Use of Technology	710	945	1,021	2,676
Review of Subsidies and Grants	852	449	802	2,103
Internally Facing Proposals	5,064	3,191	5,091	13,346
Second/Third year of Proposals	2,798	867	2,260	5,925
Service Reduction/Redesign		908	560	1,468
Total Directorate Savings	**14,067**	**12,552**	**16,416**	**43,035**
Total Strategy to Address Gap	**-853**	**685**	**168**	**0**

Medium Term Financial Plan Scenario Analysis

79. The base case scenario was underpinned by a year on year AEF reduction of 1% over the next three years. A sensitivity analysis has been undertaken around some of the key variables of the plan to consider a worst case scenario. These included:-

- The possibility of annual AEF reduction of 2% compared to the 1% included in the base case
- A more pessimistic outcome of the Actuarial Review
- A higher percentage of people opting to remain in the LGPS upon auto-enrolment
- Pay award of 2% compared to the 1% within the MTFP base case.

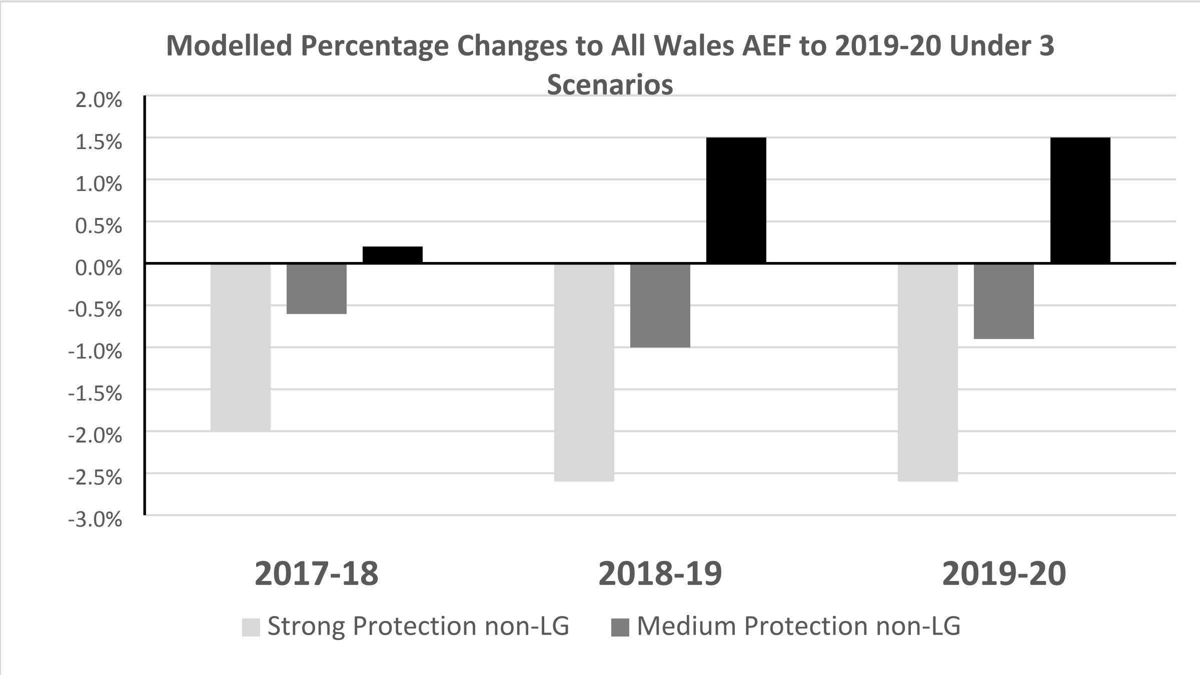
80. The possibility of a 2% pay award for non-teaching staff has now been removed as the pay award for 2017/18 has been agreed. The worst case scenario has been updated in this respect and an updated position is set out below.

Worst Case Scenario	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**TOTAL £000**
Base Case MTFP Position	**24,328**	**23,516**	**27,453**	**75,297**
Changes:				
AEF	4,263	4,220	4,136	12,619
Pay Award	1,700	3,200	3,150	8,050
Pensions Issues - actuarial	1,055	1,055	680	2,790
Revised MTFP Shortfall	**31,346**	**31,991**	**35,419**	**98,756**

81. The key areas of risk relate to fluctuations in pay award and future funding levels. With regards pay award, in his Summer 2015 budget the Chancellor stated that up until 2020, he would make provision for pay awards of 1%. This extrapolates the general theme of restraint in public sector pay over the medium term. Whilst this indicates the Chancellor's intended provision for public sector pay, it is not necessarily indicative of the actual pay awards over this period which will be determined by respective bargaining processes. For this reason, the risk of higher awards have been reflected in the worst case scenario for prudence, although could perhaps be considered unlikely.

82. The worst case scenario also considers the possibility of annual funding reductions of 2% per annum compared to the 1% in the base case MTFP. As part of the 2016/17 budget, the Council established a financial resilience mechanism of £4 million. The mechanism is a base budget to be used for one-off investment in areas of corporate priority but would be available for immediate release in future years in the event that settlements are worse than reflected in the base case MTFP. Releasing this mechanism means that the Council could withstand an AEF reduction of 2% in 2017/18, or for example, of up to 1.5% in each of the years 2017/18 and 2018/19 without significantly departing from the existing budget strategy.

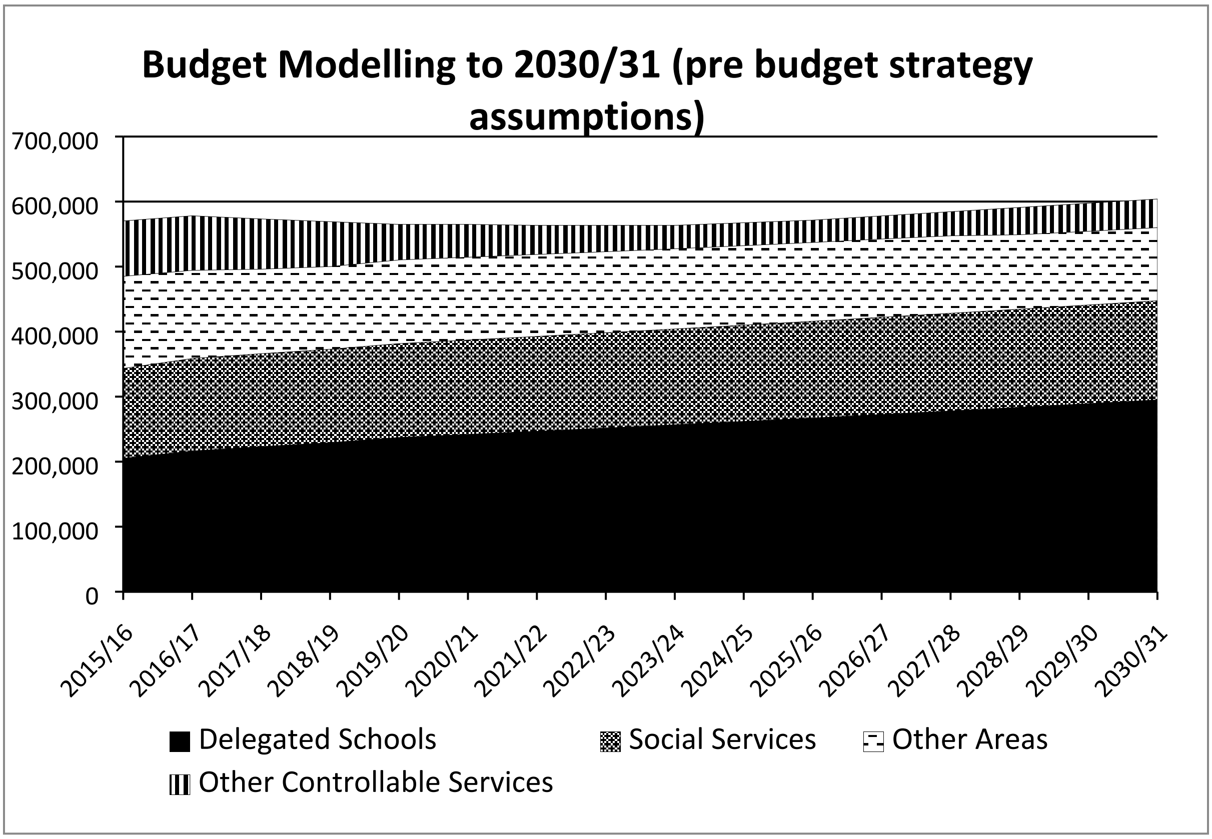
83. The funding levels included within the plan are the Council's interpretation of WLGA modelling. This modelling was based on estimated levels of future Welsh Block Grant and considered various protection scenarios for other parts of the Welsh public sector, setting out weak protection for some areas, medium protection for other areas and strong protection for remaining areas. These are summarised in the WLGA graph below.



84. In the absence of any indicative figures from WG and taking into account the potential range identified in the above modelling, the council's base case assumption of a 1% reduction along with the ability to withstand a further 1% through release of the financial resilience would be sufficient to cover the worse-case scenario for 2017/18 modelled above. It should be noted however, that there are other risks that could have a negative impact on Cardiff's future funding position, the most significant being the potential for redistributive changes within the formula to recognise the sparsity issues raised by more rural Councils in Wales.

Future Years Outlook

85. The following chart illustrates the likely shape of the Council's budget moving beyond the life of the current MTFP. Clearly, it is very difficult to predict this far into the future given the inherent uncertainty in key areas. The graph therefore considers the likely envelope of funding and analyses the resultant shape of the budget, if recent trends and current policies are extended over the life of the plan. It shows that controllable base budgets, which themselves contain areas of statutory duty will continue to contract as scarce resources are redirected into growth areas.



86. The graph is before any budget strategy assumptions around capping of schools' growth, council tax increases and use of reserves are taken into account as part of the budgetary solution. The "Other Areas" include addressable spend budgets which, as noted above, are more difficult areas from which to release savings along with non-controllable budgets such as the £28 million Council Tax Support budget. The "Other Areas" also include the capital financing budget and it is of note that no further growth beyond the existing capital programme has been factored into the graph. Consequently, any new approved schemes that are dependent on additional borrowing will further reduce controllable services. The issue of the revenue affordability of the capital programme is considered further in the section on Capital.

87. The graph emphasises some key points from a financial planning perspective:-

- Savings made from the Council's controllable savings base, which itself includes a number of areas of statutory duty will not be a sufficient long term solution to the financial challenge. Solutions outside of this will need to play a key part of the medium term plan. The practice in recent budget rounds of focussing on all areas of addressable spend and robustly reviewing budget strategy assumptions will need to be continued
- At a time when funding levels are static or reducing, growth in one area must inevitably be at the expense of others. Consequently, annual budgetary decisions can have a significant impact on the shape of the Council's budget over an extended time frame. Funding expansion of the capital programme or ongoing investment in schools budgets will necessitate the steeper contraction of budgets in other areas
- It will be important to continue to set clear assumptions and policies at an early enough stage to have the most impact on the future shape of the Council's budget. It may be that policies are considered unaffordable when viewed over an extended time frame

Consultation and Engagement

88. Consultation on the Council's 2016/17 budget proposals "Changes for Cardiff" ran from 11 December 2015 – 12 January 2016. A number of mechanisms were used to ensure the consultation was as accessible as possible with 5,000 hard copies distributed throughout the city to public buildings and communication to 6,000 Council staff and all Members. The consultation had a significant online presence including a live question and answer session, an online version of the questionnaire and promotion of the consultation to over 75,000 email addresses held by the Council in connection with service delivery and council tax. It was promoted via email to partner organisations, MPs, AMs and neighbourhood partnerships. It was promoted to 8,000 people via the Police Community Messaging Services and communicated to 7,000 Cardiff & Vale University Health Board staff. In addition, 20 community engagement drop-in events were held across the city during the course of the consultation and an engagement forum with the Cardiff Youth Council took place.

89. A full copy of the consultation findings is available as an Appendix to the 2016/17 Budget Report and are available on the Budget Section of the Council's website.

90. The above highlights that the Council places high regard on being open and transparent about the difficult choices faced and wants to provide an opportunity for people to have their say on what is important to them and their communities. The Council's co-operative values focus on fairness, openness and working together and greater consultation, engagement and joint working with citizens are at the heart of these values. Detailed consultation on 2017/18 budget proposals will take place later in the Autumn, once the Council's funding position has been confirmed by the Provisional Settlement. Over the summer months, the Ask Cardiff survey will pave the way for more detailed consultation through inclusion of a number of budget themes.

91. The proposed Budget Timetable Framework for 2017/18 is included at Appendix 2 and refers to the involvement and consultation that will take place throughout the period, in respect of Cardiff Citizens, the third sector, Budget Forum, Scrutiny Committee, Audit Committee Members, Trade Unions and staff together with statutory consultation with schools.

Engagement

92. Employee engagement at all levels within the organisation continues to be given high priority through Employee Roadshows, Chief Executive "Have Your Say" sessions and a growing employee ambassador network. The Council's values and employee charter are two fundamental concepts, shaped by employee feedback themselves, which provide a firm foundation for a culture which fosters employee engagement on organisational issues. The Employee Charter is reflected as a behavioural objective for all employees. The Council has three established forums to engage directly and work with - employees (ambassadors), managers (Cardiff Manager Forum) and Senior Manager (senior management forum.) In addition, Cardiff Voice Events bring together membership from all three fora.

Member Engagement

93. Council member engagement with the budget process will continue through regular all-member briefings and Finance Spokesperson sessions. In addition members will take part in budget discussions at Scrutiny Committees and other regular forums.

Future Developments

94. During 2015, the WLGA and CIPFA appointed an Independent Commission to review the future of Local Government Finance in Wales chaired by Professor Tony Travers. The review was not aimed at undertaking a detailed review of the funding formula, instead the Commission were requested to focus on a broader overview of the system and Welsh Local Government were encouraged to contribute. The over-riding purpose was to examine how local government funding in Wales could be made more sustainable. The outcome was a series of recommendations for potential reform intended to improve how local public services are financed in Wales in ways that also promoted greater self-reliance and local decision-making, encouraged entrepreneurialism and innovation as well as offering stability and reducing dependency on Welsh Government.

95. The recommendations of the Report "Ambition for Change – Aiming Higher" included:-

- Retention of NDR (with safety mechanisms)
- Revaluation of Council tax as soon as possible
- Welsh Government legislation to make it possible for city regions to reform bandings and the ratio of council tax payable band to band
- De-hypothecation of grants
- Further discretion for Authorities on fees and charges
- The establishment of a Welsh OBR to independently review the WG's forecasts of revenue and expenditure including the assumptions around Local Government
- The existing RSG formula be frozen
- The establishment of an Independent Commission to oversee and review the development of a future grant distribution formula

96. It had previously been widely anticipated that Local Government Reorganisation would be the likely point at which the existing Local Government Finance system could be overhauled. However, the future of Local Government Reorganisation (LGR) is currently uncertain. In the Autumn, the MTFP will be rolled forward one year into 2020/21 which was expected to be the first year of operation of merged Authorities. Both potential changes to the Local Government Finance system and update on LGR will need to be kept under close review.

Future Generations and Wellbeing

97. The Well-being of Future Generations (Wales) Act is aimed at improving the social, economic, environmental and cultural well-being of Wales. It is intended to make public bodies consider the longer term, to work more collaboratively with people and communities and to consider preventative solutions. To assist public bodies in

achieving this vision, the Act sets out seven well-being goals and encapsulates five ways of working as set out below.

Wellbeing Goals	• A prosperous Wales • A resilient Wales • A healthier Wales • A more Equal Wales • A Wales of cohesive communities • A Wales of vibrant culture and thriving welsh language • A globally responsible Wales
Ways of Working	• Long Term • Prevention • Integration • Collaboration • Involvement

98. The five ways of working are intended to help bodies ensure that they follow the sustainable development principle which is that "a body must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs." In developing further detail around the 2017/18 budget proposals and beyond over the remainder of the year, the Council will need to consider how best to embed these and matters within the financial planning process.

Capital Programme

99. The level of support provided by the WG is barely sufficient to meet current annual capital expenditure commitments, meaning that the Council is having to increase its borrowing. In 2016/17 the Council will receive £13.5 million in grant and supported borrowing approval from the WG to be used to determine its own spending priorities for capital items. This is a 35% decrease compared with 2010/11 and the lowest per capita in Wales.

100. Expenditure pressures include:

- Ensuring a sustainable property asset base and that property is fit to deliver service improvements, by addressing the maintenance backlog, disabled access and health and safety requirements
- Meeting the aspirations of directorates to invest in existing assets or create new capital assets in order to improve service delivery and meet pressures of increasing demand.
- The need to maintain the highway and associated infrastructure such as roads, traffic signals, signs, bridges, street lighting and address the backlog of repairs to avoid higher costs in future.
- To continue annual commitments and meet mandatory investment in services such as disabled adaptations, whilst Welsh Government General Capital Funding has been reduced.
- Meeting the economic development, regeneration, employment and capital city aspirations of Cardiff and the region.
- City Deal and other major regeneration projects being developed.
- Requirement for capital investment to meet savings targets, to generate

income, to reshape the way services are delivered and to meet the costs of organisational development.
- Meeting expenditure commitments from capital schemes approved in previous years.
- Implementing the Council's 21st century schools investment programme
- Meeting expenditure commitments pending the generation of capital receipts.
- Sustaining Public Housing Welsh Quality Standards and investment in creation of new Council Housing as part of the Housing Partnering scheme.

101. Whilst additional borrowing to invest may solve a short term problem, borrowing has long term financial implications and must be deemed affordable and sustainable both now, as well as many years into the future. Set against the demand for these capital resources and the current economic climate, tough choices are required, which may include:-

- determining whether a greater share of the Council's future revenue budget will need to be set aside to meet capital investment
- securing better value and outcomes
- ensuring capital investment is not used as a short term substitute for reducing revenue budgets
- undertaking only priority strategic and long term schemes

Borrowing for the Capital Programme

102. Where capital expenditure has been incurred without a resource to pay for it immediately e.g. via capital receipts, grants or other contributions, this will increase what is termed the Council's Capital Financing Requirement (CFR) or its need to undertake borrowing. The Council is required to make annually from its revenue budget, a prudent provision for the repayment of historic capital expenditure and this reduces the CFR. Calculation of the CFR is summarised in the table below.

	Opening Capital Financing Requirement (CFR)
+	Capital expenditure incurred in year
-	Grants, contributions, reserves and receipts to pay for capital expenditure
-	Prudent Minimum Revenue Provision & Voluntary Repayment
=	**Closing Capital Financing Requirement (CFR)**

103. There are two main types of additional borrowing to pay for capital expenditure:-

- 'Supported Borrowing' - costs of servicing this debt are included within the annual Revenue Support Grant (RSG) the Council receives from Welsh Government.
- 'Unsupported Borrowing' – costs of servicing debt to be met by the Council from Council tax, savings, additional income or sale of assets. The types of unsupported borrowing typically undertaken by the Council and how capital financing costs are paid for are shown in the diagram below.

Total Unsupported Borrowing Types

INCREASING RISK →

	1	2	3	4
Types of Unsupported Borrowing	Use of Council borrowing powers supported by WG	Invest to Save / Invest to Earn	Approved Specific Capital Schemes - Linked to a Council Decision	To balance overall Capital Programme
How capital financing costs are paid for?	WG Grant / Specific annual settlement allocation - Held within Directorate	Future cost savings or income to be generated by Directorate	Approved budgets allocated and held within directorates following a Cabinet / Council Decision	Adds to corporate Capital Financing budget requirement. Currently c £36m

104. It is the Capital Financing Requirement that results in the need to borrow. It is important to note in this regard, that any financial deficit and liabilities of the HRA are ultimately liabilities of the Council.

105. The actual CFR as at 31 March 2016 and estimates for current and future years as set out in the budget report are shown in the following table. The timing of capital expenditure, timing of capital receipts and new schemes that may be considered for approval in future years are risks to the CFR forecast, however it can be seen that the Council's underlying need to borrow is increasing. This will eventually need to be paid for by revenue savings, revenue income or Council Tax and Housing Rents:

Capital Financing Requirement as at 31 March					
	2016 Actual £m	**2017 Estimate £m**	**2018 Estimate £m**	**2019 Estimate £m**	**2019 Estimate £m**
General Fund	432	459	454	455	455
HRA	277	279	296	302	302
Overall CFR	**709**	**738**	**750**	**757**	**757**

106. This additional borrowing is primarily as a result of:

- Implementing new schemes and allocations and continuing with commitments included in the budget.
- Undertaking invest to save schemes on the assumption that the borrowing will be repaid from future revenue savings or revenue income.
- Use of Council borrowing powers by WG as part of their contribution towards 21st Century Schools investment. Further schemes are in the

pipeline including housing development as well as the provision of interest free loans or repayable grants using Financial Flexibility funding available to them for a range of schemes. Whilst welcome where there is linkage between strategic aims of the Council, these schemes use local authority borrowing powers and present an ongoing risk in terms of increasing the Council's capital expenditure which needs to be paid back.

Capital Programme and Financial Resilience

107. As the Council realigns itself strategically to lower funding levels it will need to consider the level of debt and potential financial resilience issues that may be a consequence of increasing borrowing. This is in order to provide flexibility to fund current priorities as well as unknown future obligations.

108. Funding cuts mean debt-servicing costs are increasing as a proportion of revenue spending, presenting a challenge to long-term investment.

109. Continuing to increase the amount it needs to borrow will have a consequential increase on the capital financing budget within the revenue account. In general terms, each £1 million of capital expenditure funded by borrowing, costs £80,000 in the initial years of the revenue budget and that is assuming an excessive asset life of 25 years. In most cases the types of schemes being undertaken by the Council mean that asset life is lower and so cost higher.

110. The impact of capital financing costs is recognised in the Council's MTFP. The budget report for 2016/17 included a local capital financing prudential indicator highlighting the increasing proportion of the Council's controllable revenue budget that it spends on capital financing over the medium term. Borrowing decisions have an impact on current as well as future rent and Council taxpayers in many years to come, so have to be affordable and sustainable now as well as in future.

Ratio of Capital Financing Costs expressed as percentage of Controllable Budget								
	2011/12 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	Difference 11/12-20/21 %
Net	13.47	15.42	15.79	15.27	15.53	17.00	16.82	24.87
Gross	15.17	19.13	19.94	20.31	20.80	22.51	22.37	47.46

111. In accordance with the principles of invest to save, the net ratio assumes that any costs of undertaking additional investment are recovered over time from directorate budgets, capital receipts or other budgets. The gross ratio indicates the gross capital financing cost as a percentage of the total base budget i.e. it represents a worst case scenario.

112. Encouragement has been given to invest to save schemes such as energy generation as well as invest to save schemes such as ADM leisure and there are other opportunities currently being considered. Whilst such schemes are important to revenue income opportunities, they carry a significant level of risk in terms of over exposure to borrowing, repayment of which may be affected by future uncertain events. Unlike the HRA, where there is a debt cap in place

from HM Treasury, the budget proposals may consider a maximum limit to exposure of borrowing for 'Discretionary' type services/ activities on such invest to save type schemes for the Council Fund.

113. Accordingly, additional borrowing is not sustainable in the long term and will need to be a factor considered by Members when determining the current and future Capital Programme along with:-

- The Prudential Indicators highlighting longer term impact of capital decisions on the revenue budget and affordability, prudence and sustainability.
- Consideration of potential initiatives not currently included in the Capital Programme.
- Control mechanisms for different types of unsupported borrowing before approval.
- Determining core areas of long term investment e.g. maximum exposure limits to unsupported borrowing for 'Discretionary' type services.
- Whether the inherent risks in a project are better managed via commercial options rather than direct Council investment.
- The key long term strategic priorities for the city for which investment to be funded by additional borrowing is to be approved.

Developing the Investment Plan

114. In formulating the five-year Capital Programme for 2017/18 to 2021/22, a two stage process is to be undertaken.

Stage 1 – Review of existing annual sums and specific individual schemes which are yet to proceed including invest to save schemes included in the approved Capital programme in February 2016. This is to ensure expenditure is in line with approved policy initiatives and in accordance with an approved strategy.

Stage 2 – Consideration of new requests / pressures for additional capital funding, where funding from the Council is demonstrated to be the only solution to meeting investments need. Any such request is to be considered only if it meets the criteria below:-

- deliver statutory and core strategic long term outcomes included in the Corporate Plan
- have undergone a thorough option appraisal
- Investment needs to be made by the Council and cannot be better made by others
- are in accordance with property or other asset management plans proposed by scheme sponsors and have a robust and deliverable profile of expenditure in order to avoid slippage after the programme has been set. This also needs to take into account their ability to deliver schemes, particularly where staffing, external partners or other resources are essential in supporting scheme delivery.
- generates income from capital receipts, revenue savings or external grant

115. It needs to be recognised that the Council cannot do everything and may need to focus limited resources on key statutory and longer term strategic investment priorities.

116. There are also capital expenditure implications of major projects either being or planned to be undertaken by the Council that need to be developed as part of the longer term budget strategy process rather than on an ad hoc basis. This is so a longer term investment strategy can be developed to determine whether everything that the Council would like to do is affordable by the Council doing it itself or whether alternative means need to be considered. Examples include continuing development of Cardiff International Sports Village and Cardiff Enterprise Zone development.

Capital Receipts

117. As set out by the Section151 Officer in previous budget proposals-

"Within this financial climate of reducing revenue resources all action necessary must be taken to reduce both initial capital expenditure and the subsequent need to borrow."

118. Capital receipts are important to increase the affordability of the Capital Programme. In 2016/17 the first call on capital receipts up to £2 million will be to pay for Capital programme commitments, In many cases, capital receipts are earmarked for re-investment e.g. 21st Century Schools Model, Cardiff Enterprise Zone etc. However where this is not the case it is essential to remember that Capital receipts are a Corporate Resource and help to pay for capital investment across Council Directorates.

119. The Council's Corporate Asset Management Plan sets out how the Council intends to reduce its asset base to achieve both capital receipts to reduce borrowing and revenue savings in relation to facilities management costs including repairs and maintenance.

Reasons for Recommendations

120. To seek Cabinet approval for the budget strategy in respect of 2017/18 and the MTFP.

121. To note the Budget Timetable Framework and forward this to Council for approval.

Legal Implications

122. It is the responsibility of the Cabinet to receive financial forecasts and develop a medium term financial strategy with a view to proposing a Budget for the Council to approve. The report highlights the seriousness of the financial challenges ahead. As stated in the body of the report, it is important that members take note of the statements made by the Section 151 Officer in this regard.

123. There are no general legal issues arising from this report. Specific legal issues will be addressed as part of the proposed budget preparation.

124. The report provides that the proposed Budget Timetable framework for 2017/18 will make provision for consultation. It is important to note that consultation raises the legitimate expectation that any feedback received from the consultation will be taken into account in developing the proposals consulted upon.

125. In considering this matter and developing the budget proposals regard must be had to the Council's duties under the Equality Act 2010 and appropriate steps taken to ensure that (i) the Council meets the requirements of the Public Sector Equality Duties; and (ii) due regard has been/is taken of the likely impact of decisions in terms of equality and discrimination.

Financial Implications

126. The report sets out the budget strategy for 2017/18 and the medium term. It is written a period of prolonged financial restraint. The March 2016 budget set out a worsening economic position to that which underpinned the November 2015 Comprehensive Spending Review (CSR) and real term cuts in public spending will continue in 2017/18 and 2018/19. The outcome of the EU Referendum on 23 June 2016, for Britain to leave the European Union has raised significant uncertainty and speculation regarding the future economic position of the UK. The economic position will need to be closely monitored in the coming months, including the potential for an Emergency UK Budget later in the year which could have implications for the Welsh Block Grant.

127. There are currently no indicative AEF figures for 2017/18. Ongoing budget reductions of the scale required to achieve a balanced position require appropriate lead in times and should be implemented in a planned and rational way. The absence of multi-year settlements is problematic from a financial planning perspective. Settlement timetables are expected to revert back to usual this year, with Provisional Settlement in October. However, an Emergency Budget later in the year could cause disruption in this respect.

128. The Council has had to identify approximately £200 million over the past ten years with further difficult times ahead. Achieving budget reductions on this scale is extremely challenging and requires organisational change, exploration of preventative measures and the adoption of more commercial approaches in untested markets. In challenging change environments, careful monitoring of financial resilience is extremely important and regular review is undertaken in this respect.

129. The financial resilience snapshot at the time of this report shows that reserves have increased from the comparatively low levels in recent years and transfers to reserves undertaken at 2015/16 outturn, address known risk areas such as the potential for waste fines and the uncertainties associated with welfare reform. The 2015/16 outturn position was favourable overall. However, it should be noted that there was an overspend of £4.635 million at directorate level which was partially offset by £4 million general contingency. Delivery of delayed savings as well as achievement of 2016/17 savings will require close monitoring and this has already commenced.

130. The 2016/17 Budget Report identified a budget reduction requirement of £24.6

million for 2017/18 and £73.2 million over the medium term. Refresh and review of the budget gap has been undertaken to reflect developments since February 2016, including the confirmation of pay awards, the 2015/16 outturn position and announcements included in the Chancellor's March 2016 budget. The updated budget reduction requirement is £24.3 million for 2017/18 and £75.3 million over the medium term.

131. The report sets out the strategy for addressing the budget reduction requirement. Collectively, a cap on schools' non-demographic growth, use of earmarked reserves and an assumed annual council tax increase account for 30% of the proposed solution. These assumptions will continue to be reviewed at frequent intervals throughout the year to ensure their ongoing achievability and acceptability. Directorate and addressable spend savings account for the remaining 70% of the proposed solution. These build upon the savings framework that emanated from the 2016/17 budget process. Further review of this framework will be required as the year progresses and in many cases, development of further detail will need to be informed by in year monitoring and progress towards achievement of 2016/17 savings proposals.

132. The report models a worst case scenario of £31.3 million for 2017/18 and £98.8 million over the medium term. The main variables that contribute to this potential worsening are the potential for pay awards of higher than 1% and the risk that funding settlement may be worse than a reduction of 1% per annum as reflected in the base case MTFP. The Chancellor has indicated that he would provide for pay awards of 1% to 2020. Whilst this cannot pre-empt the bargaining process of respective bodies, pay awards of more than 1% could be considered unlikely given these comments and whilst inflation remains extremely low.

133. With regards funding, WLGA modelling undertaken earlier in the year suggested variable positions for Local Government. These ranged from moderate increases to decrease of -2% to -2.5% dependent on whether WG might opt for weak, medium or strong protection for other parts of the Welsh Public Sector. The Council has established a financial resilience mechanism to help manage funding uncertainty. This is a budget used for one-off investment that is available for immediate release in the event that settlements are worse than modelled in the MTFP. This offers assurance that, all else being equal, the Council could withstand a funding reduction of up to 2% without needing to identify additional savings in the short term.

134. The report sets out that the position in respect of capital is also challenging. Welsh Government support has fallen by 35% since 2010/11 and there are significant pressures on the capital programme, including maintaining highways, meeting mandatory services and addressing corporate priorities. Given that WG support is reducing, additional investment can only be funded through additional borrowing or through the disposal of assets. It is important to note that additional borrowing has affordability implications for revenue. As revenue budgets reduce and capital financing costs increase, interest costs and debt payments account for an increasing proportion of the revenue budget as illustrated in the following table.

Ratio of Capital Financing Costs expressed as percentage of Controllable Budget

	2011/12 Actual %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	Difference 11/12-20/21 %
Net	13.47	15.42	15.79	15.27	15.53	17.00	16.82	24.87
Gross	15.17	19.13	19.94	20.31	20.80	22.51	22.37	47.46

135. The requirement to meet increasing costs associated with debt can only be met from future savings of from Council tax increases. This clearly limits the scope for further additional borrowing in future years and reduces the Council’s overall flexibility when making decisions on the allocation of its revenue resources. Additional borrowing is not sustainable in the long term and consideration must be given to prudential indicators, control mechanisms for different types of unsupported borrowing and core areas of investment.

HR Implications

136. The report outlines the continuing and sustained financial restraints that the Council is under including the Government's spending policy assumptions which suggest a sharp acceleration in pace of implied real cuts to day to day spending on public services. The Council's OD Programme remains the driver for reviewing the shape and scope of the organisation and the way in which services are delivered and efficiencies achieved. New service delivery models will need to meet demand pressures and reflect budgetary realities alongside securing further efficiency savings through better collaboration, integration of service delivery and reducing duplication of effort and resources.

137. In addition to previous savings drivers of policy led savings, business process led corporate efficiency savings and discrete directorate led savings, a further driver of income/commercialisation savings has been introduced (i.e. increase discretionary income and exploit new opportunities to sell or trade services).

138. Given the unprecedented level of savings required in 2017/18 and beyond, it will be key that the savings proposals identified are robust and deliverable. The extent of financial challenge in a continued period of restraint will result in savings targets for controllable budgets which will be considerably challenging and will result in significant changes to how local government services are delivered. The ability of the OD Programme to support the Council through this period of radical and sustained change will be key.

139. Whilst it is not possible to provide specific HR implications on future alternative service delivery models (as this will depend on the operating models adopted by the Council), the ongoing budget difficulties will continue to have significant people implications associated with actions necessary to manage the financial pressures facing the Council . As service delivery proposals are developed, there will need to be consultation with employees (those directly and indirectly impacted) and the Trade Unions so that they are fully aware of the proposals, have the opportunity to respond to them and understand the impact that the new model of service will have on them. Further and specific HR implications will be provided when relevant models are proposed. Any proposed reductions in resource levels will be managed in accordance with the Council’s recognised policies for restructuring which include, where appropriate, redeployment and voluntary redundancy.

140. The Council’s Voluntary Redundancy Scheme, has been widely publicised to

employees. Whilst those interested in leaving on this basis (with a post subsequently deleted), should express an interest to do so, a business case to support the exit will still need to be made and signed off. Flexible retirement continues to be another option available and a Sabbatical policy is in place as well as ability to request voluntary reductions in working hours. Redeployment, access to Cardiff Academy courses and access to the Trade Union Learning Representatives to support members and non members with training and development to support new skill requirements will remain available. Additionally the purchase of Additional Annual Leave Policy remains in place and has provided the opportunity for employees (excluding those based in Schools) to buy up to an additional 10 days annual leave.

141. The Joint Partnership Board will continue to meet fortnightly to facilitate early discussion with Trade Unions on key organisational proposals, with more detailed discussion continuing with employees and trade unions at local directorate level. It is essential that there continues to be appropriate consultation on proposals which are taken forward by the Cabinet. Many of these will have people implications which will need to be considered at an early stage in consultation with the Trade Unions and employees impacted.

CABINET CONSIDERATION

The Cabinet considered this report on 14 July and agreed

(1) the framework for the savings targets on which this Budget Strategy report is based including the use of a targeted approach to meeting the Budget Reduction Requirement both in 2017/18 and across the period of the Medium Term Financial Plan.

(2) that directorates work with the relevant Portfolio Cabinet Member, in consultation with the Corporate Resources Director and Cabinet Member for Resources and Performance Management to identify potential savings to assist in addressing the indicative budget gap of £24.328 million for 2017/18 and £75.297 million across the period of the Medium Term Financial Plan.

(3) that relevant bodies who raise precepts and levies on the Council be formally contacted to request that funding reductions are also fed into these settlements which should be in line with those it is expected that Welsh Government will impose in respect of local authority funding.

(4) Authority be delegated to the Corporate Resources Director in consultation with the Cabinet Member for Corporate Services and Performance the authority to identify an alternative budget gap requirement upon further clarification being provided by the Welsh Government in respect of funding.

(5) Authority be delegate to the Corporate Resources Director in consultation with the Cabinet Member for Corporate Services and Performance the authority to amend the Budget Strategy, once the budget savings proposals have been reviewed, if this amendment does not significantly depart from the underlying principles. Any requirement to significantly depart from these principles would require a further Budget Strategy Report to Cabinet.

(6) that the Council seeks expressions of interest from officers in respect of the

voluntary redundancy scheme

(7) that there will be a two stage process in relation to consultation on 2017/18 proposals. This will commence with the Ask Cardiff Survey including a section on general budget themes followed by more detailed consultation on 2017/18 proposals later in the Autumn, once there is further clarity on the 2017/18 funding position.

CABINET PROPOSAL

Council is recommended to agree that the Budget Timetable Framework set out in Appendix 2 be adopted and that the work outlined is progressed with a view to informing budget preparation.

THE CABINET
14 July 2016

The following appendices are attached;

Appendix 1 – Budget Strategy Frequently Asked Questions

Appendix 2 - Proposed Budget Timetable Framework 2017/18

Appendix 3 – Finance Snapshot – Financial Resilience

The following background paper has been taken into account:

2016/17 Budget Report – February 2016