CITY OF CARDIFF COUNCIL
CYNGOR DINAS CAERDYDD

CABINET MEETING: 16 JULY 2015

BUDGET STRATEGY 2016/17 AND THE MEDIUM TERM

REPORT OF CORPORATE DIRECTOR RESOURCES & SECTION 151 OFFICER

AGENDA ITEM: 3

PORTFOLIO: CORPORATE SERVICES & PERFORMANCE MANAGEMENT (COUNCILLOR GRAHAM HINCHEY)

Reason for this Report

1. To establish the financial strategy of the Council in readiness for the preparation of the 2016/17 revenue and capital budgets and to update the financial strategy required to meet the continued significant financial challenges facing the Council in the medium term. This will include outlining the timetable for the budget process in order to present the Budget Report to Council on 25 February 2016.

2. Given the risks attached to delivering savings of the expected quantum on a year on year basis the Report will continue the practice established in 2015/16 of identifying savings targets for the Council not just for 2016/17 but also across the life of the Medium Term Financial Plan. The Report will also consider the future outlook for the Council beyond the life of the Medium Term Financial Plan during this period of sustained financial austerity coupled with increasing financial pressures, albeit these projections are highly caveated given the number of unknown variables.

3. The Budget Strategy Report will highlight the seriousness of the financial challenges ahead and the briefings that have and are being undertaken to ensure that stakeholders understand how these challenges impact on the financial resilience of the Council over the medium term. Members should take note of the statements of the Section 151 Officer within both the body of this report and the financial implications. These statements further develop those set out when the 2015/16 Budget was approved in February.

4. The policies, budget assumptions and tools that underpin the Budget Strategy are critical in moving the Council forward on a financially sustainable basis and ongoing monitoring of the Council's financial resilience will be key. Therefore the recommendations attached to this Budget Strategy Report are key in managing the ongoing risks.

Structure of the Report

5. The Budget Strategy for the Council needs to provide sufficient assurance that a coherent strategy has been developed. The Report sets out the Budget Reduction Requirement for 2015/16 and the medium term at the date of the 2015/16 Budget Report as well as contextual information in respect of the Budget Strategy. It then updates the Budget Reduction Requirement for 2016/17 and sets out the Budget Strategy to address this before doing the same over the medium term. In addition updates are included in respect of the Housing Revenue Account, the Capital Programme and future developments. Given the materiality of the financial challenges ahead it is important that this level of detail is included.

6. The following table provides an explanation of where key sections of the Report can be found. It should also be noted that a Budget Strategy Frequently Asked Questions briefing has been prepared and is included at Appendix 1.

Budget Strategy Report Section	From Para No.	Detail included within this Section
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Updating the 2016/17 Budget Reduction Requirement and Budget Strategy to meet the Requirement	67	Options to reduce the 2016/17 Budget Gap including consideration of directorate clusters and other addressable spend targets
Updating the medium term Budget Reduction Requirement and Budget Strategy to meet the Requirement	89	Options to reduce the MTFP Budget Reduction Requirement including consideration of directorate clusters and other addressable spend targets, scenario analysis and future years outlook
Consultation and Engagement	108	Consultation, the Cardiff Debate and Employee Engagement
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7. In addition the implications to the Report and in particular the statement made by the Section 151 Officer within the financial implications should be noted.

General Background

Economic Position

8. This Budget Strategy Report is written in the context of continued and sustained financial restraint. The implications of the Government's spending policy assumptions as set out in its March 2015 Budget is a sharp acceleration in the pace of implied real cuts to day-to-day spending on public services and administration in 2016/17 and 2017/18. The Report therefore is based on a continued reduction in funding for local government within Wales, with funding for the Council projected to decrease by an average reduction in local funding of 3% for 2016/17. The following paragraphs set out the economic context against which savings are required although it should be noted that the funding decisions in respect of 2016/17 will be driven by decisions Welsh Government (WG) make in respect of funding allocations across the public sector which are not yet known.

9. At the beginning of June the UK Government announced reductions to the 2015/16 Welsh budget of £50 million (£43 million revenue and £7 million capital). The impact of this on WG Budget setting is unclear and therefore so are any associated reductions in local government funding. The key variable in this respect will be the position taken by WG in respect of funding for Health.

10. The Chancellor has stated that he intends to make a further budget announcement on the 8 July 2015. At the time of writing this report the content and implications of this further announcement are unknown. It is likely that the implications for local government in Wales and the Council specifically will not be known for some time to come. The Cabinet Member for Corporate Services and Performance Management will, if necessary, table a statement for Members at the Cabinet meeting on 16 July 2015.

11. The Chancellor's budget announcement in March 2015 set out the economic context based on figures produced by the Office for Budget Responsibility (OBR) against which the budget strategy will be set. Some of the main indicators from this statement were:

   - Growth forecast to be 2.5% this year and 2.3% in 2016
   - Inflation forecast to stay at target rate of 2% over the period from 2015 to 2018 with CPI projected to be 1.2% in 2016
   - National debt forecast to peak at 80.4% in 2014/15 falling to 79.8% of national income in 2016/17

12. The OBR Report sets out that global economic recovery remains uneven and the UK is not immune to the severe problems being experienced in Europe and other parts of the world economy. In addition it stated that domestically there continue to be signs of normalisation in the housing

market with indicators suggesting continued increases in house building and moderating house price growth. The Report advises that against this backdrop it is expected that the bank rate will move upwards slowly during 2016/17.

Welsh Government Context

13. The 2015/16 Budget Report set out that the percentage decrease in Aggregate External Funding from WG to the Council for 2015/16 was 2.9% which equated to a cash decrease of £12.516 million. However the actual decrease in spending power for Cardiff was £12.968 million as a result of the funding mechanism for the 21st Century Schools Local Government Borrowing Initiative (LGBI) because of the treatment used by WG within the settlement.

14. The 2015/16 WG Settlement included no indication of the amounts that local government could expect as a funding settlement in future years. Whilst the Welsh Local Government Association (WLGA) continues to lobby WG for more certainty for councils in respect of financial planning no indication has been given to date that this information will be provided.

15. The usual timetable for the release of the provisional and final budget settlements is October and December respectively. At present uncertainty in respect of potential formula and data changes in the funding formula still exists although as in 2015/16 it is anticipated that limited changes will be made to formulas. Members will be aware that a number of specific grants were consolidated in 2015/16, namely within education and waste management and consolidation rather than transferring specific grants into the settlement appears to be WG's preferred approach.

16. The Minister for Public Services wrote to the leader of the WLGA on the 21 May 2015 requesting that the Finance Sub Group be used as an opportunity for local government to set out how it is approaching its financial planning to respond to future financial challenges and to highlight priorities and pressures. The WLGA prepared a Funding Outlook paper for the 9 July Finance Sub Group. The summary to this paper stated that:

17. "Council's have played their part in delivering savings so far and are now bearing the brunt of austerity. Continued austerity is putting local services and the government's own objectives at serious risk, both now and in the future. Unprecedented unavoidable pressures facing councils next year and longer-term demographic demands are likely to "crowd out" the smaller discretionary services until they hardly exist. The well-being of current and future generations is at serious risk."

Council Background

Corporate Plan

18. The Council approved its refreshed more strategic and focused Corporate Plan in March 2015 for the period 2015 - 2017 setting out the strategic direction and providing a framework for more detailed service plans and

performance management objectives. The Corporate Plan provides a road map for meeting the twin challenges of facing increasing demand for services from a growing population, whilst funding is reducing, to enable the Council to continue to deliver great public services. This should ensure that the Council builds on its successes to become Europe's most liveable capital city. The four Corporate Plan priorities were identified as below to be delivered as part of our strong public service values of "open", "fair" and "together":

- Better education and skills for all
- Supporting vulnerable people
- Creating more jobs and better paid jobs
- Working together to transform services

19. The Corporate Plan together with significant issues identified through the Council's Statement of Internal Control, the Corporate Risk Register and performance management reports will form the basis of the financial strategy for 2016/17 and beyond.

Organisational Development Update

20. As Members are aware the Organisational Development Programme remains the driver for reviewing the shape and scope of the organisation and the way that services are delivered. This includes widening opportunities for people and communities to shape services around their needs. Within the programme there is an emphasis on identifying delivery models that may be established to meet demand pressures and reflect budgetary realities alongside identifying opportunities for further efficiency savings through better internal and external collaboration, integration of service delivery, and reducing duplication of effort and resources. These opportunities are underpinned by the requirement to significantly strengthen performance management, workforce development and engagement arrangements whilst promoting openness through increased citizen engagement and information sharing, enabling transparent decision making and providing clearer opportunities for people to participate in decision-making processes.

21. This three year Programme provides a model to implement the fundamental changes required to ensure sustainable services are developed for the future. The governance structure is the Organisational Development Board with an Investment Review Board supporting resource allocation decisions. Within this structure there are nine Organisational Development Programmes which are as follows:

Enabling Technology and Strategic Commissioning Programme

- Assets and property
- Commercialisation and new income streams
- Improvement
- Governance and engagement
- Strategic commissioning

Reshaping Services Programme

- Reshaping customer focus and enabling technology
- Reshaping infrastructure and neighbourhood delivery
- Reshaping services for vulnerable adults
- Reshaping services for vulnerable children

22. The Reshaping Services Programme will continually review how services are reshaped against the target operating model. This model focuses on delivering sustainable services that are either classed as targeted delivery through gateways, universal provision of services using the One Council approach or enabling services within the organisation. Examples of key areas of work to date include developing a Multi-Agency Safeguarding Hub (MASH) model as part of the gateway assessment approach and commercialisation proposals in respect of an Alarm Receiving Centre as part of the universal service model. Lastly enabling services are developing the enterprise architecture infrastructure necessary to transform our service delivery for example Customer Relationship Management and mobile working.

23. In September 2014, the Wales Audit Office published its Corporate Assessment of the Council which drew together a number of conclusions to which the development of the Organisational Development Programme was a key response of the Council. The Wales Audit Office will conduct a further Corporate Assessment in October 2015, when progress made by the Council in relation to the September 2014 report will be reviewed. It is anticipated that the progress achieved in delivering the Organisational Development Programme will be an important pointer to the overall progress of the organisation in addressing the conclusions of the WAO's Corporate Assessment.

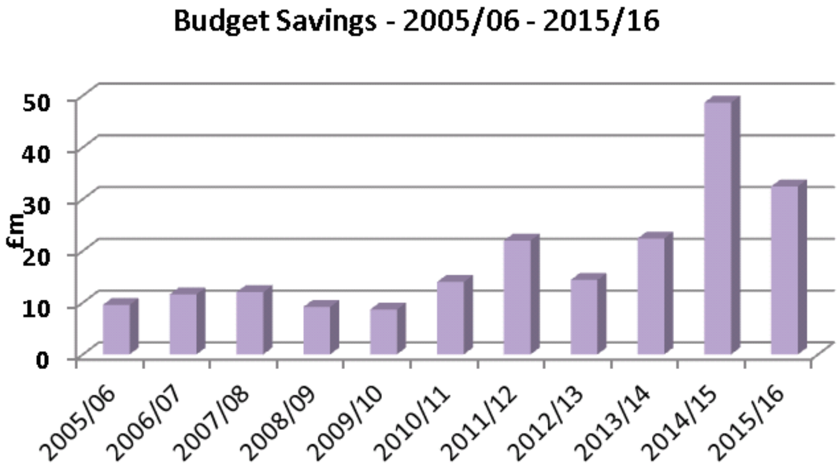
Approach to Budget Strategy

Setting the Budget Strategy

24. In 2015/16 the Council's Aggregate External Finance (AEF) was decreased by £12.516 million or 2.9% in cash terms over 2014/15, and when measured on a per capita basis was £1,170 which was well below the Welsh average of £1,323 and resulted in Cardiff being ranked as 21 out of the 22 councils in relation to the per capita funding it received from WG. In addition increasing financial pressures of £28.814 million were identified resulting in a Budget Reduction Requirement of £41.330 million.

25. The approved budget for 2015/16 included making significant savings amounting to £32.473 million, a one off capitalisation direction of £3.487 million and an increase in Council Tax rates of 5%. Over the past ten years the level of savings identified as part of the budget setting process has amounted to circa £205 million and these have become more challenging to achieve year on year. Up until 2013/14 funding increased annually but did not keep pace with demand, growth and inflation. Cuts were required to redirect funding into pressure areas but overall Council budgets continued to increase during this period. From 2014/15 funding

started to reduce. The Council's budget is now contracting annually with protection / serious demand pressure on circa 60% of its budget.



26. Setting a balanced budget for 2015/16 was extremely challenging due to the scale of the Budget Reduction Requirement. However a balanced budget was achieved and there were a number of positives in respect of the development of the budget process which will be continued and developed further in 2016/17. In summary these were:

- Specific directorate savings targets were developed following consideration of opportunities to deliver savings across both one and three years using savings driver categories in respect of policy led, business process corporate efficiency and directorate discrete savings.
- The Budget Strategy Report included the setting of a number of budget strategy planning assumptions for both one and three years in relation to council tax, employment costs, schools pressures and balance sheet assumptions which led to earlier engagement on these choices.
- As part of Budget Strategy development, high level consideration of savings proposals against the Council's proposed target operating model were considered
- Market place sessions for members to review the budget proposals for 2015/16 took place and budgetary analysis sheets were provided for context. These sessions facilitated wider engagement on the proposals.
- Cardiff Debate undertook an extensive engagement exercise with citizens, business, partners and staff.
- An eleven week consultation process on the proposed savings for 2015/16 took place which included the preparation and consideration of an extensive feedback report was prepared for Cabinet to consider.
- A due diligence process was undertaken on the proposed savings and a number of savings removed or reduced due to concerns in respect of their achievability.
- The Medium Term Financial Plan (MTFP) section of the Budget Report considered a future years outlook section up until 2029/30.

- The Budget Report included opportunities for further savings in respect of 2016/17 and 2017/18 as directorate clusters with some proposals set out as specific line items.

Approach to Reshaping the Base Budget

27. The 2015/16 Budget Report identified savings opportunities for later years of the MTFP of £52.188 million of which £30.662 million was in respect of 2016/17. The total sum was split into directorate clusters with a subset shown separately, particularly where they were reflective of an ongoing savings or policy decisions. A number of these were the subject of adjustments when the Budget was set by Council on the 26 February 2015. When compared to the MTFP at February 2015 of £120.1 million as identified in the Budget Report this resulted in a potential gap over the life of the MTFP of £67.926 million. It was acknowledged that an updated approach to identifying budget targets was required and this led to the development of the Reshaping the Base Budget approach.

28. The development of the Budget Strategy process has sought to establish linkages between the Reshaping Service Programme and the target operating model. A Reshaping the Base Budget approach was established to develop the targets for 2016/17 and the medium term. This approach looked to initially identify the shape of services and then understand the link to strategic priorities. Savings were then identified against four drivers as set out in paragraph 33.

29. In essence the approach to Reshaping the Base Budget identified services at their minimum statutory level and where the budgets are for discretionary services considered whether these can be covered by income. These opportunities were then mapped against the achievability for implementation, residual risk and policy acceptability to provide the shape of savings targets over both one and three years. In some instances this was driven by ongoing work in respect of alternative service delivery models, for example leisure centres, arts venues and infrastructure services.

30. The advantage of this approach is that it facilitated further discussion within the Council as to the future shape of the organisation given its desired outcomes, the contribution of these services to the Council's corporate priorities as set out in the Corporate Plan and where appropriate the further consideration of options available to reshape future service delivery. These discussions acknowledged the difficult policy choices ahead but also identified that given the scale of the financial challenge that choices are severely constrained. It should be emphasised that the targets do not constitute savings proposals as these will be collated over the summer for consideration and consultation this Autumn.

31. The Council will continue to develop this approach and build on existing budget tools with a focus on:

    - Gaining a fuller understanding of significant areas of spend and associated cost and demand pressures.

- Understanding how services contribute to the organisation's strategic priority outcomes and identifying where meeting a balanced budget prompts a change to these priorities.
- Developing options for reducing expenditure and increasing income using the savings drivers.
- Linking the Reshaping of Base Budget to either Business As Usual activities or to the Organisational Development Programme. The Enabling and Commissioning and Reshaping Services boards will seek to ensure that there is sufficient focus to link this work to the Target Operating Model.
- Following the setting of targets as part of the Reshaping Base Budgets Approach directorates will prepare the submission of savings proposals which will lead to a service package of savings to take forward which are considered in respect of risk and equality impact assessment and consulted upon.

32. Undertaking the above approach alongside consideration of the figures within the MTFP and emerging pressures should together with a review of the Council's budget strategy planning assumptions ensure that budget proposals are developed to enable the Council, post consultation, to set a balanced budget.

Savings Drivers

33. As detailed above the budget strategy process has continued with the approach established in 2014/15 to identify savings targets against savings drivers. In addition to the previous savings drivers of policy led savings, business process led corporate efficiency savings and discrete directorate area led savings a further driver of income/commercialisation savings has been added. This is in recognition of the value of income as a way to reduce reliance on WG funding. Challenges to income generation remain including ensuring that managers have the necessary skill sets. The Cardiff Manager Training Programme seeks to develop these commercial skills across the organisation. An explanation of each of these drivers is set out as follows:

- Policy Led Savings – these savings are driven by policy led decisions and may require specific consultation. Examples include significant reductions in the service delivered or removal of that service and alternative delivery models including collaboration.
- Business Process Efficiency Led Savings – these savings are delivered by streamlining and improving services across the Council by ensuring that processes are citizen centric and that common processes are undertaken in a standardised way. The savings identified are often driven by technology for example mobile working and scheduling, electronic document records management and customer relationship management projects.
- Discrete Directorate Led Savings – these are more traditional savings that are developed within directorates and could include reducing supplies and services budgets, employee establishment reductions and opportunities to maximise grant funding opportunities. As the setting of budgets becomes more challenging

the ability to identify significant levels of savings from this driver reduces.

- Income/commercialisation savings – these savings are those specifically driven by an ability to increase discretionary income and exploit new opportunities to sell or trade services. A commercial ethos is required that will enable the authority to respond speedily to market shifts and financial opportunities, whilst maintaining a hold on risk. The Council will have to be realistic with its ambitions for commercialism. The top authorities in this area in the UK have spent many years developing their commercial services and they still only generate a small proportion of the funds required by those authorities to deliver services.

34. It is acknowledged that there is a certain amount of cross over between these drivers in which case the most relevant savings driver is chosen to inform the target.

Risks and Financial Resilience

Risk

35. The risk assessment process carried out as part of the 2015/16 budget preparation identified significant operational and financial challenges in the medium term. In addition to considering each savings and pressure item in respect of both achievability, a number of additional specific or general Council risks were identified. These included:

- The challenging financial position in respect of reducing WG resources, increasing financial pressures against a reducing controllable base budget and increasing volatility and uncertainty in respect of hypothecated grants.
- Continuing demographic demand for social care services if trendlines vary significantly from the anticipated position.
- The impact of welfare reforms, in particular the phased implementation of Universal Credit during 2015/16, on the ability of individuals to contribute to the cost of services provided where relevant.
- Reducing demand for services where the Council has historically charged for the activity and so creating an income shortfall.
- The necessity to deliver budgeted savings from reshaping services and other change proposals that are not currently fully defined.
- The potential impact on insurance costs for the Council as a result of savings proposed.
- The need to build capacity within the community to support the empowerment of communities to take greater responsibility for the delivery of services.
- The need to make tangible progress on the Partnership for Change.
- 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 this budget in addition to the unachieved 2014/15 savings which remain to be realised in 2015/16.
- The service impact of a significant reduction in headcount expected to take place over the medium term.
- The Council's ability to meet the costs of voluntary severance, albeit the discretionary element of the scheme will be reduced from April 2015, as the Council reshapes itself in line with available resources in these times of continuing financial austerity.
- 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.
- 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.
- 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 potential for additional capital receipts to not reach the amount modelled in the budget in respect of the in-principle capitalisation direction.
- 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 continuing to increase the support of revenue budgets from the Civil Parking Enforcement (CPE) reserve.
- 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.
- The ongoing uncertainty in respect of the establishment of a permanent CTRS scheme for 2016/17.
- The financial impact of WG allocating education grants directly to the Central South Education Consortium rather than local authorities.
- The deteriorating position in respect of delegated schools' balances.
- The increasing financial exposure to the Council of the SOP consolidated financial model as the size of the programme and associated risks increase.
- The risk of WG levying fines if the Council fails to realise recycling or land fill diversion rates.
- The potential for the Council to receive less than the budgeted sum in respect of Outcome Agreement Grant either due to performance shortfalls or statutory interventions.
- The impact of functions delivered as part of a collaborative arrangement should the planned benefits not be realised.
- Financial exposure should the Council breach its partial exemption calculation in respect of VAT.

- The impact of the outcome of the joint review between the Council and the WG in respect of the next three year funding provision for the Harbour Authority.
- The risk associated with the final settlement sum in respect of all remaining landlord councils exiting the existing HRA subsidy system from April 2015.
- The impact of the ongoing uncertainty in respect of the outcome of local government reorganisation.

36. Given the risks identified above, particularly in relation to reductions in head count, care will continue to be required to ensure that the significant changes to business processes or personnel do not impact on the financial control environment in a negative manner.

37. The impact of these challenges are reviewed as part of the financial monitoring process and through the Corporate Risk Register both of which are reported regularly to the Cabinet and the Senior Management Team. The Council's Audit Committee also regularly review the Corporate Risk Register.

Financial Resilience

38. The 2015/16 Budget Report set out the responsibilities of both Cabinet and the Section 151 Officer to set a balanced budget. It also flagged increasing concerns in respect of the financial resilience of the Council over the medium term. Key messages in respect of financial resilience included in the 2015/16 Budget Report were as follows:

    - The projected level of savings that would not be achieved in 2014/15 and the need to deliver these delayed savings in 2015/16.
    - The risks to achievability of the savings approved as part of the 2015/16 budget.
    - The significant Budget Reduction Requirement in respect of 2016/17 of £51.1 million, of which £3.5 million is due to impact of the capitalisation direction in 2015/16.
    - The level of general and earmarked reserves in relation to the financial issues and risks ahead, particularly if in year over spends materialise.
    - The increasing ratio of capital financing charges to controllable revenue budgets as Council budgets reduce and the associated relative affordability of the indicative Capital Programme worsens.
    - The need to expeditiously reduce the size of the asset base of the Council to generate capital receipts to repay debt and to remove associated revenue costs. This is particularly the case in 2015/16 to ensure that the benefit from the one-off capitalisation direction can be maximised.
    - Given the challenges ahead in respect of the Medium Term Financial Plan and beyond the need to make significant further decisions in addition to those made to date in respect of aligning the organisation to a lower sustainable resource base.

39. In addition, the development of the 2016/17 budget over the next six months will be informed by the current year's budget monitoring position. It should be noted that whilst the Council outturn for 2014/15 was favourable and allowed additional monies to be set aside in the general reserves the position at a directorate level was an overspend of £7.650 million partially offset by the budgeted contingency of £4 million. The delivery of these delayed savings, in addition to those set in the 2015/16 Budget, remains a key area of risk to be monitored as the year unfolds.

40. In the financial implications of the 2015/16 Budget Report I referred to the materiality of the service choices ahead of the Council. These difficult choices are facing all councils. The development of a deliverable Budget Strategy is a key document in reaching a balanced budget. The Reshaping the Base Budget approach has helped to inform this strategy as has the ongoing work in respect of service delivery choices particularly in respect of leisure, cultural venues and infrastructure services. Key risks remain that until robust savings proposals are submitted against targets and until work on alternative delivery models is completed that the Council may not be able to achieve financial savings of sufficient magnitude to meet the target savings.

41. The Corporate Director Resources has undertaken all Member briefing sessions to discuss financial resilience and has developed a Finance Snapshot to use at these sessions to provide a contextual backdrop for these discussions. Briefing sessions have also taken place with other key stakeholder groups including Audit Committee, the Policy Resources and Performance Scrutiny Committee and the Welsh Audit Office. Other key groups who receive regular briefings include the Schools Budget Forum and Trade Unions. It is the intention of the Director in fulfilling the Section 151 role to update key stakeholders at regular intervals during the year as further information in respect of the financial resilience of the Council becomes available.

42. Appendix 3 includes this Finance Snapshot which has been updated from those used in previous briefings to reflect the draft Statement of Accounts for 2014/15, the Outturn Report and the Budget Strategy as set out in this Report. In summary this shows that the position on General Fund reserves improved slightly from that identified when the 2015/16 Budget was set. In relation to General Fund Earmarked Reserves the updated position is a projected balance as at 31 March 2016 of £30.008 million, although it is recognised that the in-year monitoring position is likely to impact on the position. It also shows a positive Council variance against Outturn in respect of Revenue, although within this there was a significant directorate overspend of £7.650 million and an underachievement against savings of £6.903 million. The Capital Outturn showed a significant variance against the capital budget of £62.842 million. In addition the Snapshot shows the risk position when the 2015/16 Budget was set in respect of savings for that year. Lastly the figures in respect of this Report show a shortfall not matched against savings targets of £5.547 million over the life of the MTFP as set out later in this report.

43. The Council's Statement of Accounts provides a key component in assessing financial resilience and the draft Statement of Accounts for 2014/15 were reviewed by Audit Committee on the 22 June prior to the Corporate Director of Resources signing them as the responsible officer. The Accounts are currently on deposit and will be audited at the end of this period. The audited accounts will be presented to Council in September. The unaudited accounts show that the level of the Council's General Fund Reserve is £13.154 million. This is an increase of £1.741 million on the previous year's balance. Of this £595,000 was identified in February as being required to balance the 2015/16 budget, therefore the unallocated additional amount is £1.146 million. After adjusting for this the Council's general reserves are at 2.2% (1.92% in 2013/14) of its net expenditure budget which is an improvement on the previous year. Whilst 2014/15 comparators are not available as yet is it is below both the Welsh and English averages as at 31 March 2014.

44. The unaudited accounts show that the Council's General Fund Earmarked Reserves have increased by £2.758 million from £30.559 million as at 31 March 14 to £33.317 million as at 31 March 2015. Earmarked reserves are amounts set aside to provide financing for future expenditure plans. Within this figure there was a net reduction of £1.182 million in respect of schools balances and a net deficit of £472,000 as at 31 March 2015. This includes an amount in respect of severance and exit costs of £1.9 million paid out in 2014/15 to be repaid back by schools over the next 5 years.

45. Within Council Fund Earmarked Reserves there was a net increase in respect of Other Earmarked Reserves of £4.323 million. Within this increase the material increases are a £1.404 million increase in the Central Enterprise Zone earmarked reserve, £1.034 million in relation to the Insurance reserve and £2.020 million in relation to Waste Management/Prosiect Gwyrdd. In respect of the Waste Management/ Prosiect Gwyrdd earmarked reserve this figure is £808,000 higher than initially envisaged following the late notification by WG on the 2 June 2015 that no further financial action would be taken in respect of the 2013/14 missed targets on recycling and landfill allowances.

46. The Council's strategy for holding and utilising reserves is set out in its Financial Procedure Rules and members, following advice provided by the Section 151 Officer, will consider both the level of reserves held and whether any amounts should be used to support the budget setting process. As part of this consideration members are made aware that the use of reserves is finite in nature and therefore care is required to ensure that their use does not create a significant budget gap which would need to be filled in the following year.

47. In setting the Council's budget strategy for 2016/17 it is acknowledged that the budget setting process must be flexible enough to react to both unknown and anticipated but not fully quantified financial risks and challenges. As already identified the risks attached to the 2016/17 budget setting process will be greater than in previous years due to the quantum of savings to be found, the cumulative impact of savings to date and the ongoing uncertainty in respect of funding. The consideration of the

appropriate level of general and earmarked reserves will be part of the consideration of these financial risks.

48. The Budget Strategy Planning Assumptions section of this report sets out the suggested use of both general and earmarked reserves in both 2016/17 and the Medium Term. It concludes that there may some limited scope to utilise reserves. This position will reviewed and a final position taken when the Budget is set in February. At this stage a fuller position in respect of in year monitoring, emerging pressures and risks and WG funding levels will have emerged to inform the requirement to maintain balances and if necessary build financial resilience against the immediate financial challenges of setting a balanced budget.

The 2016/17 and MTFP Budget Reduction Requirement

2016/17 Budget Reduction Requirement

49. The Budget Reduction Requirement identified for 2016/17 in the February 2015 Budget Report was £51.1 million. This gap was particularly high due to a number of factors including the impact in commitments of the one off capitalisation direction in 2015/16 (£3.487 million) and the impact to employee costs as a result of national insurance increases linked to changes to the single tier pension (£7.465 million). The table below summarises the budget gap for 2016/17 and the main components of increasing financial pressures alongside the anticipated reduction in WG funding:

Budget Reduction Requirement (as per February Budget Report)	2016/17 £000	Non Schools £000	Delegated Schools £000
Employee Costs	15,453	6,020	9,433
Specific Inflationary Pressures	1,045	920	125
Capital Financing	515	515	0
Commitments	7,180	7,180	0
Demographic Growth	8,183	4,150	4,033
Financial Pressures (provisional sum)	6,000	6000	0
Total Pressures	**38,376**	**24,785**	**13,591**
Anticipated Funding Reduction (3%)	**12,723**		
Budget Reduction Requirement	**51,099**		

50. The following table illustrates the projected distribution of these sums both within and outside of directorates. This table highlights that 63.4% (£32.38 million) of the budget gap is redistributed to areas outside of directorate spend and is a particularly high figure due to financial pressures in schools and the fall out of the capitalisation direction.

Distribution of 2016/17 Budget Gap (as per February Budget Report)	2016/17 £m
WG Funding Reduction	12.70
Fall out of capitalisation	3.48
Financial Pressures - schools (before any cap)	13.60
Financial pressure to non-directorate areas	2.60
Sub-Total outside directorates	**32.38**
Financial Pressures recycled to Social Care	5.42
Financial Pressures recycled to other directorates	7.29
Emerging Financial Pressures	6.00
Sub-Total Recycled within directorates	**18.71**
MTFP Total	**51.09**

51. In addressing the Budget Gap the Council considers and makes decisions when its budget is set which are a combination of the options set out below:

52. **Reduce the Budget Gap** – The Budget Gap figure is dynamic and will change during the year. Work is ongoing to review the make up of the £51.1 million and whether there is any scope to reduce this figure. This exercise will include technical work and policy discussions. Whilst the £6 million identified for directorate pressures is a provisional sum it should be noted that there may be legislative or regulatory pressures as well as any impact in respect of the in year monitoring position. The work undertaken to date has identified some scope to reduce this Gap as set out in paragraph 67.

53. **Identify savings from Reshaping Base Budget** – The Reshaping the Base Budget exercise has informed the targets for directorates using the four savings drivers as detailed in this report. In addition further work on addressable spend has and will continue to feed through into this exercise. As stated previously it should be noted that this exercise has been informing the setting of targets rather than individual savings proposals which will be collated over the summer months for consideration and consultation at a later date.

54. **Identifying Budget Strategy Planning Assumptions** – These assumptions are set out in further detail in the report and include council tax increases, schools pressures and a review of the Balance Sheet. The section above sets out the matters in respect of financial resilience which inform this position. It should be noted that use of reserves is a one off source of funding and therefore increases financial pressures in later years.

55. In addressing this Budget Gap the Council needs to exercise choices which balance its requirements in respect of statutory versus discretionary services and financial resilience.

Schools Budgets

56. The WG has yet to formally indicate whether the requirement for councils to protect the delegated schools budgets will be maintained in 2016/17 however this report assumes that this is the case. Based on an estimated reduction in the WG's budget for 2016/17 of 1.25% the strategy assumes that protection restrict councils from reducing the budget to delegated schools by more than 0.25%. The impact of reductions to the overall WG budget could result in a change to this percentage. It should be noted that this requirement is outside of monies passported to delegated schools budgets in respect of increases in pupil numbers which at present is projected to be £4.033 million or decisions that the Council will need to take in respect of the level of additional funding to support schools pressures. These matters are considered in further detail in the Budget Strategy Assumptions section of this report.

Partnership for Change

57. The Partnership for Change Agreement which was signed by all parties on the 15 January 2015 and appended to the Cabinet Report on 26 January 2015 was reflected in the Council's 2015/16 Budget. The agreement set out details of the joint partnership approach between the Council and the Trade Unions in relation to budget savings for 2015/16 on the basis that the Trade Unions did not wish any impact on employees terms and conditions. The agreement included the reinstatement of working hours when the existing Workforce Package ceased on 31 March 2015. The £5.75 million planning assumption for budget savings in 2015/16 includes the capitalisation saving of £2.5 million which was for one year only and has been reinstated as part of the 2016/17 budget requirement. The balance of savings are on-going and are reflected in the base budget. The focus of the Agreement in relation to future years is about supporting the reform agenda and new ways of working and a Joint Partnership Board was established to take this forward. A progress report on the Partnership for Change Agreement is included as a separate item on this agenda.

The Medium Term Financial Plan Budget Reduction Requirement

58. The February 2015 Budget Report identified a base and worse case position in respect of the budgetary gap from 2016/17 to 2018/19. The scenario was calculated by flexing key variables over the medium-term with the most significant being the likely level of WG funding. The base case position as at February 2015 is set out in the table below and totals £120.1 million for the three years.

Budget Reduction Requirement (as per February Report)	2016/17 £000	2017/18 £000	2018/19 £000	TOTAL £000
Employee Costs	15,453	7,406	7,306	30,165
Specific Inflationary Pressures	1,045	1,040	880	2,965
Capital Financing	515	1,447	(1,183)	779
Commitments	7,180	443	260	7,883
Demographic Growth	8,183	8,089	7,572	23,844
Financial Pressures (provisional sum)	6,000	6,000	6,000	18,000
Total Pressures	**38,376**	**24,425**	**20,835**	**83,636**
Anticipated Funding Reduction (3%)	**12,723**	**12,151**	**11,604**	**36,478**
Budget Reduction Requirement	**51,099**	**36,577**	**32,439**	**120,114**

59. In relation to demographic growth and financial pressures, figures between 2002 and 2013 show that Cardiff's population grew by 13%, more than London or any of the other core cities. This trend is set to continue with projected growth of 26% between 2013 and 2034 which equates to an additional 91,500 people. Of the £83.6 million of financial pressures over the plan, 30% is attributable to demographic growth. Anticipated growth is in areas where demand for services can be more costly for example increases in the school age and older population.

60. Population growth is widely regarded as an indicator of success. However, this growth will translate into significant demand pressures for some of the Council's key service areas. This is at a time when the level of budget shortfall facing the Council, as outlined in this report, places significant pressure on the financial resilience of the authority. This is particularly the case in respect of increasing financial pressures associated with increases in school places.

61. The plan also includes £6 million per annum to address emerging financial pressures which equates to approximately 1% of net budget. It should be noted that this sum has been included in recognition that it is impossible to foresee all issues and that in reality additional burdens may emerge for example additional legislation, wider policy implications and grant fall out.

62. The MTFP currently contains no additional specific provision in respect of the Council Tax Reduction Scheme. An interim Scheme was implemented from 2013/14 and WG have indicated that it will remain in place in 2016/17.

63. Such is the scale of the pressures associated with the projected growth in demand that the Council must understand how they will affect specific service areas. The Council will therefore undertake work which seeks to provide a more informed view of how population growth and anticipated demand pressure will affect specific aspects of service delivery to assist with budget strategy.

64. As shown earlier in this report in respect of 2016/17, the table below shows the projected distribution of sums both within and outside of directorates over the life of the MTFP. This highlights that 59.5% (£71.5 million) of the budget gap is redistributed to areas outside of directorate spend and is again a particularly high figure due to financial pressures in delegated schools (£29.47 million) and the fall out of the capitalisation direction.

Distribution of MTFP Budget Gap (as per February Report)	**2016/17 – 2018/19 £m**
WG Funding Reduction	36.47
Fall out of capitalisation	3.48
Financial Pressures to schools (before any cap)	29.47
Financial Pressures to non-directorate areas	2.08
Sub-Total outside directorates	**71.50**
Financial Pressure recycled to Social Care	15.33
Financial Pressures recycled to other directorates	15.27
Emerging Financial Pressures	18.0
Sub-Total Recycled within directorates	**48.6**
MTFP Total	**120.1**

65. Directorates have identified policy pressures in relation to the medium term which are identified below. There is a risk that the financial pressures associated with these policy changes will increase the shortfall between Council expenditure and funding streams still further. Policy pressures identified by directorates include:

- The Social Services and Well Being Act 2014 may have an impact on the Council. The Act will potentially bring about new demand pressures which are not costed into the MTFP.
- Ongoing legal requirements in relation to Deprivation of Liberty Safeguards and the Mental Health Act in excess of previous funding allocations may impact on costs within Health and Social Care.
- The Housing Wales Bill may potentially lead to new pressures on the provision of homelessness prevention services.
- Reductions in grants, for example the WG has announced its intention to review the Social Care Workforce grant.
- The outcome on recycling percentages and waste collection costs as a result of the Council's Waste Strategy.

66. The variable that is likely to have the most significant impact on budgetary gap is future levels of WG Funding. The Budget Gap covers the cost to the Council of:-

- Areas of significant inflationary and demographic pressure
- Central Government policy - i.e. the increases to Employer's National Insurance Contributions that will result from Single Tier Pension changes from 2016/17
- The cost of reinstating the 37 hour week from 1/4/15

- The impact of the increase in Employer's pension contributions to the Teachers' Pension Scheme
- Capital Financing Costs
- Welsh Government funding decreases of potential 3% per annum

Updated 2016/17 Budget Reduction Requirement and Budget Strategy to meet the Requirement

Options to Reduce the 2016/17 Budget Gap

67. As previously stated the Budget Gap figure is dynamic and will change during the year. This will include the impact of both technical reviews and policy decisions, the outcomes of which could amend the figure. For example the Budget Gap of £51.1 million included £6 million for directorate pressures which is a provisional sum and will be updated as a result of emerging legislative or regulatory pressures as well as any impact in respect of the in year monitoring position.

68. The following table sets out the outcome of the work that has been undertaken to date in respect of reducing the Budget Gap for 2016/17. The adjustments may result in a reduction to the Budget Gap of £3.721 million. It should be noted that the remaining amounts in the reduced Budget Gap of £47.378 million will continue to be monitored. There are some areas, such as provisional financial pressures, which may change as the year progresses. The challenge will be to balance financial prudence with budget setting pressures.

2016/17 Budget Reduction Requirement	Gap as at February 15 £000	Adjustments to Date £000	Updated Gap £000	Modelling Update Undertaken
Employee Costs	15,453	(500)	14,953	Updated pay modelling identified amount for release
Specific Inflationary Pressures	1,045	(180)	865	Updated price inflation modelling identified amount available in respect of energy inflation
Capital Financing	515	(515)	0	Reduced to take account of the impact of the level of capital slippage identified in the 2014/15 Outturn Report. This sum has then been added onto the Budget Gap for 2017/18.
Commitments	7,180	(1,526)	5,654	Review of voluntary severance projections against earmarked reserve borrowing. Also updated figures in respect of carbon reduction commitments
Demographic Growth	8,183	0	8,183	Planned review date October.

Financial Pressures (provisional sum)	6,000	(1,000)	5,000	Provisional sum reduced by £1 million. This will be subject to further review aligned with in year budget monitoring
Total Pressures	**38,376**	**(3,721)**	**34,655**	
Anticipated Funding Reduction (3%)	**12,723**	**0**	**12,723**	**Planned review date when provisional settlement available**
Budget Reduction Requirement	**51,099**	**(3,721)**	**47,378**	

69. Given the lack of clarity currently in respect of indicative funding levels from WG it is recommended that Cabinet delegate to the Corporate Director Resources in consultation with the Cabinet Member for Corporate Services and Performance Management the authority to identify an alternative budget gap requirement subject to further clarification being provided by the WG.

70. Identify target savings from Directorate Budgets and Addressable Spend Base Budgets

71. The Reshaping the Base Budget exercise has informed the targets for directorates using the four savings drivers as detailed in this report. In addition further work on addressable spend has and will continue to feed through into this exercise. The Council's net base budget for 2015/16 is £570.219 million. The Council has considered these budgets to identify a 2016/17 savings base. This analysis has identified a directorate controllable base of £222.963 million, other areas of addressable spend of £311.101 million and non controllable budgets of £36.155 million.

72. It is this distinction between cash and controllable budgets that underlines the seriousness of the financial position facing the Council and this Report recommends that the Leader writes to WG and the WLGA to express his dismay at the scale of WG funding reductions when compared to our ability to make these savings alongside meeting financial pressures from our controllable budgets. This position whilst shared across Wales is exacerbated in Cardiff due to the key impact that the Council plays in economic regeneration and tourism which acts as a catalyst over wider investment and growth across the region.

73. The directorate controllable base of £222.963 million, which equates to 39.1% of the overall budget, has been the traditional focus from which savings have been taken from over a number of years. It should be noted that within this the controllable budget for social care totals £135.2 million or 60.6%. Given the scale of the financial challenge ahead this controllable budget is not large enough to meet the budget gap over this period. In addition these budgets, for example social care, may themselves be the subject of statutory duties and increasing demand. The Reshaping the Base Budget approach as set out earlier has been used where possible to inform budget strategy targets going forward in relation to these budget areas.

74. The other areas of addressable spend budget totals £311.101 million, which equates to 54.56% of the overall budget. Of this £205.609 million is in relation to delegated schools is considered separately in this report. The balance of £105.492 million is set out in the table below. It should be noted that the opportunities to identify savings against these target areas of addressable spend will continue over the coming months. With this in mind the lead Cabinet member and director in each of these areas have been identified as champions to take this work forward. Information in relation to opportunities, milestones and the methodology to extract benefits will continue.

Other Addressable Spend Theme	**Value**	**Potential opportunities for addressable spend savings from base budgets**
	£m	
Capital Financing etc including contribution to SOP and Central Enterprise Zone	**44.357**	No savings from addressable spend in this area have been identified at present. However there may be opportunities in respect of capital financing budgets which will be considered prior to finalising other addressable spend savings.
Externally set – Precepts and levies	**17.569**	The Report will recommend that relevant bodies who raise precepts and levies be contacted to request that they feed similar funding reductions into their budget strategies.
Office accommodation and land and buildings	**12.187**	Office accommodation and savings on building costs may be deliverable as part of the proposals in respect of leisure and venues alternative delivery models
Corporate / Financial Resilience including contingency, insurance and audit	**13.674**	Potential scope has been identified in respect of issue specific contingency budgets and insurance.
Other including severance budget, schools transport, street lighting, pool subsidy and the election budgets	**17.705**	Sums have been identified as being available for release, particularly in relation to the base budget for voluntary severance. In addition a further change to the voluntary severance scheme as applied from April 2016 may be considered.
Total Other Addressable Spend (excluding delegated schools)	**105.492**	

75. In conclusion following initial consideration of Other Addressable Spend budgets excluding schools a savings target of £7 million has been identified. The deliverability of this target will be dependent upon proposals being considered and due diligence being undertaken. For example Cabinet's report in respect of voluntary severance on the 27 January agreed that the voluntary severance scheme be the subject of an annual review.

76. There are some areas such as Capital Financing budgets which may present opportunities for further savings as the year progresses and these options will be weighed-up against the risk of unforeseen movements in interest rates.

77. The other element is the non controllable base budget of £36.155 million, which equates to 6.34% of the overall budget. This includes items of spend from which savings cannot presently be identified. The main elements include the Council Tax Support budget of £29.9 million, £2.1 million in relation to retirement costs in schools, £1.9 million in relation to extant commitments to the Local Government Borrowing Initiative (LGBI), £1 million in respect of past service costs, £1.3 million in relation to members' expenses and other miscellaneous budgets.

Savings Targets for 2016/17

78. The Reshaping the Base Budget approach has considered afresh the opportunities for savings in later years. The savings targets identified in the table below in respect of 2016/17 are categorised against the savings drivers set out in this Report. Therefore the scope to achieve savings across the drivers has been informed by the high level exercise which directorates have engaged with based on the principles established as part of the Reshaping the Base Budget approach. However it will be for directorates to come forward with detailed proposals for initial review, challenge and consideration in the Autumn and the shape of these proposals may not match the breakdown of savings drivers identified below.

One Year Budget Strategy – Savings Targets Savings Drivers	**2016/17 £000**
Policy Led savings	16,355
Business Process Efficiency Led Savings	2,235
Discrete Directorate Led Savings	8,056
Income/Commercialisation Led Savings	3,015
Directorate Savings	29,661
Plus Addressable Spend Base Budget Savings	7,048
Total Savings Identified	36,709
Budget Reduction Requirement	47,378
Shortfall in Budget Reduction Requirement	10,669

79. The next table shows the savings target of £36.709 million against clusters of directorates identified as Place, Communities and Wellbeing and Corporate. The directorates in each of these clusters are set out below. It should be noted that the clusters can generally be aligned with the Council's Target Operating Model as Place activities tend to be delivered as a result of universal provision, Communities and Wellbeing as generally the delivery of targeted savings and generally the Corporate category aligns closely with enabling services:

- Place (Universal) – City Operations and Economic Development

- Communities and Wellbeing (Targeted) – Social Services, Education and, Communities, Housing and Customer Services
- Corporate (Enabling)– Resources, Corporate Management and Governance and Legal Services

Directorate Targets One Year Budget Strategy Savings Drivers	**2016/17 Place (Universal) £000**	**2016/17 Communities and Wellbeing (Gateway) £000**	**2016/17 Corporate (Enabling) £000**	**TOTAL £000**
Policy Led savings	4,232	11,224	899	**16,355**
Business Process Efficiency Led Savings	447	1,261	527	**2,235**
Discrete Directorate Led Savings	3,256	3,790	1,010	**8,056**
Income/Commercialisation Led Savings	1,715	935	365	**3,015**
Total Directorate Savings	**9,650**	**17,210**	**2,801**	**29,661**
Addressable Spend Savings from Base Budgets				7,048
Total Savings				**36,709**
Budget Reduction Requirement				**47,378**
Shortfall in Budget Reduction Requirement				**10,669**

80. Given the unprecedented level of savings required both in 2016/17 and beyond it will be important that the savings proposals identified are robust and deliverable. In particular the risk in respect of the savings target in relation to policy savings drivers for the Communities and Well Being cluster of £11.224 million should be highlighted. Work will be ongoing over the summer months by the relevant directorates to provide savings proposals that can be reviewed against these targets. This work will take place throughout the budget preparation process and will be informed by the emerging in year budget monitoring position in order that:

- There is a shared understanding and ownership of savings at an early stage.
- The risk of duplication of savings is minimised.
- Transparency of all savings to ensure clarity at scrutiny and other consultation forums.

Budget Strategy Planning Assumptions

81. This section sets out the Budget Strategy Planning assumptions in respect of Council Tax increases, schools pressures and a review of the Balance Sheet. Again it should be noted that the use of reserves is a one off source of funding and therefore increases financial pressures in later years.

82. The final table then identifies a scenario against how the shortfall of £10.669 million might be met. The positions taken in respect of these Budget Strategy assumptions are detailed below with further detail provided in the following sections. It should be noted that these are planning assumptions and that the final decisions in respect of balancing the budget will be taken at Council in February 2016 having had due regard to all consultation and engagement activities

Budget Strategy Planning Assumptions:

- Net council tax increase of 4.5%
- Restriction of 40% (£4.030 million) in respect of delegated schools budget increases – note this is over and above the schools protection and demographics figure.
- The potential to achieve £1.5 million from a review of the balance sheet

One Year Budget Strategy Source of shortfall in Budget Reductions Requirement	**2016/17 £000**
Council Tax Savings based on a 4.5% increase net of Council Tax Reduction Scheme	5,139
Medium Term Financial Plan Adjustments	
Restriction of 40% of schools budget increases – excludes protection and demographics	4,030
Balance Sheet Review	1,500
Potential Scenario to meet the Budget Reduction Requirement	10,669

Council Tax Budget Strategy Planning Assumptions

83. The level of Council Tax for 2016/17 will be addressed as part of the February 2016 Budget Report. However given the need to plan effectively for both 2016/17 and within the MTFP a planning assumption in respect of Council Tax levels has been included when identifying a response to the Budget Reduction Requirement. The planning assumption is that there will be a 4.5% increase in the level of Council Tax in each of the next 3 financial years. This assumption generates additional income for the Council, net of the impact of the Council Tax Reduction Scheme of £5.139 million in 2016/17 and £15.417 million over the life of the MTFP.

84. It should be noted that this planning assumption should be seen as an indication rather that the final proposal of Council Tax levels that the administration will propose as part of the 2016/17 Budget Report. The following table shows the amounts that would be raised in respect of net council tax increases from 2% to 5%. A Council Tax increase of 4.5% has been carried across each year of the MTFP as part of the Budget Strategy Planning assumptions. Council Tax increases in Cardiff over the last five

years show an average increase of 2.47% per annum. This compares to the Welsh average of 3.36% over the same period.

Impact of Percentage Council Tax Increase per financial year net of the impact on the Council Tax Reduction Scheme	**Reduction in 2016/17 Budget Gap £M**	**Reduction in 2016/17 to 2018/19 MTFP Budgetary Shortfall £M**
Impact of 2% net Council Tax Increase	2.284	6.989
Impact of 3% net Council Tax Increase	3.425	10.588
Impact of 4% net Council Tax Increase	4.567	14.258
Impact of 4.5% net Council Tax Increase	5.139	16.120
Impact of 5% net Council Tax Increase	5.709	17.999

Schools Budget Strategy Planning Assumption

85. The Budget Reduction Requirement for 2016/17 includes £13.591 million in relation to delegated schools. Of this £10.074 million is in relation to budget increases to cover financial pressures. The WG protection is assumed to be a reduction of no greater £513,000 thus the difference between protection and the amount of inflationary pressures of £9.561 million is £10.074 million The inflationary pressures of £9.561 million include teachers' superannuation, SERPS, pay awards and redundancies. In addition an amount has been set aside for demographic pressures that schools require in relation to increasing pupil numbers of £4.033 million.

86. The Budget Strategy Planning Assumption for 2016/17 reduces the funding for financial pressures by £4.030 million and results in a restriction of increases in schools delegated budgets of 40% - this excludes protection and demographic growth. It should be noted that this assumption should be seen as an indication rather than a final proposal as this will be taken as part of the 2016/17 Budget Report. The impact of the reduction will not fall proportionately thus the budgetary challenges facing each school within their respective phases will vary. In addition, the interaction with future grant funding is unclear given the uncertainty over grants such as the Education Improvement Grant both in terms of amount and mechanism as well as the amount of Pupil Deprivation Grant allocated to each school which varies as a result of the free schools meal population of each school.

87. Whilst recognising the challenges of this cap, it is the case that other councils have held school budgets to increases at a similar rate to that of protection. It is also the case that there are inherent difficulties in comparing delegated schools budgets between authorities as the responsibilities delegated to individual school budgets varies from one authority to another. Cardiff does have pressures such as free school meals, redundancy and complex needs within delegated school budgets that other authorities do not. The delegated schools' budgets accounts for £205.609 million of the Council's £570.219 million net budget and therefore the reality is that additional sums allocated within the budget gap in respect of schools increases for financial pressures for both next year and across the life of the MTFP will need to be reduced.

Balance Sheet Review Budget Strategy Planning Assumption

88. The Balance Sheet is regularly reviewed and financial resilience issues considered as set out earlier in this report. The conclusion of this review is that there is some limited scope to release sums and therefore a figure of £1.5 million has been identified as a Budget Strategy Planning Assumption. It should be noted that the MTFP assumes that this figure is continued across the three years and therefore £4.5 million will need to be identified in total.

Updated MTFP Budget Reduction Requirement and Budget Strategy to meet the Requirement

MTFP Budget Reduction Requirement

89. The following table updates the MTFP for the changes made to the 2016/17 Budget Gap and the impact on the 2017/18 Gap as a result of this. It demonstrates that alongside the funding reductions from WG the Council services face significant inflationary and demand pressures.

MTFP Scenario	2016/17 MTFP Shortfall £000	2017/18 MTFP Shortfall £000	2018/19 MTFP Shortfall £000	Total MTFP Shortfall £000
Financial Pressures	34,655	24,940	20,835	**80,430**
Funding Reductions at 3%	12,723	12,151	11,604	**36,478**
Total Budget Gap	**47,378**	**37,091**	**32,439**	**116,908**

Savings Targets over the Medium Term Financial Plan

90. Given the level of savings that have been delivered to date and the requirement to deliver significant further savings in the future the challenge to achievability is often the timescale for delivery. It is also the case that directorates need to be given a clear indication of the level of savings not only in the next financial year but also in the medium term.

91. In response to this financial challenge the Council has sought to apply the same savings drivers to the Budget Reduction Requirement over the time horizon within the MTFP. This 3 year planning horizon should also provide the Council with a greater ability to plan albeit the challenges of both identifying and delivering these savings given the limited information available from WG and the uncertainty of future demand pressures within the Council should not be underestimated. It should be noted that when the budget for 2016/17 is set the MTFP will roll forward and therefore the budget reduction requirement in relation to 2019/20 will also need to be calculated.

92. The following table identifies across the current MTFP the total targets for the Council that could feed into the savings drivers. As previously

identified the Reshaping the Base Budget approach has been used to take forward this consideration. The table shows that the Budget Reduction Requirement over the life of the current MTFP totals £116.908 million. Against this total savings of £85.564 million have been identified from both directorates and other addressable spend base budgets. This results in a shortfall of £9.246 million in 2017/18 and £11.429 million in 2018/19 prior to consideration of the Budget Strategy Planning Assumptions.

93. Other Addressable Spend budgets have also been considered for the later years of the current MTFP and a savings target of £4 million has been identified for both 2017/18 and 2018/19. Further details on the delivery of these savings in later years is required and will inform the final position in the February Budget Report.

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Budget Strategy Savings Drivers	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2016/17 – 2018/19 £000**
Policy Led savings	16,355	16,169	11,363	43,887
Business Process Efficiency Led savings	2,235	2,085	3,733	8,053
Discrete Directorate Savings	8,056	4,391	714	13,161
Income/commercialisation led savings	3,015	1,200	1,200	5,415
Directorate Savings	29,661	23,845	17,010	70,516
Plus Other Addressable Spend Savings from Base Budgets	7,048	4,000	4,000	15,048
Total Savings to be Identified	36,709	27,845	21,010	85,564
Budget Reduction Requirement	47,378	37,091	32,439	116,908
Shortfall in Budget Reduction Requirement	10,669	9,246	11,429	31,344

94. The next table shows the 2017/18 savings target of £27.845 million against the same clusters of directorates identified for 2016/17 as Place, Communities and Wellbeing and Corporate.

Directorate Targets 2017/18 Budget Strategy Savings Drivers	**2017/18 Place (Universal) £000**	**2017/18 Communities and Wellbeing (Enabling) £000**	**2017/18 Corporate (Gateway) £000**	**TOTAL £000**
Policy Led savings	2,651	12,883	635	**16,169**
Business Process Efficiency Led Savings	505	960	620	**2,085**
Discrete Directorate Savings	720	3,057	614	**4,391**
Income/commercialisation savings	411	633	156	1,200
Total Directorate Savings	**4,287**	**17,533**	**2,025**	**23,845**
Addressable spend savings from Base Budgets				4,000
Total Savings				**27,845**
Budget Reduction Requirement				**37,091**
Shortfall in Budget Reduction Requirement				**9,246**

95. The next table shows the 2018/19 savings target of £21.010 million against the same clusters of directorates identified for 2016/17 as Place, Communities and Wellbeing and Corporate.

Directorate Targets 2018/19 Budget Strategy Savings Drivers	**2018/19 Place (Universal) £000**	**2018/19 Communities and Wellbeing (Enabling) £000**	**2018/19 Corporate (Gateway) £000**	**TOTAL £000**
Policy Led savings	429	10,055	879	**11,363**
Business Process Efficiency Led Savings	1,118	1,777	838	**3,733**
Discrete Directorate Savings	89	491	134	**714**
Income/commercialisation savings	423	466	311	1,200
Total Directorate Savings	**2,059**	**12,789**	**2,162**	**17,010**
Addressable spend savings from Base Budgets				4,000
Total Savings				**21,010**
Budget Reduction Requirement				**32,439**
Shortfall in Budget Reduction Requirement				**11,429**

96. The final table then identifies a scenario across the current MTFP against how this shortfall of £31.344 million might be met from Budget Strategy Planning Assumptions. These assumptions are detailed below:

- Net council tax increases of 4.5% each year for 3 years
- A restriction of 40% in respect of delegated schools budget increases over a 3 year period – note this is over and above the schools protection and demographics figure
- The potential to achieve £1.5 million a year for 3 years from a review of the balance sheet – (subject to updating the Balance Sheet Review).

97. It is undoubtedly the case that the savings targets across the 3 years are challenging and that that the scale of this challenge increases materially in the later years. Given this challenge and the remaining shortfall as set out in the table below it may be the case that these Budget Strategy Planning Assumptions will need to be revisited and/or alternative policy choices which deliver savings identified.

Budget Strategy Source of shortfall in Budget Reductions Requirement	2016/17 £000	2017/18 £000	2018/19 £000	2016/17 to 2018/19 £000
Council Tax Savings based on a 4.5% increase net of Council Tax Reduction Scheme	5,139	5,370	5,611	16,120
Medium Term Financial Plan Adjustments				
Restriction of 40% of schools budget increases – excludes protection and demographics	4,030	2,093	2,053	8,176
Balance Sheet Review	1,500	*	*	1,500
Total Budget Strategy Planning Assumptions	10,669	7,463	7,664	25,796
Initial Shortfall in Budget Requirement	**10,669**	**9,246**	**11,429**	**31,344**
Remaining Shortfall	**0**	**1,783**	**3,764**	**5,547**

***** The 2016/17 Budget includes £1.5 million as a result of the Balance Sheet Review. This sum also needs to be identified in both 2017/18 and 2018/19 giving a total of £4.5 million otherwise the Budget Reduction Gap in these later years would need to increase.

98. The extent of the financial challenge in a continued period of restraint will result in savings targets for controllable budgets which will be hugely challenging particularly given their cumulative impact. The severity of the financial task ahead is such that it will result in significant changes to how local government services are delivered. A commercial ethos is required that will enable the authority to respond speedily to market shifts and financial opportunities, whilst maintaining a hold on risk, however the Council will have to be realistic with its ambitions for commercialism. Given these increasing concerns it is important that the Council retains sufficient central support capacity to manage these risks and manage the transition to a lower financially sustainable cost base.

99. The shortfall identified in the later years of £5.547 million of the current MTFP serve to demonstrate the significant financial challenge ahead. This is particularly the case in respect of the policy savings targets for Communities and Wellbeing of £34.162 million over the MTFP given the difficulty of delivering savings against a backdrop of complex and increasing demand in respect of the delivery of social care services. In addition the savings targets for all years but in particular 2017/18 and 2018/19 include an element of stretched targets in respect of business process efficiencies and income/commercialisation targets against which further detail must now be provided by directors. The same request for further detail also applies in respect of champions responsible for delivering the Other Addressable Spend targets. The ability of the

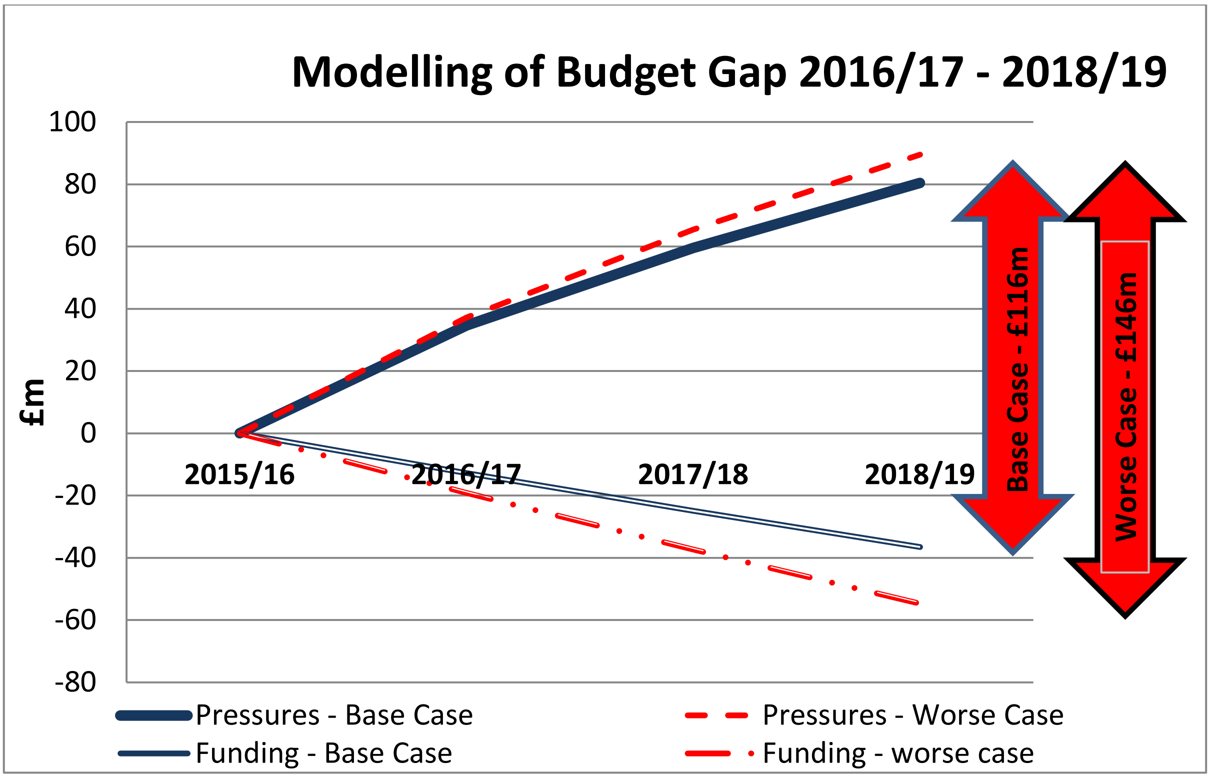
Organisational Development Programme to support the Council through this period of radical and sustained change will be key.

100. The work that is underway in respect of service delivery will help to support the savings targets however as identified elsewhere the pace and scale of change must be sufficient to meet the financial challenges ahead.

101. The financial implications to this Report provide further commentary in respect of the shortfall in the current MTFP and the difficulty of achieving a balanced budget in later years. Whilst a coherent approach has been adopted achieving a balanced budget beyond 2016/17 will require radical policies and strategies being adopted by the Council in relation to the delivery of services. Decisions will need to be taken in advance of the budget dates due to associated lead in times to deliver these savings.

Medium Term Financial Plan Scenario Analysis

102. The base case scenario was underpinned by a year on year Aggregate External Finance (AEF) reduction of 3% over the next three years. A sensitivity analysis has been undertaken around some of the key variables of the plan to consider a more pessimistic scenario. Under this scenario the following variables were flexed to identify a worse case scenario:-



- The difference between a 1% and 2% pay award
- The difference between 3% WG funding reduction and a 4.5% funding reduction

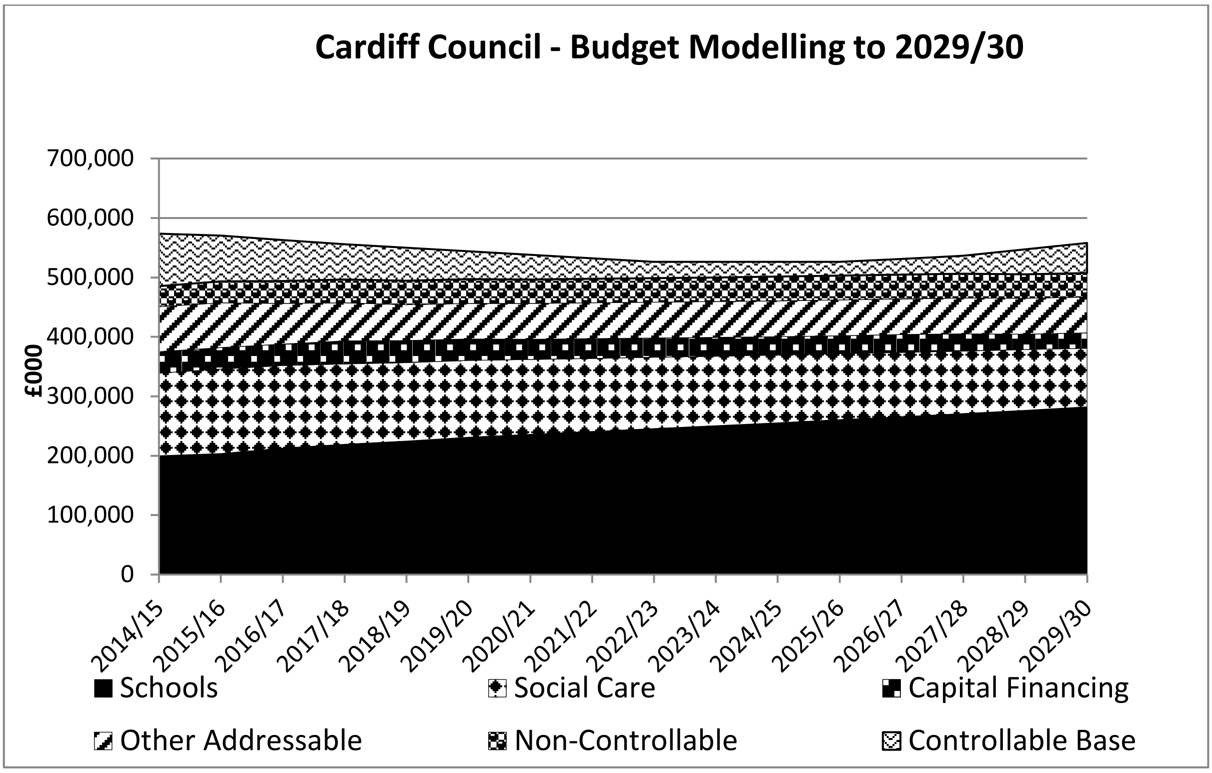
The table below summarises these base and worse case scenario.

MTFP Scenario	2016/17 MTFP Shortfall £000	2017/18 MTFP Shortfall £000	2018/19 MTFP Shortfall £000	Total MTFP Shortfall £000
Base Case	47,378	37,091,	32,439	116,908
Worse Case	56,396	47,140	42,166	145,702

103. A 1% fluctuation in AEF for Cardiff equates to £4.2 million. Clearly therefore, each additional decrease of 1% over a multi-year period has significant implications for the budgetary gap facing the Council. However, whilst funding is the most significant unknown variable, it is not the only one, the overall savings requirement is the result of escalating cost pressure on one hand compounded by funding reductions on the other.

Future Years Outlook

104. The chart below illustrates the likely impact on the different components 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 projects the overall likely envelope of funding and analyses the resultant budget if recent trends and current policies are continued over the life of the plan.



105. Notwithstanding the difficulty and uncertainty of predicting this far forward, the severity of the financial climate in Welsh Local Government has now reached a position where it will no longer be feasible to focus on a three year forward period without considering the likely impacts beyond that timeframe. This is because the cumulative impact of decisions taken now can have a significant impact on the shape of the Council's budget in later years and it may be that current policies are considered unaffordable when viewed over an extended time-frame.

106. The WLGA Funding Outlook paper to the 9 July echoed similar concerns highlighting a "yawning gap that results in a cumulative budget shortfall of £941 million by 2019/20. This assumed that current policies remain unchanged."

107. Moving forward, the Council will need to extend the period over which it considers financial planning scenarios. This work will take place alongside the development of the 2016/17 Budget and key areas for consideration will continue to include, future council tax increases, the level of growth afforded to schools, the affordability of the Capital Programme and strategy for social care budgets.

Consultation and Engagement

Consultation

108. The proposed Budget Timetable Framework for 2016/17 is included at Appendix 1 and refers to the involvement and consultation that will take place through the period in respect of Council Tax Payers, the third sector, the Budget Forum, Scrutiny Committees, Trade Unions, and statutory consultation with schools. As part of building on the Council's successes to become Europe's most livable capital city it is the intention of Cabinet to create a great place to work, to visit, to study and do business; a place where people love to live; and a City of opportunity for everyone, regardless of background. The following paragraphs in relation to the Cardiff Debate identify how the Council has and continues to consult to ensure that public services are delivered and the City developed in ways that put the needs of the people of Cardiff first.

The Cardiff Debate

109. The 2015/16 Budget was based on a programme of extensive engagement with stakeholders and citizens as part of the Cardiff Debate. The activity undertaken was part of a 3 year commitment to work with residents, communities and partners in developing an effective dialogue across the city about priorities and the delivery of public services in the future.

110. The approaches to this engagement included a series of 37 'on street' public events in the Summer of 2014 including attendance at community festivals, community venues and locations such as supermarkets. Members of the public were invited to join the Cardiff Debate by voting for

three services provided either by the Council or its partners and to leave their views on:

- What services matter most to you and your family and why?
- Cardiff is a growing city but has less money to spend on services.
- How can we do things differently to save money in the future?
- How can you/the community get more involved in making this happen?

111. Overall 3000 ‘postcards’ were completed by the public along with 6,600 votes for services which mattered most. Work was also undertaken in relation to social media through the development of a new website and community vox-pops.

112. During November 2014 - January 2015, a specific consultation was undertaken on the Council’s budget proposals and which was the largest consultation carried out on the budget to date. The consultation included:

- 4,191 completed questionnaires
- 28,925 separate comments
- 766 items of correspondence
- 17 petitions with over 20,000 signatories
- Over 500 attendees at events
- 91,418 page views of the budget proposals on the Council’s website
- 2,605 plays of the budget challenges video

113. A full copy of the findings of the consultation can be found at www.cardiff.gov.uk/budget

114. Dialogue with the public has continued following the agreement of the budget in February 2015 and views on services changes such as waste management, new community hubs and Adult Community Learning have been collated. A further annual Ask Cardiff Survey will be published in July 2015 which will ask for feedback in relation to services such as transport, leisure, community safety and future public service delivery.

115. Further consultation on the detailed budget proposals will commence in November and will continue to encourage community participation in the ongoing budget decisions.

Employee Engagement

116. Building on last year’s successful Summer Roadshows, a further 8 Employee Roadshows were held throughout November and December 2014 with the primary focus of engaging with frontline employees. The Ambassador network continues to grow with over 130 employees at all levels from across the Council helping to take forward the Employee Engagement agenda. Ambassador workshops were held each quarter to take forward key areas of work under the Roadshow Action Plan. Ambassadors engaged with colleagues across the Council to identify improvements in how we communicate and engage with employees. Task

and Finish groups were established looking at Procurement, Communication & Engagement and the development of SharePoint as a way to share information.

117. Employee feedback on Communication and Engagement has been used to inform the development of the Council's Internal Communication & Engagement Strategy and the Programme of Engagement for 2015/2016. In addition 'Have Your Say' sessions have been introduced as a response to employees preference for face to face communication. Employee feedback has helped to shape key pieces of work including e.g. Council Values and the Employee Charter . These are two fundamental pieces of work required to build a strong foundation for cultural change.

118. To support the embedding of the Cardiff Standard for senior managers, managers and employees the Employee Charter has been incorporated into the Council's Performance Management through a cascaded behavioural objective for all employees. The Employee Survey was launched in May and this will afford us a further opportunity to understand where effort needs to be focused going forward. The Council's Workforce Strategy (which included the Employee Charter) was approved by Cabinet in April (to enable the organisation to create a culture that supports and enables a flexible, skilled, engaged and diverse workforce.) The Cardiff Manager Programme forms a key part of the change programme and a Cardiff Manager Forum has been established by the Chief Executive. This means that the Council now has three established forums to engage directly and work with – Employees (Ambassadors), Managers (Cardiff Manager Forum) and Senior Managers (Senior Manager Forum) to support the delivery of the Organisational Development Plan and the Corporate Plan.

Capital Programme

119. As WG capital funding to local authorities has reduced, the Council, in common with other local authorities, has had to find a greater share of its capital funding requirement. This has led to increasing levels of unsupported borrowing being undertaken with local authorities having to ensure that any borrowing is affordable, prudent and sustainable, not only now, but in the long term.

120. In 2015/16 the Council will receive £13.5 million in grant and supported borrowing approval from the WG in order to determine its own spending priorities for capital items. This is a 35% decrease compared with 2010/11 and the lowest in Wales per capita. This level of support provided by the WG is barely sufficient to meet current annual capital expenditure commitments such as disabled adaptations, highways, transport, property assets renewal etc. These have generally remained at previous levels and any additional expenditure can only come from borrowing.

121. Capital 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, bridges, street lighting and address the backlog of repairs to avoid higher costs in future.
- Meeting the economic development, employment and capital city aspirations of Cardiff and the region.
- Requirements for capital investment to meet savings targets, to displace expenditure previously funded from revenue budgets, to reshape the way services are delivered and to meet the costs of organisational development.

122. It needs to be recognised that we cannot do everything and may need to focus limited resources on key statutory and longer term strategic priorities.

123. At 31 May 2015, the Council as a whole has £658 million of external borrowing. The Capital Programme has remained expansionary whilst revenue budgets have reduced. Based on the Capital Programme set for 2015/16 onwards in February 2015, the programme continues this trend.

124. Between 2015/16 and 2019/20, £34.2 million of additional borrowing was approved to balance the General Fund Capital Programme for existing commitments and for new schemes approved in 2015/16 over the five year period. This is in addition to £82.7 million borrowing proposed for Invest to Save Schemes, such as 21st Century Schools Investment, deemed to pay for themselves over a period of time.

125. By continuing to increase the amount it needs to borrow, this 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.

126. It is accepted that the Council needs to borrow to both meet the objectives of the Corporate Plan and invest in schemes that generate a return for the Council and citizens. However in the medium term the Council must decide, following the consideration of advice from the Section 151 Officer:-

    - the threshold of affordability for additional Council borrowing
    - the key strategic city priorities only for which investment to be funded by additional borrowing is to be approved.

127. The impact of capital financing costs are recognised in the Council's MTFP. The budget report for 2015/16 included a local capital financing prudential indicator highlighting the proportion of the Council's controllable revenue budget that it spends on capital financing over the medium term.

Ratio of Capital Financing Costs expressed as percentage of Controllable Budget								
	2011/12 Actual %	**2014/15 Estimate %**	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**Difference 11/12-19/20 %**
Net	13.47	15.67	16.65	18.41	20.63	21.95	22.61	67.85
Gross	15.17	18.76	20.77	22.94	26.56	28.83	29.54	94.73

128. 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 worse case scenario.

129. As the Council's revenue budget falls and expenditure funded by borrowing rises, capital financing costs as a percentage of controllable budget which are committed in the long term are increasing. This clearly limits the scope for additional borrowing in future years and reduces the Council's overall flexibility when making decisions on the allocation of its revenue resources.

130. 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.

131. In formulating the Capital Programme and investment strategy for 2016/17 and the medium term, proposals for new investment and indicative commitments in latter years will need to be considered carefully to determine whether they should proceed. Such a process will need to consider whether the investment:-

- delivers statutory and core strategic long term outcomes included in the Corporate plan (Strategic Economic Development, Education)
- needs to be made by the Council or whether it can be best made by others
- is in accordance with property or other asset management plans
- proposed by scheme sponsors has a robust and deliverable profile of expenditure for schemes in order to avoid the need for slippage when setting the programme. 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.

132. 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 we would like to do is affordable by the Council doing it itself and whether alternative means need to be considered. Examples include securing the City Deal, continuing development of Cardiff International Sports Village, Cardiff Enterprise Zone development and New County Hall.

133. Whilst the Council can and has used the benefits of the prudential code to invest and increase the level of borrowing to meet objectives, it has to be mindful that there is not yet a cap in place by Central Government. We have encouraged invest to save schemes such as energy generation as well as invest to save schemes in respect of the ADM in leisure and there are other opportunities currently being considered. Whilst such schemes are important to revenue income opportunities, they do carry a significant level of risk in terms of over exposure to borrowing to future uncertain events. The budget strategy accordingly may wish to consider a maximum limit to exposure of borrowing for 'Discretionary' type services/ activities on such invest to save type schemes.

134. As set out by the Section151 Officer in the budget proposals for 2015/16:

"*further action is required to accelerate a reduction in the Council's asset base within a limited timeframe. Unless assurance of progress in this regard can be demonstrated in 2015/16 the affordability of the existing Capital Programme will need to be reviewed. Decisions made on asset divestment will need to consider the yield generated by Council held assets and the impact on the revenue budget of realising these disposals. 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.*"

135. It is clear that increasing exposure to additional levels of borrowing in the General Fund are not consistent with the significant levels of savings required to be found and the increasingly bleak MTFP revenue position highlighted in this strategy report. Whilst this inconsistency remains the case, any prudent provision for debt repayment currently made in line with policy approved by Council also cannot be released as there are likely to be adverse comments from WAO and this approach in itself would be inconsistent with increasing levels of borrowing.

136. The ongoing difficulty of affording the current level of borrowing is such that the programme itself will need to be reduced and only self funding schemes brought forward. As highlighted previously the Council must consider as a matter of urgency how it can 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.

137. Capital receipts are important to increase the affordability of the Capital Programme. In 2015/16 the first call on capital receipts up to £1 million will be to pay for Capital programme commitments, with the balance to be used towards meeting the costs of a capitalisation direction, hence these are not available to support capital expenditure. 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.

138. Whilst it is recognised as important to provide new opportunities for investment, it is recommended that any additional proposals for investment are submitted only if they meet the criteria above and are matched by a capital receipt from the disposal of Council assets. Directors will over the summer submit any new schemes meeting this criteria for review as part of project appraisal process.

Housing Revenue Account

139. In February 2016 the Budget Report will also set rent levels for Housing Revenue Account properties, service charges and management leaseholders for 2016/17. These levels will be set in accordance with the Council's rent policy which will be consulted upon.

140. In 2015/16 the Council made a settlement payment of £187 million to the Treasury to exit the Housing Finance Subsidy System. The exit has brought with it a number of benefits in relation to self financing but also increased risk. The settlement payment significantly increased the level of Council's debt. Whilst the agreement is a benefit of circa £3 million to the HRA, it is essential that this benefit is maintained on an ongoing basis to re-invest in stock.

141. The self financing introduced a cap to HRA debt which will need to be adhered to. WG have indicated that a breach of the cap could lead to penalties being incurred by the Council.

142. It is important to note that despite the change, the HRA remains a ringfenced account. Expenditure incurred must be deemed to be to the benefit of the rent payer in accordance with WG Guidelines

143. Expenditure areas such as maintenance has experienced additional costs during 2014/15, so assurance is need to ensure that income and expenditure is benchmarked and reviewed regularly to ensure that services provided to rent payers remain efficient and effective as it is envisaged this will continue to be reviewed by WG.

144. Cabinet will receive an HRA business plan later in the year. At present the Capital Programme should be in accordance with amounts and schemes included and approved in the HRA business plan approved in December 2014.

Future Developments

145. In June the Minister for Local Government announced his plan for the future of local councils, reducing them from 22 to 8 or 9. Under these proposals the Council would merge with the Vale of Glamorgan Council. Views were invited on these proposals with a draft "Mergers and Reform" Bill to be published in the Autumn. The Minister's view is that the case for local government reform is compelling and that the opportunity to reform and reshape councils will drive funding into improving frontline services.

146. Whilst recognising that there are economies of scale in reducing the number of councils the case for the Council is less clear given current size.

The recently completed WG Administration Review which recommended an optimum sizing and rationalisation of core functions contained a number of inherent weaknesses in its methodology. However the correlation between size and efficiency was demonstrated across a number of the Council's corporate and enabling functions. The Council will continue to drive forward improvements to its central services with the action plans associated with the recommendations of the service reviews acting as the driver for this work.

147. The reality for Local Government as set out by the WLGA is that given the current scale of funding reductions and financial pressures these future developments will be overtaken by the impact on local service delivery. The WLGA Leader Councillor Wellington recently stated that "I fear that by 2020 the potential gains associated with restructuring will have gone. We will be merging empty shells."

148. Across the City Region work to progress the development of a City Deal continues. The Leaders have agreed to bring together a team of officers drawn from across all participating authorities to drive forward the development of a City Deal proposal and to begin the process to appoint specialist support so that a strong and robust proposal can be presented to the UK Government. The Local Authorities are committed to working to develop, in partnership with the WG, a deal which will deliver real change to South East Wales. A City Deal will provide additional funds for Wales to use to invest in its growing economy, creating jobs and opportunities and increasing productivity across the city-region. The challenge, given the financial position all councils face, will be the ability to deliver a City Deal which provides demonstrable progress against its planned outcomes whilst minimising to an acceptable level the financial exposure for councils

Reasons for Recommendations

149. To seek Cabinet approval for the budget strategy in respect of 2016/17 and the MTFP. This includes consideration of the worsening financial position and savings targets for each directorate rather than a standard percentage of savings across all.

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

Legal implications

151. 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.

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

153. The report provides that the proposed Budget Timetable framework for 2016/17 will make provision for consultation. It is important to note consultation raises the legitimate expectation that any feedback received from the consultation will be taken into account in developing the proposals consulted upon.

154. 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 the decision in terms of equality and discrimination.

Financial Implications

155. In the financial implications of the 2015/16 Budget Report I referred to the materiality of the service choices ahead of the Council and in particular, that anything other than a radical reduction and reset of the Council's services will over the life of the MTFP term lead to financial resilience issues for the Council. Members were tasked with considering whether the choices made to date and planned for the future were commensurate with the scale of the financial challenge over the medium term. These difficult choices are facing all councils as summarised in the WLGA Funding Outlook paper to the Finance Sub Group which is identified as background paper.

156. The development of a deliverable Budget Strategy is a key document in reaching a balanced budget. As part the development of the Budget Strategy and in response to this challenge the Council's Reshaping the Base Budget approach has allowed for a more open discussion on the need to reset the Council's budgets and the impact of doing so. This work has allowed a Budget Strategy to be considered and developed which if deliverable will allow the setting of a balanced budget. However it is not without significant risks, in particular the target savings in respect of Communities and Well Being against a backdrop of increasing demands for the delivery of social services is of concern.

157. In addition significant work is underway in respect of service delivery choices particularly in respect of leisure, cultural venues and infrastructure services. As these proposals impact on the potential to achieve savings proposals across the life of the medium term I will monitor the positions reached and report accordingly on the financial scope and timescale attached in the financial implications to these reports. A key risk remains until this work is completed that our alternative delivery models may not achieve financial savings quickly enough or be of sufficient magnitude to meet the target savings identified in these areas across the life of the MTFP.

158. As members are aware, as Section 151 Officer I am responsible for advising members if the Council risks setting an unbalanced budget. At present I am content that a coherent Budget Strategy has been prepared in relation to 2016/17 but my concern is in respect of bringing forward

robust savings proposals against these targets against which due diligence can be undertaken.

159. Directors will now work with Cabinet members over the summer to develop detailed proposals for consideration for both 2016/17 and the medium term. Across the life of the MTFP this work will need to continue to identify how soon minimum levels of statutory service or nil subsidy levels for discretionary services could be reached. My review of the information provided will be key in considering the emerging risk position in relation to setting a balanced budget for 2016/17 and across the medium term.

160. In addition in relation to the Capital Programme the ongoing difficulty of affording the current level of borrowing is such that the programme itself will need to be reduced and only self funding schemes brought forward. As highlighted previously the Council must consider as a matter of urgency how it can 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.

161. The updated Budget Strategy for 2017/18 and 2018/19 identifies shortfalls of £1.783 million and £3.764 million respectively. It should be noted that this is after assuming savings targets in respect of Communities and Wellbeing of £17.533 million in 2017/18 and £12.789 million in 2018/19 which will prove extremely challenging against a backdrop of increasing demand and associated financial pressures in these areas. Therefore whilst I am content that across the MTFP a coherent approach has been adopted further consideration of this approach which may require further consideration of budget strategy planning assumptions and policy choices may be required.

162. In summary achieving a balanced budget in 2016/17 will be extremely challenging. Beyond that date and particularly in relation to 2018/19 there is real potential for the Council to be unable to achieve a balanced budget unless radical policies and strategies are adopted by the Council in relation to the delivery of services. Decisions will need to be taken in advance of the budget dates due to associated lead in times to deliver these savings.

163. As stated in the report a 3% funding reduction in relation to 2016/17 would result in a budget gap of £47.378 million. It should be noted that at a 4.5% funding reduction would increase the gap to £53.740 million. In response to this uncertainty it is recommended that the Council's Corporate Director Resources in consultation with the Cabinet Member for Corporate Services and Performance be delegated authority to identify an alternative figure when further clarity is obtained.

164. Variable savings targets against controllable budgets across directorates have been identified, as well as other addressable spend targets, for both 2016/17 and across the medium term. These targets serve to illustrate that the task to balance these budgets is unprecedented and radical changes will be required to ensure that a balanced budget can be achieved. This is

in addition to the significant budget reductions the Council has made over a number of years as shown in the following table:

Budget Savings	
Year	**£M**
2015/16	**32.47**
2014/15	48.7
2013/14	22.4
2012/13	14.4
2011/12	22.0
2010/11	14.0
2009/10	8.7

165. In proposing savings or pressures for 2016/17, directors will undertake a formal risk assessment exercise in order that members are aware of any likely consequences when considering options. In accordance with the Equality Impact Assessment duty, they will also consider their proposals in this context through working with the Council's Equalities Officer. Directors will also need to consult with Trade Unions particularly where proposals impact on employees. In addition the Report identifies that further discussions will be required with Trade Unions in respect of the budget strategy and voluntary severance scheme and the Council will again seek expressions of interest from staff in relation to the voluntary severance scheme.

166. In this challenging financial environment it is vital that savings proposals are robust and that significant changes to business processes do not impact on the financial control environment in a negative manner. In addition to the formal risk assessment process the Budget Report will need to consider the increasing level of risk attached to budget savings proposals and what mitigations it is able to put in place in respect of this.

167. The report also sets out the continuing bleak picture of the quantum capital resources in the medium term and confirms that there is little opportunity for new schemes unless they can be seen to be self financing. The scarcity of resources adds to the pressure to ensure that the activity profile behind any funding approved is accurate and slippage minimised.

168. Following the increasing level of planned unsupported borrowing as part of the Capital Programme the Corporate Director Resources developed local affordability indicators. The indicators within the Budget Report showed the capital financing costs of the Council as a percentage of its controllable budget and excluded investment income. The figures included in the 2015/16 Budget Report were as follows:-

Capital Financing Costs as percentage of Controllable Budget								
	2011/12 Actual %	**2014/15 Estimate %**	**2015/16 Estimate %**	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**Difference 11/12-19/20 %**
Net	13.47	15.67	16.65	18.41	20.63	21.95	22.61	67.85
Gross	15.17	18.76	22.77	22.94	26.56	28.83	29.54	94.73

169. An increasing ratio indicates that a greater percentage of the budget that is controllable is required for capital financing costs which are committed in the long term. The requirement to meet these additional costs can only come from future savings or from increases in Council Tax. This clearly limits the scope for additional borrowing in future years and reduces the Council's overall flexibility when making decisions on the allocation of its revenue resources. The Budget Strategy report has identified that these local affordability indicators will increase as the Council's controllable base budget against which to make savings reduces. Given this increasing pressure a review of all schemes included within the Capital Programme will be required as part of the Budget Setting process.

170. In setting the Council's budget strategy for 2016/17 it is acknowledged that the budget setting process must be flexible enough to react to both unknown and anticipated but not fully quantified financial risks and challenges. When setting the budget for 2016/17 the Council will consider the level and sufficiency of both general and earmarked reserves. The Council will risk assess its need to hold reserves, which may be needed for sudden, unexpected spending pressures. These risks become greater in the current financial climate.

HR Implications

171. 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. Any new service delivery models to be established 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.

172. 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).

173. A number of budgetary risks have been identified in the report including the need to deliver budgeted savings from reshaping services and other proposals that are not currently fully defined and the need to make tangible progress on the Partnership for Change agenda , agreed as part of the 2015/16 Budget. The £5.75m planning assumptions included a range of ways in which this would be achieved without any impact on employee terms & conditions.

174. Given the unprecedented level of savings required in 2016/17 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.

175. Whilst it is not possible to provide specific HR implications on alternative service delivery models at this stage (as this will depend on the operating model that is ultimately 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 the relevant models are confirmed. Any 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.

176. The Council's Voluntary Redundancy Scheme, last reviewed in January 2015, has been available from 3 April 2015 and widely publicised to staff. 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 as part of the budget process for 2015/16, from 1 April 2015 a new Purchase of Additional Annual Leave became available which has provided the opportunity for staff (excluding those based in schools) to buy up to an additional 10 days annual leave.

177. Formed as part of the Partnership for Change Agreement, 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 staff and trade unions at local service area level. It will be 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 staff impacted.

RECOMMENDATIONS

The Cabinet is recommended to:

(1) Agree 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 2016/17 and across the period of the Medium Term Financial Plan.

(2) Agree that directorates work with the relevant Portfolio Cabinet Member, in consultation with the Corporate Resources Director and Cabinet Member for Corporate Services and Performance Management to identify potential savings to meet the indicative budget gap of £47.378 million for 2016/17 and £116.908 million across the period of the Medium Term Financial Plan.

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

(5) Delegate to the Corporate Resources Director in consultation with the Cabinet Member for Corporate Services and Performance Management 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 the underlying principles would require a further Budget Strategy Report to Cabinet.

(6) Agree that the Council seeks expressions of interest from officers in respect of the voluntary severance scheme based on the current scheme.

(7) note that the Leader will write to the Welsh Government, the Secretary of State for Wales and the Welsh Local Government Association to express his concern of the continued impact on the Council and the delivery of its services as a result of continued Welsh Government funding scenarios which are real terms cuts and fail to keep pace with the significant financial pressures that the Council is facing

(8) Propose that Council 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.

CHRISTINE SALTER
Corporate Director
10 July 2015

The following Appendices are attached:

Appendix 1 – Budget Strategy Frequently Asked Questions
Appendix 2 - Proposed Budget Timetable Framework 2016/17
Appendix 3 – Finance Snapshot

The following Background Documents have been taken into account:

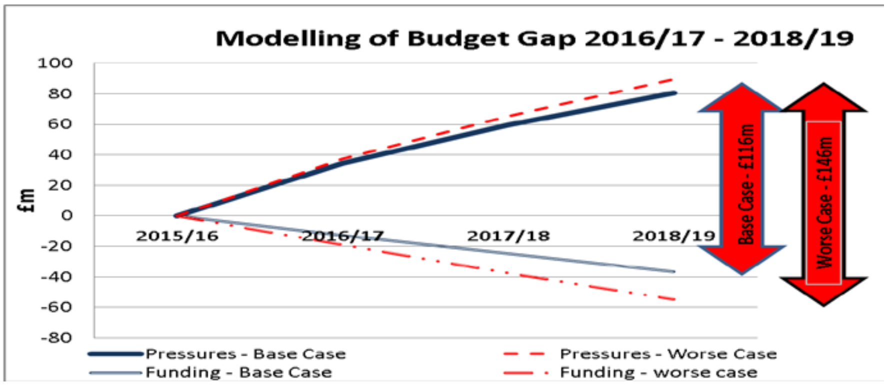
2015/16 Budget Report – February 2015
WLGA – Future Funding Outlook paper – 9 July Finance Sub Group

Appendix 1

Budget Strategy Report 2016/17 – Quick Questions and Answers

Background

- Each year the Council sets its Budget Strategy for the following year and medium term. This briefing summarises the information contained in the July 2015 Budget Strategy Report for 2016/17 and the medium term. As shown below the situation is extremely challenging with the updated Budget Gap showing the Council needing to make savings of £47.378m in 2016/17 and £116.908m from 2016/17 to 2018/19.



How can the Council address the Budget Gap?

- The Council can address the budget gap using a combination of three main options noted here and subsequently explained in more detail.
  1. **Reduce the Budget Gap set out in the Medium Term Financial Plan (MTFP)**
  2. **Reduce existing Council budgets based on Reshaping Base Budgets**
  3. **Set Budget Strategy Assumptions in respect of council tax, schools and reserves**
- When deciding the combination of options, the Council considers both its statutory duties and its financial resilience (coping with unexpected and adverse events)
- It should be noted that one option in isolation would not be enough to address the scale of the budget gap, so Budget Strategy involves setting a suitable combination of options.

What does the Budget Strategy assume about the Budget Gap of £47.378m?

- Reviews are undertaken to consider scope to reduce the budget gap. This review is dynamic and changes are made due to technical updates and policy discussions.
- One of the reasons the Budget Gap is so high in 2016/17 is the inclusion of financial pressures of over £7m in respect of increases in national insurance costs.
- **Review to date has identified a budget gap of £47.378m for 2016/17 which is £3.721m less than the £51.099m identified in February when the 2015/16 budget was set.**
- This reduction is a combination of updated modelling for voluntary severance costs, pay and price inflation. It also reflects updated projections for debt financing and a £1m reduction to a provisional sum of £6m that was included within the gap to address emerging financial pressures and potential in-year monitoring issues.

What does the Budget Strategy assume about reducing existing Budgets? How will targets be set?

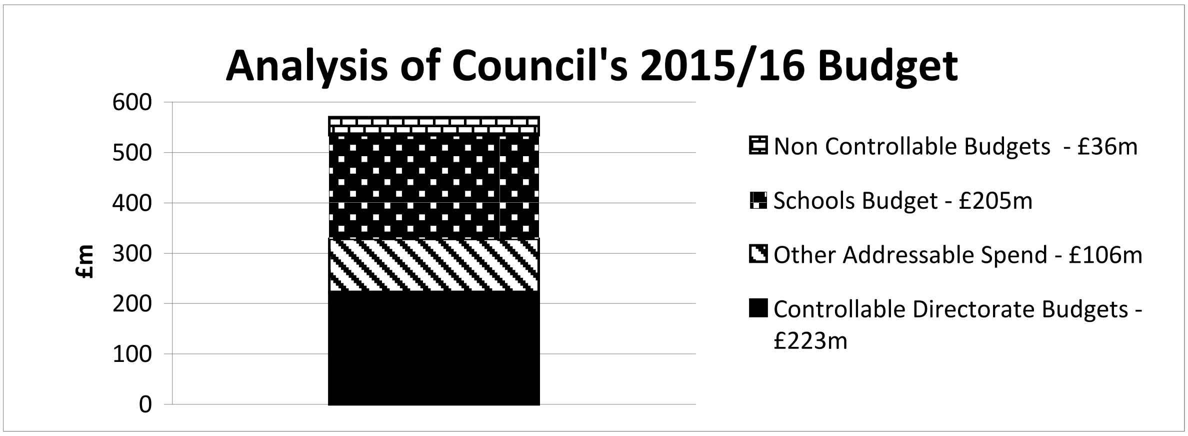
- The 2015/16 Budget Report acknowledged that an updated approach to identifying savings targets was required which considers the future shape of the Council.
- This has been taken forward as a ***Reshaping the Base Budget*** exercise
- This exercise identified services at the minimum statutory level and considered whether discretionary services could be covered by income. The difference between this picture and the current shape of services highlighted the opportunities for budget reductions over both one and three years against four savings drivers.
- In some instances this was driven by ongoing work in respect of alternative service delivery models, for example, leisure centres, arts venues and infrastructure services

Savings Driver	For Example
Policy led savings	Service reductions and Alternative Delivery Models that may require specific consultation.
Business Process Efficiency Savings	Savings from streamlining services in a citizen centric way. Their savings will often be technology driven, like mobile working and scheduling of electronic document management.
Discrete Directorate Led Savings	The more traditional savings found within directorates like reducing supplies budgets, maximising grant funding, reducing posts etc.
Income / commercialisation	Increasing existing income streams and looking for new opportunities to sell or trade services.

- The Reshaping exercise acknowledged that there are difficult policy choices ahead but also identified that because of the financial challenge, choices are severely constrained.
- The Reshaping exercise was the basis of setting savings targets for directorates for the period 2016/17 – 2018/19.
- **This exercise culminated in a target savings figures for directorates of £29.661m for 2016/17, £23.845m for 2017/18 and £17.010m for 2018/19.**
- These figures include challenging targets for the Communities and Wellbeing cluster given the complex and increasing demand in social care services.
- Figures also include stretching targets for business process efficiency and income/commercialisation savings
- **It should be emphasised that these targets do not represent specific proposals at this stage.**

Was the Reshaping the Base Exercise applied to all Budgets? Have we looked at everything?

- The Council's budget can be broken down as follows:-



- The £223m controllable directorate budgets were the subject of the Reshaping the Base exercise.
- The £205m Schools Budget is addressed below as part of assumption setting.
- The £36m non-controllable budget relates to areas that would be very difficult to reduce - the largest being the budget to pay Council Tax Support to eligible recipients
- The £106m ***Other Addressable Spend budget*** refers to areas that are not within the control of individual directorates to reduce, but are areas in which the Council could seek to make corporate reductions. It includes things like debt financing budgets, budgets to pay levies to other organisations, budgets for building costs and budgets to pay voluntary severance.
- ***The budget strategy assumes a £7.05m reduction on addressable spend for 2016/17 with £4m per annum in each of the subsequent years.***

What about solutions other than savings? What other assumptions have been set as part of the Budget Strategy?

- There are 3 main budget strategy assumptions and these involve:-

  1. **Policy decisions around council tax increases**.
  - It should be noted that the council tax for 2016/17 will not be set until the February 2016 Budget Report. However, the need to plan effectively means that some assumptions need to be included within the budget strategy.
  - ***The budget strategy assumption is based on council tax increases of 4.5% per annum for 2016/17 – 2018/19. This equates to £5.14m for 2016/17, £5.37m for 2017/18 and £5.61m for 2018/19.***

  2. **Review of the Council's Balance sheet**
  - This may identify areas that could be released to help reduce the budget gap. However, these sums tend to be "one offs" and therefore create an immediate, additional problem in the following year. Taking sums from the Council's balance sheet also has a negative impact on the Council's financial resilience and ability to manage risks as we have less to fall back on in the case of unforeseen financial events. For these reasons, it is not advisable to include excessive sums in this area.
  - ***The budget strategy assumes an annual £1.5m use of reserves for 2016/17 – 2018/19.***

  3. **Consideration of whether to reduce the additional funding identified for Schools.**

- Schools budgets, which account for 36% of the Council's overall budget, have been afforded protection by Welsh Government in recent years.
- To date, there is no confirmation of whether this protection will continue. The Budget Strategy assumes that it will, and that it may mean we cannot reduce Schools budgets by any more than approximately £500k in 2016/17.
- Based on this assumption, the 2016/17 Budget Gap includes £10.074m for financial pressures above the amount identified to be provided to schools to meet protection requirements. This is in addition to £4.03m required to meet rising pupil numbers.
- ***The budget strategy assumes that, setting aside increases for pupil numbers, sums included in the budget gap for schools pressures will be capped by 40%, releasing £4.03m in 2016/17 and £2.1m in each of the following two years.***
- Schools would still receive funding of 60% in respect of identified financial pressures as well as growth to meet rising pupil numbers.

How does this all fit together?

- The updated budget gap across the life of the MTFP is as follows:-

Budget Reduction Requirement	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**TOTAL £000**
Increasing Pressures	34,655	24,940	20,835	**80,430**
Anticipated Funding Reduction (at 3%)	12,723	12,151	11,604	**36,478**
Budget Gap	**47,378**	**37,091**	**32,439**	**116,908**

- This scenario is a base case with the potential to increase to £146m if future funding decreases are 4.5% not 3% and future pay awards are 2% not 1%.
- The table below sets out the strategy for bridging the gap over the medium term.

	2016/17 £m	**2017/18 £m**	**2018/19 £m**	**Total £m**
Directorate Savings	29.66	23.85	17.01	**70.52**
Addressable Spend Savings	7.05	4.00	4.00	**15.05**
Total Savings	**36.71**	**27.85**	**21.01**	**85.56**
Reduction of 40% on Schools pressures	4.03	2.09	2.05	8.18
Council Tax (at 4.5%)	5.14	5.37	5.61	16.12
Balance Sheet Review	1.50			1.50
Total Assumptions	**10.67**	**7.46**	**7.66**	**25.80**
Updated Budget Gap	**47.38**	**37.09**	**32.44**	**116.91**
Shortfall to target	**0.00**	**1.78**	**3.77**	**5.55**

- Clearly £86m is a huge savings requirement which already includes stretching targets for income and business process efficiency savings
- Targets will be extremely challenging for all directorates and notably for the Communities and Wellbeing given the complex and increasing demand in Social Care
- **Even after setting these challenging targets and assumptions, a shortfall of £5.6m still remains in relation to 2017/18 and 2018/19. This shortfall may require further consideration of planning assumptions and policy choices moving forward**

What about our Capital Programme?

- The affordability of our existing Capital Programme is challenging given our reducing budgets. The Council needs to lower its borrowing levels and reduce its asset base.

What is the outlook?

- Achieving a balanced budget in 2016/17 will be extremely challenging
- **Beyond that, as for many councils, there is real potential that the Council will be unable to balance the budget unless radical policy choices and strategies are adopted.**
- Decisions will need to be taken in advance of budget dates to ensure full delivery.

Next Steps?

- **Savings proposals will be developed over the summer for consideration and consultation in the Autumn.**

Appendix 2

PROPOSED BUDGET TIMETABLE FRAMEWORK 2016/17

July 2015:	Budget Strategy report considered.
July – September 2015:	Directorates developing financial planning scenario options.
October 2015:	Initial meetings re preparatory budget work.
October 2015:	Provisional Budget Settlement received.
November 2015	Consultation on draft budget savings proposals
December 2015:	Cabinet approval of Council Tax Base.
December 2015:	Final Budget Settlement received.
January 2016:	Fine-tuning of budget proposals and consideration of medium term plans.
February 2016:	Approval of Corporate Plan and Budget.

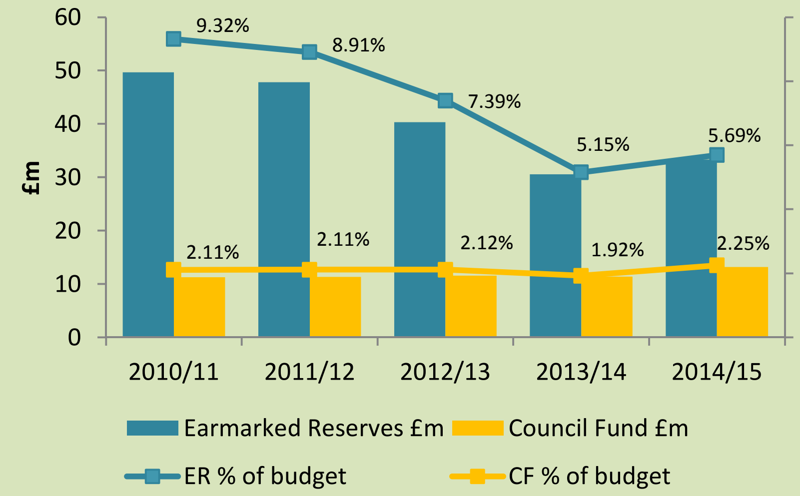
In addition, throughout this period there will, as part of the Cardiff Debate, be continued involvement and consultation with Council Tax Payers, the grants sector, the Budget Forum, Scrutiny Committees, Trade Unions, and statutory consultation with schools.

FINANCIAL SNAPSHOT REPORT - BUDGET STRATEGY VERSION

Appendix 3

The following tables, charts and figures give an indication of the financial resilience of the Council as per the Statement of Accounts.

Level of Council Fund (CF) and Earmarked Reserves (ER)



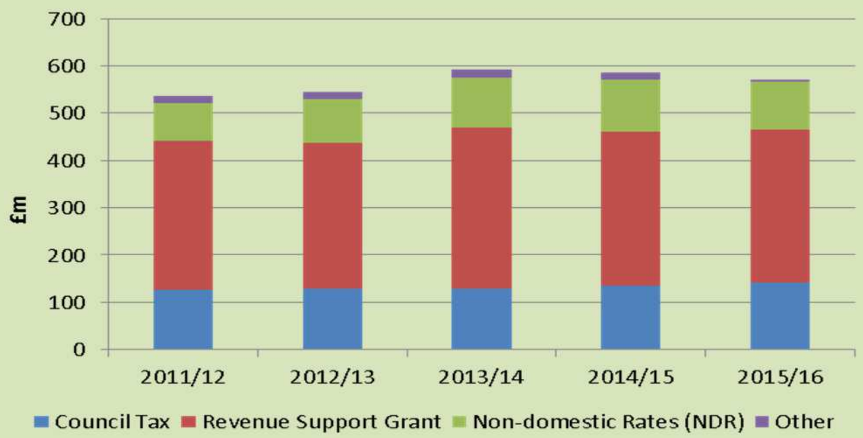
Levels of Reserves

	2014/15 £m	2015/16 £m
Earmarked Reserves	33.317	30.008
Council Fund	13.154	12.559

Budgeted Sources of Revenue Funding

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Total Revenue funding	536,867	545,631	593,007	585,288	570,219
Revenue Support Grant	315,271	307,237	339,678	326,291	322,851
Non-domestic Rates (NDR)	80,067	93,743	107,229	109,695	101,253
Other	15,681	15,451	16,874	14,182	3,482

Budgeted Revenue Funding Split



Financial Performance and Ratios

Ratio	Calculation	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Net Worth	(Assets - Liabilities)	912,881	884,876	877,709	881,632
Net Worth exc Pension Liability	(Assets - Liabilities)	1,546,881	1,592,190	1,350,736	1,421,418
Working Capital Ratio	(Current Assets/Current Liabilities)	1.93%	1.65%	1.39%	1.33%
Gearing Ratio	(Borrowing/Total Reserves)	48.9%	52.3%	54.7%	54.2%

The figures below show a snapshot of the Council finance for the previous financial year for both revenue monitoring and capital.

Revenue Outturn Position

Directorate	Net Expenditure Budget £000	Final Outturn £000	Variance £000	Variance %
Childrens Services	46,081	48,393	2,312	5.0%
Communities, Housing & CS	43,104	42,247	(857)	-2.0%
Corporate Management	26,596	26,454	(142)	-0.5%
County Clerk & MO	3,872	3,854	(18)	-0.5%
Economic Development	614	609	(5)	-0.8%
Education & LL	229,784	230,792	1,008	0.4%
Environment	26,587	26,480	(107)	-0.4%
Health & Social Care	95,132	100,500	5,368	5.6%
Resources	18,540	17,948	(592)	-3.2%
Sports, Leisure & Culture	15,321	16,008	687	4.5%
SP,H&T	26,892	26,888	(4)	0.0%
Total Directorates	532,523	540,173	7,650	1.44%
Capital Financing	35,960	35,722	(238)	-0.7%
General Contingency	4,000		(4,000)	-100.0%
Summary Revenue Account etc.	12,805	7,652	(5,153)	-40.2%
Total	585,288	583,547	(1,741)	-0.30%

Revenue Savings Achieved and Unachieved

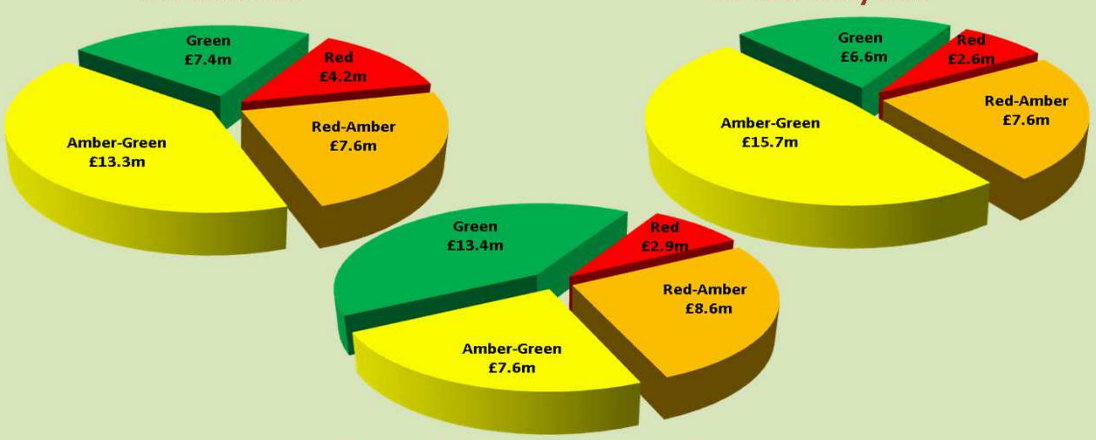
Capital Outturn Position

Directorate	Budget £000	Final Outturn £000	Variance £000	Variance %
Communities, Housing & CS	9,403	7,583	(1,820)	-19.4%
Economic Development	17,527	5,981	(11,546)	-65.9%
Education & LL	50,617	24,765	(25,852)	-51.1%
Environment	7,642	1,493	(6,149)	-80.5%
Health & Social Care	1,498	1,498	0	0.0%
Resources	5,468	1,805	(3,663)	-67.0%
Sport, Leisure & Culture	9,299	3,778	(5,521)	-59.4%
SP, H&T	24,237	15,946	(8,291)	-34.2%
Total	125,691	62,849	(62,842)	-50.00%

Final budget proposals 2015/16 risk analysis - TOTAL SAVINGS £32.5m

Residual Risk

Achievability Risk

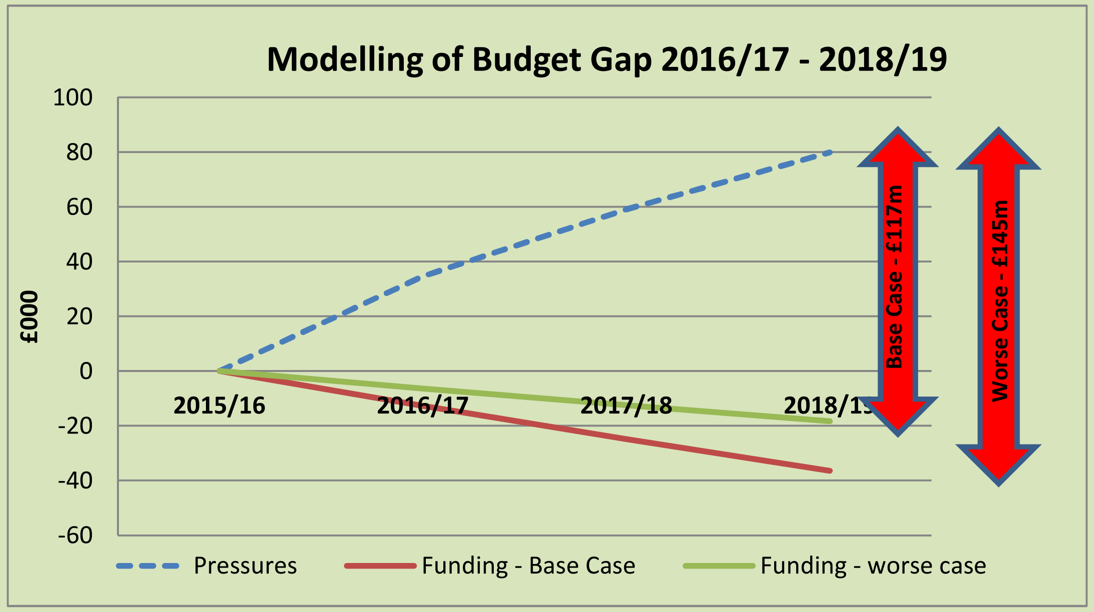


Equality Impact Assessment Risk

The tables below show the Medium Term Financial Plan (MTFP), the risks and affordability indicators facing the Council.

MTFP Scenario

	2016/17 £000	2017/18 £000	2018/19 £000	TOTAL £000
Financial Pressures	34,655	24,940	20,835	80,430
Funding Reductions	12,723	12,151	11,604	36,478
Budget Requirement Reduction	47,378	37,091	32,439	116,908
Savings Targets & BS Assumptions	47,378	35,308	28,675	111,361
Shortfall to Requirement	-	1,783	3,764	5,547



Capital Expenditure & Capital Financing Requirement (CFR)

	31 Mar 2015 £m	31 Mar 2016 £m	31 Mar 2017 £m	31 Mar 2018 £m
Capital Expenditure				
General Fund	63	89	102	70
HRA	20	208	26	23
Total Capital Expenditure	83	297	128	93
Capital Financing Requirement				
General Fund CFR inc Landfill	427	457	476	476
HRA CFR	95	282	289	302
Total CFR	522	739	765	778

Affordability Indicator - Capital Financing costs as a % of Controllable Budget

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Difference 11/12-19/20
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	
	%	%	%	%	%	%	%
Net	15.82	16.65	18.41	20.63	21.95	22.61	67.85
Gross	19.13	20.77	22.94	26.56	28.83	29.54	94.73