

Cardiff Council

Medium Term Financial Plan

2019/20 – 2023/24



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Section 1. Introduction

1.1 Aims and Purpose of MTFP

The Medium Term Financial Plan (MTFP) forecasts the Council's future financial position. Preparation of an MTFP is part of good financial practice. It is especially important in periods of financial challenge. In particular:

- It helps ensure that the Council understands, and can prepare for, the challenges in setting a balanced budget.
- It encourages discussion about the allocation of scarce resources, helping to ensure they are directed towards delivering core responsibilities and policy objectives.
- It is an important part of understanding the Council's financial resilience, helping to protect the Council's long term financial health and viability.

1.2 Governance

The MTFP process is an integrated part of the Council's financial planning framework. It closely aligns with other key aspects of the financial planning process, including the Council's Capital Strategy.

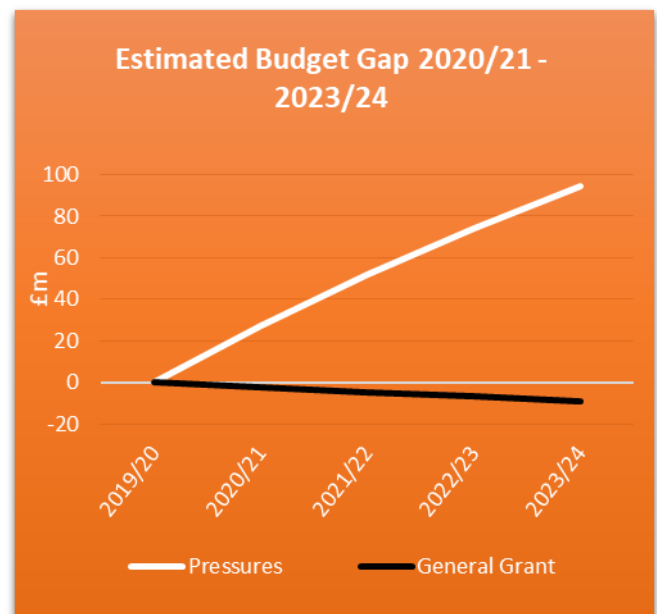
Development of the MTFP is an iterative process. Regular review is required to ensure it reflects most recent information and captures emerging issues. Elected Members and Senior Management are engaged in the process through a series of regular briefings, to scope, inform and scrutinise the plan.

The transition from high-level planning principles, to detailed budgets that align with the Council's priorities, is shaped by Elected Members with support and advice from senior management. As proposals develop, engagement is extended to a wider range of partners including citizens, Scrutiny, staff, School Budget Forum and Trade Unions. Consultation feedback is considered as part of the finalisation of annual budget proposals.

The MTFP is formally reported as part of the Council's Budget Report each February, and Budget Strategy Report each July.

1.3 MTFP Overview

The Council has faced an extended period of financial challenge. Unfortunately, this shows little sign of improving over the medium term. The current MTFP covers the financial years 2019/20 – 2023/24 and estimates a budget gap of £32 million for 2019/20, with a further £105 million over the next four years.



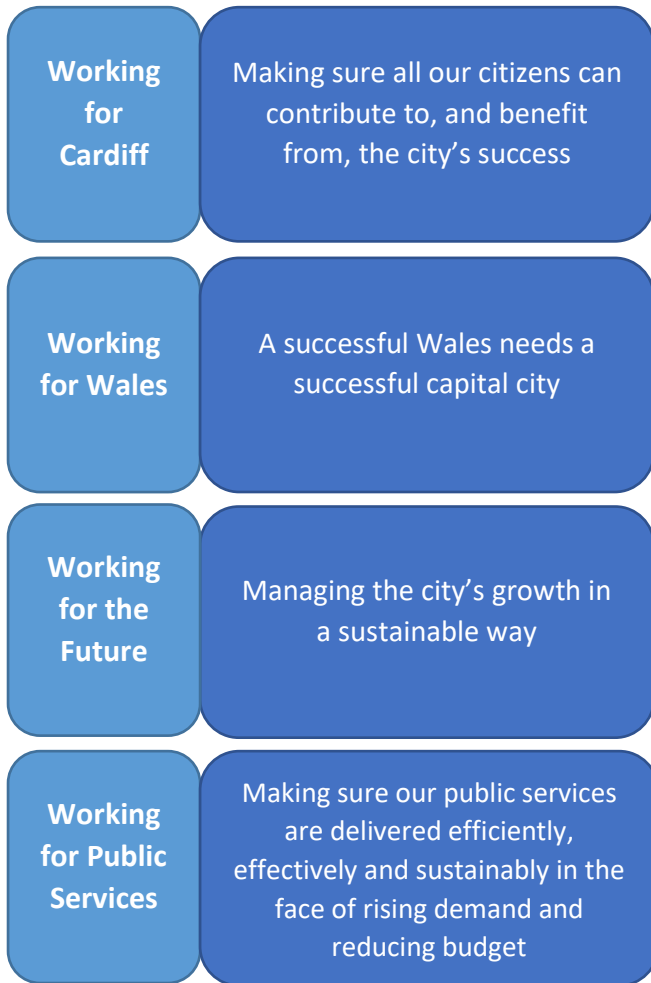
“Budget Gap” is the term used to describe the difference between the funding the Council expects to receive, and the estimated cost of continuing to deliver services at the current level. Put simply, the budget gap is a result of funding failing to keep pace with demand, inflation and other financial pressures.

The 2019/20 position is shown as balanced in the above graph. The 2019/20 Budget Report sets out a detailed draft budget for approval. This is not repeated in this document, which focusses on 2020/21 – 2023/24.

Section 2. Context and Outlook

2.1 Council Priorities

Challenging financial circumstances place even greater emphasis on the need to be clear about priorities. The Administration’s key priorities for Cardiff are set out in Capital Ambition:



The Council’s Corporate Plan and the Wellbeing Plan are key documents in delivering Capital Ambition. They translate the four key priorities into deliverable organisational objectives.

The Corporate Plan focusses on the issues and services that the Council has prioritised, while the Wellbeing Plan focusses on areas of collaborative advantage in the city.

There are seven well-being objectives in the Wellbeing Plan:



These objectives have been adopted by all Members of the Cardiff Public Services Board. They were developed in the context of the Wellbeing of Future Generations (Wales) Act 2015. As well as aiming to improve the social, economic, environmental and cultural wellbeing of Wales, the Act aims to make public bodies think about the long term, how they can work together and with communities to prevent problems and take a joined up approach (known as the five ways of working.)

The Council’s financial strategy documents, including the Budget, MTFP, Capital and Treasury Strategies, are framed by the above priorities and objectives.



This ensures scarce resources are spent in line with priorities and that financial plans have regard for impact on future generations.

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2.2 City Demographics

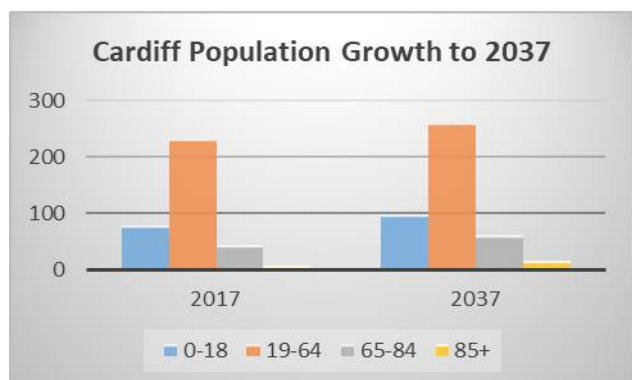
The demographic profile of the city and its potential financial impact need to be considered in forecasting financial pressures.

Population

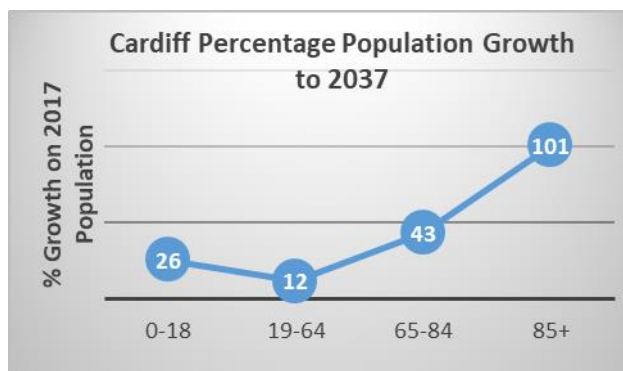
Cardiff has a population of 367,000. Between 2005 and 2015, its population grew by 11%. This trend is set to continue with projected growth of 20% between 2017 and 2037. This outstrips the combined estimated growth of every other authority in Wales.



This will mean an extra 73,000 people living in the city by 2037, with growth expected in all age groups.



Whilst growth is expected in all age groups, it is steeper within the under-18 and the over-65 age brackets. By 2037, the over-85 population is expected to double from its 2017 level.



A growing city places greater demand on Council services, including housing, education, environment and social care. The steeper growth in the under-18 and over-65 age brackets will mean continued demand on social services and education.

Education

In a city with a rapidly growing population, there will be increased demand for schools. With the existing system running at near full capacity, investment will be required to build new schools and to refurbish and improve existing accommodation.

This investment is being taken forward as part of the 21st Century Schools Band B Programme, along with programmed asset renewal works. New schools will also be developed in connection with the Local Development Plan (LDP). The cost of financing works and future operating costs will need to be reflected within forecast financial pressures.

Housing

Cardiff's LDP is a 20 year Plan from 2006 - 2026. It set a target for 41,000 additional homes by 2026. The Wellbeing Plan identifies that in Cardiff, housing remains relatively unaffordable compared to other major British cities with the average house costing around eight times the average salary. The LDP recognised that the need for affordable housing must be addressed, and set a

Section 2. Context and Outlook

target for 6,646 additional affordable homes by 2026.

The planned growth in housing will mean that by 2026, entire new communities will exist. These will need the support of Council services, such as waste collection and schools. Demand for these services will require careful modelling, including the extent to which costs may be offset by additional Council Tax from more dwellings. There will be a need to gauge how demand for services in new communities, including school places, might affect demand in other parts of the city.

Employment

The city economy is growing and jobs and businesses are being created. After several post-recession years, Cardiff's unemployment rate has generally fallen since 2012, and has returned to pre-downturn levels. However, there are large disparities in unemployment levels across the city.

There is in-work poverty within the city. In 2017, just over a fifth of people in employment earned less than the Real Living Wage. The Real Living Wage is an independently calculated hourly rate of pay, set to cover the basic cost of living. It is paid voluntarily by over 4,700 UK business and organisations. Cardiff Council is a Real Living Wage employer and an advocate of the Real Living Wage in the city. Financial forecasts will need to consider future Real Living Wage rates, both as an employer and procurer of services within the city.

Deprivation

Almost a quarter of dependent children under 20 in Cardiff are living in low-income households. The 2016/17 National Survey for Wales indicates that 16% of people aged 16 or over in Cardiff live in households in material deprivation, which is slightly above the Welsh average of 15%. However, there is significant disparity across the city in terms of deprivation. The Wellbeing Plan notes that if the Southern Arc of Cardiff were a

local authority in its own right, it would be by far the most deprived in Wales.

Policies to tackle poverty will need consideration in financial planning. These include the provision of affordable housing, making Cardiff a Living Wage City together with a continued focus on education. The potential impact that welfare reform may have within the city, along with pressures on the homelessness service will be kept under review in terms of potential cost pressures.

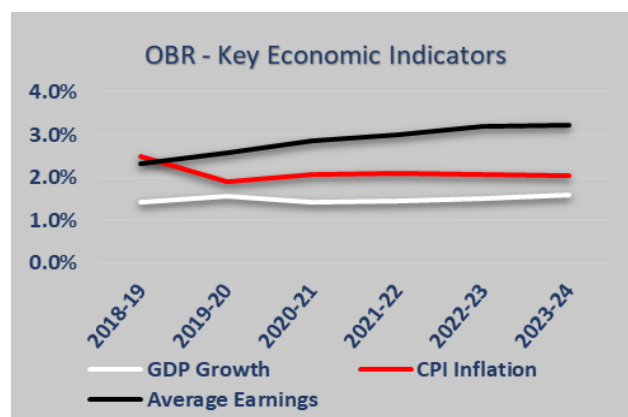
2.3 Economic and Financial Outlook

Local financial planning is linked to the wider economic and financial context.

UK Context

Alongside the Autumn Budget in November 2018, the Office for Budget Responsibility (OBR) released medium term forecasts for key economic indicators. Forecasts for 2018-2023 predicted that:

- Gross Domestic Product (GDP) will grow steadily between 1.3% - 1.6% per annum
- Inflation (CPI) will decrease from 2.6% per annum in 2018 to between 2% - 2.1% per annum between 2019 and 2023
- A steady increase in Average Earnings.



At November 2018, inflation (CPI) stood at 2.3% (November 2018), having fallen from a recent peak in November 2017. In theory, relatively

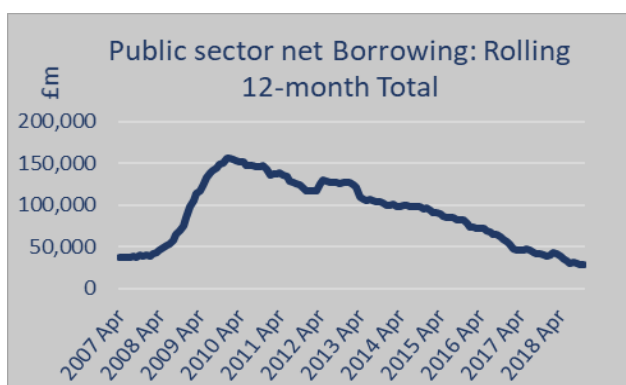
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stable forecasts of inflation between 2019/20 and 2023/24 provide a degree of planning certainty. However, the economic implications of Brexit are still an unknown in these forecasts.

The UK economy has grown every year since 2010. There are over 3.3 million more people in work than in 2010, with a further 800,000 people forecast to be in work by 2023. Wages are anticipated to rise faster than prices over the next five years. General wage growth and the easing of restraints on Public Sector pay awards will mean additional financial pressure for the Council, both terms of its own workforce, and external spend, if suppliers seek to pass on additional costs.

Public finances have performed better than forecast in 2018, with Public Sector Net Borrowing (PSNB) £11.6 billion lower due to an in-year increase in tax receipts and lower public spending. This helped facilitate a UK Government commitment for additional funding for the NHS in England, equivalent to an average real term increase of 3.5% per annum over the next five years. Devolved Governments benefitted from this through the Barnett consequential.

National debt, currently at 80%, is expected to fall by 2022/23, with PSNB now back below its immediate pre-crisis level:



The Chancellor has stated that debt is still too high making the economy vulnerable to shocks. He has indicated that to improve financial sustainability in the long term, the Government will seek to reduce debt, while supporting vital public services. It

would therefore seem imprudent at this stage to assume a significant improvement in Local Government Finance over the medium term.

Brexit

Britain leaving the European Union (Brexit) is a major factor of uncertainty in medium to longer term planning. The impact on the economy is unknown, with negotiations and Parliamentary approval still ongoing at the time of writing. In its most recent report on Brexit, the OBR states the long-term impact on the UK economy and public finances will depend on the agreement that the UK reaches with the European Union, its effect on potential output and how much of that effect will occur within the OBR's five-year forecast horizon. The Chancellor is expected to undertake a full Spending Review in 2019, which will set the tone for Government spending post Brexit. The Council continues to consider potential implications and any necessary actions, however at this stage it is not deemed appropriate to allocate additional resources to the issue.

Welsh Context

The Welsh Budget for 2019/20 was 5% lower in real terms than in 2010/11. This was better than anticipated, due to the Barnett consequential of the July 2018 NHS funding announcement. The Welsh Budget for day to day spend will increase by over 2% in real terms, in 2019/20 (compared to 2018/19). Welsh Government budget allocations provide a real terms increase for the NHS, but a real terms decrease for other areas of the public sector including Local Government.

Due to the impending 2019 UK Spending Review and Brexit uncertainty, the WG Budget covers one year only which means the Council has no indicative funding figures beyond 2019. Estimating funding is extremely difficult; national economic uncertainty may affect public spending generally, and funding distribution decisions must be made by both the Westminster and Welsh Government (WG) before any funding reaches individual Welsh Authorities.

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Wales Fiscal Analysis (WFA) is a research body within Cardiff University's Governance Centre. It undertakes independent research into the public finances, tax and expenditure of Wales. WFA predicts WG's day to day spending will increase over the next five years. However, to put this into perspective, WFA do not expect day to day departmental spending to reach its 2010 levels (in real terms), until 2023. The Welsh population has grown during this period, and so even then, spend per head will still not be restored to 2010 levels.

Although some improvement in funding is predicted at the Welsh level, from a Local Government perspective, it does not seem prudent to anticipate a material improvement in funding over the medium term. Predicted increases to the Welsh Block Grant are set in the context of significant political and economic uncertainty. If they do occur, future WG Budgets may continue to prioritise the NHS.

A number of taxes are devolved to WG control including landfill disposal tax, Non-Domestic Rates (NDR), land transaction tax and Welsh Income Tax. The WG Budget for 2019/20 is the first in which Welsh Income Tax is a direct part of the budget. Whilst WG has the power to vary taxes, the current administration have pledged not to change income tax rates prior to the 2021 election.

2.4 Council Financial Context

Historic Context

Over the past 10 years, the Council has identified cumulative savings of almost £220 million.



Budget savings have resulted in a reduction of over 1,600 full time equivalent (FTE) posts since 2012/13, in services other than schools.

The sharp increase in savings from 2014/15 onwards coincides with a marked deterioration in general grant allocations. The general grant support that Local Authorities receive from Welsh Government includes a Revenue Support Grant and Re-distributed NDR. Collectively these are termed Aggregate External Finance (AEF). AEF represents 73% of the Council's general funding, with the other 27% raised through Council Tax.

Whilst Cardiff has not seen a *cash* reduction in AEF since 2015/16, there have been annual real term reductions. AEF has not kept pace with the level of inflationary and demand pressure that the Council has experienced. **On a like for like basis**, Cardiff's 2018/19 AEF was lower (in cash terms) than it was five years earlier in 2013/14.



This context is important. It will make it more difficult to deliver the material levels of savings required over the medium term and the Council's financial resilience will need to be kept under close review.

Resultant shape of the Council's Budget

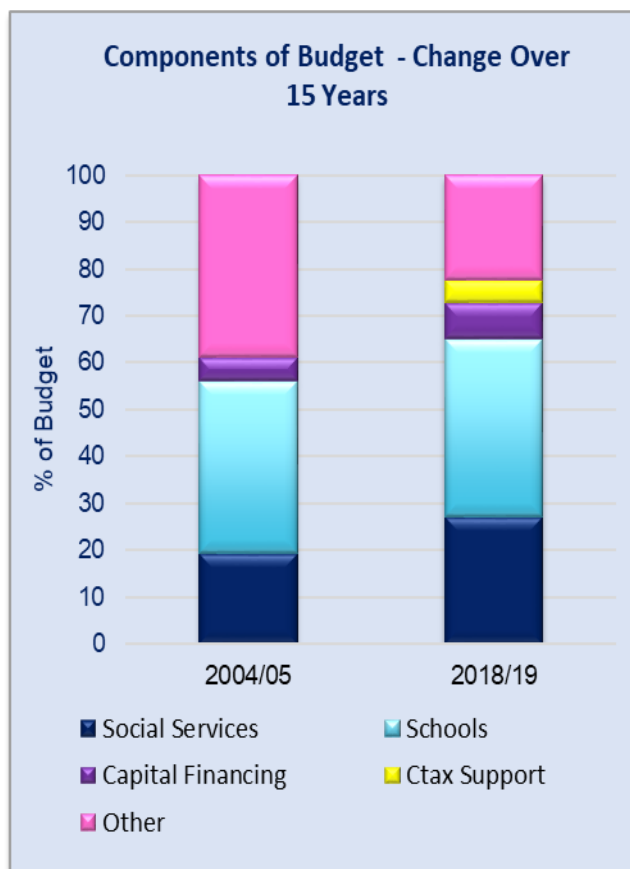
The extended period of savings has had a significant impact on the *shape* of the Council's budget. Some directorate budgets have contracted significantly and others have grown.

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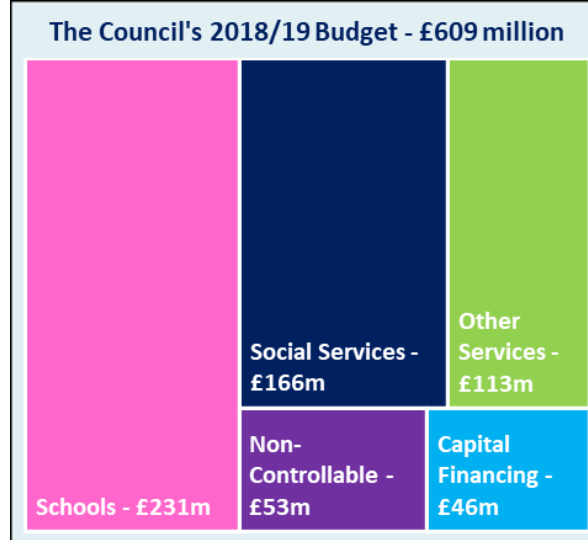
Demand and price pressure has been acute in the areas of Social Services and Schools. Over the period 2014/15 – 2018/19, budgets in these areas have increased by £61 million.

Year	Schools £m	Social Services £m	Total £m
2014/15	2.7	0.8	3.5
2015/16	6.6	3.2	9.8
2016/17	11.2	4.1	15.3
2017/18	7.2	9.2	16.4
2018/19	7.4	8.4	15.8
TOTAL	35.1	25.7	60.8

With no real term AEF increases to help meet this demand, it has primarily been financed from savings in other directorates. Over time, budgets for “other services” have contracted significantly.



In 2018/19, almost two thirds of the Council’s Budget is attributable to Schools and Social Services.



- Capital financing includes the budget for interest and repayment of borrowing associated with the Council’s Capital Programme.
- Non-controllable areas are areas in which it is much more difficult for the Council to reduce spend. These include the budgets to pay Council Tax Support to eligible recipients, as well as the levy payable to the South Wales Fire Service.
- The other services budget includes all Council services with the exception of Schools and Social Services for example, highway maintenance, waste collection, parks and homelessness. It contains areas of statutory duty.

The financial forecasts and resultant savings requirements that are outlined in the next sections highlight that it is becoming increasingly untenable for “other services” to continue to absorb the highest proportion of savings through targeted directorate savings.

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3.1 Forecast Financial Position

The Council's forecast financial pressures, funding and resultant £105 million budget gap are set out below.

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Base Budget Brought Forward	623,589	619,366	617,154	614,953
Schools				
Pay Costs	8,402	5,307	5,294	5,282
Price Inflation	65	72	75	73
Pupil Numbers (Primary and Secondary)	990	1,408	852	851
Special School Places / Resource Bases	1,007	955	955	955
Complex Needs Enhancement	750	750	750	750
Local Development Plan – Starter Schools	0	716	797	859
Contribution to Band B & Asset Renewal	(1,090)	(1,090)	(1,090)	(1,090)
Total Schools Pressures	10,124	8,118	7,633	7,680
Social Services				
Pay Costs	820	837	854	871
Price Inflation	2,052	2,093	2,135	2,178
Demographic - Adult Social Services	1,384	1,405	1,427	1,449
Demographic - Children's Social Services	2,175	2,175	2,175	2,175
Total Social Services Pressures	6,431	6,510	6,591	6,673
Other Services				
Pay Costs	2,470	2,189	2,183	2,226
Price Inflation	680	732	484	485
Commitments	526	702	1,303	535
Demographic Growth	100	100	100	100
Total Other Services Pressures	3,776	3,723	4,070	3,346
Capital Financing	2,578	3,865	814	152
Emerging Financial Pressures	3,000	3,000	3,000	3,000
Resources Required	649,498	644,582	639,262	635,804
Resources Available:				
Aggregate External Finance	(442,406)	(440,194)	(437,993)	(435,803)
Council Tax at 2018/19 level	(176,210)	(176,210)	(176,210)	(176,210)
Earmarked Reserves	(750)	(750)	(750)	(750)
Total Resources Available	(619,366)	(617,154)	(614,953)	(612,763)
BUDGET REDUCTION REQUIREMENT	30,132	27,428	24,309	23,041

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3.2 Pressures Key Assumptions

Pay Pressures

Potential pressures that should be considered when forecasting future employee costs include:

- Pay Awards
- Voluntary Living Wage
- Employers' National Insurance Contributions
- Employers' Superannuation Contributions
- Incremental pay progression
- Apprenticeship Levy
- Redundancy Costs

There are no agreed pay awards beyond the academic year 2018/19 for teaching staff, or beyond the financial year 2019/20 for non-teaching staff. In the absence of agreed awards, annual uplifts of 2% are assumed for all staff. This is broadly in line with forecast CPI inflation over the same timeframe.

The Council is a Voluntary Living Wage (VLW) Employer. Previously, lower points on the NJC pay spine fell below the VLW rate, and so a VLW supplement was paid to eligible staff. Following the introduction of a new pay spine from April 2019, all pay scales are at or above the VLW rate. It is assumed this will continue to be the case over the medium term. However, this assumption will need to be reviewed if annual VLW increases are consistently higher than the general pay award.

No significant changes to National Insurance rates or thresholds set by HM Treasury are anticipated, but this will be kept under review. Forecast pay pressures allow for Employers' National Insurance budgets to increase in line with assumed pay awards.

Actuarial review of the Local Government Pension Scheme (LGPS) will take place during 2019/20, with an "as at date" of 31 March 2019. It is considered reasonable to assume that there will be no change to the existing contribution rate following this review. This is in light of recent

contribution increases and positive interim reports from the Actuary. Consequently, forecast pay pressures assume that additional costs associated with Employers contributions to the LGPS will be limited to ensuring contributions increase in line with assumed pay awards.

The Teachers' Pension Scheme (TPS) is an unfunded public service pension scheme. The TPS underwent actuarial review in 2016 and the results were published in 2018. These, coupled with a change in the discount rate used to set scheme contributions, mean there will be a significant increase in Employers' contributions from September 2019. This increase is captured in the 2019/20 Budget, and the full year impact is reflected in forecast pressures for 2020/21. In England, the Department for Education is providing funding to help meet these costs. However, at the time of writing, there is no indication of additional funding in Wales.

Forecast pay pressures include an allowance for teachers' pay progression. Estimates are reduced year on year, in recognition that over time, consistent annual budgetary provision should result in an employee budget sufficient to cover the top of each pay grade. No pressures are anticipated in respect of pay progression of non-teaching staff for this reason.

Forecast pay pressures also allow the Council's Apprenticeship Levy to increase in line with general pay uplifts. The Apprenticeship Levy is a Government levy payable by larger employers at 0.5% of annual pay bill.

In times of financial challenge, savings requirements and associated reductions in headcount mean that redundancy costs are an important consideration in financial planning. The Council has a base budget and earmarked reserve set aside to meet these costs. Financial forecasts include potential redundancy costs over and above existing provision.

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Price Inflation

The Council's budgetary policy is that directorates manage price inflation within existing resources, except in exceptional circumstances. These may relate to the scale of the increase, or the quantum of the budget to which the increase applies.

Areas deemed exceptional and included as forecast price pressures include out of county placement costs, NDR, Social Services commissioned care costs and energy. In the majority of cases, forecast increases are in line with the OBR's estimate for CPI:

2019/20	2020/21	2021/22	2022/23	2023/24
2.00%	2.00%	2.10%	2.10%	2.00%

Commitments

Forecast financial commitments include:

- Capital financing costs associated with the Capital Programme
- Estimated increases to levies or contributions that the Council is committed to paying other bodies
- Operating costs resulting from previous Cabinet or Council decisions

Forecast capital financing costs reflect the 2019/20 – 2023/24 Capital Programme and the cost of commitments made in previous years. The annual cost of the programme as a percentage of the Council's revenue budget is expected to increase over five years. Costs reflect the Council's current MRP policy, which will be tested and reviewed during 2019/20.

Forecast capital financing figures reflect the following key assumptions:

- There will be no new commitments funded by additional borrowing unless they are funded on an invest to save basis
- The timing and delivery of expenditure will be as profiled in the capital programme

- The assumed interest rate for new borrowing is 3.25%
- Capital receipt targets will be met
- The timing and method of managing borrowing repayments will be as set out in the Treasury Management Strategy
- There will be one pool of debt for the General Fund and HRA

There are a number of key strategic priorities, which the Cabinet is currently considering in line with Capital Ambition. These include the development of an Indoor Arena in Cardiff Bay, the development of Core office Accommodation and the International Sports Village. The full extent of potential costs in relation to these schemes is not yet reflected in capital financing forecasts. However, there is an expectation that the core office accommodation and the ISV will be self-financing.

The 2019/20 Budget Report refers to a financial affordability envelope, which sets out potential additional exposure in relation to the Indoor Arena. This does not currently form part of the 2019/20 – 2023/24 Capital Programme, as it requires further definition and due diligence prior to approval. The intention is that updates, including in relation to financial implications will be reported to Cabinet during the 2019/20 financial year. This scheme will be subject to specific Cabinet approval if within the designated financial affordability envelope.

The maximum additional capital financing exposure in future years, as defined by the affordability envelope, is an additional base budget commitment of £1.4 million in 2020/21 and £0.7 million in 2021/22. It is anticipated that this will be recovered through new income streams over the life of the project. However, at present, such recovery is outside the timeframe covered by this MTFP.

Other forecast commitments associated with the Capital Programme include the future operating

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costs of a new Household Waste Recycling Centre. The timing of this is currently uncertain, but revenue costs are reflected from 2022/23 onwards, which is consistent with the Capital Programme.

Forecast financial commitments include estimated increases to levies and contributions. The most significant of these is the South Wales Fire Services (SWFS), with a current Council contribution level of over £17 million. The budget for the SWFS is levied across constituent local authorities on a population basis. Estimates therefore reflect the Council's future levy increasing because of its growing population, as well because of potential increases to the SWFS' overall budget. WG are currently consulting on the SWFS, including future funding arrangements. Potential changes to the manner in which the SWFS is funded will need to be kept under review.

As well as reflecting anticipated cost increases, forecast commitments also capture instances where existing expenditure is expected to reduce. In line with a December 2016 Cabinet Report, the fall out of a £0.5 million budget for the provision of temporary accommodation at Cantonian High School is anticipated in 2020/21.

Forecast commitments for 2020/21 reflect additional base budget funding for the Council's Corporate Apprentice Scheme. This will ensure there is adequate budgetary provision for the scheme to continue, once associated earmarked reserve funding is exhausted.

Demographic Pressures

Over recent years, Cardiff has had one of the fastest growing populations of any of the UK core cities. As outlined in the section on City Demographics, significant population growth is expected to continue, with faster growth in the under-18 and over 65 age brackets.

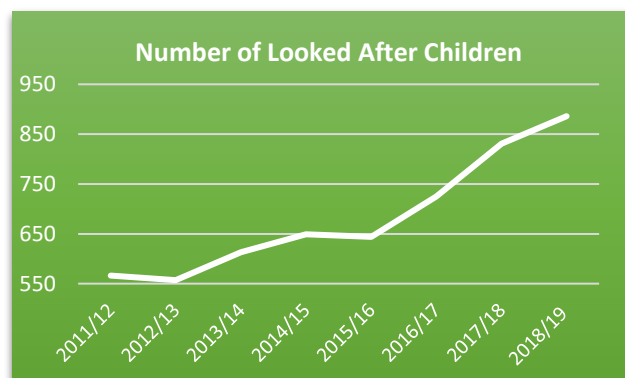
The key areas of forecast demographic growth, and the associated financial impact over the

period 2020/21 – 2023/24 are summarised in the next table.

Demographic Increases	£m
Adults Social Services	5.7
Children's Social Services	8.7
Pupil Numbers	6.3
Additional Needs of Pupils	4.7
Local Development Plan - Schools	2.4
Other	0.4
TOTAL	28.2

Estimated growth in Adult Social Services takes into account, projected growth in relevant areas of the population. It estimates the impact on commissioning budgets if demand (as a percentage of the overall population) were to remain consistent. In practice, directorates have preventative strategies and early intervention work in place that should help manage this demand over the medium term, and this will be reflected as part of the Council's strategy to address the budget gap.

Estimated growth in Children's Services is more difficult to predict. The number and complexity of care packages for looked after children can vary significantly year on year. The graph below sets out annual increases in looked after children since 2011/12.



Financial forecasts currently include £2.2 million per annum to reflect potential growth in Children's

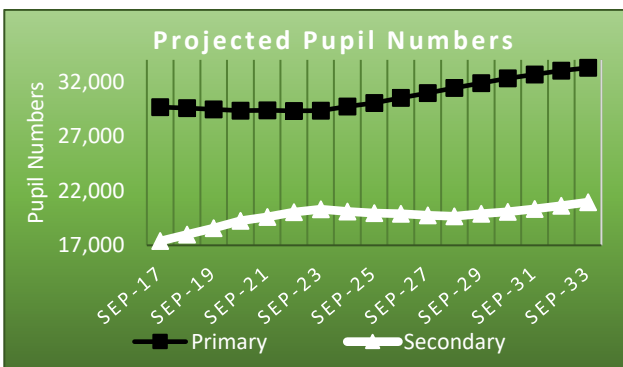
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Services. This assumes some flattening of the recent trend line as preventative measures currently being implemented by the directorate take effect. Figures are based on an average of 54 additional looked after children per annum and average placement costs.

Demand in this area is difficult to predict and numbers of children, the complexity of their need and the nature of their care packages, can all have a significant impact on costs. In recognition that a small number of unanticipated high cost care packages can have serious implications for the annual budget, the Council has a contingency budget of £2 million to help cope with this unpredictability. As with Adult Social Services, the medium term strategy will reflect preventative work in this area.

Pupil number projections reflect the existing pupil population moving up a year group each year. They are adjusted to take account of historic retention rates. New pupils starting nursery each year are modelled using published birth rate data.

Up until September 2023, projections show a reduction in primary pupil numbers and an increase in secondary pupils. Following this, the recent fall off in primary numbers begins to feed through into secondary schools, before pupil numbers in both sectors begin to increase again.



Costs associated with the Associated Learning Needs (ALN) of pupils are more difficult to model. As well as estimating future predicted demand, there is also a need to consider complexity of need as different types of support have different costs.

ALN forecasts are based on estimates by the Education directorate and take into account historic and projected pupil population information. They will be regularly reviewed to take account of most recent information.

Future operating cost of schools in LDP areas are difficult to predict and subject to change. At present, forecast figures assume that starter schools will begin to open in LDP areas in a few years' time. Starter schools refer to schools that begin with reception and year one groups only and then grow year on year. Assumptions are high level and will need refinement as development within the city progresses and demand for school places becomes clearer. There will also be a need to gauge whether the take up of school places in LDP areas affects demand in other areas of the city. There will also be a need to begin to reflect impact on other services, including waste collection.

Emerging Financial Pressures

Forecast financial pressures include £3 million per annum to address emerging financial pressures, which equates to approximately 0.5% of the Council's net budget. This reflects the fact that it is impossible to foresee all issues and that in reality, additional burdens may arise over the next five years, through changes such as new legislation, unforeseen demand, policy change, and specific grant fall out.

The inclusion of a figure against emerging issues provides a margin of headroom within the medium term strategy, avoiding the need to identify additional savings proposals at short notice. Sums included for emerging pressures are kept under regular review and would be removed from plans in the event they are no longer considered necessary.

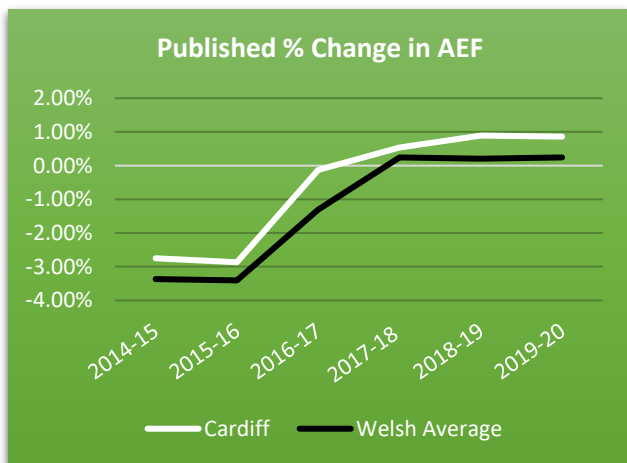
Section 3. Medium Term Financial Plan

3.3 Funding Key Assumptions

Aggregate External Finance (AEF)

The 2019/20 Local Government Finance Settlement was for one year only. Whilst there is potential for the Welsh Block Grant to increase over the medium term, it would be imprudent for Local Government to assume a significant improvement to recent funding settlements.

The graph below sets out annual AEF changes (in cash terms) since 2014/15, for both Cardiff, and the Welsh average position. It shows that there have been significant fluctuations over the period. Cardiff's position has been consistently above average and this is largely reflective of its growing population and associated demand on services.



Whilst settlements in recent years have seen marginal increases in cash terms, often the benefit is eroded by the inclusion of new responsibilities within the overall funding envelope. This means at least part of the additional cash, comes with additional responsibilities.

In the absence of any indicative funding figures, the MTFP assumes annual AEF reductions of 0.25%. This is more optimistic than previous iterations of the Medium Term Financial plan, which assumed annual decreases of 1% per annum.

The more optimistic assumption, takes account of recent more favourable (albeit still extremely challenging) settlements, the potential for future increases to the Welsh Block Grant and Cardiff's consistent placement above the Welsh average. However, projections are not overly optimistic given the significant economic and political uncertainty, and the potential for additional responsibilities to be included within the overall funding envelope.

If indicative funding is worse than these planning assumptions, there may be a need to identify significant additional savings at short notice. This could pose a material risk to the Council's financial resilience, as the achievability risk associated with such savings is likely to be high. In order to address this risk, the Council has a £3.8 million base budget called a Financial Resilience Mechanism (FRM) to help the Council deal with uncertainty of funding. It is used to invest in priority areas, but that investment must be one-off and decided afresh each year. This means that the budget is used proactively, but could be deleted without affecting day-to-day services if required.

Reserves

In the interests of financial resilience, reserves should not be heavily relied upon to fund the budget. This is because:

- Reserves are cash sums – once they are used, there will be an immediate gap in the finances of the following year.
- Earmarked reserves are set aside for a particular purpose. Using reserves for budget funding would compromise their original purpose, unless circumstances have changed.
- Reserves are an important part of financial resilience. They provide a cash buffer in times of uncertainty.
- Cash in reserves is not idle; it generates investment income in line with the Treasury Management Strategy. It also avoids the need for short-term borrowing and its associated costs.

Section 3. Medium Term Financial Plan

- The level of reserves held by Cardiff Council may be considered to be just at an adequate level for an Authority of this size. As a percentage of gross revenue expenditure (i.e. budgeted running costs before any income), Cardiff has one of the lowest levels of reserves compared to other Welsh Authorities.

Funding forecasts assume that £0.75 million will be used from reserves to support the budget each year between 2020/21 and 2023/24. Together with the 2019/20 sum of £2.75 million, this means a total of £5.75 million will be used from reserves to support the budget over five years.

In 2019/20, the £2.75 million will be funded from the Council's Strategic Budget Reserve, which is projected to have a 2018/19 year-end balance of £3 million. Any opportunities to increase that reserve at year-end will be taken. For future years, in the event that the Strategic Budget Reserve has not been replenished, sums will be identified as part of the annual review of reserves, and amounts released where they are no longer required for the purpose originally intended.

The proposed use of reserves is considered to strike an appropriate balance between the points set out at the start of this section, with the need to support services in times of financial pressure. These assumptions will be kept under review in line with the Council's protocol for reserves and balances.

Specific Grant Funding

Specific grants must be used for a particular purpose, which is defined by the grant provider. The funding may only be used for that purpose, and the Council is audited to ensure compliance. The Council receives a significant amount of specific grant funding, notably from WG.

Over an extended period, Welsh Local Government have pressed WG for "funding flexibility." This means that wherever possible, funding should be directed through AEF. As well as

providing more flexibility for Local Authorities, this would also reduce administrative burdens.

There has been a tendency in recent years, for WG to direct additional funding for Local Government through specific grants. Examples of this, and the sums involved (at a Welsh level), include Teachers' Pay (£7.5m), and support for Social Services pressures (£30m). These grants support day-to-day operational pressures, as opposed to WG policy initiatives.

From a financial planning perspective, there is a risk that specific grants may reduce significantly, or be discontinued altogether. This is particularly problematic where specific grants support day-to-day pressures. Whilst still a challenge where grants support specific initiatives, there is at least an opportunity to review whether those initiatives should continue.

The Council has a budget of £250,000 to deal with in-year specific grant funding issues. In addition, the MTFP reflects anticipated reductions to specific grant streams, where failure to do so could ultimately result in a larger cost, such as a fine. Beyond this, the MTFP is based on the assumption that any future specific grant reductions would be dealt with by:-

- Reviewing the grant funded activity
- Providing transitional funding through the FRM, (if it is still available)
- Providing funding through the sum included within the MTFP to meet emerging financial pressures.

The Council will need to keep WG's intention regarding the Teachers' Pay and Social Services grants under review. In addition, whilst the grant for Minority Ethnic and Gypsy, Roma and Traveller Learners has been confirmed for 2019/20, its future beyond that is unclear.

Section 4. Risk and Uncertainty

4.1 Sensitivity Analysis

Current assumptions within the MTFP are prudent and based on best available information. However, there is always a risk of change. If certain areas within the MTFP fluctuate, they could significantly affect the financial forecast. The table below sets out areas of sensitivity and their potential annual impact.

Assumption	£m
AEF 1% worse than anticipated	4.4
Teachers Pay Award 1% higher	1.4
NJC Award 1% higher	2.1
CPI 1% higher (on permitted heads)	1.4
Total Annual Impact	9.3

If **all** these variables changed unfavourably, they could have a £9.3m adverse impact in any individual year. The cumulative impact across the MTFP would be £37 million. Whilst it is unlikely that **all** variables would shift unfavourably, the scale of the potential impact if they did highlights the importance of regularly reviewing assumptions.

4.2 Horizon Scanning & Known Unknowns

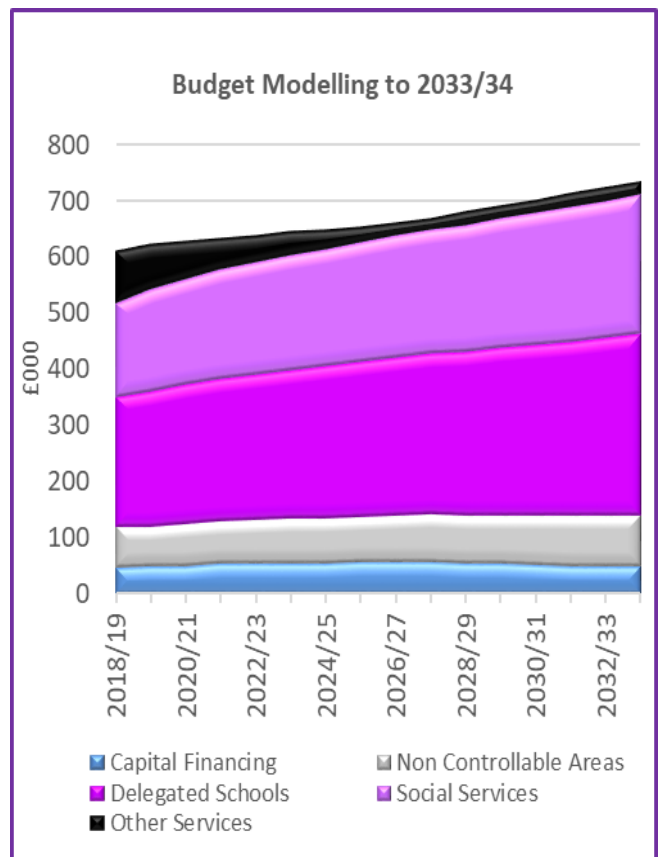
As well as key assumptions, a number of other factors must be closely monitored. These are currently too uncertain to quantify at present, but have the potential to be significant in terms of quantum. These include:

- Brexit, and its resultant impact on the economy
- The expectation that the Spending Review due in 2019 will be another lean one for public services other than the NHS. It is also currently undecided whether the Review will cover one year or three, due to the uncertainty of Brexit.

- The impact of WG’s devolved tax powers and potential changes in tax policy
- The impact of WG’s devolved powers to set teachers’ pay from September 2019
- Local Government Reform in Wales
- WG’s intention to review the Local Government Finance system in Wales
- Future pressures on demand led budgets
- The impact of welfare reform within the city

4.3 Longer Term Outlook

The graph below models the potential long-term outlook for the Council’s budget. It shows “other services” reducing to an extremely small proportion of the Council’s budget. This is not feasible as these services contain statutory functions. The strategy to address the gap will need to try to reshape this profile as far as possible.



It should be noted that it is extremely difficult to model beyond the timeframe covered by the

Section 4. Risk and Uncertainty

MTFP given the number of unknown factors. The above outlook can only be taken as a high-level indication of how things may look in the future if historic trends are extrapolated. Some of the key assumptions underpinning the graph include:

- No further capital financing commitments beyond those required to fund the existing Capital Programme. This means that any new schemes that are dependent on additional borrowing will increase the capital financing section of the graph at the expense of other areas.
- The growth assumed for Social Services and Schools is more modest than in recent years.
- The challenging funding position has been extrapolated over the medium term, moving to a more optimistic view of modest funding increases in later years.

The longer-term outlook emphasises that when funding levels are static or reducing, growth in one area is usually at the expense of others. Policies to address the budget gap, must therefore take into account the future shape of the budget. Otherwise, there is a risk that over a number of years, decisions that are appropriate in the short term, could have a significant and irrevocable impact on the Council's longer term financial resilience. Robust annual challenge on this point will be a key part of financial planning.

4.4 Key Risks

The key risks associated with the MTFP are recapped below:

Funding	<ul style="list-style-type: none"> • Worse than predicted LG financial settlements. • The potential fall out of specific grants – especially where these are supporting ongoing pressures. • Challenges in relation to capital funding and the associated implications for revenue budgets. These include the impact of additional borrowing beyond that reflected in the current programme, or invest to save schemes that fail to deliver projected income.
Demand	<ul style="list-style-type: none"> • A demographic profile that suggests ongoing demand in Social Services and Education. • The difficulty of modelling complexity of demand, including in Children's Services and Additional Learning Needs. • The potential impact of Welfare Reform within the city. • The difficulty in modelling increased demand for services resulting from the LDP.
Uncertainty	<ul style="list-style-type: none"> • Brexit and its unknown socio-economic impact. • The 2019 Spending Review and the subsequent outlook for public spending. • The potential for key assumptions in the MTFP to fluctuate.
Financial Resilience	<ul style="list-style-type: none"> • The significant medium term budget gap, particularly when viewed in the context of historic savings levels. • The shape of the Council's budget – with over 70% now accounted for by capital financing, Social Services and Schools. • The potential impact that delays to savings included in the MTFP may have on the budget monitoring position. • Planned use of reserves to support the budget, which will need to be kept under review • The difficulties associated with predicting the cash impact of preventative strategies.

Section 5. Addressing the Gap

5.1 Budget Gap

The estimated budget gap for the period 2020/21 – 2023/24 is set out below:

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
30.1	27.4	24.3	23.1	104.9

This will need to be addressed through a combination of savings, increases to fees and charges and Council Tax increases.

5.2 Council Tax

Council Tax accounts for 27% of the Council's general funding. This means that in order to generate a 1% increase in overall funding, Council Tax would have to increase by almost 4%. This is called the gearing of the tax. It means the Council has little control over the majority of its funding, which is through Government Grant.

Technical variables that must be considered when setting the Council Tax include:

- The Council Tax Base of the Authority
- Council Tax Support Budgets
- The level of the Council Tax

Council Tax Base

The Council Tax Base is the number of Band D equivalent properties in the city. In simple terms, it reflects the number and type of dwellings in the city, and takes into account if they may be eligible for Council Tax discounts or exemptions. Local Authorities use the Council Tax Base to calculate how much Council Tax they can expect to generate.

Whilst there are other factors that affect the Council Tax Base, broadly speaking, property development within an area usually means that the Council Tax Base will increase, generating more Council Tax income. Whilst there is the potential for the Council Tax Base to increase over the medium term given anticipated development

in the city, budget strategy is not to pre-empt such increases within funding forecasts. This is because the funding formula that WG uses to distribute AEF across individual Authorities means that an increase in Council Tax Base will often result in a reduction in AEF. For example, the Council's 2019/20 AEF increase will be £1.6 million lower than originally indicated, due to tax base adjustments within the funding formula.

Council Tax Support Budgets

The Council pays Council Tax support to eligible recipients under the Council Tax Reduction Scheme. Budgetary responsibility for this passed to the Council in 2013/14, and the current annual budget is over £30 million.

The Council Tax Support Budget must be considered when projecting future Council Tax income. Assuming that eligibility for Council Tax Support remains consistent; an increase in the rate of the Council Tax will place additional pressure on the Council Tax Budget. This is because support must be paid at the new, higher rate. Figures quoted in the next section are net, in that they take into account the associated impact on the Council Tax Support Budget.

The level of the Council Tax

In addressing the budget gap, it is assumed that Council Tax will increase by 4.5% per annum. As already explained, increases at this level, contribute around 1% to the Council's overall funding.

An annual 4.5% increase would contribute the following amounts to addressing the budget gap:

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
6.5	6.8	7.1	7.4	27.8

The assumption of annual 4.5% increases is not fixed, and will be kept under review over the medium term.

Section 5. Addressing the Gap

5.3 Savings Requirement

The residual budget gap after taking into account assumed Council Tax increases is:

2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
23.6	20.6	17.2	15.7	77.1

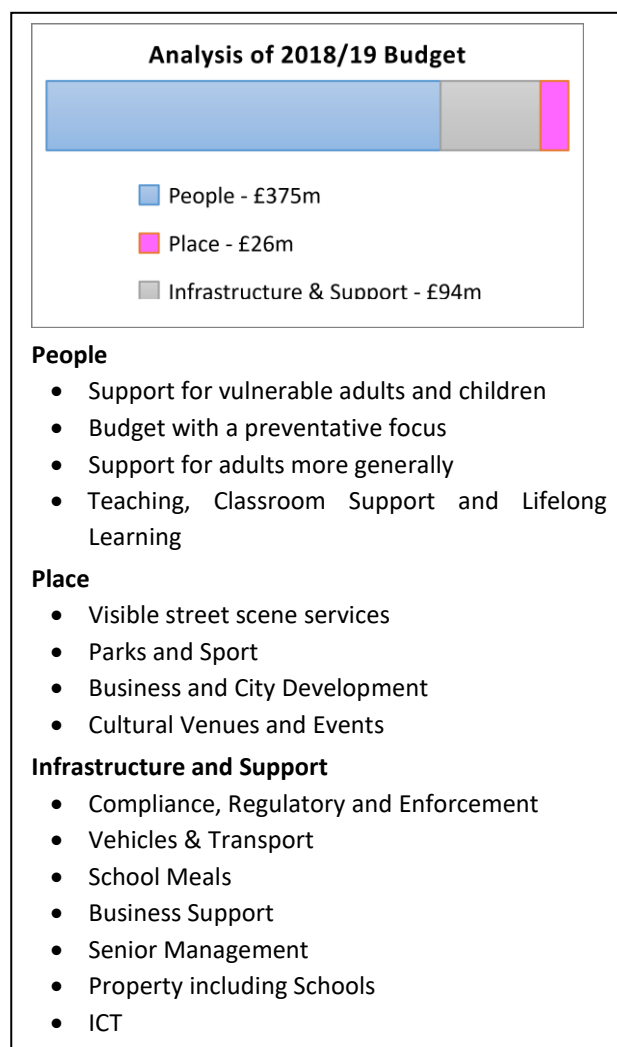
Given the longer-term budgetary outlook previously considered, the approach to addressing the residual gap must move beyond the traditional approach of targeted directorate savings and limiting schools' growth.

There will be a need to:

- Capture the full financial benefit of the significant amount of early intervention and preventative work ongoing across the Authority, in order to manage the pattern of future demand for Council services.
- Consider the level at which it is affordable to continue to subsidise services of a more discretionary nature.
- Continue to maximise income streams and explore the potential for new income streams, particularly where services are not universal.
- Continue to target efficiencies, including baseline efficiencies for *all* services including schools.
- Continue to undertake service reviews and to identify cross-directorate savings in areas such as corporate landlord functions and transport.
- Identify opportunities to work across directorates and in partnership with other organisations.
- Target productivity savings to ensure that optimum value for money is achieved within scarce resources, including making best use of digital technology.
- Consider how targeted capital investment may deliver revenue savings.

In developing detailed savings proposals for the medium term, there will be a need to work across directorate boundaries to review all elements of expenditure that the Council is able to influence. This will include working with delegated schools to identify efficiency opportunities in relation to the £231 million Schools' budget.

The following diagram is an example of how the Council's 2018/19 Budget may be viewed in a way that focusses less on individual directorates, and more on the type of service being provided. The analysis does not include budgets that are less readily influenced in terms of savings, such as the levy to the SWFS, capital financing and Council Tax Support. It **does** include Schools' budgets.



Section 5. Addressing the Gap

This table presents a view of how savings requirements over the medium term may affect the areas of spend identified above.

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	Total £m
People	14.16	12.36	10.32	9.46	46.30
Place	2.36	2.06	1.72	1.56	7.70
Infrastructure & Support	7.08	6.18	5.16	4.68	23.10
TOTAL	23.60	20.60	17.20	15.70	77.10

This table sets out the above savings targets expressed as a percentage of current budgets.

	2020/21 %	2021/22 %	2022/23 %	2023/24 %	Total %
People	3.81	3.33	2.78	2.52	12.43
Place	8.95	7.81	6.52	5.92	29.20
Infrastructure & Support	7.52	6.56	5.48	4.97	24.52
TOTAL	4.80	4.19	3.50	3.17	15.65

Further work on developing a fully defined set of proposals for these years and for 2020/21 in particular will take place over the spring in order to inform the 2020/21 Budget Strategy Report which will be considered by Cabinet in July 2019.