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**BUDGET STRATEGY 2015/16 AND THE MEDIUM TERM**

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**Reason for the Report**

1. To enable the Committee to consider the Council's Budget Strategy for 2015/16 and for the medium term. The report, which was approved by the Cabinet on 17 July 2014 and adopted by Full Council at its meeting on 24 July 2014, is attached at **Appendix A**. The report sets out the Council's financial strategy, for developing capital and revenue budget proposals, but also seeks to put in place savings targets over the lifetime of the Medium Term Financial Plan.
2. At its work programming forum meeting on 4 August 2014, the Committee agreed that given the pressures of other agenda items, this report would be received for information only.

**Scope of the Scrutiny**

3. This item will give Members the opportunity to consider the Council's strategy for developing the 2015/16 budget proposals and medium term planning. It will also give Members a chance to consider the timetable for developing the proposals and how the Committee wishes to be involved.

**Way Forward**

4. This report is for information purposes, but Members may like to discuss scheduling future scrutiny of any of the issues raised by the report.

**Legal Implications**

5. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to

consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

### **Financial Implications**

6. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

### **RECOMMENDATIONS**

7. The Committee is recommended to:
- i. Note the agreed approach to preparing the 2015/16 budget report;
  - ii. Consider how it wishes to scrutinise the budget process in the coming year.

**MARIE ROSENTHAL**

County Clerk and Monitoring Officer  
27 August 2014

**COUNCIL: 24 JULY 2014**

**CABINET PROPOSAL**

**AGENDA ITEM: 12**

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**BUDGET STRATEGY 2015/16 AND THE MEDIUM TERM**

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**Reason for this Report**

1. To establish the financial strategy of the Council in readiness for the preparation of the 2015/16 revenue and capital budgets and to update the financial strategy to meet the continued significant financial challenges facing the Council in the medium term. In response to the risks attached to delivering savings of the expected quantum on a year on year basis the Report will seek to put in place savings targets for directorates not just for 2015/16 but also over the life of the Medium Term Financial Plan. This Report will highlight the seriousness of the worsening financial position for the Council, particularly as a result of recent correspondence from Welsh Government. The scale of the financial challenge is such that reductions in service delivery are almost inevitable and the Council will need to go through a sustained period of radical change, which will necessitate consideration of alternative delivery models, to realign itself to a sustainable significantly lower resource base.
2. To outline the timetable for the budget process in order to present the Budget Report to Council on 26 February 2015.

**Background**

**Economic Position**

3. This budget strategy is written in the context of continued and sustained financial restraint. The report will outline a potentially worsening funding position for local government within Wales, with funding reductions likely to significantly exceed the previous indicative levels identified in December 2013 which suggested an average reduction in local government funding of 1.55% for 2015/16. 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 2015/16 will be driven by decisions Welsh Government (WG) make in respect of funding allocations across the public sector.
4. The Chancellor's budget announcement in March 2014 set out the economic context against which the budget strategy will be set. Some of the main indicators from this statement were:

- Growth forecast to be 2.7% this year and 2.3% in 2015
  - Inflation forecast to stay at target rate of 2% over the period from 2015 to 2018
  - National debt forecast to peak at 78.7% of national income in 2015/16
5. The Eurozone remains fragile but intact and this has meant that the safe haven status of UK Gilts has reversed leading to higher costs of borrowing for the UK Government. In addition the Governor of the Bank of England has expressed concerns that the recovery in the UK housing market may not be sustainable. Against this backdrop it is expected that the bank rate will move upwards at a faster pace than previously anticipated.

### **Welsh Government Context**

6. When the 2014/15 budget settlement was announced by Welsh Government (WG) indicative levels of funding for 2015/16 were identified. Across all Councils the indicative percentage decrease was 1.55% and for Cardiff Council the figure was a decrease of 1.56%, a cash decrease of £6.710 million.
7. Members will be aware that WG's indicative 2014/15 budget for Cardiff was an increase of 1.27% which equated to £5.665 million. However, at Final Settlement a reduction of 3.5% was announced which equated to a reduction of £15.5 million and therefore a turnaround of resources from the initial indicative position of over £21 million. Whilst clarity as to the full extent of the reduction for the 2014/15 budget was not made available until the Provisional Settlement in October 2013, the Minister for Local Government and Government Business stated prior to that, that the indicative figures provided should "no longer be considered as a basis on which to plan".
8. Therefore the concern for all councils given this previous experience was whether the indicative figure for 2015/16 provided a sound basis for financial planning and what indicative figures should be used for subsequent years in the Medium Term Financial Plan (MTFP). Following representations from the WLGA and leaders on this matter a letter was circulated to Welsh Local Government by Lesley Griffiths, the Minister for Local Government and Government Business on 24 June. The letter warned Welsh Local Authorities that in the context of pressures on the Welsh NHS, they should consider how they would respond to funding reductions of up to 4.5% in 2015/16 and to expect further challenging settlements over the medium term.
9. In response to this letter the Leader of the WLGA, expressed his concern and disappointment at the scenario identified and advised that reductions in the general settlement of circa 4.5% could lead to cuts of up to 20-30% in some services.

10. The usual timetable for the release of the provisional and final budget settlements is expected to be October and December respectively. At present uncertainty in respect of potential formula and data changes in the funding formula still exists and the WLGA continues to lobby WG to minimise the impact of redistribution across the formula. This also applies to the impact of any further specific grants transferred into the settlement together with any changes to the quantum. A particular area of ongoing concern for the Council is the risk attached to the re-distributional impact of funding for the Council Tax Reduction Scheme (CTRS) which is part of the Revenue Support Grant as the distribution mechanism for 2015/16 has yet to be agreed.
11. It should be noted that the 2015/16 Settlement will contain a funding reduction of £1.3 million as part of the final tranche of a three year reduction of £3.9 million in respect of Learning Disability Resettlement Grant as a result of distribution changes when the grant was brought into the formula. Therefore whilst the Council welcomes the WLGA continuing to lobby WG to include as many grants as possible into the general settlement this should be done on the basis of the existing distribution.

### **Corporate Plan**

12. The Council approved its refreshed more strategic and focused Corporate Plan in February 2014 setting out the strategic direction and providing a framework for more detailed service plans and performance management objectives. The Corporate Plan provides a “golden thread” to enable the Council to move from strategy to delivery. The Corporate Plan priorities were identified as:
  - Economic development as an engine for growth and jobs
  - Education and skills for people of all ages to fulfil their potential and be well prepared for employment in the Cardiff economy and beyond
  - Supporting vulnerable adults, children and young people in times of austerity
13. In addition, the Leader has outlined the Cabinet’s ambition to make Cardiff Europe’s most liveable capital city. In order to deliver this vision the Cabinet has reaffirmed the overriding importance of the priorities in the Council’s Corporate Plan 2014-17: promoting education; supporting vulnerable people; and delivering economic development as the engine of growth and jobs. But it has also identified that, in order to meet the challenges, the way in which public services are designed and delivered needs to change.
14. 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 2015/16 and beyond. In addition, the development of the budget over the next six months will be informed by the current year’s budget monitoring position as the year unfolds.

## Issues

### Setting the Budget Strategy

15. The 2014/15 budget was an extremely challenging exercise from both a revenue and capital perspective. The Council's Aggregate External Finance (AEF) was decreased by an adjusted 3.5% in cash terms over 2013/14, and when measured on a per capita basis was £1,218 which was well below the Welsh average of £1,374 and resulted in Cardiff being ranked as 21 out of the 22 councils in relation to the per capita funding it received from WG. This is despite the Council being a key driver of economic growth both within the City and Region. In addition the City Council has a stewardship role in respect of the national heritage assets and national facilities which require financial support. It should be noted that in England the role of Core Cities is recognised by Central Government within the financial opportunities available to them.
16. The approved budget for 2014/15 included making significant savings amounting to £48.645 million and the budget also increased council tax rates by 3.97%. Over the past six years the level of savings identified as part of the budget setting process has amounted to circa £130 million and these have become more challenging to achieve year on year. It is against this backdrop that the Budget Strategy for 2015/16 and the medium term is considered.

### Establishing a Programme of Organisational Change

17. The Budget Strategy of the Council is informed by the report the Chief Executive presented to the May Cabinet meeting outlining the steps required to respond to the critical financial challenge and increasing demand for services facing the Council. This report highlighted the financial challenges facing the Council and advised that maintaining a "business as usual" mindset with salami slicing of budgets was no longer an option. Instead it is almost inevitable that in Cardiff, as across the whole of Wales, there will be reductions in service delivery and in addition a requirement to consider alternative delivery models to ensure that the organisation can achieve financial stability on a significantly lower resource base. The Report outlined the steps needed to implement a new organisational model including:
  - Reviewing the shape and scope of the organisation and the way in which services are delivered to meet demand;
  - Widening opportunities for people and communities to shape services around their needs;
  - Identifying delivery models that may be established to meet demand pressures and reflect budgetary realities;
  - Identifying opportunities for further efficiency savings through better internal and external collaboration, integration of service delivery, and reducing duplication of effort and resources;
  - Accelerating reviews of operational and non operational property to ensure best use of our buildings.

- Significantly strengthening performance management, workforce development and engagement arrangements; and
  - 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
18. In addition the Report made clear Cabinet’s intention to become a “Cooperative Council” including a commitment to engage citizens, communities and staff in decision-making, service design and delivery. It was also recognised that new ways of delivering public services should be considered and the Council is keen to learn from the experiences of others as evidenced by the its recent membership of the “Cooperative Councils Innovation Network” and the focus it is placing on the peer group identified as the “Core Cities” across England.
19. The Report’s recommendations included the establishment of a 3 year Organisational Development Programme to ensure that the fundamental changes required could be delivered to ensure sustainable services. The workstreams that have been established within this Programme are detailed below and it is important that the resources deployed within the Programme are directed at areas where the capacity for change to deliver services at a lower resource base can be maximised:
- Strategic Commissioning
  - Engagement and Improvement
  - Assets and Infrastructure
  - Customer and Community Focus
  - Governance and Member Participation
20. As an initial step, a programme of Service Reviews has been instigated to ensure that the Council’s services are capable of meeting current and future service demands and expectations within the constraints of the budget strategy.

### **Savings Drivers**

21. The Report “Establishing a Programme of Organisational Change” identified that a “business as usual” mindset was not an option given the challenges the organisation faces. Previous Budget Strategy Reports have identified a standard percentage of controllable base budgets for non-protected directorates to save. However following the announcement of the 2014/15 Provisional Settlement the 2014/15 Updated Budget Strategy Report approved by Cabinet in November 2013 identified that this continued “salami-slicing” was no longer an option in the face of the unprecedented budget reduction requirement and identified the need to adopt a targeted approach for the additional savings required.
22. The savings required for 2015/16 will also need to be delivered by following a targeted budget savings approach. An approach to identifying targeted savings has been based on the classification of savings drivers identified in the July 2014/15 Budget Strategy Report. In summary these

potential savings drivers include policy led savings, business process led corporate efficiency savings and discrete directorate area led savings 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 and exploiting new opportunities to sell or trade services.
- Business Process Led Corporate Efficiency Savings – these savings are often delivered by streamlining and improving services across the Council by ensuring that processes are citizen centric and that common processes are undertaken in a common 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 increase discretionary income and maximise grant funding opportunities.

### **The 2015/16 Budget Reduction Requirement**

23. The Budget Reduction Requirement identified for 2015/16 in the February 2014 Budget Report was £31.333 million excluding any new growth proposals and including only known and costed commitments. This figure was net of projected savings deliverable for the residual waste contract and the restated gross shortfall would be £34.181 million. The gap will have to be found through a combination of savings from directorates, use of reserves or increases in the rate of council tax.
24. The Council's Statement of Accounts for 2013/14 are currently on deposit and will be audited at the end of this period. These unaudited accounts show that the level of the Council's General Fund Reserve was £11.413 million and its General Fund earmarked reserves have reduced from £40.319 million in 2012/13 to £30.559 million in 2013/14. It should be noted that the Council's general reserves are at 1.92% of its net expenditure budget which is below both the Welsh and English averages.
25. 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.



26. As part of the 2014/15 budget strategy process the Council undertook a review of its financial resilience. In addition to considering general and earmarked reserves this review considered both the issues and opportunities for the Council including a review of assets and other matters such as the minimum revenue provision and the costs of voluntary severance. This review will be refreshed as part of the 2015/16 budget strategy and any changes or new issues and opportunities highlighted. In particular the costs and funding of voluntary severance over the medium term will be considered. It should be noted that the scenarios identified later in this report contain an assumption that this refreshed Balance Sheet Review will identify savings to be included in the strategy for meeting the Budget Reduction Shortfall. The Review will be updated as a priority to test whether additional opportunities can be identified.
27. In setting the Council's budget strategy for 2015/16 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 2015/16 budget setting process will be greater due to the quantum of savings to be found 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.
28. The WG requirement for councils to protect the delegated schools budgets and social care budgets was introduced in 2011/12. The final year of protection for social care budgets was 2013/14 however the protection for delegated schools budgets remains in place for 2015/16. Based on Welsh Government's indicative budget for 2015/16 delegated schools budgets are required to be increased by a minimum of circa 0.6%. The impact of reductions to the overall Welsh Government budget could result in a reduction in this percentage. Assuming that Welsh Government maintain the position that social care budgets are no longer protected then councils will have choice in respect of both the savings and pressures to accept in this area. However it should be noted that historically this has been an area experiencing year on year demographic and inflationary fee pressures.

## **Consultation**

29. The proposed Budget Timetable Framework for 2015/16 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 repositioning the authority as a "Cooperative Council" the Cabinet identified their intention to "place people at the centre of its approach to leading Cardiff and reforming public services with people; creating a city for people; and delivering services for people." The following paragraphs in relation to the Cardiff Debate identify a number of tangible steps that have been taken to move this agenda forward.

## **The Cardiff Debate**

30. The 2014/15 Budget was based on a commitment by Cabinet to begin to engage more effectively with its stakeholders in order to develop a conversation around the budget. Work undertaken with residents, council tax payers and key stakeholder groups ensured that there was opportunity for all to participate in an effective dialogue across the city. The responses to these consultations, including the Budget Engagement Report – Choices for Cardiff, were considered by Cabinet.
31. As part of the “Cardiff Debate” the Council plans to build and further develop on this engagement and consultation during the 2015/16 budget process and beyond. The “Cardiff Debate” will be a 3 year programme of engagement and collaboration between public, private and third sector organizations and most fundamentally, the citizens and communities of Cardiff. During June a series of On Street Engagement events were undertaken across the city and Appendix 2 provides a report into the process and views provided as part of these events. 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?
32. At the end of June key partners attended a “Cardiff Debate” event convened by the Leader of the Council entitled the “Cooperation for Change” Public Services Summit. The Summit provided key public, private and third sector partners with an opportunity to discuss a response to the key challenges facing the city. The partners represented confirmed a willingness to work together and agreed that there was a need for multi-agency engagement as part of the Cardiff Debate.
33. During July and August further engagement opportunities have been identified which will take place as part of a series of community Neighbourhood Partnership events to give everyone a chance to contribute to the Debate. The flyer for these Neighbourhood Partnership events is at Appendix 3 and this information will be made available both on the Cardiff Debate website and distributed for information at key public buildings.

## **Employee Engagement**

34. The new Leader and the Chief Executive identified the importance of engagement with employees and the first in a series of Employee Roadshows took place in May which encouraged employees to actively participate in Council-wide discussions on a number of key issues relating to the budgetary challenge including ideas on savings. Following these Employee Roadshows a network of employee ‘ambassadors’ has been established to drive improvements in staff engagement at corporate and

directorate level. Further meetings with frontline staff will also take place shortly. A report on this engagement activity together with a supporting action plan is currently being developed to inform the budget process.

## Risk

35. In addition, the risk assessment process carried out as part of the 2014/15 budget preparation identified significant operational and financial challenges in the medium term. These included:

- Continuing demographic demand for social care services if trendlines vary significantly from the anticipated position.
- The impact of welfare reforms 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 reduction in resources for various central education functions with the requirement for schools to purchase the services from their delegated budgets.
- Necessity to deliver budgeted savings from service redesign 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 deliver significant levels of savings during a period of prolonged financial austerity.
- The service impact of the continuing reduction in headcount expected over the medium term.
- The Council's ability to meet the costs of voluntary severance as it reshapes itself in line with available resources in 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 Council Tax Reduction Scheme.
- 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 impact of the potential adoption of alternative models of service delivery and the requirement to test consequential costs and benefits of the change.
- The impact of continuing to increase the support of revenue budgets from the Civil Parking Enforcement 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.
- The ongoing uncertainty in respect of the establishment of a permanent CTRS scheme for 2015/16
- The impact of the continued operation of the Central Education Consortium.

- Continued upward pressures on energy costs over the medium term.
  - The impact of functions delivered as part of collaborative arrangements should the planned benefits not be as realised.
  - Financial exposure should the Council breach its partial exemption calculation in respect of Value Added Tax.
  - 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 impact of the WG's intention to move forward and replace the existing Housing Revenue Account Subsidy System from April 2015.
36. 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.
37. Welsh Government will continue the protection for delegated school budgets for 2015/16 but there has been no announcement as yet on further years. Across Wales concern has been expressed on the ability of Councils to maintain the protection position given the financial challenges ahead. Within Cardiff the working assumption is that some form of protection will be required for future years. Furthermore the MTFP has allowed for additional growth in respect of financial pressures in schools which increases the allocation above the anticipated amount in respect of the WG protection calculation.
38. Historically, there have been efficiency savings against Individual School Budgets such as the funding of the School Organisation Plan and also 25% of the increase in pupil numbers from 2012/13 and in following years has been used to support ICT Improvements.

### **Updating the Medium Term Financial Plan**

39. The February 2014 Budget Report identified three budgetary gap scenarios for the period 2015/16 to 2017/18. These scenarios were calculated by flexing key variables over the medium-term with the most significant being the likely level of Welsh Government funding.
40. The base case scenario was underpinned by Cardiff's indicative 2014/15 Aggregate External Finance (AEF) reduction of 1.56% followed by an assumed 2% reduction in subsequent years, and identified a likely gap of £96.5 million over the next three years. A sensitivity analysis was undertaken around some of the key variables of the plan to consider more pessimistic scenarios. These included:-
- An incrementally worse- case scenario which modelled an annual AEF reduction of 3%
  - A worse- case scenario which modelled an annual AEF reduction of 4% (coupled with a pay award of 1.5%)
41. The table below summarises these scenarios.

<b>MTFP Scenario</b>	<b>2015/16 MTFP Shortfall £000</b>	<b>2016/17 MTFP Shortfall £000</b>	<b>2017/18 MTFP Shortfall £000</b>	<b>Total MTFP Shortfall £000</b>
<b>Base Case</b>	<b>£34,181</b>	<b>£35,395</b>	<b>£26,891</b>	<b>£96,467</b>
Incrementally Worse	£41,551	£39,497	£30,784	£111,832
Worse Case	£47,844	£44,457	£35,427	£127,728

*It should be noted that this table is not identical to that included in the February 2014 Budget Report which showed a base case of £92 million increasing to £105 million as a worse case. This is due to the fact that in February 2014 savings in relation to Prosiect Gwyrdd were netted off against the overall requirement.*

42. As already noted, the base case shortfall illustrated in the table above is underpinned by indicative Welsh Government funding figures for 2015/16 (-1.56%) followed by an assumed reduction of 2% per annum thereafter. Officers had already started to plan for a worsening position and up until the end of May were modelling a base case where annual reductions of 3% funding from WG were included.
43. However, more recent indications from the Welsh Local Government Association are that WG's indicative AEF figures are likely to be optimistic. The letter from the Minister for Local Government and Government Business on 24 June stated that Councils should consider how they would respond to funding reductions of up to 4.5% in 2015/16 and to expect further challenging settlements over the medium term:-

*"I would therefore, urge you to undertake planning work around a range of scenarios. The current published indicative plans for 2015/16 see a reduction of 1.5% compared to 2014/15. There remains a possibility further amendments may be required and I would suggest you consider how you would respond to reductions of up to 4.5%.*

*In addition to the challenges we face in the current spending review period, the period beyond 2015/16 looks set to be equally as challenging. Making forecasts of the fiscal position of the UK Government is also exceptionally challenging, not least because of the uncertainty about the performance of the wider economy which drives both tax and revenues and large areas of welfare spending. However, the UK Government has provided a broad envelope for likely spending over future financial years and from this there is a clear indication the scale of reductions we have faced since 2010/11 will continue over the next spending review period. In this context, it would be prudent for you to assume the current trends in Local Government funding will continue and you should scenario plan for a range of challenging settlement beyond 2015/16."*

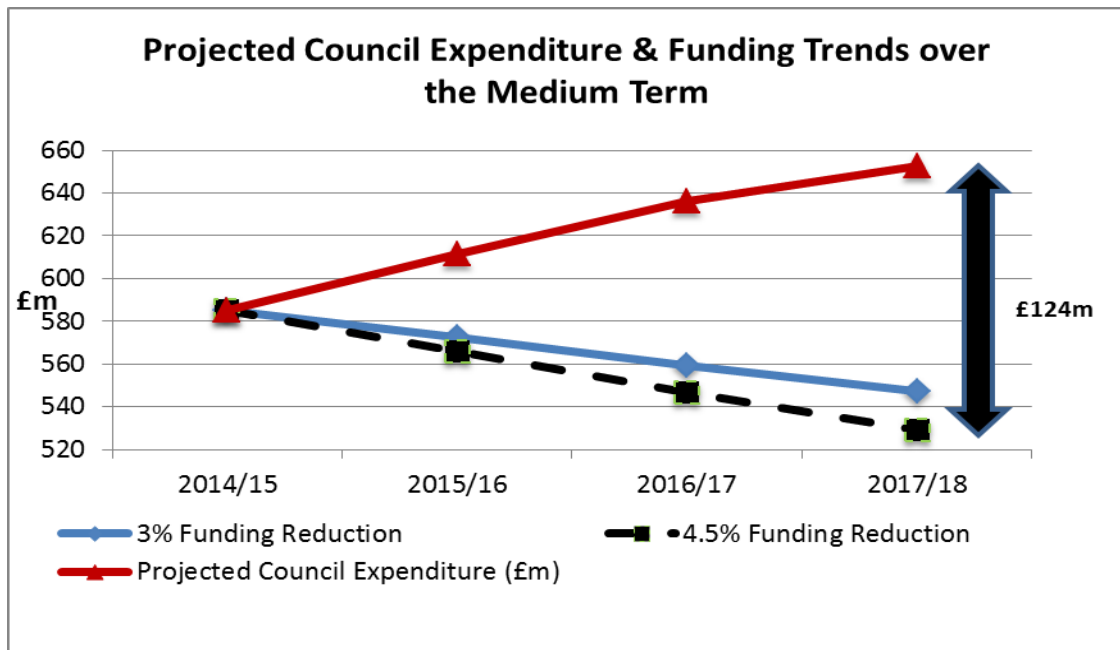
44. In the context of these warnings, and in light of the £21 million adverse turnaround between Cardiff's indicative and provisional AEF for 2014/15, it is considered that the base case scenario identified in February 2014

should be updated to reflect funding decreases of 4.5% per annum. Revised figures as set out in the table below show the potential Budget Reduction Requirement for the Council against both 3% and 4.5% scenarios.

<b>MTFP Scenario</b>	<b>2015/16 MTFP Shortfall £000</b>	<b>2016/17 MTFP Shortfall £000</b>	<b>2017/18 MTFP Shortfall £000</b>	<b>Total MTFP Shortfall £000</b>
<b>3% May Planning assumption re WG Funding Reduction</b>	<b>38,994</b>	<b>37,462</b>	<b>29,001</b>	<b>105,457</b>
<b>4.5% - Ministers letter 24 June 2014</b>	<b>45,534</b>	<b>43,609</b>	<b>34,776</b>	<b>123,919</b>

45. A 1% fluctuation in AEF for Cardiff equates to £4.4 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. As illustrated by the following table and graph, the overall savings requirement is the result of escalating cost pressure on one hand compounded by funding reductions on the other.

<b>MTFP Scenario</b>	<b>2015/16 MTFP Shortfall £000</b>	<b>2016/17 MTFP Shortfall £000</b>	<b>2017/18 MTFP Shortfall £000</b>	<b>Total MTFP Shortfall £000</b>
Financial Pressures	25,464	24,775	16,694	<b>66,933</b>
Funding Reductions at 3%	13,530	12,687	12,307	<b>38,524</b>
<b>Total Budget Gap at 3%</b>	<b>38,994</b>	<b>37,462</b>	<b>29,001</b>	<b>105,457</b>
Additional Funding Pressures at 4.5%	6,540	6,147	5,775	<b>18,462</b>
<b>Total Budget Gap at 4.5%</b>	<b>45,534</b>	<b>43,609</b>	<b>34,776</b>	<b>123,919</b>



46. The graph above demonstrates that alongside the funding reductions from WG the Council services face significant inflationary and demand pressures. The table below illustrates that a large proportion of the pressures are re-directed into protected or non-controllable areas.

	MTFP Scenarios	
	Base Case £m	Worse Case £m
Funding Reduction	38.5	57.0
Growth to meet financial pressures in schools	21.0	21.0
Growth for non-directorate areas	9.6	9.6
<b>Sub-Total outside directorates</b>	<b>69.1</b>	<b>87.6</b>
Recycled to Social Care	19.2	19.2
Recycled to other directorates	17.2	17.2
<b>Sub Total Recycled within directorates</b>	<b>36.4</b>	<b>36.4</b>
<b>MTFP Total</b>	<b>105.5</b>	<b>124.0</b>

47. 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 which will 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.
- New legal requirements in relation to Deprivation of Liberty Safeguards and Mental Health Act 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 withdraw the Social Care Workforce grant.
- The outcome of future consultation in respect of the Council's Waste Strategy.

### **Budget Principles**

48. The preceding paragraphs form the back drop to an extremely challenging budget for 2015/16 and into the medium term. As highlighted earlier in this report, the Council could now have to find £124 million to balance the books, an increase of £18.543 million (of which £6.506 million is in relation to 2015/16) on the modelling assumptions of a 3% WG funding reduction. This budget gap could potentially decrease subject to Welsh Government's decision in respect of future funding levels and other policy pressures that may emerge over the period, however the Council needs to ensure that it is able to plan effectively for this WG funding scenario.
49. The variable that is likely to have the most significant impact on budgetary gap is future levels of Welsh Government Funding. However, until this position is clarified the Council will plan for £124 million with the budget gap covering 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 due to take effect from 1/9/15
  - Capital Financing Costs
  - Welsh Government funding decreases of potential 4.5% per annum
50. The Council's net base budget for 2014/15 is £574 million having changed the budget presentation of concessionary fare funding. However, savings cannot be made against £270 million of this spend thereby compounding the impact of the savings requirement on the remaining budget. The most significant budget against which it is not possible to make savings is the delegated schools budget of £200 million. Other components of the £270 million include the £29 million budget for the Council Tax Reduction Scheme, budgets for insurance and non-domestic rates, budgets to fund staff severance costs required as a result of the savings requirement and other policy and contractual commitments.
51. In addition, budgets totalling £76.3 million are considered to be outside specific directorate control in terms of making savings. However the Budget Strategy reflects the application of targeted corporate efficiency savings to these budgets, totalling £4.2 million in 2015/16 and £6.5 million over the three year period as summarised below:-



<b>Budget Adjusted for Controllable Base Calculation</b>	<b>Value £m</b>	<b>Reasons for Exclusion from Controllable Base Calculation</b>
Land & Building Account	<b>3.6</b>	The Budget Strategy reflects the application of a £100,000 target per annum to this budget in recognition of asset related income generation opportunities
Precepts & Levies	<b>(17.5)</b>	The majority of this budget (£16.6 million) is used to pay the levy raised on the Council by South Wales Fire and Rescue Service. The level of these contributions is set externally. However, in recognition of the funding situation facing the Council, the Budget Strategy reflects the application of a targeted reduction to these budgets of 2% per annum. This report includes a recommendation to formally request that reductions are included within their budget setting processes.
Energy Budgets	<b>(7.6)</b>	Price fluctuations are determined by corporate contract however, the Budget Strategy includes annual efficiency targets in relation to usage.
Prosiect Gwyrdd Budgets	<b>(10.8)</b>	These budgets relate to the Council's residual waste solution, Prosiect Gwyrdd. The profiled savings from this solution are reflected in the Council's Budget Strategy over the medium term.
School Transport	<b>(6.3)</b>	This budget is under dual portfolio control.
Capital Financing Budget	<b>(36.0)</b>	The Capital Financing budget is required to support the Council's debt obligations. However, some reduction in debt financing costs may be possible over the medium term e.g, use additional capital receipts to support Capital Programme.
Audit Fees	<b>(0.5)</b>	The Wales Audit Office has indicated that a reduction in audit days will be possible in the future resulting in a reduction to the audit fee.
<b>Sub Total</b>	<b>(76.3)</b>	

52. This leaves a budget of £227.2 million from which to make reductions of £117.5 million over the three year period. As some of the services provided as part of the £227.2 million are statutory or are the subject of escalating demographic pressures, for example, Social Care budgets for which controllable budgets amount to £139 million, releasing £117.5

million over three years without considering other alternatives to meet the Budget Reduction Requirement means that some directorates would cease to exist within three years. 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, together with the Cabinet Member for Resources and Performance, writes to WG and the WLGA to express extreme concern 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 for wider investment and growth across the region. However the funding formula gives insufficient recognition to the need to provide fair funding for the Capital City, for example the additional cost of hosting national facilities.

### **Savings Targets for 2015/16**

53. As a result the updated MTFP suggests that in order to stand still in financial terms, there could be a budget gap of circa £45.5 million which will need to be closed by savings, council tax increases and the use of reserves. The main expenditure assumptions within the budget gap are a 1% pay award for all employees and a the reinstatement of the additional hour in relation to the changes to working hours during part of 2014/15. It has no general uplift for inflation but takes account of demographic growth in social care, and full year effects.
54. The MTFP currently contains no additional specific provision in respect of the Council Tax Reduction Scheme. An interim Scheme has been implemented from 2013/14 and WG have indicated that it will remain in place in 2015/16.
55. Given the lack of clarity currently in respect of indicative funding levels from WG it is recommended that Cabinet delegate to the Corporate Resources Director in consultation with the Cabinet Member for Resources and Performance Management the authority to identify an alternative budget gap requirement subject to further clarification being provided by the WG. Prior to the Minister's letter of the 24 June an exercise was undertaken to identify savings targets across directorates for 2015/16 and across the MTFP against the figures identified in respect of a 3% reduction in WG funding.
56. The following table identifies initially for 2015/16 the savings targets across the Council that could feed into the savings drivers previously identified. It should be noted that scope to achieve savings across the drivers has been informed by a high level exercise which directorates have engaged with. 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. It should be noted that the level of savings required will mean that directorates will need to identify radical and often challenging proposals either in respect of the users of a service

and or the implications for the workforce. Assuming that the additional £6.506 million of savings identified as a result of moving from 3% to 4.5% are identified from directorates then the table identifies that this would leave a shortfall of £13.062 million against the Budget Reduction Requirement.

<b>One Year Budget Strategy Savings Drivers</b>	<b>2015/16 £000</b>
Policy Led savings	12,674
Business Process led Corporate Efficiency Savings	1,744
Discrete Directorate Savings	7,342
<b>Directorate Savings</b>	<b>21,760</b>
Plus Targeted Corporate Efficiency Savings	4,172
<b>Additional Savings re WG -4.5% funding scenario</b>	<b>6,506</b>
<b>Total Savings Identified</b>	<b>32,438</b>
Budget Reduction Requirement	(45,500)
<b>Shortfall in Budget Reduction Requirement</b>	<b>13,062</b>

57. The next table shows the savings target of £21.76 million against clusters of directorates identified as Place, Communities and Wellbeing and Corporate. To be clear it should be noted that this Table highlights that the additional £6.506 million has not been allocated to one of the savings drivers and the difficulty of the task of identifying realistic savings proposals against which the deliver this potential additional amount as a result of a 4.5% funding reduction scenario from WG should not be underestimated. The directorates in each of these clusters are as follows:

- Place – Strategic Planning, Highways and Transport, Environment, Economic Development and Sports, Leisure and Culture.
- Communities and Wellbeing – Children’s Services, Health and Social Care, Education and, Communities, Housing and Customer Services
- Corporate – County Clerk and Monitoring Officer, Resources and Corporate Management

<b>Directorate Targets at 3% re One Year Budget Strategy Savings Drivers</b>	<b>2015/16 Place £000</b>	<b>2015/16 Communitie s and Wellbeing £000</b>	<b>2015/16 Corporate £000</b>	<b>TOTAL £000</b>
Policy Led savings	3,968	8,622	84	<b>12,674</b>
Business Process led Corporate Efficiency Savings	586	799	359	<b>1,744</b>
Discrete Directorate Savings	3,018	3,087	1,237	<b>7,342</b>
<b>Total Directorate Savings</b>	<b>7,572</b>	<b>12,508</b>	<b>1,680</b>	<b>21,760</b>
<b>Targeted Corporate Efficiency Savings</b>				<b>4,172</b>
<b>Additional Savings Required re: WG -4.5% funding scenario</b>				<b>6,506</b>

<b>Budget Reduction Requirement</b>	<b>(45,500)</b>
<b>Shortfall in Budget Reduction Requirement</b>	<b>13,062</b>

58. The final table then identifies a scenario against how the shortfall of £13.062 million might be met.

- Net council tax increases of 5%
- A review of employee terms and conditions delivering savings of £5.750 million. This would need to be considered against a portfolio of options for consideration.
- A top slice of £1.018 million of schools growth which is 30% over and above the schools protection figure.
- The potential to achieve £1 million from a review of the balance sheet (subject to updating the Balance Sheet Review)

<b>One Year Budget Strategy Source of shortfall in Budget Reductions Requirement</b>	<b>2015/16 £000</b>
Council Tax Savings base on 5% increase net of Council Tax Reduction Scheme	5,294
<b>Medium Term Financial Plan Adjustments</b>	
Employee Costs	5,750
Reduction in schools growth of 30% above WG protection*	1,018
Balance Sheet Review (Subject to further review)	1,000
<b>Potential Scenario to meet the Budget Reduction Requirement</b>	<b>13,062</b>

*\*It should be noted that the MTFP has allowed for additional growth of £3.391 million in 2015-16 within schools above the anticipated amount of WG protection.*

59. Given the unprecedented level of savings required both in 2015/16 and beyond it will be important that the savings proposals identified are robust and deliverable. As the risks attached to the 2015/16 budget setting process will be significant 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.

## **Council Tax Planning Assumptions**

60. The level of council tax for 2015/16 will be addressed as part of the February 2015 Budget Report. However given the need to plan effectively for both 2015/16 and within the MTFP a planning assumption in respect of council tax levels has been included when calculating the Budget Reduction Requirement. The planning assumption is that there will be a 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 £5.294 million in 2015/16 and £15.882 million over the life of the MTFP.
61. It should be noted that this planning assumption should not be seen as an indication of the council tax level that the administration will propose as part of the 2015/16 Budget Report. The following table shows the amounts that would be raised in respect of net council tax increases from 2% to 5%.

<b>Impact of Percentage Council Tax Increase per financial year net of the impact on the Council Tax Reduction Scheme</b>	<b>Reduction in 2015/16 to 2017/18 MTFP Budgetary Shortfall £M</b>
Impact of 2% net Council Tax Increase	6.36
Impact of 3% net Council Tax Increase	9.54
Impact of 4% net Council Tax Increase	12.72
Impact of 5% net Council Tax Increase	15.90

### **Employment Costs**

62. Given the scale of the financial challenge ahead the costs of employment at a corporate level are to be considered again. As members are aware the 2014/15 budget was set using a part year one hour reduction in the working week. The pressure associated with restating this is built into the Council's MTFP. This was aligned with an agreement by the Council to hold the terms of the voluntary severance scheme at their current level until April 2015. Discussions are ongoing with Trade Unions around employee costs including a review of the voluntary severance scheme. The development of the Budget Strategy must be predicated on consideration of the financial costs of staff and this will include a further review of the voluntary severance scheme. This report recommends that given the likely in-year budget monitoring pressures and the budget challenge for 2015/16 and beyond that employees should now be given a further opportunity to consider voluntary severance during this financial year.

### **Savings Targets over the Medium Term Financial Plan**

63. 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 delivery is often the timescale for delivery. It is particularly the case for Policy Led savings and Business Process Led Corporate Efficiency savings that these take time to deliver. 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.

64. 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 with the MTFP. This 3 year planning horizons 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.

65. The following table identifies initially over the three year life of the MTFP the savings proposals across the Council that could feed into the savings drivers previously identified. Assuming that the additional £18.543 million of savings identified as a result of moving from 3% to 4.5% are identified from directorates then the table identifies that this would leave a shortfall of £30.592 million against the Budget Reduction Requirement.

<b>Three Year Budget Strategy Savings Drivers</b>	<b>2015/16 – 2017/18 £000</b>
Policy Led savings	32,303
Business Process led Corporate Efficiency Savings	13,512
Discrete Directorate Savings	22,539
Directorate Savings	68,354
<b>Plus Targeted Corporate Efficiency Savings</b>	<b>6,511</b>
<b>Additional savings re WG -4.5% funding scenario</b>	<b>18,543</b>
<b>Total Savings to be Identified</b>	<b>93,408</b>
Budget Reduction Requirement	(124,000)
<b>Shortfall in Budget Reduction Requirement</b>	<b>30,592</b>

66. The next table shows the savings target of £68.354 million against the same clusters of directorates identified for 2015/16 as Place, Communities and Wellbeing and Corporate but this time shown over the life of the MTFP. As is the one year scenario it should be noted that this Table highlights that the additional £18.543 million has not been allocated to one of the savings drivers and the difficulty of the task of identifying realistic savings proposals against which the deliver this potential additional amount as a result of a 4.5% funding reduction scenario from WG should not be underestimated.

<b>Directorate Targets at 3% re One Year Budget Strategy Savings Drivers</b>	<b>2015/16 Place £000</b>	<b>2015/16 Communities and Wellbeing £000</b>	<b>2015/16 Corporate £000</b>	<b>TOTAL £000</b>
Policy Led savings	7,501	24,001	801	<b>32,303</b>
Business Process led Corporate Efficiency Savings	4,580	6,099	2,833	<b>13,512</b>
Discrete Directorate Savings	9,661	9,259	3,619	<b>22,539</b>
<b>Total Directorate Savings</b>	<b>21,742</b>	<b>39,359</b>	<b>7,252</b>	<b>68,354</b>

<b>Targeted Corporate Efficiency Savings</b>	<b>6,511</b>
<b>Additional Savings Required re: WG -4.5% funding scenario</b>	<b>18,543</b>
<b>Budget Reduction Requirement</b>	<b>(124,000)</b>
<b>Shortfall in Budget Reduction Requirement</b>	<b>30,592</b>

67. The final table then identifies a scenario against how this shortfall of how the £30.592 million might be met.

- Net council tax increases of 5% each year for 3 years
- A review of employee costs delivering savings of £7.0 million over 3 years. This would need to be considered against a portfolio of options for consideration.
- A top slice of £4.710 million of schools growth which is 30% over and above the schools protection figure over a 3 year period.
- The potential to achieve £1 million a year for 3 years from a review of the balance sheet – (subject to updating the Balance Sheet Review).

<b>Three Year Budget Strategy Source of shortfall in Budget Reductions Requirement</b>	<b>2015/16 – 2017/18 £000</b>
Council Tax Savings base on 5% increase net of Council Tax Reduction Scheme	15,882
<b>Medium Term Financial Plan Adjustments</b>	
Employee Costs	7,000
Reduction in schools growth of 30% above WG protection*	4,710
Balance Sheet Review (Subject to further review)	3,000
<b>Potential Scenario to meet the Budget Reduction Requirement</b>	<b>30,592</b>

*\*It should be noted that the MTFP has allowed for additional growth of £14.909 million within schools above the anticipated level of WG protection.*

68. 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.

### **Early Decisions**

69. Given the scale of savings required both in 2015/16 and the medium term the report includes a recommendation that directors should, where necessary, accelerate work on policy related proposals so that Cabinet can consider these reports in the Autumn. This will particularly be the case where consultation is required in respect of changes to service delivery which may impact on users of the service before any final decisions can be taken. This will include decisions in respect of following through on

savings proposed as part of the 2014/15 budget particularly on Youth and Play services.

## Capital

70. It is clear that as central government capital funding has reduced, local government has had to find a greater share of its capital funding requirement. This has led to increasing levels of unsupported borrowing being undertaken by Councils who have in turn had to ensure that this complies with the principles contained within the prudential borrowing framework. Over time this reduction in capital funding coupled with the reducing revenue base has a significant impact on the Council's ability to maintain the asset base with deterioration evident in the medium term.
71. Members will be aware that Council's General Fund Capital Programme for 2014/15 to 2018/19 demonstrated the cumulative need for additional borrowing and general capital receipts of £45.3 million and £5 million respectively and significant WG capital funding cuts over the medium term.
72. Following the increasing level of planned unsupported borrowing as part of the Capital Programme the Corporate Chief and Section 151 Officer will continue to monitor the affordability of borrowing to ensure that long term borrowing is affordable. The local affordability indicators will be updated to consider the implications of the Capital Programme for 2015/16 to 2019/20.
73. The Budget Strategy report already identified the ongoing challenging financial scenarios in respect of MTFP budget reductions. This will have an impact on previously calculated local affordability indicators which are likely to increase as the Council's controllable base budget against which to make savings reduces. Increasing local affordability indicators identify reducing flexibility as once unsupported borrowing has occurred the commitment to use revenue budgets to meet the associated capital charges remains for a period of circa 25 years. Given this increasing pressure a review of all schemes included within the Capital Programme will be required as part of the Budget Setting process.
74. Although this leaves little scope for new schemes it is important to provide opportunities for new investment that is affordable, sustainable and are in accordance with the council's corporate priorities. Guidance on the Councils invest to save process will be re-circulated to directorates who must work closely with finance services to develop their proposals. These schemes must:
  - Be self financing over a prudent period of time through revenue savings or additional income all to be demonstrated by a robust business case. This includes expenditure that is essential in delivering the savings drivers identified in budget proposals
  - Attract a significant level of partner/external grant support where a Council contribution is also required.



- Be self financing by releasing land and property with certainty of disposal within a short period of time
  - Be as a result of unavoidable pressures
75. In respect of annual sums allocated as part of the Capital Programme, opportunities for efficiency savings will need to be considered in order to allow prioritisation of resources, deferral of some expenditure so essential new schemes can be prioritised or external funding which is available can be used first. This is particularly the case with developers contributions held.
76. Where capital schemes are to be delivered by directorates, any savings proposals offered will need to consider the impact on ability to deliver capital schemes. Whilst often outside of the Council's control, it is important that levels of slippage are minimised. It is also important that the Council retains the capacity to bid for and secure external grant funding which has historically been an essential source of securing investment in strategic and local schemes.
77. Within this environment of reducing capital resources the Council will continue to consider what innovative approaches to securing funding for schemes may be available. This will include working in partnership with a range of public and private sector partners and lobbying WG to make available flexibility to allow new funding sources to be explored.

### **Future Developments**

78. The Chair of the Commission to review Public Services, Sir Paul Williams, reported on the Welsh public sector. As part of this report, he indicated that the Commission believed that local government should be rationalised with the number of councils within Wales reducing. A number of potential configurations were included within the report, in which in all instances Cardiff and the Vale councils are identified as potentially joined. On the 8 July the WG released its consultation paper setting out its ambitions for the future of local government in Wales in a White Paper entitled "Reforming Local Government". The paper seeks views from local authorities to inform the development of a draft Bill for publication in Autumn 2015. All councils will review this consultation, however it should be noted that the WLGA has highlighted that the challenge of reducing the number of councils within the difficult financial environment facing local government should not be underestimated.
79. Following the publication during 2013 of the Robert Hill report into The Future Delivery of Education Services in Wales the WG proposed that regional criteria were funding by top slicing council's funding. Debate between WG and local councils is ongoing in respect of the way funding is provided to these education consortia, the amount of funding provided and the funding source for this.
80. Consideration will also be given to potential Housing Revenue Account (HRA) reforms which could be introduced from March 2015. The Welsh Government is currently in consultation with the 11 remaining stock

councils in wales discussions with the Treasury and a Housing Bill is to start its passage through the Assembly. In advance of this the WG is seeking a voluntary agreement of all 11 councils and consultation papers have been issued which require responses. These set out the main provisions which will enable the Housing Revenue Account Subsidy to be abolished in Wales and introduce new self-financing arrangements. The Council will closely monitor how this progresses.

### **Reasons for Recommendations**

81. To seek Cabinet approval for the budget strategy in respect of 2015/16 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.
82. To note the Budget Timetable Framework and forward this to Council for approval.

### **Legal Implications**

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

### **Financial Implications**

84. The report sets out the budget strategy for 2015/16 and the medium term which has as its context, the worsening financial challenges facing the public sector in the medium term. However the Council's ability to plan effectively for this financial challenge is compromised by the significant uncertainty that currently exists in relation to the level of WG funding.
85. As stated in the report a 3% funding reduction would result in a budget gap of £105 million and a 4.5% of £124 million. Based on the current level of uncertainty and the need to take an informed decision the latter scenario has been proposed in the absence of a clear indication from WG on what the indicative AEF figure for councils in 2015/16 will be. In response to this the Council has updated the scenarios within its MTFP and recommends that given this position the Council's Corporate Resources Director in consultation with the Cabinet Member for Resources and Performance is delegated authority to identify an alternative figure when further clarity is obtained.
86. Variable savings targets against controllable budgets across directorates have been identified both for 2015/16 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 and a recommendation is included to ensure that proposals that require "early decisions" to be taken are brought forward to Cabinet as a priority. 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**

<b>Year</b>	<b>£M</b>
2014/15	48.7
2013/14	22.4
2012/13	14.4
2011/12	22.0
2010/11	14.0
2009/10	8.7

87. The report contains information in respect of the Council's base budget and the identified exclusions and adjustments which reduce this to the adjusted controllable base budget against which savings are identified. These reductions increase the percentage savings target that the directorates are given in respect of their controllable budgets. These targets are impacted significantly by WG's protection of schools budgets and the Council's decisions in respect of the deliverability of targeted savings particularly in relation to social care budgets. It is this distinction between cash and controllable budgets that underlines the seriousness of financial position facing the Council. Against this backdrop it is undeniable that the Administration will have difficult choices to make which are likely given the scale of the financial challenge to impact on the breadth and scope of service delivery.
88. The report identifies scenarios in respect of the MTFP which if realised would result in financial sustainability issues for the remaining directorates. The Council's ongoing scenario planning will need to consider the impact if changes are made to this controllable base budget calculation as a result of changing policy decisions at a WG and Council level in respect of both schools and social care.
89. In proposing savings or pressures for 2015/16, 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 discussions are ongoing with Trade Unions in respect of employee terms and conditions and that the Council seeks expressions of interest from staff in relation to the voluntary severance scheme.
90. 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.

91. 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. Over time this reduction in capital funding coupled with the reducing revenue base has a significant impact on the Council's ability to maintain its asset base leading to deterioration in the medium term. The scarcity of resources adds to the pressure to ensure that the activity profile behind any funding approved is accurate and slippage minimised.
92. 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 2014/15 Budget Report were as follows:-

<b>Capital Financing Costs as percentage of Controllable Budget</b>								
	<b>2011/12 Actual %</b>	<b>2013/14 Estimate %</b>	<b>2014/15 Estimate %</b>	<b>2015/16 Estimate %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>Difference 11/12-18/19 %</b>
Net	13.47	13.94	15.46	17.33	17.98	18.84	19.16	42.24
Gross	15.17	16.66	19.16	22.28	23.70	24.16	24.96	64.54

93. 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.
94. In setting the Council's budget strategy for 2015/16 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 2015/16 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**

95. The report outlines the continuing significant financial challenges facing the public sector and whilst there is current uncertainty in relation to the level of WG funding for 2015/16 and beyond, once that becomes clear, the Council will need to respond quickly to identify and consider deliverable savings proposals to meet the budget reduction requirement. The gap will

have to be found through a combination of savings from directorates, use of reserves or increases in the rate of council tax.

96. The potential budget gap has unprecedented people implications associated with actions necessary to be taken to manage the financial pressures facing the Council as outlined in this report. Preparing savings proposals on budget reductions for 2015/16 but also over the life of the Medium Term Financial Plan will inevitably impact on costs particularly in those directorates where staff costs represent the most significant element within the overall budget. There will continue to be a need to significantly reduce the size of the workforce over the medium term.
97. Whilst the Council will do all that it can to protect jobs in these financially challenging times, the scale of change required is such that it will not be possible to avoid redundancies. The traditional "salami-slicing" of budgets is no longer an option in the face of the unprecedented budget reduction requirement and there will be a need to adopt a targeted approach for the additional savings required using drivers such as policy led savings, business process led corporate efficiency savings and discrete directorate area led savings.
98. Para 60 in the report references the need to remind staff that the current Voluntary Severance Scheme remains in place until 31 March 2015 and that if staff are interested, they should consider now expressing their interest in accessing the scheme. Flexible retirement continues to be another option available and a revised Sabbatical policy is in place. Redeployment, access to Cardiff Academy courses and support of the Trade Union Learning Representatives to support members and non members with training and development to support new skills are also available.
99. The report also outlines the move towards considering alternative service delivery models and this will continue. The newly established Trade Union Budget Forum considers such proposals at an early stage 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.
100. As part of reducing employment costs for 2014/15, a Workforce Package is in the process of being introduced and will take effect from 1 August 2014. As a collective agreement was not secured, the Council is seeking individual agreement to the hour reduction/pay contribution from over 6500 employees. In response to feedback surrounding last year's budget process, a fortnightly Trade Union Budget Forum has been in place since April 2014 incorporating all Trade Unions. The purpose of the forum is to engage with all Trade Unions in earlier and more timely discussions around savings which directly impact on employees. Discussions have already commenced and as part of the Council's commitment to budget process 2014/15, it was agreed that additional savings options for 2015/16 would be presented to Cabinet in September.

## **Cabinet Consideration**

101. The Cabinet considered this report on 17 July 2014 and agreed:

- (1) the Framework for the Savings targets on which this Budget Strategy report is based including the use of a targeted approach to meeting the Budget Reduction Requirement both in 2015/16 and across the period of the Medium Term Financial Plan.
- (2) that directorates work with the relevant Portfolio Cabinet Member, in consultation with the Corporate Resources Director and Cabinet Member for Corporate Services & Performance to identify potential savings to meet the indicative budget gap of £45.5 million for 2015/16 and £124 million across the period of the Medium Term Financial Plan.
- (3) that relevant bodies who raise precepts and levies on the Council be formally contacted to request that funding reductions are also fed into these settlements which should be in line with those announced by Welsh Government in respect of local authority funding.
- (4) That authority be delegated to the Corporate Resources Director in consultation with the Cabinet Member for Corporate Services & Performance to identify an alternative budget gap requirement subject to further clarification being provided by the Welsh Government.
- (5) that the Council now seek expressions of interest from officers in respect of voluntary severance based on the current scheme.
- (6) that directors be requested to accelerate proposals which require “early decisions” to be taken by Cabinet in respect of significant policy driven savings proposals including Youth and Play services.
- (7) to note that the Leader, together with the Cabinet Member for Corporate Services & Performance, will write to the Welsh Government and the Welsh Local Government Association to express extreme concern at the emerging worsening financial funding scenarios being provided by Welsh Government.

## **CABINET PROPOSAL**

Council is recommended to agree that the Budget Timetable Framework set out in Appendix 1 be adopted and that the work outlined is progressed with a view to informing budget preparation.

**THE CABINET**  
**17 July 2014**

*The following Appendices are attached:-*

Appendix 1 - Proposed Budget Timetable Framework 2015/16  
Appendix 2 – Cardiff Debate Engagement – On Street Engagement  
Appendix 3 – Flyer for Cardiff Debate Neighbourhood Events

*The following Background Documents have been taken into account:-*

Establishing a Programme of Organisational Change for the City of Cardiff Council – 15 May 2014  
Letter from Lesley Griffiths – Minister for Local Government and Government Business – 24 June 2014

**PROPOSED BUDGET TIMETABLE FRAMEWORK 2015/16**

July 2014:	Budget Strategy report considered.
July – September 2014:	Directorates developing financial planning scenario options.
October 2014:	Initial meetings re preparatory budget work.
October 2014:	Provisional Budget Settlement received.
December 2014:	Cabinet approval of Council Tax Base.
December 2014:	Final Budget Settlement received.
January 2015:	Fine-tuning of budget proposals and consideration of medium term plans.
February 2015:	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.



# Cardiff Debate Sgwrs Caerdydd

Appendix 2

## THE **CARDIFF** DEBATE

### ON-STREET ENGAGEMENT EVENTS

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## **Background**

Public and third sector partners across Cardiff are facing unprecedented financial and demand pressures on services and it is essential that we develop a new response that utilises the innovation, skills and expertise that exist throughout the city.

The City of Cardiff Council is committed to being a 'Co-operative Council' which means engaging citizens, communities, partners and staff in helping to shape the future design and delivery of services. In order to do this we are launching the Cardiff Debate.

The Cardiff Debate is an extensive 3 year programme of engagement that will provide an ongoing conversation with our citizens, communities and partners. This will ensure our services are responsive to local need and will encourage innovation and community ownership in shaping services. For this initiative to be successful it is essential that we work together across all services to co-ordinate all of our engagement activities. This will enable us to reduce duplication, share costs and provide a clear and consistent message to the public and partners.

## Methodology

A series of engagement events were undertaken between 19<sup>th</sup>-24<sup>th</sup> June, often as part of existing community activities such as Adult Learners Week or Community Festivals:

Ward	Event	Date
<b>Adamsdown</b>	<b>Adult Learners Week</b> Trinity Methodist Church, Four Elms Road	<b>Thursday 19 June</b> 10am - 1pm
<b>Ely &amp; Caerau</b>	<b>Glyn Derw High School</b> Penally Road, Caerau,	<b>Thursday 19 June</b> 2pm - 5pm
<b>Butetown</b>	<b>Loudoun Square</b> Outside Plas Iona, Loudoun Square, Bute Street	<b>Friday 20 June</b> 11am- 2pm
<b>Llanrumney</b>	<b>Llanrumney Community Festival</b> Llanrumney Recreational field	<b>Saturday 21 June</b> 12pm - 3pm
<b>Llanishen</b>	<b>Llanishen Leisure Centre</b> Ty-Glas Rd, Llanishen	<b>Monday 23 June</b> 4pm-7pm
<b>Fairwater</b>	<b>Vision 21 Sbectrwm Centre</b> Bwlch Road, Fairwater	<b>Tuesday 24 June</b> 9.30am - 12.30pm



*People taking part in the Cardiff Debate events*

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:

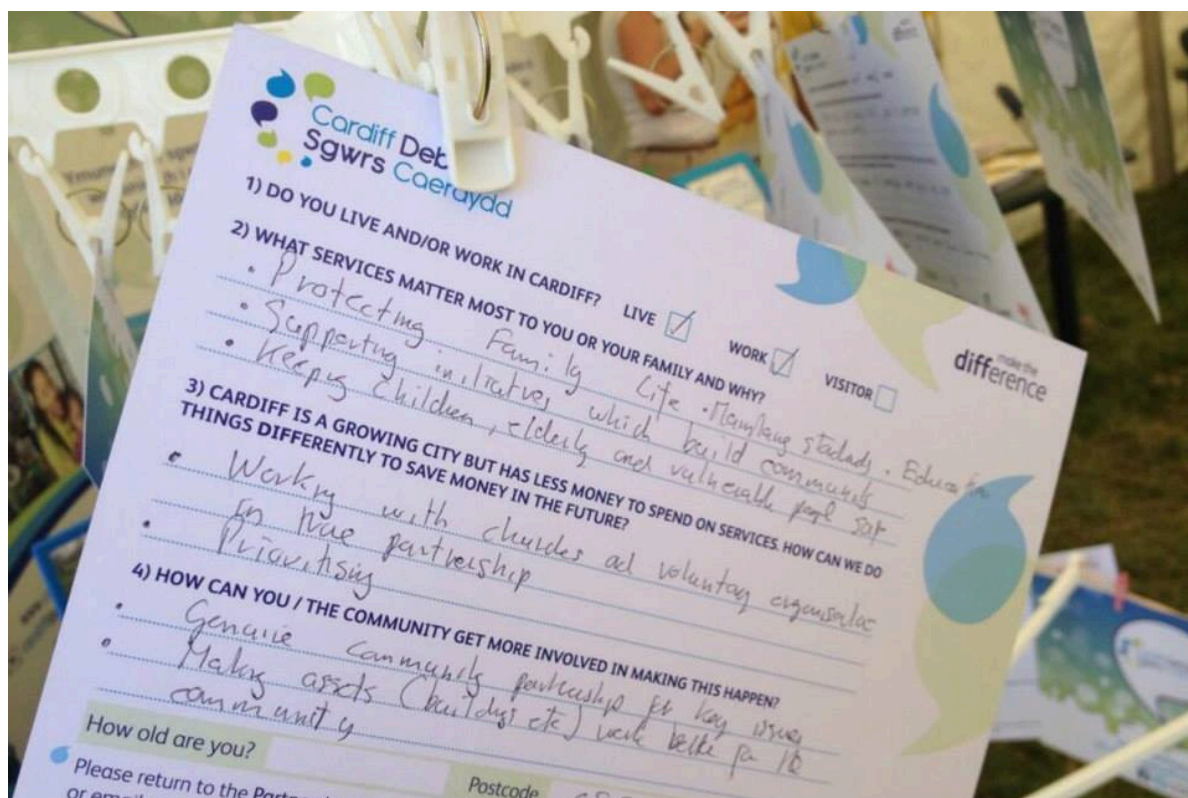
- What services matter most to you or your family, and why?
- Cardiff is a growing city but has less money to spend on services. How can we do things differently to save money in the future?
- How can you / the community get more involved in making this happen?

The public, stakeholders and elected members were also invited to take part in Vox Pops, whereby they could give their views on these issues to camera. A [short film](#) was created which has been made available via social media and which will be shown at future Cardiff Debate events.

The engagement events were publicised on Council websites ([www.cardiff.gov.uk](http://www.cardiff.gov.uk), [www.askcardiff.com](http://www.askcardiff.com)) via Facebook and Twitter, as well as by partner organisations and in the local press.

The survey has also been made available on-line, in both English and Welsh, via [www.askcardiff.com](http://www.askcardiff.com).

Interest in the events was high, and whilst not everyone who attended chose to actively share their opinions, 250 people left their views on the postcards provided, and over 300 took part in voting for their top three services.



## Research Findings

### Voting Tally

Respondents were presented with a list of 16 services provided by the Council and/or its partners, and asked to vote for the three that were most important to them or their family by placing a token in a box.



A total of 986 votes were cast across the six events.

**'Education & Skills'** received one in ten votes overall (10.3%), with **'Keeping Children Safe'**, **'Care For The Elderly'** and **'Community Safety & Crime Prevention'** each receiving over 9%

**Environment & Flood Protection** received the fewest votes, but it is worth noting that the events took place in summer, during a period of warm, sunny weather.



There were some differences across the six events in terms of the services receiving the most votes:

	Adamsdown	Ely/Caerau	Butetown	Llanrumney	Llanishen	Fairwater
1	Education & Skills	City Travel	Keeping Children Safe	Care For The Elderly	Education & Skills	Waste, Street Cleansing & Recycling
2	Waste, Street Cleansing & Recycling	Community Safety & Crime Prevention	Housing & Homelessness	Children's Play / Youth Services	Community Safety & Crime Prevention	City Travel
3	Community Safety & Crime Prevention	Keeping Children Safe	Education & Skills	Keeping Children Safe	Sports, Leisure & Cultural Facilities	Health Services (e.g. GP services)
	Health Services (e.g. GP services)					

- **Education and Skills** were regarded as the overall highest priority and featured particularly highly at the events in Adamsdown and Llanishen. Described as providing the tools to *'enable people to look after themselves'* it was felt that prioritising resources in this area would have an eventual knock on effect with a range of other services.
- Participants were keen to ensure the care and protection of both **children and the elderly** as these groups were views as *'the most vulnerable'* in our society. There was some concern that existing services are already struggling to meet demand and recognition of the contributing roles of other services such as health, leisure and youth services in protecting the most disadvantaged amongst these groups.
- **Health care** and the NHS was reported as *'essential to an equal society'* and something that should be preserved as a priority. Additionally participants expressed frustration at lengthy waiting lists to see specialists and access to GP and dental surgeries.
- Participants in events in Adamsdown, Ely/Caerau and Llanishen all voted **community safety** as one of their top three priorities. Success in this area was described as helping to *'create a stronger community'* the benefits of which might again impact in a wide variety of ways.
- The recent **closure of the Waungron Road HWRC** contributed to waste, street cleansing and recycling featuring highly at the event held in Fairwater in particular. Comments left on postcards reported the facility to be sadly missed and called for the site to be reopened.
- Additional comments regarding **waste services** called for a greater emphasis on *"Keeping all our streets clean and safe not just the centre of Cardiff and the bay area"* whilst the provision of a clean, safe environment was attributed to improving the *'well-being both of the individual and the community'*.



## **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?**

**Ask the Community** – *‘Really listening to what people have to say’* was viewed by many as the key in the process. Speaking with and understanding the communities was considered the only way to ensure that monies were spent wisely with one contributor commenting that *“us oldies have a wealth of experience to share and have seen this before.”*

**Work with volunteers/community groups** – Given the correct incentives and opportunities it was felt that there are many individuals in the communities that would be willing to volunteer and help in some way. Interest and participation it was felt could be boosted by working effectively with key people, community groups and organisations who are already well placed and respected in local areas.

**Targeted Spending** – Participants were keen to see money spent where it would have the greatest impact and achieve the highest rewards with youth clubs and community projects specified as worthy uses. There was a desire that there be less spent on *‘making things look pretty’*, wasteful refurbishments and organisational restructures and the focus instead be trained on provision for the elderly and youth.

**Less Waste** – Those taking part in the on-street events called for the Council to operate *‘more like a business’* and to *‘stop wasting money on things we really don’t need.’* Areas suggested for cuts included back office functions, councillor expenses and organisational restructures.

**Reduce wages of Councillors/Managers** – There was a repeated call for cuts to be made to a *‘top heavy’* management structure with a greater emphasis to be placed on the *‘grass roots’* of the organisation. Expenditure on councillors pay and expenses was viewed as too high and in need of a reduction.

**Co-Production** – People in the communities accurately identified the need for the Council to *‘think smarter’* in the way it does things. Working in partnership with others was understood as a means for both improving efficiency and gaining greater value for money. It was however emphasised that work in this area could not be *‘tokenistic’* and that real communication was required between all parties. There were also calls for the authority to be innovative, streamline services and cut red tape.

## **How can you / the community get more involved in making this happen?**

Respondents generally expressed a willingness to get involved and implored the Council to *‘Just ask!’* if help is needed. Similarly they asked that the Council be *‘upfront about changes that affect public areas’* so that there is clarity about the challenges to be faced.

The time banking scheme already in place in Ely was described as *‘fantastic’* and something that that should be expanded across the city.

The public were keen to see the Council take a strong lead in terms of mobilising volunteer groups, providing clear communication on what is needed and listening what communities want. Some members of the public suggested that they would be happy to contribute in some way but could only do so if the Council were transparent about what was needed.

Currently it was felt that there is a lack of information surrounding the challenges and future plans. Events like those undertaken on street were described as *'a good start'* with the communities eager to *'better understand the bigger picture'* and continue to share their views.

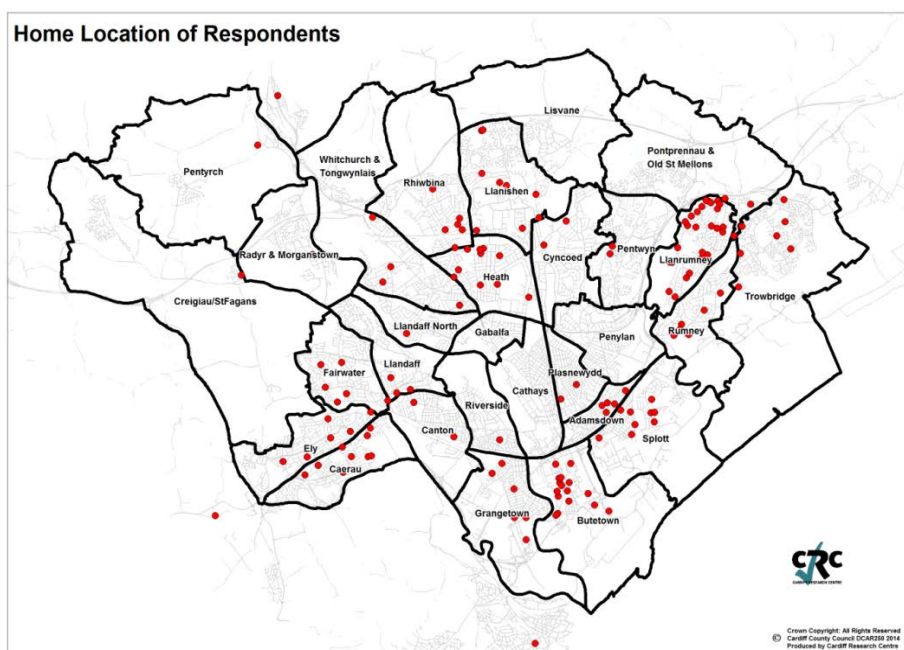
### Do You Live and/or Work in Cardiff?

Most of those taking part in writing down their views indicated that they live in Cardiff, with just under half work in the city:

	Number
Live	219
Work	124
Visitor	5

### How Old Are You?

	Number	%
Under 16	18	8.2
16-24	11	5.0
25-34	38	17.4
35-44	43	19.6
45-54	54	24.7
55-64	30	13.7
65-74	19	8.7
75+	6	2.7



# Cardiff Debate Sgwrs Caerdydd

Be part of the **Cardiff Debate** and help make a difference.

The **Cardiff Debate** will take place over the next 3 years and will involve local people and communities in conversations that will shape the future of public services in Cardiff.

The public and third sectors face significant pressures both in terms of reduced budgets and growing demand for services. That means we need to all work together and find ways of doing things differently.

We will hold these conversations by visiting local areas and discussing priorities for the city, as well as encouraging these conversations to happen online via social media.

To find out more:

## Follow our tweets



@CardiffDebate  
#CardiffDebate



Find our page on Facebook

Visit our website:

[www.cardiffdebate.co.uk](http://www.cardiffdebate.co.uk)

or email us at:

[cardiffdebate@cardiff.gov.uk](mailto:cardiffdebate@cardiff.gov.uk)



## Join the conversation and make a difference to public services in Cardiff

As part of the Cardiff Debate a number of 'drop in' workshops are being hosted across the city, alongside informal on-street engagement, where staff will be on hand to hear and discuss your views. Participants will be given the opportunity to let us know about which services they use and ideas on how they may be delivered differently in future.

AREA	PLACE	TYPE	DATE	TIME
Cardiff Bay	International Food & Drink Festival Roald Dahl Plass, Cardiff Bay	On-Street Engagement	Friday 11 July	4:00pm - 7:00pm
City Centre	Tafwyl Fair, Cardiff Castle CF10 3RB	On-Street Engagement	Saturday 12 July	11:00am - 2:00pm
Llanedeyrn	Glenwood Church Circle Way West, Cardiff, CF23 6UW	Drop-in Workshop	Tuesday 29 July	1.30pm - 4:00pm
St Fagans	St Fagans National History Museum CF5 6XB	On-Street Engagement	Sunday 3 August	11:00am - 2:00pm
Ely	Western Leisure Centre Caerau Lane, Ely, CF5 5HJ	Drop-in Workshop	Monday 4 August	1.30pm - 4:00pm
Splott	STAR Centre 2 Splott Rd, Splott, CF24 2BZ	Drop-in Workshop	Wednesday 6 August	4.30pm - 7:00pm
Trowbridge	Trowbridge Community Centre Caernarvon Way, Trowbridge, CF3 1RU	Drop-in Workshop	Wednesday 13 August	1.30pm - 4:00pm
Penylan	Waterloo Gardens Fete Waterloo Gardens, Penylan, CF23 5AA	On-Street Engagement	Sunday 17 August	2:00pm - 5:00pm
Radyr	Old Church Rooms Park Rd, Radyr, CF15 8DF	Drop-in Workshop	Wednesday 20 August	1.30pm - 4:00pm
Canton	Chapter Market Rd, Canton, CF5 1QE	Drop-in Workshop	Tuesday 26 August	5:00pm - 7:30pm
Grangetown	Channel View Leisure Centre Jim Driscoll Way, Grangetown, CF11 7HB	Drop-in Workshop	Wednesday 27 August	4.30pm - 7:00pm
St Mellons	St Mellons Summer Fete, Cath Cobb Field off Brockhampton Road, St Mellons, CF3 0EZ	On-Street Engagement	Saturday 30 August	11:00am - 2:00pm

If you would like to find out more please email us at [cardiffdebate@cardiff.gov.uk](mailto:cardiffdebate@cardiff.gov.uk), tweet us @cardiffdebate, or call on 02920 873684

Follow the debate at: [www.cardiffdebate.co.uk](http://www.cardiffdebate.co.uk)  
@CardiffDebate #CardiffDebate

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