

**CABINET MEETING: 16 FEBRUARY 2017**

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**BUDGET PROPOSALS 2017/18**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 6**

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

*Appendix 12(d) is exempt from publication because it contains information of the kind described in paragraphs 14 and 21 of parts 4 and 5 of Schedule 12A to the Local Government Act 1972*

**Reason for this Report**

To enable the Cabinet to:

1. Having considered and reflected on the responses to all aspects of the consultation, submit to Council their proposal for the estimates of expenditure and income in order to set the Council Tax in accordance with the Local Government Finance Act 1992.
2. Recommend to Council the strategy and plan for the control of the Authority's borrowing and investments for the year 2017/18 (the Annual Treasury Management Strategy).
3. Recognise the financial challenges facing the Council, as set out in the Medium Term Financial Plan, and note the opportunities for savings.
4. Recognise the work undertaken to raise awareness of, and ensure the financial resilience of the Council.
5. Recommend to Council the Prudential Code, capital expenditure and treasury indicators for 2017/18-2019/20 and the Council's Minimum Revenue Provision Policy for 2017/18.
6. Set the rent levels for Housing Revenue Account properties, service charges and management fees for leaseholders for 2017/18.

7. Agree the rates of fees and charges for Council services for 2017/18.
8. Approve the Supporting People Spending Plan for 2017/18.

### Structure of the Report

9. The Council's Budget Report needs to provide sufficient assurance that a balanced budget and affordable capital programme has been set and that robust advice has been given and considered in respect of the adequacy of reserves and ongoing financial resilience. It also needs to set out the Council's financial strategy over the medium term.
10. The following table summarises the location of key sections of the report. The implications to the report, and in particular, the statement made by the Section 151 Officer contained within the financial implications should be noted.

<b>Budget Report Section</b>	<b>From Para No</b>	<b>Detail included within section</b>
Background	11	Budget context, Corporate Plan, Sustainable Development Principle and Organisational Development
Consultation & Engagement	30	Public Consultation, Scrutiny Committees and other stakeholders
Revenue Budget	38	Welsh Government Settlement, Cardiff's Resources required and available
Financial Standing, Risks and financial resilience	53	Financial standing, risks, financial resilience and reserves
Service Implications of budget	81	Directorate analyses, amendments post consultation, council-wide proposals
Other service matters	154	Supporting People Programme Grant Spending Plan
Medium Term Financial Plan & Strategy	166	Overview of plan, Future Outlook, assumptions, sensitivity analysis
Council response to the MTFP	212	Updated budget gap, planning assumptions, savings opportunities
Cardiff Capital Region City Deal	219	Update
Housing Revenue Account	224	Budget breakdown, rent setting, service charges
School Organisation Plan	239	Progress update, investment programme, use of reserve
Civil Parking Enforcement	258	Income, expenditure and use of reserves
Harbour Authority	270	Income, expenditure and grant arrangements
Capital	284	Programme, pressures, resources and prudential indicators
Treasury Management	339	Strategy, borrowing and investment policies, prudential indicators
Implications	407	HR, Legal & Financial Implications

## Background

11. With reducing funding and increasing demand for services, councils must be clear about their priorities. The City of Cardiff Council's priorities and vision for the city are encapsulated in its Corporate Plan and the Liveable City Report. As the Council's key strategic financial document, the Budget and associated Medium Term Financial Plan will provide the resources to finance these plans where appropriate.
12. Cabinet and Council will consider the 2017/18 Corporate Plan in February 2017, as part of the same agenda as this Budget. The plan confirms Council priorities as:
  - Better education and skills for all
  - Supporting vulnerable people
  - An economy that benefits all our citizens
  - Working together to transform services
13. The strategic direction encapsulated in the above documents will be taken forward by directorates via their Delivery Plans which will continue to provide an important link between the Corporate Plan, the Budget, the "business as usual" work of directorates and the objectives set for individual employees.
14. Appendix 1(a) identifies how the 2017/18 Budget aligns with the Corporate Plan priorities identified above and the Council's core values of Open, Fair, Together. Key linkages include:-
  - significant continued investment in schools
  - significant investment in social services including resources for 68 additional posts
  - support for Cardiff Capital Region City Deal (CCRCDD) and in Central Square
  - savings that aim to avoid cuts where possible by adopting a more commercial approach, by working with others and challenging internal processes
  - a two stage consultation process.
15. In setting the budget and Medium Term Financial Plan, it is important to recognise that financial decisions and budget assumptions set now, may continue to have an impact well beyond the life of the current Medium Term Financial Plan (MTFP). The Well-being of Future Generations (Wales) Act 2015 (Future Generations Act) requires all public bodies to act in accordance with the Sustainable Development Principle (SDP) by ensuring that they meet the needs of the present without compromising the ability of future generations to meet their own needs.
16. Considering longer term impacts is a proper part of robust and accountable financial planning. Over recent years, with resources under significant strain, the need to understand how key decisions, policies and assumptions will affect the longer term has become more acute. Key technical features of the

budget process which balance the impact of decisions now with their impact on future generations include:

- ensuring the long-term affordability of the capital programme through consideration and regular review of prudential indicators together with the Council's local affordability indicators
  - ensuring that debt repayment periods are set at levels that avoid "mortgaging" future generations in a way that would limit their ability to take forward their own capital investment
  - modelling a future budgetary outlook to understand what the Council's budget will look like in the future if current policies and assumptions are retained for an extended timeframe.
  - identifying current and future risks and assessing the Council's financial position and performance, in order to evaluate the Council's ongoing financial resilience
  - weighing up the fact that budgetary opportunities foregone in one year, for example, income generation or price increases, will be lost not only in that year, but for each year thereafter, with significant cumulative impact over an extended period.
17. The Council has faced an unprecedented challenge over recent years, having identified £213 million savings over the 10 year period 2008/09 - 2017/18, with an estimated further budget reduction required over the medium term. Clearly, such financially challenging times have, and will continue to necessitate, significant levels of savings. In these circumstances, the responsibility of considering the impact of budgetary decisions on future generations becomes more challenging than in periods of economic growth.
18. Despite these difficulties, over this extended period, the Council has aimed to "future-proof" services for Cardiff wherever possible, preserving key services for future generations, albeit in some instances delivered in a different way. Whilst savings on an extremely significant scale have been inevitable, the Council has sought to collaborate with others to identify alternative delivery models to avoid services cuts, with examples including the ongoing savings identified from the Shared Regulatory Service and the newly implemented arrangements for Leisure Services. Within the 2017/18 proposals there is a focus on becoming more commercial in order to enable services to reduce their reliance on Council subsidy, an approach that has garnered support through the consultation process. The Council also continues to review and challenge internal processes, maximising the use of technology and securing value on contracts in order to protect front-line services as much as possible. Finally, many of the savings within Social Services, an area under extreme demand and price pressure, focus on early intervention and prevention with the dual benefits of reducing cost and improving outcomes.
19. As touched upon above, there is close alignment between the Council's budget, its core priorities and values. The Liveable City Report has been developed with public service partners to help identify collective objectives for improving the well-being of the citizens of Cardiff. It also acts as a summary of the City's Well-being Assessment. The report looks at Cardiff today and

Cardiff tomorrow, setting out the seven outcomes that matter most to the people of Cardiff. These outcomes, set out below, are closely aligned to the national ambitions for Wales' wellbeing as defined in the Future Generations Act. Appendix 1(b) sets out how the 2017/18 Budget provides support for the Liveable City vision and how it encompasses the five ways of working at the heart of the Act.

<b>Liveable City Outcomes</b>	<b>Wales Well-being Aims</b>
Cardiff is a great place to live, work and play	A Wales of vibrant culture and thriving Welsh Language
Cardiff has a thriving and prosperous economy	A prosperous Wales
People in Cardiff are safe and feel safe	A Wales of cohesive communities
People in Cardiff are healthy	A healthier Wales
People in Cardiff achieve their full potential	A prosperous Wales
People in Cardiff have a clean, attractive and sustainable environment	A resilient Wales
Cardiff is a fair, just and inclusive society	A more equal Wales
As the City grows, the Council will ensure a balanced and inclusive approach to city development and the delivery of services	A globally responsible Wales

20. The Council recognises that cities are the centre of economic activity and social change. Therefore whilst working within severe financial constraints on resources, the Council continues to progress initiatives to develop the City and the region. In January 2017, Cabinet and Council approved a report on the CCRCD setting out how the Council will work with nine other local authorities, who have signed up to the arrangement to work together to ensure the £1.2 billion deal delivers for the region. The report shows how the local authorities involved will work together to bring additional jobs and improved transport links to the region. Further information on the CCRCD is included later in the report. In addition, the Great Western Cities initiative will continue to review opportunities for Cardiff, Newport and Bristol to work together in key areas such as connectivity, inward investment and sustainable energy.
  
21. The three year Organisational Development Programme (ODP) was established in May 2014 and supports the Council and directorates in managing change, implementing new ways of working and alternative delivery models and in achieving budget savings arising from the Council's budget process. The ODP has two principal portfolios of work – Enabling & Commissioning Services and Reshaping Services. The Council's Senior Management Team oversees the delivery of the ODP and tracks the progress

of each project. The Programme is continually reviewed and refreshed with progress reports and updates on the Programme provided to Cabinet an Scrutiny. As part of this process, a review undertaken in May 2016 resulted in a renewed focus on Commercialisation and Performance & Governance.

22. The ODP is a key element in the Council's arrangements for performance and governance with the Wales Audit Office in their Corporate Assessment in 2014 and follow on report in 2016 noting that '*The Council is now at a critical point in ensuring that improved arrangements are embedded and implemented consistently and constructively across the organisation in order to achieve a step change in delivering outcomes.*' The ODP is also an essential enabler for improving the Council's financial resilience and releasing budget savings and has supported directorates with a range of initiatives and budget savings in 2016/17 including office rationalisation, the transfer of leisure centres, agile working and a range of commissioning and other initiatives in Social Services. Altogether the ODP has directly supported budget savings to the value of £8.4 million in 2016/17 with early engagement taking place with directorates in relation to supporting further initiatives and budget savings in 2017/18. A review of the success of the three year programme will shortly be undertaken in order to determine the next phase of work as the Council continues to align itself to a smaller, sustainable financial base.
23. Cabinet received the Budget Strategy report for 2017/18 in July 2016 that outlined the ongoing severity of the financial challenge facing the Council. It identified the anticipated budget reduction requirement over the medium term resulting from a combination of financial pressures and the expectation of further challenging funding settlements from Welsh Government (WG). The Report set the direction of travel for addressing the level of savings required, building upon a medium term savings framework that was developed as part of the 2016/17 Budget Strategy. The MTFP has been updated to take account of most recent price information and emerging financial pressures and is covered in detail later in the report. The proposed financial strategy for the medium term has also been updated, and will undergo further review during the spring, as part of a detailed refresh and roll-forward of the medium term savings framework.
24. Given the significant level of savings required in 2017/18 following the unprecedented levels in recent years, it is extremely important that proposals are robust, deliverable and effectively planned. Work has been ongoing throughout the year, to progressively challenge the budget proposals put forward by directorates to give Council confidence that all savings:
  - included within directorate proposals are owned by the relevant director
  - have been properly evaluated for residual and achievability risk
  - have been subjected to a robust equality impact assessment where relevant
  - include wherever possible the full-time equivalent employee implications of the saving proposal

- identify cross directorate opportunities or risks that have been discussed by all relevant senior officers and Cabinet members
  - demonstrate transparency to ensure clarity at scrutiny committees and with other stakeholders.
25. The Budget Strategy Report also considered the approach to the development of the Capital Programme, as this is an integral part of the Council's budget. As the level of support provided by the WG barely meets current annual capital expenditure commitments, undertaking new schemes means that the Council has to increase its borrowing.
26. Accordingly, the Council continues to undertake unsupported borrowing as part of the Capital Programme. In the absence of additional capital funding, additional borrowing will eventually need to be paid for by revenue savings, revenue income or Council Tax and Housing Rents. Affordability indicators are prepared in relation to the Council's borrowing and the Section 151 Officer must consider whether the amounts contained are prudent and affordable. As set out by the Section 151 Officer in previous budget proposals:
- “Within this climate of reducing revenue resources, all action necessary must be taken to reduce both initial capital expenditure and the subsequent need to borrow.”*
27. Whilst additional borrowing may solve a short-term problem, borrowing has long-term financial implications, and must be affordable both now, as well as many years into the future. Set against the demand for these capital resources and the current economic climate difficult choices are required which may include:
- determining whether a greater share of the Council's future revenue budget will need to be set aside to meet capital investment
  - securing better value and outcomes
  - ensuring capital investment is not used as a short term substitute for reducing revenue budgets
  - undertaking only priority, strategic and long term schemes.
28. Against this backdrop, the condition of the Council's assets is of concern as evidenced by increasing maintenance backlogs. The development of the Capital Programme has included a review of current commitments and robust consideration of new amounts approved for 2017/18. This was alongside the acknowledgement that key strategic schemes will need to be funded additionally in the medium term and significant existing commitments are assumed to be funded by earmarked capital receipts, which is in itself a significant risk. It will be important for the Council to relentlessly progress the recently approved strategies for Operational and Non-Operational Property assets to ensure a smaller, but fit for purpose property estate.
29. Later sections of this report review the Council's financial position across the life of the MTFP and identify both the challenges ahead and the material nature of the actions required. Council-wide solutions across this time frame

will need to be holistic and consider both revenue and capital spend. Therefore whilst approving the Capital Programme for the period up until 2021/22 Cabinet should be aware that the later years of the Programme, together with any new material commitments in respect of these later years, will be subject to an ongoing review of the Council's financial standing and resilience.

## Consultation and Engagement

30. The Council places high regard on being open and transparent about the difficult choices it faces and wants to provide an opportunity for people to have their say on what is important to them and their communities. The Council's co-operative values focus on fairness, openness and working together. Greater consultation, engagement and joint working with citizens are at the heart of these values.
31. Consultation on the 2017/18 budget began as part of the Ask Cardiff Survey during the summer. This consulted on a number of budget themes and received 4,024 responses. This paved the way for a more detailed budget consultation, which took place between 10 November 2016 and 16 December 2016. This consultation took three forms:
  - **City-wide public consultation** - on proposals which affect all citizens
  - **Service-specific consultation** - with identified service users/groups or organisations
  - **Internal Council consultation** - these elements relate to internal changes within the Council including back office efficiencies, staff changes and process improvements
32. The city-wide questionnaire contained 40 individual questions that covered a range of topics including austerity, commercialism, use of Council buildings, involving and empowering communities, going digital, providing care and support services locally and increasing fees and charges. The consultation was available through a number of mechanisms to ensure that it was as accessible as possible:



<b>Engagement mechanisms</b>	
Online	<ul style="list-style-type: none"> <li>• Consultation information and questionnaire made available online via the Council's dedicated budget pages <a href="http://www.cardiff.gov.uk/budget">www.cardiff.gov.uk/budget</a> as well as on the websites <a href="http://www.cardiffdebate.co.uk">www.cardiffdebate.co.uk</a> and <a href="http://www.askcardiff.com">www.askcardiff.com</a></li> <li>• Facebook Boosts to increase the visibility of the promotion</li> <li>• Opportunity for people to email comments via <a href="mailto:budget@cardiff.gov.uk">budget@cardiff.gov.uk</a></li> <li>• Regular promotion throughout the consultation period through social media via @cardiffcouncil @cardiffdebate and using #cdfbudget</li> <li>• Consultation was promoted via email to members of the Cardiff Citizens' Panel and Library Card Holders (53,281 unique email addresses)</li> <li>• Consultation promoted via email to stakeholders including partner organisations, MPs and AMs, Neighbourhood Partnerships and community group leaders</li> <li>• Communicated to approximately 6,000 staff within the City of Cardiff Council via Your News.</li> </ul>
Hard copy	<ul style="list-style-type: none"> <li>• 3,000 hard copies distributed through libraries, leisure centres and hubs</li> <li>• Direct mail of 3,000 surveys to households across the City with a boosted sample amongst those areas with a traditionally lower response namely Cardiff East &amp; City and Cardiff South neighbourhood partnership areas.</li> </ul>
Community Engagement Events	<ul style="list-style-type: none"> <li>• Eighteen Community Engagement events held across the City at locations including libraries and supermarkets as well as direct engagement with specific groups who are less frequently heard i.e. learning disability groups, BME women.</li> </ul>

33. The second stage consultation received 2,520 completed electronic/postal surveys. Responses reflected strong support for a number of budget features including:-

- Protection of schools with 63% of respondents of the view that the Council should protect schools from the financial challenges faced by the rest of the Council. This view is reflected in the 2017/18 budget which includes significant net growth for schools.
- Around 75% of respondents agreed that the Council should aim to be more commercial. As set out later in this report, budget savings for 2017/18 include a strong emphasis on commercialism and income generation, with a significant level of savings proposals falling within this category.

- Specific income generation initiatives that form part of the 2017/18 budget. These include sale of bedding plants and increases to registration fees and to the price of a school meal. In finalising the budget, specific comments received in relation to bereavement fees have been taken into account and no fee will be charged for child burials and cremations (0-16 years old inclusive) from 2017/18 onwards.
  - Significant support for early intervention and enabling and encouraging people to live independently and providing services at a local level. This is in keeping with a number of 2017/18 budget proposals that have a focus on prevention, early intervention or locality working.
  - As part of face-to-face voting activity in which 200 people gave views on where they would like to see more money spent in future, expenditure on pot-holes came out as a clear priority. In recognition of this, in finalising the use of the Council's financial resilience mechanism for 2017/18, significant investment has been included for highways improvement.
34. In addition to the points above, the consultation captured valuable information that will inform and assist future community involvement and engagement activity. In particular, respondents provided their view on the activities they would like to see in Hubs, along with the times and ways in which they would prefer to engage on community issues. During the consultation, 441 people provided contact details to the Council, indicating they would be happy to be contacted about potential volunteer opportunities. The Council will contact these individuals with information regarding the volunteering portal following its launch early in 2017/18. The findings of the consultation on the City of Cardiff Council's 2017/18 budget proposals are set out in detail in Appendix 2 (a) and are accessible on the Council's website.
35. In addition, as part of regular budget preparation, consultation has taken place through:-
- **Scrutiny Committees** – both overall briefings and consideration of the detailed proposal took place in February 2017. Responses received in respect of the Scrutiny deliberations will be tabled and considered as part of the Cabinet meeting.
  - **Trade Unions** – consultation has taken place with the trade unions and any comments will be considered in advance of the Cabinet meeting
  - **Employees** – consultation has taken place both generally through staff meetings and particularly with employees impacted by individual savings proposals.
  - **Schools Budget Forum** – following a number of briefings over the budget formulation period, the Forum met on 16 November 2016 to consider Cabinet's budget proposals as it affected their remit. Appendix 2 includes their response.
  - **Audit Committee** – at its meeting on 24 January 2017, the Audit Committee considered the Treasury Management Strategy as part of

their scrutiny function. The relevant parts of this report reflect their comments.

## **Issues**

36. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. This Budget Report will set out in detail the financial issues facing the City of Cardiff Council and will outline the setting of the 2017/18 revenue budget within the context of the medium term and the ongoing financially challenging outlook. It will set out the Capital Programme and the Council's choices in respect of additional borrowing given the increasing difficulty in affording capital charges within pressurised revenue budgets. It will also consider the Council's overall financial standing in respect of risks, reserves and resilience. The extended period of financially challenging conditions requires a composite response to complex services and their shape for future generations, including reshaping realignment and as a last resort, removal.
37. The following sections of the report provide an update on the current year, set out the impact of the WG Financial Settlement and then develop the components of the proposed budget for 2017/18.

## **Revenue Budget**

### **The 2017/18 Settlement**

38. The Cabinet Secretary for Finance and Local Government announced the Final Local Government Revenue and Capital Settlement for 2017/18 in December 2016. This followed publication of the Provisional Settlement in October 2016 and took into account responses received during the consultation period. The main points to note from the Settlement at an All Wales level are:
  - a range of change in Aggregate External Finance (AEF) of between - 0.5% and +1.1% with an average of +0.2%
  - the provision of top-up funding to ensure that no authority received a settlement decrease of more than 0.5%. This funding is additional to the overall settlement and does not have a negative redistributive impact on other authorities
  - no protection for schools' budgets for 2017/18
  - no indication of future year settlement figures
  - the transfer into AEF of four specific grants in relation to Delivering Transformation, Deprivation of Liberty, Food Hygiene Rating and Blue Badge funding and the transfer out of one responsibility in relation to Education Workforce Council teachers' registration fees
  - the inclusion, within the AEF envelope, of three new responsibilities relating to care cap increases for social services, homelessness prevention and war-disablement pension disregard

- the announcement of £10 million funding at an All Wales level outside of AEF to support the impact of the National Living Wage (NLW) as part of the cost of care
  - the announcement of £10 million funding at an All Wales level outside of AEF to support Non-Domestic Rate (NDR) Relief.
39. The position for Cardiff is a funding increase of 0.5% which equates to additional cash of £2.3 million compared with 2016/17. However, the actual increase in spending power for Cardiff reduces to £294,000 once new responsibilities and other differentiating year on year factors are taken into account.
40. The settlement included information on specific grants at the All Wales level amounting to £645.876 million, although this is not a final list and details are still indicative in some areas. The list supplied amalgamates several grants into individual spending lines, which removes a degree of visibility when comparing year on year information. Appendix 3 lists grants for which information is currently available at an All Wales level. At the individual authority level, the position is less clear with very little information currently available for Cardiff. Once known, the specific grants will be available to the relevant directorates subject to the relevant terms and conditions. As WG have yet to declare a significant number of grant allocations there is a risk of further announcements resulting in a lower level of funding than expected.

### **Resources Available**

41. The resources available to the Council in funding the budget include non-hypothecated revenue funding from WG, Council Tax and use of reserves. The non-hypothecated resources available from WG through the Final Settlement comprise Revenue Support Grant (RSG) and Re-distributed NDR, collectively known as AEF. For 2017/18, Cardiff's AEF figure is £428.217 million.
42. The report to Cabinet in December 2016 in respect of the Council Tax Base anticipated an increase in the number of Band D equivalent properties by the end of March 2018. Whilst ultimate collection rates have improved annually over recent years, as part of that report, it was considered prudent to retain the current collection rate of 98.5% for 2017/18 due to the potential impact of welfare changes and uncertainty regarding the economy and inflation. The change in the Council Tax base results in increased resources of £1.9 million for 2017/18.
43. Since 2013/14, funding for the Council Tax Reduction Scheme (CTRS) is via the settlement, with the present arrangement that WG provides funding for an estimated 100% of the liability. Settlement funding does not take account of the impact of any increase in the rate of Council Tax nor does it take into account any change in the number of claimants. The Council will need to continue to manage both these factors during 2017/18.

44. The July 2016 Budget Strategy Report included an assumption that £1.5 million would be available to support the budget through drawdown from reserves in 2017/18. The Appendix on Earmarked Reserves sets out further detail of this draw down. Further information regarding current and future levels of reserves and balances is included in the section on Financial Standing, Risks and Financial Resilience.
45. The following table summarises the total resources available to finance the budget before any increase in the rate of Council Tax.

<b>Total Resources Available</b>	<b>£000</b>
Resources from WG	428,217
Council Tax (at nil increase)	151,655
Use of reserves to support the budget	1,500
<b>Total Resources Available</b>	<b>581,372</b>

### Resources Required

46. The following table summarises the resources required to cover base expenditure, commitments and budget realignments. Appendix 4 contains a more detailed version of this table, including the total amount of savings required.

<b>Total Resources Required</b>	<b>£000</b>
<b>2016/17 adjusted base budget (after transfers)</b>	<b>578,846</b>
New Responsibilities (per settlement)	1,278
Employees (pay awards, increments, NI etc.)	2,916
Demographic pressures	4,610
Commitments	840
Directorate expenditure and income realignments (net)	2,699
Special inflation	2,507
Schools non-pupil number growth (net)	4,565
<b>Total Resources Required</b>	<b>598,261</b>

### Funding Gap

47. Comparing the resources available to the Council (with no increase in the rate of Council Tax) with the resources required results in the following shortfall.

<b>Funding Gap</b>	<b>£000</b>
Resources required	598,261
Resources available	581,372
<b>Shortfall before savings and new pressures</b>	<b>16,889</b>

48. In preparing this budget proposal, the Cabinet has been aware of the need to balance Corporate Plan priorities and service requirements with the impact on Council Tax payers. The responses to the consultation, as described elsewhere in this report have been instrumental in informing Cabinet's view on the final shape of the budget. The Cabinet together with the Council's Senior Management Team have considered carefully the need to provide for new financial pressures alongside savings options proposed by directorates. A list of pressures included within the budget is set out in Appendix 5.
49. Total savings included within this budget amount to £17.007 million which equates to 5% of the non-schools' cash limit. Appendix 6 contains a detailed savings schedule. Whilst schools have not been required to make savings as part of the 2017/18 budget, they have contributed toward the cost of the anticipated financial pressures for 2017/18. The position in respect of schools is set out later in this report within the service implications section for Education & Lifelong Learning.
50. The following table identifies that the amount to be raised from additional Council Tax in 2017/18 is £4.520 million after allowing for the adjustment in respect of CTRS amounting to £1.092 million. This will result in a Council Tax increase of 3.7%.

<b>Budget Shortfall</b>	<b>£000</b>
Shortfall before directorate pressures and savings	16,889
New directorate pressures	4,638
Sub total	21,527
Less	
Total Savings	(17,007)
<b>Net amount to be raised from additional Council Tax</b>	<b>4,520</b>

51. The net additional increase in Council Tax and the savings identified in the above table account for two of four components that the Council identified as part of its 2017/18 Budget Strategy. The other two components, a 30% cap on schools non-pupil number-growth and use of earmarked reserves have already been accounted for within the calculations of the Resources Required and the Resources Available for 2017/18. The table below sets out in full, the four components of the 2017/18 Budget Strategy along with their respective contributions to balancing this budget.

	<b>£000</b>
30% cap on schools growth (non-pupil number)	1,853
Use of Earmarked Reserves	1,500
Savings	17,007
Council Tax at 3.7% (net)	4,520
<b>TOTAL</b>	<b>24,880</b>

52. The 30% cap on schools growth has only been applied to non-demographic growth whilst growth attributable to increasing pupil numbers has been fully provided. An analysis of the £1.5 million draw down from earmarked reserves is identified in Appendix 12 and further details in respect of the savings are included in the section on Service Implications of the Revenue Budget.

### **Financial Standing, Risks and Financial Resilience**

53. In considering the Council's budget proposals, members must have regard to the financial standing of the Council and the impact of their budget decisions on services, citizens, customers and communities. In order to achieve a balanced budget, the Council has identified £213 million of savings over the 10 year period 2008/09 – 2017/18 and is predicting a budget gap of £80.9 million over the next three years. In such a financially challenging situation, the significance of reviewing the financial standing, risks and financial resilience of the Council cannot be under estimated.
54. As part of this process the Council's Section 151 Officer has, as the Responsible Finance Officer (RFO), a number of statutory duties including under Section 25 of the Local Government and Finance Act 2003, a responsibility to report to members on the budget including the adequacy of reserves.
55. To report on these matters, the Council's Section 151 Officer has to have regard to the Council's overall financial context as the backdrop against which the budget and adequacy of the reserves are considered. The Reserves and Balances Protocol, as considered by Audit Committee in November 2016, sets out the factors that inform this assessment which include:
- financial resilience and financial standing
  - affordability risks to current and future capital and revenue expenditure plans
  - the Council's track record in budget and financial management including robustness of medium term plans
  - the capacity to manage in-year budget pressures, and strategy for managing both demand and service delivery in the longer term consistent with the MTFP.

- the strength of the financial information and reporting arrangements. The authority should also be in a position to activate contingency plans should the reporting arrangements identify that planned savings or gains will either not be achieved or be delayed
  - the adequacy of the Council's insurance arrangements to cover major unforeseen risks
  - the general financial climate
  - the extent to which reserves are being used to pay for recurrent expenditure
  - professional judgement.
56. Ongoing evaluation of financial resilience is an integral part of the budget process, and includes regular review of the snapshot of the Council's financial position and benchmarking with other authorities facing similar financial challenges. The information gathered as part of this work plays a vital role in informing future decisions surrounding the MTFP and the adequacy of resources. The outlook over the medium term remains a matter of concern and the MTFP section of this Report details the challenges in respect of ongoing financial austerity, increasing financial pressures and the difficulty of setting and realising year on year budget savings.
57. The paragraphs within the following pages set out the Council's financial position. They outline the work undertaken during the past year to provide further assurance in respect of the budget setting process and the Council's reserves, together with the context in which this work has taken place.
58. The Month 9 Budget Monitoring Report identifies a balanced position against the overall budget. Within the balanced position, there is a projected overspend of £7.032 million in relation to directorate budgets which is offset by the Council's £4 million general savings contingency and underspends in corporate areas including cost of redundancy, insurance and capital financing. The projected directorate overspend includes £5.981 million overspend in relation to Social Services with exceptional cost and demand factors the most significant contributory factors. As part of the due diligence considerations, the 2017/18 budget includes a £5.6 million realignment to reflect these additional in-year pressures and their impact in a full year.
59. Within the directorate overspend position, there are projected shortfalls of £6.253 million against the savings targets for 2016/17, with a further shortfall of £1.832 million projected in relation to the shortfalls carried forward from 2015/16. The due diligence for the 2017/18 budget process has taken account of the risk in respect of unachieved savings, reviewing the achievability of these in future years. Based on this review, the 2017/18 budget allows for the write out of £1.073 million of prior year savings (as detailed below) given the perceived risk associated with their ongoing achievability.



	Directorate	Saving Title	£000
2015/16	Social Services	Business Support Review in Children's Services	327
		Block Purchase of Residential Beds	25
		Reshaping Internal Supported Living Service for people with learning disabilities	125
		Market & Demand Management of Commissioned Residential Services	165
	City Operations	New operator for Canton Community Centre	42
<b>Total 2015/16</b>			<b>684</b>
2016/17	Social Services	Review of commissioning within Community Alcohol and Drug Team	100
		Efficiency savings due to integration of directorate's central functions	130
	Economic Development	Taxi marshalling services	40
		Household Waste Recycling Centres	76
	City Operations	New operator for Canton Community Centre	43
<b>Total 2016/17</b>			<b>389</b>
<b>GRAND TOTAL</b>			<b>1,073</b>

60. The 2017/18 budget process followed the high-level principles set out in the July 2016 Budget Strategy Report. The process has been rigorous and robust and has utilised the expertise of officers in directorates across the Council. The following list outlines the processes to manage risk that have underpinned the 2017/18 Budget and the procedures that the Council has in place to adhere to the principle of openness:-

<b>Financial Planning</b>	<ul style="list-style-type: none"> <li>Members received a Budget Strategy Report in July 2016 setting out the budget principles and timetable</li> <li>The Budget Strategy Report included a list of budget strategy assumptions to aid early consideration of how the anticipated budget challenges might be met</li> <li>The Council has a detailed MTFP that identifies the emerging pressures that the Council will face in future years.</li> </ul>
<b>Due Diligence</b>	<ul style="list-style-type: none"> <li>Detailed budget documentation and guidance was prepared for directorates to complete, to identify their savings and pressures and to identify Capital Programme bids</li> <li>The risks attached to all savings and financial pressures have been considered and scored in accordance with the Council's risk methodology</li> <li>The equalities impact of all savings and financial pressures have also been considered and impact assessments completed for all those where the rating was red or red-amber</li> <li>The planning status of all savings has been identified to establish whether they are realised or whether general or</li> </ul>

	<p>detailed planning has been undertaken to inform the Section 151 Officer's view of the robustness of the proposals.</p>
<b>Financial Resilience</b>	<ul style="list-style-type: none"> <li>• The budget retains a General Contingency in recognition of the challenges associated with an extended period of financial restraint. At £3 million, this has been reduced by £1 million compared to previous years</li> <li>• The budget has continued to include issue specific contingency allocations and for 2017/18 these amount to £2.029 million. Of this, £950,000 relates to external placements in Children's Services, £350,000 relates to the market for recyclates and £729,000 reflects the difficulty of predicting waste disposal tonnages in the City Operations Directorate</li> <li>• The budget has retained an existing specific contingency of £1.15 million in relation to CTRS which is to reflect changes in the volume of claimants. The 2017/18 budget proposal includes an increase to the CTRS budget to reflect the increase in the rate of Council Tax which, assuming a comparable level of claimants, will directly increase the amount of CTRS paid. As noted earlier the Settlement does not include any changes to CTRS funding to reflect price and volume fluctuations.</li> </ul>
<b>Consultation, Collaboration &amp; Engagement</b>	<ul style="list-style-type: none"> <li>• Cabinet Members have been briefed on the emerging issues contained within the Provisional and Final Settlements, along with briefings for all members on the shape of the budget and the budget process</li> <li>• Scrutiny Committees have been given the opportunity to review and scrutinise the budget proposals along with budgetary analysis sheets for all directorates</li> <li>• Consultation has taken place with the Schools Budget Forum on the budget proposals in general and the proposal for schools' budgets in particular</li> <li>• The Council's Audit Committee reviewed the Reserves and Balance Protocol in November 2016</li> <li>• The Council's Audit Committee reviewed the Treasury Management Strategy in January 2017.</li> </ul>

61. When setting budgets and reviewing the MTFP, the consideration has been given to the reserves that have been established and the level at which those reserves should be maintained. The strategic, operational and financial risks that the Council faces have informed these considerations. These risks are identified and monitored in the Council's Corporate Risk Register, as well as within individual directorate risk registers and key risks are regularly brought to the attention of Cabinet. The risks are considered alongside the known financial position including commitments, spending plans and liabilities.

62. The directorate savings proposals as listed at Appendix 6 follow a similar format to last year and identify risk assessments in respect of residual risk, achievability risk and equalities impact assessment. The following table summarises these risks at a Council level and a more detailed directorate analysis is included at Appendix 7.

<b>Risk Assessment</b>	<b>Residual Risk</b>	<b>Achievability Risk</b>	<b>Equality Impact Assessment Risk</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Red	0	0	0
Red-Amber	6,575	6,727	3,618
Amber-Green	4,503	5,362	3,507
Green	5,929	4,918	9,882
<b>TOTAL</b>	<b>17,007</b>	<b>17,007</b>	<b>17,007</b>

63. As in previous years, a planning status category has been included in the budget savings set out in Appendix 6. This identifies that savings of £384,000 have already been realised, £15.778 million are in the detailed planning stage and £845,000 have a higher degree of risk as only general planning has been undertaken to date. The general planning category accounts for 5% of the total savings proposed.
64. In recognition of both the quantum of savings required and the risk and planning status of savings put forward, a General Contingency sum of £4 million was established in 2014/15. The MTFP included a £1 million reduction from this contingency in 2017/18. This assumption has been reviewed and retained in setting the 2017/18 budget, to reflect the fact that the savings quantum for 2017/18 is lower than in previous years.
65. The pressures and savings shown in Appendix 5 and 6 respectively set out for each item a consideration of both residual and achievability risk. In addition, the 2016/17 Budget Report identified a number of significant financial and operational risks affecting the medium term. The following table updates this risk analysis and categorises them into six themes. These risks, which are reviewed as part of the Council's financial resilience testing and monitoring process, including updates to the Corporate Risk Register, are summarised in the following table:-

Theme	Identification of Key Risks
CAPITAL AND TREASURY	<ul style="list-style-type: none"> <li>• The level of additional borrowing undertaken in previous years and proposed in the capital programme will require the use of more revenue resources for capital financing in future years or the use of WG’s new powers of borrowing</li> <li>• Capital schemes approved on an income generation basis (through generating savings, increasing income or capital receipts) but which fail to do so will also increase pressure on the revenue budget</li> <li>• The increasing financial exposure to the Council of the proposals in relation to completion of the 21<sup>st</sup> Century Schools Band A and the development of Band B programmes from 2019/20 onwards</li> <li>• The impact on treasury management strategy of the timing of capital expenditure and receipt of income in relation to CCRC and other major projects</li> <li>• The current five-year programme assumes no new schemes beyond this budget process. Any additional schemes approved would increase capital financing requirements</li> <li>• The condition of property and infrastructure assets including statutory maintenance obligations places additional pressure on scarce capital resources.</li> </ul>
FUNDING	<ul style="list-style-type: none"> <li>• The potential impact on RSG funding if there are any redistributive impacts of specific grants transferred into the Settlement</li> <li>• The challenging financial position in respect of reducing WG resources, increasing financial pressures against a reducing controllable base budget together with increasing volatility and uncertainty in respect of hypothecated grants</li> <li>• 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.</li> </ul>
DEMAND	<ul style="list-style-type: none"> <li>• Reducing demand for services where the Council has historically charged for the activity therein, creating an income shortfall</li> <li>• The ability to react to new demands resulting from the progressive implementation of welfare reforms together with financial risks in respect of the CTRS</li> <li>• Continuing demographic demand for social care services – reflecting both volume and complexity of need</li> <li>• Continuing pupil number growth.</li> </ul>

Theme	Identification of Key Risks
SAVINGS	<ul style="list-style-type: none"> <li>• The significant amount of savings predicated on the success of preventative strategies and the difficulty of tracking their impact in terms of financial monitoring</li> <li>• The necessity to deliver budgeted savings from reshaping services and other change proposals not yet fully defined</li> <li>• The significant level of savings based on commercial and income initiatives that are yet to be tested in the market</li> <li>• The need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays to delivery of the proposal has on the budget monitoring position</li> <li>• The cumulative impact of achieving savings, in addition to the unachieved 2016/17 savings which remain to be realised.</li> </ul>
ORGANISATIONAL CHANGE	<ul style="list-style-type: none"> <li>• The service impact of the reduction in headcount that has taken place over an extended period and the changing impact of alternative delivery models on the nature of the workforce.</li> <li>• The impact of the potential adoption of alternative models of service delivery and the requirement to test consequential costs and benefits of the change</li> <li>• The impact for functions delivered as part of a collaborative arrangement should the planned benefits not be realised</li> <li>• The impact of the ongoing uncertainty in respect of the outcome of local government reform</li> <li>• The capacity to deliver organisational change in conjunction with increasing demands on business as usual.</li> </ul>
OTHER	<ul style="list-style-type: none"> <li>• The impact of welfare reforms, in particular the phased implementation of Universal Credit during 2016/17, on the ability of individuals to contribute to the cost of services provided where relevant</li> <li>• The risk of WG levying fines if the Council fails to realise recycling or landfill diversion rates</li> <li>• The expectation that inflation will increase over the MTFP period with potential impact on pricing</li> <li>• Exceptional price inflation that is being experienced in some areas as a result of the NLW and other pressures</li> <li>• The uncertain implications of BREXIT on the economy</li> <li>• The implications of the White Paper, Reforming Local Government: Resilient and Renewed.</li> </ul>

66. Given the risks identified above, care will continue to be required to ensure that the significant changes to business processes or personnel do not impact on the financial control environment in a negative manner. In addition, the

adoption of different models of service delivery will require attention to understand appropriate governance arrangements including financial accountability.

67. The Council needs to continue to operate within a framework that ensures it is able to maintain its current position in respect of Value Added Tax (VAT). The Council is able to recover all the VAT incurred in making exempt supplies provided its exempt income does not exceed 5% of the total amount of VAT incurred. This calculation is known as the partial exemption calculation and applies to the Council as a Section 33 organisation. If the Council were to exceed the 5% limit in any one financial year all the input tax previously recovered on exempt supplies would be repayable to Her Majesty's Revenue and Customs (HMRC). This calculation will now take into account the transfer of Leisure Centres to Greenwich Leisure Limited (GLL) following the conclusion of the procurement exercise.
68. Over recent years, the Council's partial exemption calculation has been close to this limit. Clearly, the Council needs to do all it can to minimise the risk of breaching this 5% threshold and careful management of the Council's activities is required. In particular, this will require consideration of the VAT implications of new capital schemes at an early stage to ensure the most effective structures and subsequent operations are put into place.
69. The financial challenges ahead are such that the Section 151 Officer will continue to highlight the financial standing of the Council on a regular basis, as part of members' overall awareness of financial matters and as an indicator of financial resilience. As such, officers will continue to prepare snapshots of financial health and report them to senior management and Cabinet on a regular basis. Snapshots contain past performance on levels of reserve, funding sources and financial performance ratios. In addition, they summarise the current year's monitoring position for both capital and revenue, outlining the quantum of savings proposals expected to be unachieved. Finally, they provide an insight into the MTFP, future budget reductions requirements, the capital financing requirement and affordability indicators for future years. Presenting information on past and present performance and future challenges in this way ensures a rounded view. The snapshot at the time of setting this budget for 2017/18 is included at Appendix 8.

### **Council's Reserves**

70. The Council's strategy for holding and utilising reserves is set out in its Financial Procedure Rules. 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 that would need to be filled in the following year.

71. CIPFA recommended accounting practice requires the S151 officer to create a protocol for reserves and balances which sets out the purpose, usage and the approval processes for transfers in and out of reserves and whether the intended use of the reserve is still valid. The Council's Audit Committee considered the protocol in November 2016.
72. The next table shows the actual balance at 31 March 2016 and projected balances for 31 March 2017 and 31 March 2018 for the General Fund and HRA earmarked reserves. The projection at 31 March 2017 includes assumptions contained with the Month 9 Monitoring Report and, as such, there is potential for certain estimates to change before the end of the financial year. The projected balance as at 31 March 2018 includes the impact of the movements stated in the following paragraphs as well as the contributions to and from other earmarked reserves in line with the purposes set against each reserve.
73. The Council's General Fund earmarked reserves which exclude the HRA are outlined in Appendix 9(a) and are held to meet known or predicted commitments including the Schools Organisation Plan and Insurance reserves. Appendix 9(b) shows the earmarked reserves in relation to the HRA. The General Housing Reserve comprising accumulated housing surpluses from previous financial years is ring-fenced for use in connection with the HRA and cannot be used to fund the Council's overall budget. There are no projected movements in 2017/18. The HRA is currently reporting a balanced position with projected savings and additional income, which will enable a projected £1.9 million to be transferred to a new earmarked reserve at the year end – Housing Development Reserve. This will be to support investment and future housing development costs.

	<b>Actual at 31 March 2016</b>	<b>Projection at 31 March 2017</b>	<b>Projection at 31 March 2018</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Fund Earmarked Reserves	49,149	45,742	36,186
HRA General Reserve	8,438	8,438	8,438
HRA Earmarked Reserves	954	2,493	2,126

74. The Council also maintains a General Reserve to help cushion the impact of unexpected events or emergencies. The Council's General Reserve as at the end of the 2015/16 financial year was £15.255 million. However as part of the Council's 2015/16 outturn position, an amount of £1 million was transferred to the General Reserve, for use in funding the 2016/17 budget as had been approved as part of that year's Budget Report. The revised balance of £14.255 million is anticipated to remain the same in the current year with the Month 9 monitoring report showing a balanced position with no transfers to or from the General Reserve. Following consideration of the Council's current position, in relation to risks and the advice of the Section 151 Officer, it is the

intention of Cabinet not to make any use of the General Reserve to fund the 2017/18 budget.

75. Benchmarking has identified that, as at 31 March 2016, the Council continued to have some of the lowest levels of general and earmarked reserves, compared to gross expenditure, in Wales. The General Reserve represented 1.1% of gross expenditure in 2015/16 (1.3% in 2014/15) and earmarked reserves represented 3.7% (3.4% in 2014/15). This further supports WG published data in respect of the 2015/16 financial year, which identified that the Council had the second lowest level of general reserves as a percentage of gross revenue expenditure across all councils in Wales and one of the lowest in terms of earmarked reserves as a percentage of gross revenue expenditure. As Members are aware, there is no set statutory minimum level of reserves and decisions made should reflect the individual position of each council.
76. The Council has historically taken a proactive role in relation to the use of its reserves and identified, as part of its 2017/18 budget strategy that a figure of £1.5 million was to be released. This figure will be achieved through the use of £1 million from the Insurance Reserve and this is partly due to a reduction in claims experience following Ministry of Justice Reforms in respect of injury claims from the 31 July 2013. In addition reductions of £200,000 from the Welfare Reform Reserve; £171,000 from the Waste Management Reserve; £100,000 from the Energy/Carbon Reserve and £29,000 from the Housing Mortgage Reserve will be made.
77. School balances represent the accumulated surplus or deficits generated by individual schools. Although they form part of the Council's overall balance sheet, school balances are different to earmarked reserves in that the annual movements in balances are not directly controlled by the Council. As a result, school balances are not available for use in funding the Council's budget, but may still represent a risk to the Council's overall financial resilience. On this basis, it is of critical importance that due diligence is undertaken in respect of school spending plans, ensuring that they are in alignment with approved budgets. To ensure that this is the case, work will continue to be carried out with all schools, especially those causing significant financial concern. Where the Council's Section 151 Officer determines that the provisions contained within the relevant schemes or procedure rules have been substantially or persistently breached or a budget share has not been satisfactorily managed, then intervention powers will be taken to suspend delegations for that school.
78. The total school balances as at 31 March 2016 were a net surplus of £1.7 million. Within this overall balance was a combination of both surplus and deficit balances in respect of individual schools, with total deficits amounting to £3.5 million. Of these deficit balances, a balance of £1.3 million existed in respect of the federation between Michaelston Community College and Glyn Derw High School. School balances can only be written off at the point a school is closed as part of the School Organisational Programme (SOP) and, as both of these schools are due to be closed at the end of the 2016/17 academic year, this balance will not be cleared until 2017/18. As well as this



balance, there is also a significant deficit balance held in respect of Cantonian High School. This deficit amounted to £1.1 million at 31 March 2016. A planned deficit repayment plan has been agreed with the school, with the aim being to clear this balance over a 10 year period. In addition to individual school deficit balances, a debit balance of £794,000 existed at the end of 2015/16 in respect of a historic redundancy liability, which resulted from significant redundancy expenditure in excess of budget, totalling £1.9 million, in the 2014/15 financial year. This liability was partly paid off in 2015/16 and it is anticipated that this will be fully repaid by 2017/18. As a result, it is anticipated that total school balances will demonstrate an improved position compared to that at the end of 2015/16.

79. The judgement of the Council’s Section 151 Officer, taking into account the budget monitoring forecast as at 31 December 2016, the corporate budget position, the General Reserve, as well as the General Contingency budget of £3 million is that the projected level of both general and earmarked reserves up until 31 March 2018, is adequate when considering the 2017/18 budget. The position, therefore, allows for the £1.5 million drawdown from reserves to fund the budget.
80. Overall, the position in respect of reserves and impact on financial resilience, particularly in light of the achievability of savings and unexpected financial issues that may occur will require careful monitoring throughout the financial year.

### Service Implications of the Revenue Budget

81. In compiling the revenue budget for 2017/18, the Cabinet has recognised the continuing challenge for the general public in managing their finances through difficult economic conditions. Consequently, the budget includes savings of £17.007 million but despite this and in accordance with the Corporate Plan and consultation feedback, the Cabinet has achieved a balanced budget by reducing expenditure and increasing income generation in a manner that sustains services as far as possible:

<b>2017/18 Savings Proposals by Theme</b>	<b>£000</b>
Working with Partners & Others	1,702
Income / Commercialisation	3,304
Internally Facing / Commissioning & Procurement	7,269
Grants & Subsidies	493
Use of Technology	590
Second or third year of previously agreed savings	3,649
<b>TOTAL</b>	<b>17,007</b>

82. For 2017/18, the national pay award for employees other than teachers is part of an award covering the period to March 2018. The pay related increases for teachers are contained within the Individual Schools Budget. The total cost

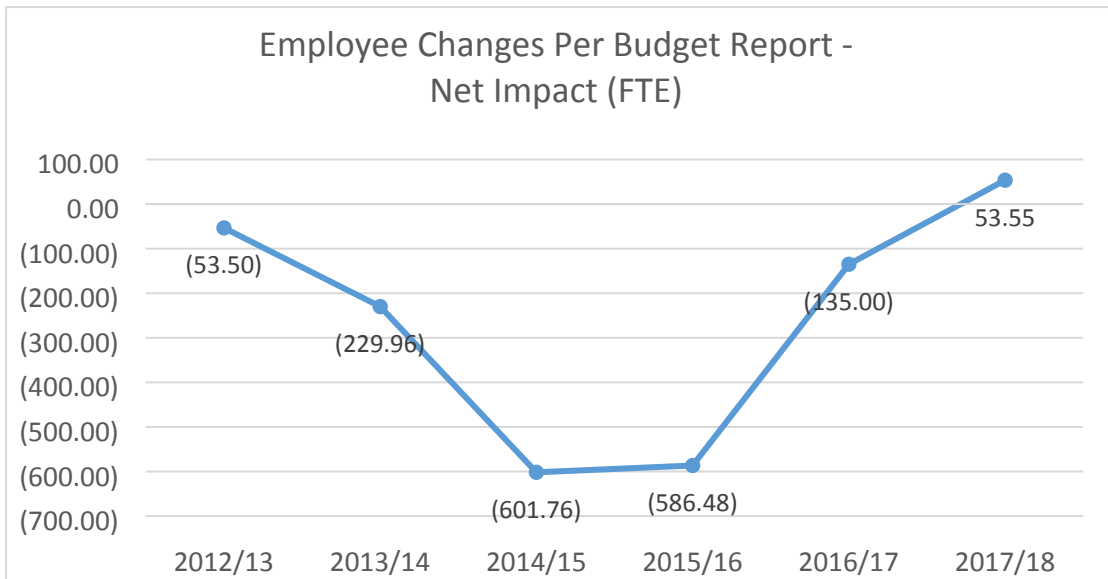
increases for employees other than schools based staff included in this budget plan are shown in the following table.

<b>Employee Cost Increases</b>	<b>£000</b>
Pay inflation (including voluntary living wage)	1,556
Incremental Progression	730
Superannuation – impacts of actuarial review and estimated auto-enrolment	630

83. The 2017/18 Budget also includes provision for the sum that the Council will have to pay in respect of the Apprenticeship Levy. The Levy will be introduced by UK Government from 6 April 2017 and requires all employers with an annual pay-bill of more than £3 million to contribute to investment in apprenticeships. The levy is equivalent to 0.5% of the pay-bill over and above £3 million and for the Council this equates to £1.5 million. In contrast to the digital voucher system that will be introduced in England, current indications are that there will be no ability for Welsh Public Sector Bodies to directly claim back against the levy.
84. The posts deleted or created as part of the budget are set out in Appendix 10. This shows that there will be a net increase of 53.55 full time equivalent (FTE) Council posts overall, made up of the deletion of 43.90 FTE offset by the creation of 97.45 FTE. The budget assumes that the post deletions will take effect through the following mechanisms:-

<b>Mechanism</b>	<b>FTE</b>
Voluntary Redundancy	(3.00)
Vacant Posts	(16.50)
Redeployment	(24.40)
<b>Total number of deleted posts</b>	<b>(43.90)</b>
<b>Posts created</b>	<b>97.45</b>
<b>Net impact</b>	<b>53.55</b>

85. The net increase in posts in 2017/18 follows several years of significant reductions, and is largely attributable to the creation of additional posts in Social Services to address demand pressures and the requirements of the Social Services and Well-being Act. Employee changes for each of the last six years are shown in the following graph. The figures shown are net FTE as detailed in previous Budget Reports and include vacant posts and posts that have transferred out of the Council's direct control, in addition to those posts deleted through redeployment or redundancy.



86. The budget includes the release of £2.6 million previously set aside to meet the cost of voluntary redundancy, as a result of recalculating future commitments based on the most recent profile of leavers and anticipated FTE reductions. It has also been possible to make a £1.4 million saving on redundancy budgets in 2017/18 as a direct result of the decision as part of 2015/16 outturn, to repay early sums that had previously been borrowed from earmarked reserves to fund redundancy costs. As part of the 2015/16 outturn, the Council also took proactive steps to make early repayment to the pension fund in respect of pension strain liabilities. This one-off repayment has negated the need for ongoing annual contributions enabling the release of £1.45 million pension strain budgets in 2017/18.
87. As in recent years, the budget assumes that directorates will manage general price inflation within existing resources. However, in recognition of the exceptional inflationary pressures faced by the following areas, the budget includes an allowance for:
- Adult Social Services fee increases
  - Schools Out of County Placements
  - Children’s Placements
88. As expenditure on energy and fuel is significant for the Council, research into pricing is undertaken using the expertise of energy and procurement teams in the Council. Although volatile, prices have generally remained within the planned resources in this area. Whilst indicative figures are not yet available for 2017/18, latest in year pricing information suggests that it is possible to reduce existing energy budgets by £142,000 to reflect in-year price reductions, and this is reflected in the 2017/18 budget. In addition, the 2017/18 budget also includes £180,000 energy efficiency savings which reflect the move to LED lighting for signals and signs, managing behaviour to reduce energy use and other energy efficiency projects.

89. A review of the cost of insurance cover required based on the Council's current claims history recently undertaken by the Council's external advisor has resulted in a budget reduction of £135,000 for 2017/18.
90. The capital financing budget reflects both the provision for repayment of principal and interest on loans for capital expenditure and receipt of interest payments from short-term investment of surplus cash. It includes recovery from directorate budgets of capital financing costs where capital investment is approved on an invest to save basis. For 2017/18, a reduction of £1.593 million against the current budget has been possible. This assumes a change in the Minimum Revenue Provision (MRP) policy from 4.5% to 4% per annum with effect from 2017/18 to align the provision for the repayment of debt on supported borrowing with WG assumed levels. The budget for 2017/18 assumes that a dividend payment of £50,000 will be received from Cardiff Bus, subject to the level of distributable reserves of the company, a position that will be kept under review.
91. The CTRS is expected to remain unchanged for 2017/18 and will comply with the CTRS Prescribed Requirements (Wales) Regulations 2013. In addition, the scheme will continue to provide additional assistance for war pensioners by disregarding income received from war pensions including War Widows Pension, War Disablement Pension and income from the Armed Forces and Reserve Compensation Scheme. This is in line with the Council's commitment to support veterans and their families. The cost of this disregard is estimated at £34,000. The income from these benefits will also continue to be disregarded for Housing Benefit purposes at an estimated cost of £14,000.
92. The budget proposal does not include an allowance for a general increase in fees and charges. Directors were advised that in preparing their fees and charges for 2017/18, they should consider the particular circumstances for which they charge for functions and reflect any such changes in their savings proposals. Appendix 12 sets out the list of proposed revisions to fees and charges in 2017/18.
93. The 2016/17 budget report set out an assumption that, from 2017/18, all fees and charges would be increased on an annual basis at least in line with the Consumer Price Index (CPI), unless prohibited by statute or regulation. Following consideration by relevant Directors, a number of fees and charges have not been increased (or have increased by less than CPI). In the majority of instances, this decision has been taken on the basis that a larger increase would likely have an adverse impact on demand. This would result in a reduction in overall income, either due to the cumulative effect of recent increases or the Council's existing position within a competitive market. Other charges are set at a fixed percentage of sale fees, to minimise the impact on the cost of collection or have been introduced during the current year at a level intended to incorporate a nil increase for 2017/18.
94. A number of savings are based on the generation of income or the commercialisation of services. Some savings have assumed securing a wider market share through commercialising areas of City Operations (£222,000),

Cardiff Academy (£46,000), Commissioning & Procurement (£70,000) and Central Transport Services (£75,000). Other areas have looked at achieving additional income such as through advertising sites within the city infrastructure (£178,000), Tourism (£56,000) and increased footfall across the Council's portfolio of cultural venues (£473,000).

95. Bereavement & Registration will increase their income by £10,000, whilst Planning fees are expected to generate an additional £100,000. For 2017/18, the School Catering Unit will increase the price of Primary School meals by £0.10 per day thus taking the charge to £12 per week. The cost of Secondary School meals will increase by £0.10 per day to £2.85. This will result in an additional income of £484,000.
96. Whilst recognising the continuing difficult economic conditions, it is important that the Council is able to react quickly and appropriately to changing events in terms of both emerging opportunities and shortfalls. To allow this to happen, it is proposed that the Council continues to delegate to the appropriate officer the ability to introduce and amend prices as and when needed. Decisions will be taken in conjunction with the Section 151 Officer, in conjunction with the Cabinet Member for Corporate Services & Performance. Where appropriate, Cabinet will need to consider a report within a reasonable timescale of the decision.
97. School transport is regarded as a corporate activity with responsibility for policy resting with the Cabinet Member for Education and responsibility for delivery of policy being with the Director of City Operations. Savings of £380,000 have been included from school transport and cover:
  - route optimisation and retendering for pupils with Additional Learning Needs (£189,000)
  - review of transport for pupils with Additional Learning Needs within 2/3 miles (Primary/Secondary) (£38,000)
  - phased replacement of taxis and buses with bus passes (Cardiff IFF cards) for Pupil Referral Units (£48,000)
  - introduction of a pilot scheme in relation to travel support allowance (£100,000)
  - phased increase in bus passes (£5,000)
98. The Equality Act 2010 places a general duty on the Council to eliminate unlawful discrimination and promote equality according to the nine protected characteristics. To comply with this duty, directors have undertaken Equality Impact Assessment screenings for each of their savings and financial pressures with full Equality Impact Assessments undertaken on any regarded as Red/Amber or higher. Following moderation by the Council's equality team, these assessments have informed the budget setting process.

### **Amendments Since Publication of Consultation Proposals**

99. As set out earlier in the report, the Council's budget proposals were released for consultation in November 2016. Since then the Council's funding position

for 2017/18 has been afforded greater clarity through the publication of the Final Settlement on 21 December 2016 and the approval by Cabinet in December 2016 of the 2017/18 Council Tax Base. In addition, as part of the Final Settlement, the WG has announced £10 million support for domiciliary care price pressures at an All Wales level. As the WG are yet to formally notify funding levels at an individual authority level, the budget assumes a share of funding proportionate to Cardiff's Social Services Indicator Base Assessment (IBA). Collectively, the above changes result in net additional resources for Cardiff of £2.175 million compared with the position at consultation.

100. As part of the 2016/17 budget a £4 million Financial Resilience Mechanism (FRM) was established. The mechanism, which is equivalent to approximately 1% of AEF supports one-off investment in priority areas and is available for release in subsequent years in the event that the settlement is worse than the 1% reduction assumed in the MTFP. The Final Settlement confirmed that release of the Council's FRM would not be required in 2017/18. Consequently, the mechanism will be available during 2017/18 for one-off investment. Its use has been determined taking into account comments received as part of consultation and this is detailed in the next section.
101. Since publication of the consultation a number of other technical updates and emerging commitments have been reflected in the 2017/18 budget position including:-
  - confirmation of the living wage rates (national and voluntary) for 2017/18
  - confirmation of other pricing for 2017/18 including increases to minimum fostering allowances by WG
  - confirmation by WG of the maximum weekly rate for non-residential care
  - publication of a new rateable value listing following the recent Valuation Office revaluation exercise and WG announcement of the 2017/18 multiplier
  - the month 8 monitoring position which identified additional pressures in respect of the Social Services position
  - additional commitments in relation to school building arrangements at Cantonian School
  - confirmation of the 2017/18 levies the Council must pay to relevant bodies including the South Wales Fire Service
  - minor adjustments to savings proposals to reflect additional due diligence
102. In addition to the above technical updates, in drafting the final Budget proposal Cabinet have had regard to consultation feedback. Consultation results provided significant support for key budget assumptions and themes but changes have been made to the final proposal to reflect specific comments received as part of feedback. These include the removal of fees for child burial and cremations and use of the Council's Financial Resilience Mechanism in a manner that supports priorities identified during the consultation period, including and in particular, highways improvement.

## Financial Resilience Mechanism

103. Use of the FRM for 2017/18 was determined following final settlement which confirmed that the budget would not need to be released in 2017/18. Investment for 2017/18 has taken into account consultation feedback and includes significant support for visible street scene services including improvements to the highway. With capital resources scarce, planned use of the FRM also includes investment in property condition, and transitional support has been provided to directorates to smooth the impact of WG grant announcements made in respect of Communities First and Schools Challenge Cymru funding.
104. The table below summarises the proposed use of the mechanism for 2017/18 and further detail is set out in Appendix 11.

<b>Use of Financial Resilience Mechanism in 2017/18</b>	<b>Total £000</b>
Visible Street Scene Services	1,710
Property Condition	1,000
Transitional Arrangements (grant fall out)	660
City Centre Enforcement	290
Parking Strategy	340
<b>TOTAL</b>	<b>4,000</b>

## Directorate Commentaries

105. The directorate section of the Report provides a commentary on significant areas of change within the budget. Appendix 13 shows the overall changes to individual directorate budgets between 2016/17 and 2017/18 whilst Appendix 14 shows the same information on a Cabinet Member portfolio basis.

## City Operations

106. The paragraphs below set out directorate specific financial pressures and savings in relation to the City Operations Directorate. Funding of £681,000 has been allocated to the Directorate to reflect specific financial pressures identified during the budget process. This includes £350,000 which has been allocated in order to make the Intensive Cleansing Initiative permanent. In addition, funding of £50,000 has been provided to improve the time taken to carry out gritting, a further sum of £61,000 has been included within the budget to support the modal shift to cycling, £40,000 to support additional planning resources and £180,000 to support parking strategy schemes.
107. In addition to the specific financial pressures identified, the budget provides support for demographic pressures totalling £142,000 in relation to school transport. Prior year savings in relation to the community asset transfer of Canton Community Hall have been written out and Cardiff White Water income

budgets have been realigned by £100,000 to reflect loss of subsidy from Cardiff Harbour Authority, which it has not been possible to fully cover through additional income. The Directorate will also receive £2.640 million funding via the FRM in 2017/18 to support one off investment in priority areas, including £1.110 million to support highways and footways improvements, £475,000 to support street cleansing and maintenance of public areas and £125,000 to address the tree maintenance backlog and improve weed control. There is also £300,000 to support the upgrading of sports facilities, £290,000 to support city centre security and enforcement and £340,000 to support initiatives such as parking schemes, a car free day and 20mph zones.

108. The following table sets out City Operation’s Directorate Savings Proposals for 2017/18.

<b>2017/18 Savings</b>	<b>£000</b>
Partners and Others	461
Income & Commercialisation	494
Internally Facing	209
Grants and Subsidies	25
<b>TOTAL</b>	<b>1,189</b>

109. Savings totalling £461,000 relate to working with partners and others. This figure includes the third year saving from the shared regulatory service for Cardiff, Bridgend and the Vale of Glamorgan (£47,000) and a £414,000 saving from the recently implemented alternative delivery arrangements for Leisure Services with GLL.
110. Savings based on commercialisation and increased income generation total £494,000. This sum includes £100,000 to reflect anticipated increases in the number of planning applications and £10,000 additional income within the Registration service resulting from a combination of volume and price increases. Income and commercialisation proposals also include plans to expand the customer base for sale of bedding plants, nursery stock and tree management services (£25,000) and to maximise opportunities for recharging services in transport and in relation to design and inspection (£42,000). Savings also include the realignment of the public transport budget to reflect the 2016/17 monitoring position (£130,000). The directorate has undertaken a review of fees and charges and plans to improve collaboration with their advertising partner (£187,000).
111. Internally facing proposals total £209,000. These include savings made during 2016/17 as a result of reducing operating costs in parks and sport (£25,000) and the full year effect of contractual savings made during 2016/17 (£67,000). Internally facing proposals also include plans to improve performance and implement business process efficiencies, including £22,000 through improving driver awareness to reduce accident and damage claims, £20,000 from improving work scheduling to reduce travel time and cost and £25,000 to identify and release under-utilised vehicles and plant. Plans to review delivery of maintenance work, improving performance in order to increase internal capacity for work are estimated to save £50,000.



112. The £25,000 saving in relation to reduction in grants and subsidies reflects the removal of the Council subsidy in respect of the Royal Horticultural Society Show. This is due to the ability of the event to be sustainable without financial support from the Council.

### **Communities, Housing & Customer Services**

113. Within the Directorate, funding is being provided, as part of the Council's FRM totalling £360,000. Of this, £60,000 relates to the Time Credits volunteer scheme and £300,000 is provided with the aim of assisting with the transition from the Communities First grant programme.

114. From the 1 April 2017, the Council will no longer be able to claim a £1.074 million subsidy for temporary accommodation that is currently claimed through the Housing Benefit system. The Final Settlement included £834,000 to address this issue. The residual £240,000 has been recognised by the Council as an additional budget commitment to ensure that the lost subsidy is fully addressed within the Directorate's 2017/18 budget.

115. As well as the funding increases outlined in the preceding paragraph, £284,000 is being allocated in relation to accepted financial pressure bids. The first totals £144,000 and is for providing budgeting and income maximisation services for the most vulnerable people. This funding will enable an extension of the service currently hosted at the Central Library Hub and will mean that services are provided in other hubs and food bank distribution centres. A further allocation of £90,000 is being made for additional Senior Occupational Therapists to assist with the growing demand for reviewing packages of care. Finally, £50,000 is being allocated to ensure appropriate levels of funding exist for maintaining the alley gates that have been installed across the city.

116. In addition to the funding increases provided to the Directorate, there has also been a requirement to identify budget savings totalling £1.083 million. The breakdown of savings is outlined below.

<b>2017/18 Savings</b>	<b>£000</b>
Partners and Others	205
Income & Commercialisation	309
Internally Facing	193
Grants and Subsidies	176
Technology	200
<b>TOTAL</b>	<b>1,083</b>

117. Savings totalling £205,000 have been proposed in relation to partnering arrangements. The first totals £150,000 and relates to a new approach to locality and neighbourhood service delivery. The other saving under this heading is for £55,000 and relates to a sub-lease of Llanover Hall, allowing

reduced expenditure and increasing the uptake of Learning for Life courses. In addition to these savings are income generation and commercialisation savings totalling £309,000. £49,000 of this total is in connection with Adult Community Learning and increased income allowing the continued movement towards a net nil budget with only self-financing and fully grant funded provision. There is a £46,000 proposal for general increases in commercial activity across the directorate and £100,000 from the recharging of utilities costs as part of the costs for specific pitches at Rover Way and Shirenewton gypsy traveller sites. There is also a proposal for £114,000, which will be delivered via increased disabled facilities fee income as a result of additional capital grant work to be undertaken.

118. One saving proposal has been made in relation to internally facing services totalling £193,000. This relates to Into Work Services, with the intention being to utilise grant funding to deliver the desired outcomes of the service. In relation to grants, there is a proposal to save £176,000 by reviewing opportunities for cost efficiencies and ways to join up service provision with existing externally funded provision. The final savings proposal relates to technology and the intention to more effectively manage library stock. This proposal amounts to £200,000 and is to be achieved by using new technology to reduce the need for a central warehouse by delivering stock directly to branches.

### **Corporate Management**

119. The saving proposed in Corporate Management amounts to £84,000 and reflects a reduction in the amount available to support events and market the city. There will however be benefits arising from activities supported specifically by the Business Improvement District or through a potential new destination marketing organisation which will mitigate the impact of this saving. A 1% target reduction on precepts and levies will contribute a saving of £8,000.
120. The budgets within Corporate Management include commitments of £500,000 in relation to the Council's share of the costs of the Volvo Ocean Race, £96,000 in relation to additional costs arising from the Fire Levy in 2017/18 and a realignment of £150,000 to reflect the anticipated level of requests to purchase annual leave. An allocation of £150,000 has also been made to provide funding towards the CCRCD.

### **Economic Development**

121. Within the Economic Development Directorate, including the Commercial Services division, funding totalling £700,000 is being allocated as part of the one-off FRM. The first component relates to work to be undertaken in connection with statutory obligations, particularly with regard to a programme of condition and mechanical electrical surveys across the whole of the Council's estate, enabling the identification of priority works. In addition, £300,000 is being allocated for the partial replacement of the Cardiff Market roof. A sum of £218,000 has been allocated within financial pressures to create a Recycle & Reuse centre to assist less advantaged families in obtaining items

such as furniture. As well as this funding, £80,000 is being allocated in respect of demographic growth pressures within Waste Services. A further allocation of £82,000 is also being made to realign specific rental income reductions.

122. In addition to the allocations outlined in the preceding paragraph, the directorate has submitted financial pressure bids totalling £763,000. The first of these totals £468,000 and is being allocated to offset a 6.7% reduction in the Single Revenue Grant and to ensure that essential services such as recycling and food and green waste collections are maintained. In addition, an allocation of £295,000 is being made to further the reuse and recycling of materials, enabling the achievement of statutory recycling targets.
123. As part of the due diligence for the 2017/18 budget process, the level of risk attached to current shortfalls against budget savings targets in 2016/17 was assessed. Based on this, previous year budget savings totalling £116,000 have been written out of the base budget for 2017/18. Of this total, £76,000 related to changes to opening hours and charging in respect of Household Waste Recycling Centres and £40,000 is in connection with the planned changes for the taxi marshal service.
124. In addition to the funding increases provided to the Directorate, there has also been a requirement to identify budget savings totalling £2.170 million. The breakdown of savings is outlined below.

<b>2017/18 Savings</b>	<b>£000</b>
Income & Commercialisation	1,171
Internally Facing	445
Technology	138
Second/third year	416
<b>TOTAL</b>	<b>2,170</b>

125. Savings totalling £416,000 have been proposed and represent extensions of proposals made in previous years. These relate to St David’s Hall and New Theatre, where further reviews of costs, income and service delivery will be undertaken. In addition, a range of proposals have been made in connection with internally facing areas. The majority of these relate to Waste Services and total £445,000. The planned changes include efficiency improvements within the back office, increased productivity within the Treatment & Disposal section, increased efficiencies within domestic collection rounds and reduced dependency upon agency staff. In addition, there is a proposal totalling £66,000, which is intended to be achieved through reduced insurance claims in relation to the vehicle fleet. A further saving of £138,000 is being proposed as a result of increased automation within the recycling processing plant thus increasing capacity for further trading.
126. In addition to the proposals outlined in the previous paragraph, £1.171 million is being proposed in relation to income generation and commercialisation. Included within this total is a proposal for £473,000 whereby income will be increased within Culture, Venues & Events Management to reflect current

income streams, increasing footfall and introducing new attractions. As well as this, £178,000 is expected to be achieved from increased advertising sites within the city's infrastructure and £105,000 from increasing income generated from the investment portfolio and operational estate. Furthermore, income is expected to be increased by £100,000 from commercial trade waste and expanding the markets in which the Council operates, as well as increasing income generation within Fleet Services by £75,000, from utilising capacity within the fleet maintenance facility and increasing the level of external custom. A sum of £50,000 will be generated from third parties using waste transfer treatment facilities. Other proposals will see increased income within Tourism, Pest Control, Security Services and Building Cleaning Services, and reduced costs within Building Services.

### Education & Lifelong Learning

127. Within Education, £200,000 has been allocated to assist specific schools in transitioning away from reliance upon Schools Challenge Cymru grant funding, following the WG's decision to end this funding in March 2017. In addition, £100,000 is being allocated in relation to Youth Services, in order to provide transitional funding whilst the significant reshaping of the service continues. This funding is to progress community organisations taking on initiatives currently provided by the Council. Both of these allocations are being provided as part of the aforementioned FRM.
128. Funding of £80,000 has been allocated to the Directorate to support participation in the Unicef Child Rights Partner Programme, in order to work towards Child Friendly City status. In addition, funding is being provided in respect of the costs associated with providing temporary accommodation at Cantonian High School following the closure of one of the main school blocks. This commitment totals £481,000 per annum for three years.
129. Whilst additional funds have been allocated to delegated school budgets, the Education Directorate has identified budget savings totalling £2.371 million. These savings are outlined in the following table:

<b>2017/18 Savings</b>	<b>£000</b>
Income & Commercialisation	984
Internally Facing	1,057
Grants and Subsidies	80
Second or Third Year	250
<b>TOTAL</b>	<b>2,371</b>

130. For 2017/18, the delegated school budgets will increase by a further £7.233 million (3.3%) which is on top of a 5.4% increase in the previous year. For 2017/18, there is no requirement placed upon local authorities to protect school budgets. However, the preceding figures evidence the Council's continued commitment to provide revenue funding growth to delegated schools.

131. Of the £7.233 million being allocated to schools, £4.565 million relates to non-pupil number growth and will meet 70% of the pressures identified. These pressures are largely in connection with salary increments and pay inflation, however amounts are also allocated for the living wage supplement, the estimated impact of the actuarial review, apprenticeship levy, non-domestic rates and associated pupil needs such as complex needs enhancements, specialist resource bases and breakfast initiatives. The balance of additional funding being provided totals £2.668 million and relates to increasing pupil numbers in both mainstream and special school settings.
132. The savings include £250,000 in respect of the continued remodelling of the Youth Service which commenced in 2015/16. The Council continues to support the delivery of youth provision throughout the City, directly supporting provision with targeted Council run services for young people and communities in greatest need. This particular saving will be achieved through the full year effect of staffing savings and the finalisation of savings on premises budgets.
133. Savings relating to income generation and commercialisation are proposed totalling £984,000. Included within this is a saving of £484,000 as a result of a planned 10p increase in the price of a school meal. In addition, a saving totalling £500,000 is proposed in relation to a range of traded services with schools. The intention is to review the cost base across these services and identify areas where efficiencies can be identified. As well as these savings, £80,000 is also proposed in connection with the annual contribution made by the Council towards the running costs of the Central South Consortium Joint Education Service.
134. Internally facing savings totalling £1.057 million have been proposed. These comprise a saving of £175,000 in relation to central staffing costs and £260,000 following the rationalisation of centrally held budgets for school related issues including the fallout of invest to save budgets. In addition, there is a saving of £100,000 in relation to a reduction to the central staffing budget for the Education Welfare Team. A further saving is proposed totalling £140,000 in connection with services of a specialised nature. This proposal builds on savings made during the 2016/17 financial year and will see resources used by the previously delegated staff being delegated to schools. Finally, a saving of £382,000 is proposed in relation to the Pupil Referral Unit. This represents the part-year effect of a proposal to transfer the unit into the budgets held for delegated schools with the service becoming the responsibility of a particular school.

## **Governance & Legal Services**

135. Additional budget of £82,000 has been allocated to review business support provided to members, with the view to consolidating service provision for members' enquiries, casework and general support services, and member learning and development.

136. The table below sets out the Directorate's budget savings proposals for 2017/18.

<b>2017/18 Savings</b>	<b>£000</b>
Income & Commercialisation	55
Internally Facing	47
<b>TOTAL</b>	<b>102</b>

137. Budget savings of £102,000 are proposed. An income and commercialisation saving of £55,000 is proposed in relation to efficiency savings through the centralisation of external legal spend across the Council. The centralisation of decision making in respect of external legal spend which will take effect from April 2017 will ensure that services are procured based on need and reductions in spend and value for money are achieved. In addition, an internally facing savings proposal totalling £47,000 has been made in respect of a review of overheads across the directorate.

## **Resources**

138. Within the Resources Directorate £230,000 has been allocated to support a trainee placement programme. This will fund 20 trainee placements of six months duration in addition to a co-ordinator post.
139. Budget savings of £1.268 million are proposed in the Resources Directorate and these are summarised in the following table:

<b>2017/18 Savings</b>	<b>£000</b>
Income & Commercialisation	246
Internally Facing	750
Grants and Subsidies	20
Technology	252
<b>TOTAL</b>	<b>1,268</b>

140. Savings based on commercialisation and increased income total £246,000. This includes £120,000 through utilising the Enterprise Architecture function to generate income from either internal or via external services provided to other public sector bodies. A saving of £70,000 is also proposed in relation to the activities of the Commissioning & Procurement Local Authority Trading Company together with £56,000 in additional income to be generated from a commercial approach to external training provision within the Cardiff Academy and additional internal income generated in Information Governance.
141. Proposals based on internally facing or commissioning and procurement initiatives total £750,000. These include £204,000 from a reduction in external spend within ICT including a reduced number of licences and a reduction or removal of support contracts. A saving of £100,000 will also be made in Human Resources through a reduction in costs for the Council's HR IT system, previously funded by post reductions in the service. A review of the staff

structure in Organisational Development will generate a saving of £172,000. This will be achieved through reducing posts that are currently filled on a temporary basis, increasing the vacancy provision to reflect staff turnover and through the recovery of staff costs against specific projects where applicable. If additional resources are required to support change initiatives during the year then this will be facilitated through use of reserves. Other proposed savings in staffing budgets include £90,000 in Accountancy, £52,000 in Human Resources, £35,000 in ICT, £27,000 in the Cabinet Office and £15,000 in Internal Audit. These reflect a range of business efficiencies based on a review of responsibilities and on-going commitments. Other savings include £50,000 through a reduction in telephony licences, network support and telephony support and maintenance and £5,000 from a range of efficiencies within Emergency Management.

142. Savings based on increased use of technology total £252,000 and include £154,000 in reduced costs as a result of automation of forms, e-billing and use of a transactional website in order to generate channel shift from telephone calls in the Council Tax and Non Domestic Rates recovery sections. Process and technology changes will also provide savings of £98,000 in Business Support, largely through a reduction in the staffing structure. A saving of £20,000 will be made in Policy & Partnerships through an alternative model for the funding of one-off, unplanned events such as sports fixtures or other large events in the City centre. Whilst this will reduce flexibility work is being undertaken to investigate the possibility of alternative funding being found on an on-going basis.

## **Social Services**

143. Significant additional resources have been allocated in the budget in order to meet existing and new financial pressures in Social Services with the overall budget showing a net increase of £9.151 million (6.33%) compared to the controllable base in the current year, after taking into account directorate savings totalling £4.997 million. Additional funding has been provided to both Children's and Adult Services with budget allocated to meet demographic pressures and exceptional cost increases, anticipated fee increases, financial pressures including increased capacity for reshaping and prevention and meeting the costs of the Social Services & Well-being Act and to write out unachievable savings targets from the current and previous financial years. Funding has also been allocated to reflect transfers and new responsibilities in the Final Settlement including transfers of £319,000 in relation to Delivering Transformation Grant and £15,000 for Deprivation of Liberty Standards. Funding for new responsibilities in the Settlement include £410,000 to reflect increased capital limits on charges for residential care.
144. In Children's Services an additional £3.285 million has been allocated in order to reflect the budget pressures in the current financial year. This includes a significant level of increased costs of external placements for looked after children. As in the current financial year a specific contingency allocation of £950,000 will also be maintained in 2017/18 in order to fund any growth in external placements should this become evident during the year. Funding has

also been provided to meet exceptional inflation costs in Children's Services including £250,000 to reflect the impact of increased fees identified as part of the new framework arrangements for the procurement of children's placements. Provision has also been made to meet the impact of an increase to the WG's recommended minimum fostering allowances for 2017/18.

145. The budget for Adult Services has been increased by £2.298 million to reflect the budget pressures in the current financial year with a further £1.720 million allocated to meet new demographic growth in 2017/18. A budget allocation of £1.17 million has also been provided in order to meet anticipated costs in relation to domiciliary and nursing home care in 2017/18 with exceptional levels of cost increases evident in the current financial year and likely to continue. Funding has also been allocated to reflect potential fee increases in the coming year including the impact of the NLW. These additional costs are partly offset by an anticipated increase in income of £325,000 as a result of the WG's increase to the maximum weekly charge for non-residential care services.
146. Following the Final Settlement in December the WG also announced that a sum of £10 million would be made available to councils in order to reflect cost pressures arising as a result of changes to the NLW. Allocations to individual councils have yet to be confirmed, however on the basis of the funding mechanism for Adult Services in the RSG the Council would expect to receive additional funding via specific grant of circa £850,000. This has been taken into account when setting the resources available to meet these pressures in the Budget.
147. Funding of £2.3 million has been allocated in order to meet specific financial pressures in Social Services including the requirement for a number of new posts. This includes £1.235 million to provide increased capacity for reshaping and prevention with £419,000 of this allocated to increase social work capacity in Children's Services reflecting a continued rise in caseloads and also to implement the Signs of Safety Framework which will enable social workers to engage more effectively with children and families and thereby reduce the number of looked after children entering the system. Other budget allocations supporting reshaping and prevention include £300,000 to review the personal assistant and agency rates for direct payments, £186,000 to sustain the Multi Agency Safeguarding Hub and enable further development of safeguarding arrangements for children and adults at risk of significant harm, £105,000 to provide increased capacity to manage the growth of domiciliary, residential and nursing provision through the care contract process and £105,000 to enhance the review function across learning disabilities and mental health services. Funding of £84,000 has also been allocated to support work with Health partners in order to identify cases that should be part funded through Continuing Health Care and £36,000 to support and enhance the strategic commissioning function across the directorate. All of these initiatives will support the achievement of savings in future years including many of the savings proposals in 2017/18.



148. The specific financial pressures also include £420,000 to meet the Social Services & Well-being Act and other legislative requirements and £645,000 to reflect additional demand and costs of services. The funding allocated to meet the impact of legislation includes £140,000 to reflect the requirements of the Social Services & Well-being Act for additional posts to enhance the first point of contact and to manage demand and engage people in their local communities. Other allocations include £100,000 to meet the increased demand for Connected Persons Assessments, £81,000 to support people in learning new ways of living following sudden sight loss or with decreasing levels of sight, £53,000 to support case managers in meeting the statutory duty to offer and complete carer's assessments for carers who have support needs and £46,000 to increase capacity to undertake qualitative performance monitoring. The funding allocated to meet additional demand and cost of services includes £222,000 to enhance capacity within Looked After Children's Services to provide more social work and support staff specifically for children who are the subject of a care order and who are living at home subject to Placement with Parents Regulations. Budget of £171,000 has also been allocated to provide temporary (three year) funding for a multi agency Child Sexual Exploitation Prevention Team. Other allocations include £100,000 for increased translation and interpretation costs, £76,000 to respond to the increasing demand for high quality, person-centred, outcome-led support for adults with learning disabilities and £76,000 to provide capacity for administering complaints and access to records.
149. As part of the due diligence for the 2017/18 budget process, the level of risks attached to current shortfalls against budget savings targets in 2016/17 was assessed. Based on this assessment a total of £872,000 has been reinstated into the Social Services base budget for 2017/18. This relates to six specific savings targets, four of which were carried forward from 2015/16. These savings are now either considered unachievable or have a level of risk in terms of achievability that is considered unacceptable in terms of future budget monitoring and financial resilience for 2017/18. These savings targets include £327,000 in relation to a business support review and £165,000 from market and demand management of commissioned residential services in Children's Services, £130,000 arising from the integration of the Directorate's central functions and £125,000 from reshaping the Internal Supported Living Service for People with Learning Disabilities. The other target savings include £100,000 from a review of commissioned services within the Community Alcohol & Drug Team and £25,000 relating to the block purchase of residential beds in Children's Services.
150. The budget savings proposed by the Directorate for 2017/18 total £4.997 million and are set out in the following table:

<b>2017/18 Savings</b>	<b>£000</b>
Partners and Others	850
Internally Facing	1,338
Grants and Subsidies	100
Second / Third year Proposals	2,709
<b>TOTAL</b>	<b>4,997</b>

151. A number of the savings are based on a continuation of initiatives which commenced in previous years. These total £2.709 million and include a number of preventative measures within Children's Services aimed at reducing the number and cost of looked after children requiring high cost external fostering and residential placements. These savings include £1.331 million based on a review of children placed in out of county placements with the aim being to move children who are currently in residential care into alternative care settings including enhanced fostering. Other savings in Children's Services include £488,000 through the Early Help Strategy to promote and facilitate early interventions and tackle emerging problems for children, young people and their families, £400,000 from the implementation of the Adolescent Resource Centre and £240,000 from the Safer Families Initiative which encourages and utilises volunteering in the community to provide a mentoring service aimed at reducing looked after children admissions. The other proposal which is based on initiatives which commenced in previous years is a saving of £250,000 based on locality based service delivery in Adult Services.
152. Savings proposals that are internally facing or based on commissioning and procurement initiatives total £1.338 million. This includes a saving of £290,000 based on a review of the Emergency Accommodation Service for people with learning disabilities, remodelling the social care crisis service to merge with the provision of respite care and £250,000 by reducing and preventing reliance on statutory services in Adult Services through encouraging access to preventative services, reablement and recovery models of care. Other savings within Adult Services include £170,000 through a joint review with the University Health Board (UHB) of the needs of specialist day care services for service users currently utilising external provision, £150,000 through a retender of the Mental Health Supported Living Service, £125,000 from a review of the model of delivery for domiciliary care services, £100,000 through re-modelling the skill mix within Adults Social Work Teams, and £53,000 by incentivising and working with external providers to improve efficiencies and reduce costs. Savings within Children's Services include £150,000 through a re-modelling of services and £50,000 from recommissioning the current contract for respite and short breaks at Ty Storrie.
153. Proposals based on working with partners and others are anticipated to provide savings of £850,000. This includes £350,000 in Adult Services through reinforcing and robustly challenging the process for continuing health care where primary health needs have been identified. A saving of £150,000 is also proposed through reviewing the level of continuing health care funding for children's placements. Other savings include £130,000 through efficiencies arising from joint commissioning of residential and nursing home beds with the UHB, £100,000 through working in collaboration with the Cardiff & Vale College and Careers Wales to review all applications for Learning Disability residential college placements, £90,000 from a review of the social work resource in hospitals and £30,000 by working with Health colleagues to reduce therapy costs in Children's Services. A saving of £100,000 is also proposed in relation to Grants and Subsidies based on a review of third sector day spend within Adult Services.

## Supporting People Programme Grant Spending Plan

154. The Supporting People Programme provides approximately 6,000 units of housing-related support to vulnerable individuals in Cardiff to assist them to live independently and to prevent homelessness. Support can be provided in the clients own home, in hostels, sheltered housing or other specialist supported accommodation. Thirty two organisations deliver this support, the majority of which are charitable organisations. However, the Council does also provide some services directly including two homeless hostels.
155. The WG provides Supporting People funding in the form of a grant and local authorities administer the funds and commission services. A multi-agency Regional Collaborative Committee (RCC) for the Vale of Glamorgan and Cardiff operates to provide a collaborative approach and share best practice.
156. The WG requires each local authority to develop a Local Spending Plan in a prescribed format that indicates the areas where the Council intends to spend the grant. This is prepared following an indicative grant allocation figure from the WG.
157. The indicative grant allocation for Cardiff for 2017/18 is £16.267 million, which has remained the same as in 2016/17. While no reduction has been made in Supporting People Grant this year, it is anticipated that savings will be required in future years. The level of intended spend within each spend category can be seen at Appendix 16 and is broadly similar to that of the current year in the majority of spend categories. There is a reduction in spend on Floating Support services and there has been some realignment of funding in other categories as well as re-categorisation of some projects.
158. The proposed Local Spending Plan is a reflection of regular and ongoing engagement with all stakeholders and discussions with service providers and reflects the Council's priorities for 2017/18.
159. Generic Floating Support services have been recommissioned during the year with the new services commencing from April 2017. Greater control of access to floating support services together with the cost reductions achieved through recommissioning have resulted in a saving of £900,000.
160. The highest anticipated spend is in the spend category 'Expenditure which does not directly link to the other spend plan categories', with expenditure totalling £3.396 million. The projects in this category are mainly single person hostels and supported housing which do not provide services specifically for the other identified client groups within the spend plan but are accessed by people with both varying and multiple needs. Funding for resourcing the various 'gateways' to services is also included in this spend category.
161. A number of priorities have been identified for the coming year. Closer working with colleagues in Children's Services and Homelessness and the introduction of the Young Persons Gateway has identified a gap in supported

accommodation provision for the most challenging young people. An increase in spend of £160,000 (9%) in this area is anticipated as a project is developed to meet this need.

162. Rough sleeping in the City is at its highest level and additional resource is required to support this complex client group into services and ultimately accommodation. An increase in spend of £200,000 in this area is required as services are developed to meet the complex needs of those who are rough sleeping.
163. Each region has been tasked by WG to ensure services for Older People are targeted at the most vulnerable and are not based on tenure. Consultation has taken place with landlords and providers in this area and it is clear that further work is required to fully understand requirements of this client group. A full needs assessment is to be carried out in conjunction with the Vale of Glamorgan together with a review of existing service for older people to avoid any duplication and ensure joined up services. A small increase in funding of £31,000 (11%) in this category is anticipated.
164. The Young Person Gateway, Single Person Gateway and Gender Specific Gateway have been successful in managing the homelessness situation in Cardiff as well as providing much needed insight into the demand and needs for services and accommodation. There will be an increase in spend of £255,000 to increase the resource in managing the gateways, achieving greater join up and consistency between different accommodation provision. There will also be a new resource to directly support homeless households into the private rented sector, helping to prevent homelessness.
165. In addition partner organisations will be asked to put forward spend to save projects which can achieve more efficient use of resources to meet potential future grant reduction. Schemes will be temporary in nature and will address the following key priorities: supporting vulnerable people into suitable accommodation; reducing rough sleeping; prevention of homelessness and helping homeless households to access the private rented sector.

## **Medium Term Financial Plan and Financial Strategy**

### **Future Outlook and Inherent Uncertainties**

166. The budget reduction requirement is influenced by numerous external factors including new Government policy initiatives, new legislation, future funding settlements, economic conditions and price inflation. As a large organisation providing a range of services, these can impact on the Council in many ways. The budget reduction requirement is therefore a dynamic figure and robust financial planning requires regular review and refresh of the requirement to ensure that it reflects emerging issues and most recent information. As an important part of financial resilience and sound financial planning, the Council undertakes regular updates to the Budget Reduction Requirement. Following this report, the next reported update will be included in the Council's Budget Strategy Report in July 2017. In recognition of the areas of uncertainty inherent

within the plan, the MTFP includes both a base case and a sensitivity analysis which is covered further in the report.

### Medium Term Financial Plan - Overview

167. This section sets out, as far as possible through use of available information, the financial challenges facing the Council for the period 2018/19-2020/21. The table below sets out an estimated budgetary gap of £80.9 million over this three-year period. An extended version of the table below is set out in Appendix 17(a).

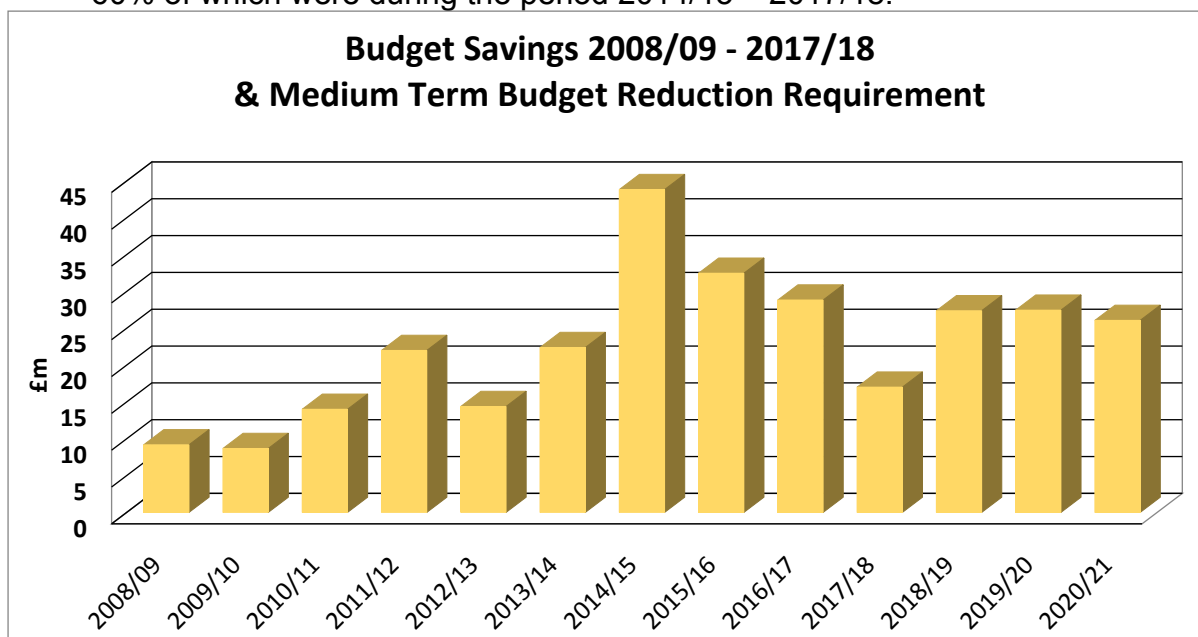
Component of Budget Gap	2017/18 £000	Medium Term Financial Plan		
		2018/19 £000	2019/20 £000	2020/21 £000
<b>Adjusted base Budget B/forward</b>	<b>578,846</b>	<b>586,984</b>	<b>581,204</b>	<b>576,967</b>
Pay*	2,917	2,697	2,650	2,235
Price Inflation	2,507	4,171	3,655	3,626
Schools Growth	7,232	7,167	9,399	6,928
Capital Financing	(1,593)	233	707	2,616
Commitments and realignments (net)	6,410	793	459	121
Non Schools Demographic Growth	3,034	3,538	3,350	3,350
Emerging Financial Pressures	4,638	3,000	3,000	3,000
2017/18 Savings	(17,007)			
Budget Reduction Requirement		<b>(27,379)</b>	<b>(27,457)</b>	<b>(26,071)</b>
<b>Net Expenditure</b>	<b>586,984</b>	<b>581,204</b>	<b>576,967</b>	<b>572,772</b>
<b>Funding</b>				
Aggregate External Finance	(428,217)	(423,937)	(419,700)	(415,505)
Use of Earmarked Reserves**	(1,500)			
Council Tax (at 2017/18 Rate)**	(157,267)	(157,267)	(157,267)	(157,267)
<b>Total Funding</b>	<b>(586,984)</b>	<b>(581,204)</b>	<b>(576,967)</b>	<b>(572,772)</b>

\*Schools pay pressures are included in the schools section of the table

\*\* Before any planning assumption on use of reserves and council tax increase which are considered in the response to the Medium Term Plan Section of this Report

Budget Reduction Requirement	£000
2018/19	27,379
2019/20	27,457
2020/21	26,071
<b>Total</b>	<b>80,907</b>

168. A budget reduction of £80.9 million over a three year period will be extremely challenging, especially when taken in the context that the Council has had to find £213 million savings over the 10 year period 2008/09 – 2017/18, almost 60% of which were during the period 2014/15 – 2017/18.



169. Although the Council has made £213 million savings over the past decade, the base budget has not reduced by this amount. This is because the most significant driver for the Council to find savings are unfunded financial pressures. This has had the effect of diverting resources into areas of unavoidable commitments or protection.

170. A consequence of this is that areas that have been afforded protection (such as Schools) and areas facing significant demand and cost pressure (such as Social Services) are accounting for proportionately more of the Council's budget annually, as funds are redirected into these areas. Over an extended period, this makes addressing the budget reduction requirement through directorate savings increasingly challenging. This is illustrated in the table below which shows that over the period 2012/13 – 2017/18 these areas have received net budget growth of £63 million.

Financial Year	Delegated Schools Net Growth £000	Social Services Net Growth £000	Total £000
2012/13	4,465	2,809	7,274
2013/14	4,937	5,616	10,553
2014/15	2,720	736	3,456
2015/16	6,574	3,211	9,785
2016/17	11,185	4,082	15,267
<b>5 Year Total</b>	<b>29,881</b>	<b>16,454</b>	<b>46,335</b>
2017/18	7,233	9,155	16,388
<b>Total</b>	<b>37,114</b>	<b>25,609</b>	<b>62,723</b>

## **MTFP Assumptions – Future Expenditure**

171. Financial pressures account for £66.7 million (81%) of the anticipated budget gap. Within the £66.7 million, a total of £23.4 million (35%) relate to pressures in schools and £22.8 million (34%) in Social Services.

### **Employee costs**

172. For non-teaching staff, Local Government pay is a matter for collective bargaining between the national employers and trade unions through the National Joint Council. As it is not possible to pre-empt this process, the MTFP includes provision for annual pay awards of 1% in an effort to balance the general theme of restraint regarding public sector pay awards with preparedness from a budgetary perspective. In the absence of any firm indication of teachers' pay award, the plan assumes a 1% annual increase in line with the assumption for non-teaching staff. In recognition that a fluctuation in rates could cause a significant in-year budgetary issue if awards in excess of 1% are agreed, the worst case scenario factors in the possibility that annual pay awards will start to rise to 2% per annum.
173. The Voluntary Living Wage (VLW) rate encompasses spinal points at the lower end of the NJC pay scale. The MTFP assumes that the VLW will increase incrementally at a rate that will bring it into line with the projected NLW by 1 April 2020 at an estimated cost to the Council of approximately £0.5 million over the life of the plan. This cost is lower than estimated at the time of the Budget Strategy Report due to estimates of slower pay growth over the medium term. Based on these assumptions, there is an expectation that over this period the VLW will encompass two additional spinal points. As the number of spinal points encompassed by the VLW grows, erosion of pay differential is likely to become an increasing issue.
174. The medium term plan allows for incremental salary drift for both schools and non-schools staff. Each year, the plan includes a reduced estimate of drift compared to the previous year in recognition that over time, annual provision for the cost of increments should result in a budgeted establishment that is sufficient to cover each post being at maximum spinal point.
175. The Council's Local Government Pension Fund (LGPS) is subject to an Actuarial Review on a triennial basis, with the latest valuation as at 31 March 2016. The MTFP reflects an increase in employer's contribution rates from 22.9% to 23.3% in 2017/18 and a further increase to 23.5% in 2018/19. These assumptions reflect use of the mechanisms available to manage upward pressures on the contribution rate by stepping the increase. As the Council is in receipt of a recent actuarial review, it is not necessary to reflect a worse case scenario in respect of employer's rates for 2018/19 and 2019/20. By the financial year 2020/21, there will have been a further actuarial review of the scheme. This is presently almost three years off and very difficult to pre-empt. At present, a reasonable base case assumption is to assume an ongoing rate of 23.5% following the next review.

176. Cardiff's auto-enrolment date was 1 February 2013. However, as Cardiff chose the deferral option, auto-enrolment of qualifying employees into the Pension Scheme was deferred to 1 October 2017. The potential cost associated with the auto-enrolment of these employees depends on the proportion who opt to remain in the scheme. It is a reasonable assumption that many employees will opt out, having previously decided not to join or remain in the Pension Fund. However, it would be imprudent to assume that there would be no additional LGPS members following auto-enrolment. The base case MTFP therefore includes provision for 15% of those who are auto-enrolled to remain in the fund. As the enrolment date is half way through the year, these costs initially affect 2017/18 with a full year effect in 2018/19. A further re-enrolment exercise will take place in early 2019. The MTFP includes provision for 10% of those employees who remain opted out of the scheme to re-join at that date.
177. The Teachers' Pension Scheme is an unfunded public service pension scheme. It was announced in the Chancellor's Budget of March 2016 that the discount rate used to set employer contributions to such schemes would reduce from 3% above CPI to 2.8% above CPI, and that this change would impact on employers from April 2019. The full impact will be dependent on actuarial review which has not yet been undertaken. However, it has been suggested that the employer's contribution to the scheme will increase from 16.48% currently to just over 18% which would require a 10% increase on teacher's pension's budgets. The MTFP reflects this with a £1.7 million pressure recognised for 2019/20. The worse case scenario models the potential for an increase to 20%, a rate which has been suggested by commentators advising Academy Schools in England of potential risk factors over the medium term. Both scenarios will require careful monitoring over the medium term, given that the discount rate is a factor of the inflation rate, which will be changeable over this period.

## Price Inflation

178. At present, CPI is running at 1.6%, which is higher than it has been for some time, albeit still below the Bank of England's 2% target. In line with the practice in recent years, the plan assumes that directorates will absorb the impact of price inflation within their existing resource base except in instances that are deemed to be exceptional. Exceptional circumstances may arise either because the quantum of the budget to which inflation applies is very significant, or as a result of above inflationary price increases. Current Office of Budget Responsibility estimates suggest the following inflation rates during the course of the MTFP:

	2017	2018	2019	2020
RPI %	3.2	3.5	3.2	3.1
CPI %	2.5	2.1	2.1	2.0

179. The plan includes estimated future provision in respect of NDR, Out of County placement costs and potential fee increases in relation to Social Services. The latter also reflects the impact of the NLW requirements with wage rates



generally low within the care sector. Given the volatility of pricing in relation to energy and fuel and given price decreases experienced in the current year, the base case MTFP assumes static pricing in this area. Any price fluctuations will be factored into the budget gap at the appropriate MTFP refresh points.

## **Capital Financing**

180. The assumptions that underpin the capital financing figures included within the plan are covered in further detail elsewhere in the report. Two key assumptions to note are:
- the capital financing costs included within the MTFP reflect the 2017/18 Capital Programme contained within this report. There is no assumption of any further new scheme approvals in 2017/18 and onwards
  - the MTFP assumes a level of internal borrowing which minimises external interest costs

## **Commitments**

181. The commitments section of the MTFP includes provision for an increase in the Central Enterprise Zone (CEZ) budget. A £1.5 million budget for CEZ was due to be established by 2014/15 however, slippage from estimated CEZ timescales meant that provision of the full budget was delayed. Amounts are included within the MTFP to increase existing budgets to the planned level of £1.5 million by 2018/19 in line with updated timescale of anticipated commitments in this area.
182. As outlined elsewhere in this report, through the School Organisation Plan (SOP), the Council is undertaking a significant programme of capital investment in schools to reorganise school places and to ensure effective use of resources and fitness for purpose. During the period covered by the MTFP, it is likely that new schools due for completion will have higher rateable values, and therefore a higher NDR liability, than the existing schools estate. The MTFP builds in an estimate of the increased NDR exposure that may result from SOP.
183. The commitments section of the MTFP captures instances where commitments should reduce over the next three years. The first year of the MTFP reflects a further reduction in the voluntary redundancy budget. This is reflective of the planned shift, by 2018/19, to a funding model for redundancy that is covered 50% from the base budget and 50% from earmarked reserves. The MTFP also reflects the write out in 2018/19 of £0.5 million included in the 2017/18 budget to support the Volvo Yacht Race and the fall away in 2020/21 of £0.5 million included in the 2017/18 budget to provide temporary accommodation at Cantonian High School.
184. Specific grants are an area over which there is little certainty over the medium term as outlined further in the funding section of the MTFP. The commitments section of the MTFP includes estimates of potential reductions to specific

grants where those grants cover areas of statutory responsibility. In these circumstances, consideration of discontinuing the grant-funded service is not a viable option.

185. The commitments section of the MTFP also includes £471,000 in 2018/19 to reflect the full year effect of financial pressures supported within the 2017/18 budget. The majority of these reflect provision for additional Social Services posts that are due to be filled part way through 2017/18 and as such required only part year funding for that year. The MTFP also includes sums to meet commitments on statutory recycling targets.

### Demographic Pressures

186. Of the £66.9 million expenditure pressure identified over the next three years, £19.8 million is attributable to pressure on services due to demographic growth. Over recent years, Cardiff has had one of the fastest growing populations of any of the UK core cities. Projections suggest that this trend will continue with statistical projections suggesting significant population growth out to 2034.
187. In recent years, Cardiff has seen significant growth in age groups in which demand for services can be more costly. An increasing school age population places additional financial burden on the Education Lifelong service and similarly, an increase in the older population creates additional financial pressures on Social Services, as people become more likely to need services or require more complex care packages.
188. The demographic pressures within the MTFP are summarised in the table below and are in areas that already account for over 60% of the Council's budget. As referred to earlier in this section, in the absence of additional government funding, the £19.8 million estimated requirement will involve an element of redirection of funds from other areas of the Council's budget.

<b>Demographic Increases</b>	<b>Predicted 3 yr pressure £000</b>
Social Services – Adults	5,100
Social Services – Children's	4,500
Schools	9,519
Other	638
<b>TOTAL</b>	<b>19,757</b>

189. Whilst labelled as demographic growth, the sums in respect of Children's Services are also reflective of increasing complexity of demand. This is very difficult to predict and a small number of high cost packages can have a significant impact on the Council's budget. In recognition of this issue, in addition to the sums identified for Children's Services, the Council's base budget contains £950,000 as a service specific contingency in this respect.

190. A further area that will need to be monitored over the MTFP in terms of its demographic impact is the LDP which sees significant growth planned for the City over the period to 2026. The MTFP shows the Council Tax Base as static over this period even though additional properties would result in an increase. This is to reflect the fact that additional Council Tax income will affect settlement figures and will be accompanied by increased demand for services. Future modelling will take place as the LDP progresses.

### **Emergent Financial Pressures**

191. The MTFP includes a sum of £3 million per annum to address emerging financial pressures. This sum, which represents just over 0.5% of the Council's cash limit has been included in recognition that it is impossible to foresee all issues and that in reality, additional burdens may arise due to issues including legislative and policy change and specific grant fall out. Review of these sums will take place at the MTFP incremental refresh points referred to above and will be updated to reflect most recent information.

### **Aggregate External Finance**

192. In the absence of any indicative funding figures for 2017/18 onwards, the level of AEF across the plan has had to be estimated. The general view amongst Welsh Local Government is that the funding outlook is likely to remain challenging. The base case MTFP for the financial years 2018/19 – 2020/21 assumes an annual AEF reduction of 1%.
193. In recent years, the absence of multi-year settlements for Welsh Local Government has been a significant obstacle to financial planning. This uncertainty is set to continue over the medium term as the 2017/18 settlement covers only the forthcoming financial year. Ongoing budget reductions of the scale required to achieve a balanced position often require difficult decisions with long lead-in times. The absence of sound evidence upon which to base future funding assumptions is extremely problematic, especially given that a 1% fluctuation in AEF for Cardiff equates to £4.3 million.
194. As referred to earlier in the report, in recognition of this key risk, as part of the 2016/17 budget, the Council established a £4 million financial resilience mechanism budget. The budget, which equates to just under 1% of AEF, operates as a base budget to fund one-off initiatives that support the reshaping of the organisation or invest in priority areas. A key investment criterion is that it is one-off in nature, which means that this £4 million FRM budget is available for immediate release in future years should a settlement be more challenging than the 1% reduction reflected in the MTFP base case. This reduces the likelihood of having to identify significant additional directorate savings at short notice. In summary, the FRM base budget is a mechanism that allows for short-term investment in priority areas, whilst managing risk and providing some assurance to the medium term position.

195. In November 2016, the Welsh Local Government Association (WLGA) produced a paper in response to the WG's Draft Budget 2017/18. Within this paper, using Spending Review estimates of future Welsh Block Resource Grant and combining these with assumptions around growth in business rates, the WLGA modelled a number of potential scenarios for Welsh Local Government's core grant in the remaining years of the Spending Review. The scenarios covered a variety of potential protection levels for other parts of the Welsh public sector including NHS Wales. They ranged from an optimistic (for LG) scenario that suggests annual AEF increases of just over 1.5% over the period to 2019/20, to a most pessimistic scenario that sets out potential AEF reductions of 2.6% for 2018/19 and 1.8% in 2019/20. The middle scenario suggests AEF increases of 0.2% - 0.4% in 2018/19 and 2019/20 respectively.
196. The assumption of annual AEF reductions of 1% included within Cardiff's base case MTFP are therefore between the WLGA's modelled medium and worse case scenarios. Whilst Cardiff's base case assumption is more pessimistic than the WLGA's middle scenario, there is also a need to be mindful of further potential distribution amendments through the formula which impact Cardiff negatively. One known area in this respect is the second phase of the social services rurality changes effected as part of the 2017/18 settlement distribution.

### **Specific Grant Funding**

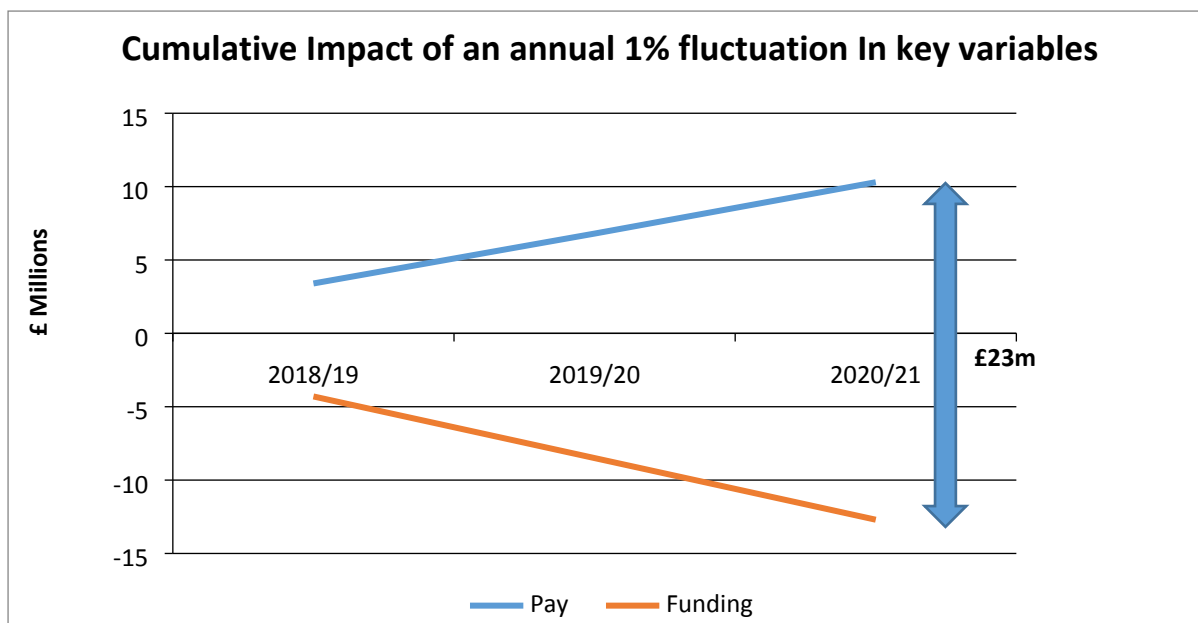
197. The Council receives a significant amount of specific grant funding. Over recent years, the WG has committed to provide greater flexibility and reduce administrative burdens for Local Government by transferring specific grants into the RSG wherever possible. Whilst this is helpful, there is a risk that upon transfer, the overall quantum and/or the distribution mechanism of the grant will change. There is also a risk that specific grants may simply reduce or fall out altogether.
198. Future changes to specific grants, either by way of transfer or reduction, are arguably even harder to predict than AEF levels. This uncertainty is compounded where there are changes to existing arrangements at short notice including separate grant streams merging into one, or where complicating factors such as consortia arrangements exist. LG settlement information on specific grants is usually in outline form with little information for the forthcoming year and no indications for later years.
199. The Council has an existing base budget of £250,000 to deal with in-year specific grant funding issues. Over and above this amount, the MTFP includes the risk of ongoing reductions to grants that fund statutory activity. Beyond this, the assumption is therefore that any future specific grant reduction would be dealt with either by reviewing the grant funding activity or addressing the issues through the sums set aside within the plan for emerging financial pressures.

## Reserves

200. Established practice is to avoid over-reliance on reserves as budget funding for a number of reasons. Firstly, due to their finite nature, use of reserves to support the budget creates an immediate funding shortfall in the following year. Secondly, earmarked reserves are set aside for a specific purpose, which would be compromised were they to be routinely taken for general budget funding. Thirdly, the existence of reserves are an important part of financial resilience, especially in a period of extreme financial challenge. Finally, this allows the Council to borrow internally and so significant reduction in reserves would potentially increase the Council's need to borrow externally. It is also of note that the level of reserves held by the Council could be considered to be at just an adequate level for an authority of this size. As a percentage of gross revenue expenditure, Cardiff has one of the lowest levels of general and unusable reserves compared to other Welsh Authorities.
201. There is a careful balance to strike between holding too much and too little cash in reserves. If reserves are too low, this increases the Council's exposure to risk and may affect its capacity to deliver planned priorities in a prudent fashion; too high and this funding could have been used on services in times of financial pressure. It is also important to note that cash in reserves is not idle. Cash held in reserves generates investment income in line with the Council's Treasury Management Strategy and as noted above, cash reserves help the Council avoid the need to undertake short-term external borrowing and its associated costs.
202. The base case MTFP shows no annual drawdown from reserves. To improve visibility and ensure full engagement with Members in setting a strategy in relation to reserves, use of reserves is set as a budget planning assumption along with savings, Council Tax levels and caps on schools growth.

## Sensitivity Analysis

203. As outlined in the sections above, it is very difficult to accurately predict future spending and funding levels three years into the future. Moreover, minor fluctuations in key variables can have a significant impact as depicted in the following graph which illustrates the cumulative cash impact of an annual 1% fluctuation in two key variables; pay and funding. The graphs show that if AEF decreases are annually 1% worse than currently planned and pay awards are 1% higher, this would have a cumulative impact of £23 million over the period. The impact of the funding reduction in the first year would be offset by releasing the Council's FRM. This would avoid the need to identify additional directorate savings at short notice, but would remove the availability of the mechanism for investment in priority areas in future years.



### Worse Case Scenario

204. The following table reflects the potential worse-case scenario for the Council over the medium term. This reflects

- pay awards of 2% compared to the 1% within the base case
- annual funding reductions of 2% over the life of the MTFP compared to the 1% within the base case
- a more pessimistic outcome of the impact of the change in discount rate on Teachers' Employers Contribution rates.

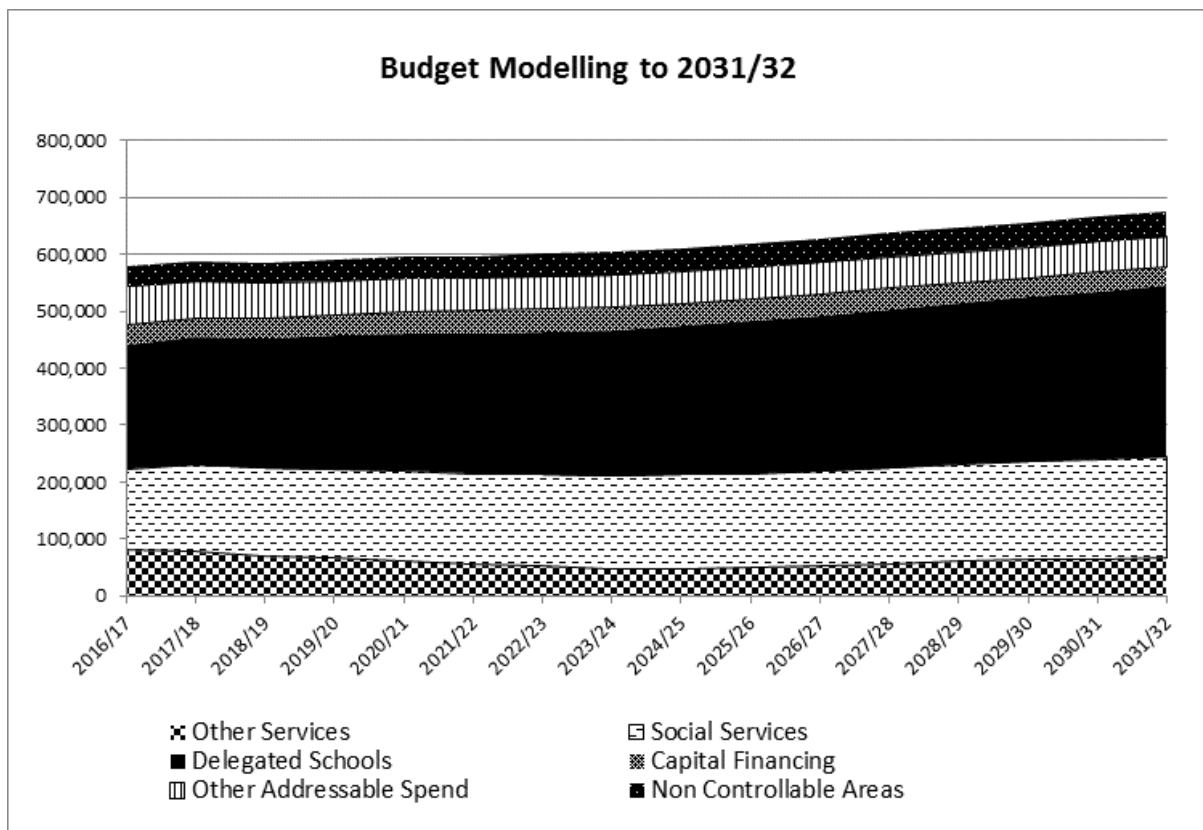
<b>Worst Case Scenario</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>TOTAL £000</b>
<b>Base Case MTFP Position</b>	<b>27,379</b>	<b>27,457</b>	<b>26,071</b>	<b>80,907</b>
<b>Changes:</b>				
AEF	4,280	4,237	4,195	<b>12,712</b>
Pay Award	3,400	3,435	3,470	<b>10,305</b>
Pensions Issues - actuarial	0	1,900	0	<b>1,900</b>
<b>Revised MTFP Shortfall</b>	<b>35,059</b>	<b>37,029</b>	<b>33,736</b>	<b>105,824</b>

205. One key risk across the life of the plan period is pay awards. The MTFP extrapolates the general theme of restraint in respect of public sector pay over the medium term. However, with economists and other financial analysts predicting that inflation will hit 3% - 4% in the next two years, higher than it has been for many years, it is reasonable to assume that there may be upward pressure on pay increases. The table above shows that annual pay awards of 2% for all staff would add £10.3 million across the life of the MTFP.

206. A 1% annual fluctuation in AEF has the biggest impact on the base case MTFP, adding £12.7 million to the estimated budget reduction requirement. Release of the Council's FRM would immediately mitigate this sum by £4 million. This would of course remove the opportunity for further one-off investment through the FRM in future.
207. The worse-case scenario models the potential for employers' contributions rates in respect of teachers' pensions to increase to 20% over the medium term, higher than the increase from 16.48% to 18% that is included within the base case MTFP. Commentators advising Academy Schools in England in relation to potential risk factors over the medium term have suggested that the rate could increase to 20% over this period. This issue will require careful monitoring as it largely depends upon a discount rate, which is a factor of the inflation rate, which will be changeable over this period.
208. In addition to the above risks that have been estimated in financial terms, there are a number of other areas that are currently too uncertain to quantify, but which the Council will need to monitor carefully over the medium term. These include:-
- NJC proposal to review pay-scales in conjunction with employers as a result of NLW changes
  - the terms agreed as part of Britain's exit from the European Union and their impact on the economy
  - specific projects to be agreed as part of CCRC arrangements
  - the 21<sup>st</sup> Century Schools Band B Programme
  - the impact of WG's devolved income tax powers from 2019
  - the impact of WG devolved powers for land transactions tax (replacing stamp duty) and landfill tax from 2018
  - the recently published white paper on Local Government Reform
  - the WG pilot on 30 hours childcare (from 12.5 hours) for children aged three and four
  - the potential for the Office of Tax Simplification (OTS) to recommend modifications to the National Insurance system.

### **Future Years Outlook**

209. It is difficult to model beyond the life of the MTFP as there is little clarity over the funding position for Local Government beyond next year. Moreover, there are other significant uncertainties on the horizon including for example, the collaborative working ethos set to replace original plans for Local Government Reorganisation. Notwithstanding these difficulties, it is extremely important to try and look further into the future in order to understand how the impact of budget strategies and decisions taken now will impact the future shape of the Council's budget.



210. It is worth noting that the capital financing section of the graph assumes no further growth beyond the existing Capital Programme. Consequently, any new schemes, dependent on the associated level of additional borrowing, will result in the capital financing section of the above graph increasing at the expense of other areas. This highlights the importance of considering the impact of a decision in one area in the context of the Council's overall budget both now and into the future. At times when funding levels are static or reducing, growth in one area must inevitably be at the expense of others.
211. The graph clearly shows that savings from "other services" which, due to protection or demand pressure in other, more significant areas of the Council's budget such as Social Services and Schools, will not be a sufficient long term solution to the problem. "Other Services" contain many areas of statutory duty. It is extremely important moving forward to continue to set clear assumptions and policies at an early enough stage to have the most impact on the future shape of the Council's budget. The cumulative impact of decisions taken now will have a significant and irrevocable impact on later years. It may be that long standing policies and assumptions are considered unaffordable when viewed over an extended time-frame and robust annual challenge will be a key part of financial planning and financial resilience.

### **Council Response to the Medium Term Financial Plan**

212. The previous section set out a further potential budget gap of £80.9 million over the next three years. Directorate savings in isolation will not be a sufficient solution to the problem. Developing the budget strategy to bridge this gap and ensuring the Council's ongoing financial resilience will require further targeting



of addressable spend budgets, further review of policy around schools growth and potential future Council Tax increases.

213. The table below extrapolates budget strategy assumptions across the medium term to arrive at the likely figure that will need to be found from savings over this period. These assumptions, which will be reviewed and refreshed as part of the Budget Strategy Report to be developed in July are:-

- a cap on schools non-demographic growth of 30%
- a Council Tax increase of 3.7%, in line with the current year's increase
- annual draw down from reserves of £1.5 million – sum considered to strike a balance between protecting financial resilience whilst utilising available resources to mitigate front line impact.

	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>TOTAL £000</b>
<b>Budget Reduction Requirement</b>	<b>27,379</b>	<b>27,457</b>	<b>26,071</b>	<b>80,907</b>
Cap on Schools Growth - @ 30%	1,494	1,979	1,348	<b>4,821</b>
Council Tax at 3.7%	4,686	4,860	5,040	<b>14,586</b>
Use of Earmarked Reserves	1,500	0	0	<b>1,500</b>
<b>Residual Gap</b>	<b>19,699</b>	<b>20,618</b>	<b>19,683</b>	<b>60,000</b>
<b>Addressable Spend Target</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>6,000</b>
<b>Residual Sum from Directorate Savings</b>	<b>17,699</b>	<b>18,618</b>	<b>17,683</b>	<b>54,000</b>

214. The term Addressable Spend is used to refer to budgets that are not within the control of an individual directorate. This is because they are externally set, relate to corporate financial resilience such as insurance or cut across Directorates such as energy and property. The above table includes addressable spend targets of £2 million per annum. Work to shape these targets will continue in 2017/18 but will involve further investigation of opportunities in relation to divestment of the Council's property portfolio resulting in premises savings, further review of energy budgets to maximise efficiencies and review of insurance budgets in light of current claims experience.

215. As part of the development of the 2016/17 Budget Strategy, the Council developed a medium term savings framework. This work set the direction of travel for achieving the level of savings anticipated over the medium term with directorates afforded flexibility to address and update as time progressed. The savings identified as part of this exercise have undergone review, refresh and roll forward to 2019/20 and are set out in Appendix 17(b) on a thematic basis. The themes used have been updated in order to provide additional clarity to members of the public, whilst maintaining a synergy with the Council's Corporate Plan priorities and are described in further detail below:-

<b>Theme</b>	<b>Description</b>
<b>Commercialisation</b>	Identifying how the Council can make better use of its assets and how to offer its services to the public, third sector, or private sector organisations. Examples include opportunities in respect of income generation (in both existing markets and the exploration of new markets) and commissioning and procurement opportunities in respect of third party spend.
<b>Working with Partners and Others</b>	Considering the way in which we work alongside the public, partner organisations and others. There are opportunities to explore new operating models and alternative delivery arrangements, join up services and consider the sharing of assets and the use of multi-agency teams.
<b>Use of Technology</b>	Understanding the ways in which we can make better use of technology, in our internal functions as well as continuing the shift to online services, customer focus and enabling technology, encouraging people who are able to use digital services to do so.
<b>Review of Grants &amp; Subsidies</b>	Reviewing those services which are either subsidised by the Council, or those for which a grant is currently given to an outside organisation in order to provide the service. Examples may include exploring the possibility of private corporate sponsorship of events.
<b>Internally Facing</b>	Reviewing internal business processes, covering the need to realign services downwards in non-front line areas, through business process efficiencies and reductions to more closely reflect available resources. Ensuring that we secure value on all our contracts.
<b>Prevention and early intervention</b>	Moving towards preventative action and early intervention to provide more cost-effective services that are focused on the need to support the most vulnerable and disadvantaged in society to achieve better outcomes for residents and communities.

216. The following table summarises the opportunities identified within Appendix 17(b):-

	2018/19	2019/20	2020/21	TOTAL
	£000	£000	£000	£000
<b>Residual Sum Required from Savings</b>	<b>17,699</b>	<b>18,618</b>	<b>17,683</b>	<b>54,000</b>

Working with Partners and Others	1,893	2,985	2,835	<b>7,713</b>
Commercialisation	2,835	3,307	3,085	<b>9,227</b>
Internally Facing Proposals	7,069	6,494	6,168	<b>19,731</b>
Review of Grants & Subsidies	729	746	708	<b>2,183</b>
Use of Technology	589	366	348	<b>1,303</b>
Prevention and Early Intervention	4,584	4,720	4,539	<b>13,843</b>
<b>Total</b>	<b>17,699</b>	<b>18,618</b>	<b>17,683</b>	<b>54,000</b>

217. The last detailed Council-wide exercise on the medium term savings framework took place almost two years ago. This framework has been reviewed, refreshed and rolled forward in the intervening period. However, it is now appropriate to revisit this in detail and directorate work on this is due to take place during the Spring. This will include challenging and reviewing due diligence in respect of individual 2018/19 proposals, discussion and development of thematic opportunities that have already been identified by directorates in relation to 2019/20 and considering in more detail savings opportunities for 2020/21. At present, the themes identified for 2020/21 are a direction based on incidence of savings across themes in earlier years of the plan. This exercise will also need a robust discussion around planning assumptions to ensure their ongoing affordability over the medium term.

218. The Financial Standing, Risk and Financial Resilience section has already set out the challenges of finding significant savings over a protracted time frame, and the increasing importance of both considering and responding to the matters in respect of the Council's financial resilience. Work on financial resilience will continue over the medium term including regular review and reporting of the financial resilience snapshot at appropriate intervals, development of benchmarking activities and exploring opportunities for financial stress testing of the MTFP to gain a developed understanding of areas to target additional assurance work in the future.

### **Cardiff Capital Region City Deal**

219. The City Deal was signed in Cardiff on 15 March 2016 by the leaders of the ten partnering local authorities, the First Minister of Wales, the Cabinet Secretary for Local Government and Finance, the Secretary of State for Wales and the Chief Secretary to HM Treasury. As its core proposition, the CCRCD provides funding to support investment in projects to stimulate economic growth: £734 million is allocated to the Metro while £495 million covers an Investment Fund to support additional economic development activities. The latter consists of a

Local Government capital contribution of £120 million with the remaining £375 million provided by the UK Government over a 20 year period. In March 2016, Cabinet and Council approved a report including a high-level affordability assessment indicating the total cost of the Investment Fund to the ten local authority partners was £274.6 million, of which Cardiff's share was £64.7 million. It was agreed that the participating authorities would work together to establish a Joint Cabinet to be known as Cardiff Capital Region Joint Cabinet (Regional Cabinet). This Regional Cabinet will have collective responsibility for decisions relating to the agreed investment programme.

220. In January 2017, Cabinet and Council approved a further report which included a number of key documents that will form the basis of how the CCRCD will be governed (Joint Working Agreement), how the Investment Fund will be managed and approved (Assurance Framework) and the proposals for implementing the CCRCD (Implementation Plan). The report also reviewed the assumptions used for the March 2016 affordability assessment and updated these to reflect changed financial factors since that date. The revised modelling provides for a total affordability envelope of £210.8 million, and represents a reduction of £63.8 million (23.2%) against the position reported in March 2016. Cardiff's share has reduced by £14.7 million (22.7%) to £50.0 million.
221. The Joint Working Agreement stipulates a number of matters that are reserved for consideration by councils at a later date (a long-stop date of 12 months has been agreed). This will include the development of a financial profile and a Joint Working Agreement Business Plan outlining in detail how the CCRCD funding will be invested. Once the Reserved Matter is satisfied, a report will be brought back to the City of Cardiff's Cabinet and Council to provide an update on the Joint Working Agreement Business Plan and deal with the budget framework issues that arise from its approval, as well as the impact on the Council's Treasury Management Strategy and performance indicators. In particular, the report will need to update the Council's approved Capital Programme. The Local Authority (Capital Finance and Accounting) (Wales) Regulations 2003 and the Prudential Code for Capital Finance in Local Authorities put the principles of Prudence, Affordability and Sustainability at the centre of all decisions made in relation to capital expenditure. The reports setting the final approvals will need to ensure that these principles are fully satisfied over the full term of the Joint Working Agreement Business Plan.
222. Cardiff Council has been approved as the Accountable Body which will administer the CCRCD and hold the funds from UK Government, local government and other sources. The Accountable Body will also be responsible for ensuring financial and legal compliance. It should be noted that acting as the Accountable Body results in additional responsibilities and demand on resources associated with Cardiff's participation in the CCRCD which will be reflected in the budget of the Regional Cabinet.
223. As one of its first action the Joint Regional Cabinet will need to approve its budget plan covering the first five years of operation including 2017/18. All ten partnering authorities have approved a financial envelope for the Regional

Cabinet costs of up to £1 million in 2017/18. It has been agreed that the local authority contributions will be based on a population basis using 2015 ONS population data and will be fixed over the life of the CCRC. Cardiff's contribution proportion is 23.7%. An allocation of £150,000 has been made to ensure the Council contribution to the CCRC is fully funded. The proposed base budget along with the projected underspend on 2016/17 contributions will be sufficient to meet Cardiff's share of costs in 2017/18.

### **Housing Revenue Account and Rent Setting**

224. The HRA is a ring-fenced account which records income and expenditure in relation to Council housing. The Local Government and Housing Act 1989 places a statutory duty on local authorities to maintain a separate account for the costs associated with the management and maintenance of Council dwellings. The ring-fencing of the account means that local authorities may not subsidise any costs relating to Council Housing from the General Fund (i.e. from Council Tax or from the RSG).
225. The main expenditure items within the account include maintenance and repair costs, management costs (including rent collection, housing allocations and property and estate management) and capital financing charges on the HRA's outstanding loan debt. The major income streams include Council house rents and income from service charges.
226. As has previously been reported, during 2015/16, the Council made a £187 million settlement payment to the WG to exit the former Housing Revenue Account Subsidy System. This meant that the HRA was no longer required to pay a net subsidy payment to WG, but this was replaced with the costs of servicing and repayment of borrowing in relation to the settlement payment. The net impact of this is an estimated £3.4 million p.a. revenue benefit which is assumed to be retained on an annual basis for re-investment in enhancing the condition of existing housing stock and in the development of new stock.
227. The new Social Housing Rent policy was introduced for Local Authorities in April 2015. This sets an annual Target Rent Band for each landlord, which is based on a range of low end, mid point and high end rents. Whilst the responsibility for setting rents for individual dwellings rests with individual landlords, they are required to operate within average weekly rent levels that fall within the Target Rent Band. WG sets a recommended rent increase each year and Councils are also allowed some flexibility to raise additional income to improve services, invest in improvements to existing homes and neighbourhoods and in building new properties.
228. It is proposed that from April 2017, rents for the majority of tenants should increase by 2.5% plus £2 per week. This is in line with the WG guidelines which protect individual tenants from large annual increases. As a result of the change, the average rent for a council home will increase by £4.20 per week (£4.46 based on the 49 week collection) exclusive of service charges.

229. Consultation on the rent increase took place between 3 January and 16 January 2017. A letter and flyer were sent to 2,500 randomly selected tenants with freepost return address. The information was also sent to tenants' representatives and was put on the Cardiff Tenants Website.
230. Although only 26 responses were received, most respondents were positive with seven negative comments about the increase. The main issues raised were around affordability and cost of living. It should be noted however that Council rents are considerably lower than rents charged by private landlords.
231. Tenants were also asked how they would like the Council to use their rent payments. 69% of respondents said the money should be spent on improving existing stock, 62% of respondents said that the money should be spent on improving housing services and 69% said the money should be spent on new build Council Housing. Respondents were able to vote on multiple priorities.
232. It is planned that additional revenue generated through the rent increase will be used in a number of areas. Income will be used to undertake direct investment in the existing housing stock and estates and for new investment and other housing initiatives including acquisition. These will include the Housing Partnership Programme (HPP) which aims to deliver 1,500 new homes over the project life with at least 600 of these being social rented and assisted home ownership properties.
233. The Council is also developing an additional house building and acquisition programme with the target to deliver, as a minimum, an additional 400 units over five years, bringing the total delivery of new affordable council homes to 1,000 over five years. A programme of housing development and options for land and property purchase is currently being considered based on the priorities identified in the housing market needs assessment and in response to ongoing welfare reform parameters. The inclusion of acquisitions within the programme reflects the urgent need to increase the number of permanent and temporary affordable housing options across the city alongside more traditional house building projects.
234. In addition, revenue will be used to both service the existing HRA debt including the £187 million Housing Revenue Account Subsidy settlement paid in 2015/16 and to reduce the level of HRA debt in the medium term. This has the benefit of creating headroom within the Debt Cap to support the house building and acquisitions programme and to increase both the level and suitability of affordable housing in the City.
235. Other factors which make up the HRA budget proposal include the following main items:
- provision is made for a 1% pay award, increases due to changes in LGPS actuarial increase and employee increments
  - an £18.6 million budget has been set for Council Housing Repairs. This increased budget reflects the estimated requirements for both planned and responsive maintenance

- the direct revenue financing budget for capital expenditure assumes a contribution of £5 million in 2017/18
- provision is made for the anticipated impact of welfare reform under the Universal Credit Scheme on rent income levels, additional costs of collection and recovery, bad debts provision and the potential impact on void allowances
- anticipated revenue costs relating to the HPP.
- the HRA's fair contribution to the planned corporate and other initiatives where HRA activities are involved

236. The detailed proposals for maximum changes to the HRA charges which can be found in Appendix 12(b) are summarised as:

- the majority of service charges that normally increase in line with inflation have been frozen this year
- a small number of charges have been increased to allow for full cost recovery
- no change in charges where cost recovery is being achieved
- some charges have decreased in line with reduced cost and service usage
- some new charges where additional services are now operational

237. For future years to 2020/21, the budget proposals are in line with the HRA Business Plan which will be reported to Cabinet in March 2017 and make provision for the following:

- pay awards and employee increments at assumed levels
- general inflation increases for non-employee budgets
- rent increases in line with the new national rent policy guidelines
- capital financing requirements in line with the proposed HRA Capital Programme
- contributions to HRA balances to meet future investment in the housing stock and other planned initiatives

238. The proposed HRA budget for the financial years 2017/18 to 2020/21 is shown in Appendix 18.

### **School Organisation Plan and 21<sup>st</sup> Century Schools Initiative**

239. The SOP relates to the significant programme of capital investment which aims to reorganise school places in Cardiff thereby using resources more effectively and ensuring that schools are fit for purpose.

240. As part of the 21<sup>st</sup> Century Schools programme the Council submitted a revised Band A funding bid to the WG in March 2015. An indicative Capital Investment Programme of £164.1 million received in-principle approval, subject to the successful submission of individual detailed project business cases.

241. The 21<sup>st</sup> Century Schools Programme forms part of the overarching SOP Financial Model. The SOP is designed to be self-funding and the projects to be undertaken are included in the Council's Capital Programme.
242. The SOP Financial Model brings together Council and WG supported 21<sup>st</sup> Century Schools Band A projects. The Model includes a projection for both capital expenditure and capital funding over the life of the plan, and subject to the submission of business case documents to WG, can be summarised as follows:

<b>School Organisation Plan (2011/12 to 2018/19)</b>	<b>Funding £m</b>	<b>Expenditure £m</b>
Capital Programme		226.2
Capital Receipts	35.3	
Capital Grants	101.5	
Section 106 Contributions	0.9	
Capital Programme Allocations	14.7	
Welsh Government LGBI	17.3	
Additional Borrowing	56.5	
<b>Total</b>	<b>226.2</b>	<b>226.2</b>

243. The capital investment programme within the model during the period 2011/12 to 2018/19 (the life of the 21<sup>st</sup> Century Schools Programme Band A) totals £226.2 million. Within this, the 21<sup>st</sup> Century Schools expenditure is £164.1 million.
244. 21<sup>st</sup> Century Schools Projects completed to date include new build primary schools (Ysgol Treganna & Pontprennau Primary) and extensions to existing primary schools (Adamsdown Primary, Coed Glas Primary, Ysgol Y Wern & Mount Stuart Primary). Ongoing projects include new build high schools (Eastern High and Cardiff West Community High), new build primaries (Ysgol Hamadryad & Howardian Primary) and replacement and extensions of primary schools (Gabalfa Primary, Ysgol Glan Ceubal, Ysgol Glan Morfa and Ninian Park Primary). All projects are scheduled for completion by the end of 2018/19 financial year.
245. Schemes are first included in the programme on the basis of Initial Development Appraisals (IDAs) and/or current market intelligence adjusted for construction cost inflation over the life of the model. An additional contingency sum of 10% is added, which is decreased as proposals progress and costs become more certain. The expenditure projections are regularly monitored and updated, along with the project funding sources, to identify changes in either the value or timing of expenditure.
246. Of the £164.1 million 21<sup>st</sup> Century Schools programme, 50% (£82.1 million) will be grant funded by the WG. This includes £64.8 million of capital grant. WG will additionally provide revenue grant over 32 years, to support capital borrowing for the remaining £17.3 million. The £64.8 million capital element is



included within the £101.5 million grant figure above. The Council's match funding element is included within the other resources listed.

247. The WG has extended the Local Government Borrowing Initiative (LGBI) to support the 21<sup>st</sup> Century Schools Programme. This initiative, which started in 2014/15, will accelerate the WG's share of investment in the programme by providing councils with a revenue stream to support the capital charges associated with additional borrowing. This will not alter the funding share of WG. The objective of this initiative is to ensure delivery of Band A of the programme by the end of 2018/19.
248. Where proposals include the disposal of school land, the capital receipt is reinvested into the SOP. The model relies upon £35.3 million of capital receipts, including those already received. Funding is also secured as capital grants from the WG, with a total of £36.7 million (excluding 21<sup>st</sup> Century Schools) in the form of scheme specific grants such as Tranche 3 transitional grant from the WG, which bridged the gap between the previous Schools Building Improvement Grant regime, and the start of 21<sup>st</sup> Century Schools funding. The Tranche 3 grant approval was £35.6 million, which supported the new build St Teilos High School and some associated schemes in the East of Cardiff.
249. Funding has also been allocated from the Council's own Capital Programme and Section 106 Contributions where available. The balance of funding is provided by Council borrowing of £56.5 million, over and above the WG supported LGBI borrowing. The capital charges arising from the Council borrowing are funded from revenue release savings which include savings from facilities management budgets from closed schools as well as efficiency savings and historical adjustments to delegated schools budgets. Capital Financing obligations from completed and ongoing SOP schemes are expected to peak at £5.927 million in 2020/21.
250. The SOP also includes significant revenue expenditure in connection with organisational restructure costs attached to the proposals. These include project management costs, additional costs incurred by schools which are closing or are in transition, and contributions toward the establishment of new educational provision. The risks around school organisational restructure costs increasing should be noted and officers regularly review the potential financial implications attached to the proposals.
251. The overall SOP Financial Model represents a significant financial exposure for the Council and the following capital and revenue key risks have been identified and are continually reviewed:
  - changing scope of works as schemes progress through feasibility studies and design
  - the management of cost over-runs and fluctuating construction cost inflation which may lead to expenditure exceeding contingency levels

- potential for underachievement of capital receipts within the current climate, failure to obtain planning consent or changes in Council policy in respect of land sales
- the potential for revenue costs of closing schools and opening others to be higher than estimated

252. A further challenge for the SOP Financial Model is the cash flow impact of the timing of both capital and revenue expenditure and income. An earmarked reserve has been established for the SOP, and the movements on this reserve are shown in Appendix 19. This reserve is used to manage these cash flow implications and the risks as identified above. At present the balance on the reserve is judged to be sufficient in the context of the overall size of the SOP programme, however careful monitoring will be required over the period.

253. Where amendments are made to capital expenditure for re-profiling of cashflows, and increases are within the level of contingency and inflation for the scheme then these would be actioned and reported through the regular capital monitoring reporting process. However, where amendments over and above the allocated levels of scheme-specific contingency are necessary, the Directorate would seek approval in accordance with the Council's Financial and Contract Procedure Rules.

254. Following a review of commitments against the SOP Reserve, a comprehensive SOP revenue budget for 2017/18 has been produced and will be submitted for approval by the Programme Panel in February 2017. Within this budget, an amount has been earmarked to fund revenue costs associated with ongoing works to meet statutory obligations in relation to schools which form part of existing schemes. A summary table of the revenue budget is shown below:

<b>SOP Revenue Budget 2017/18</b>	<b>£000</b>
Project Team Costs	1,421
Specific Scheme Costs	1,889
Newly established schools Support	438
Ongoing Commitments	751
Capital Programme Contributions	250
Contingency	500
<b>Total</b>	<b>5,249</b>

255. The Operational Manager for School Organisation, Access and Planning will have delegated authority to vire between these budgets in line with the scheme of delegations with the only exception being the contingency provision which will be managed by the Programme Panel.

256. Any overspend against the overall revenue budget will need to be reported to the Programme Panel and consideration given to any remedial action required. Material overspends will be included in the Council's budget monitoring reports.

257. The ongoing funding available within the SOP Financial Model and reserve will continue to fund the capital financing and any other residual costs of the completed programme from 2019/20 onwards. Any residual balances held at the end of Band A will be reviewed in future years, as part of the Council's budget process, for use in supporting the Council's budget or any further 21<sup>st</sup> Century Schools schemes such as Band B.

### **Civil Parking Enforcement**

258. Cardiff was designated as a 'Civil Enforcement Area' on 5 July 2010 and, since that date, has undertaken responsibility for enforcing a range of parking contraventions. In addition, new legislation has been made available to local authorities in Wales under the Civil Enforcement of Road Traffic Contraventions (General Provisions) (Wales) Regulations 2013 which allows for the enforcement of bus lanes and certain other moving traffic conventions. In 2014 Cardiff applied to the WG to acquire these additional powers to complement the existing parking enforcement powers and to provide a greater resource to address traffic congestion. Following WG approval for the transfer of related legal powers to the Council, the Moving Traffic Offences (MTOs) initiative commenced in Cardiff on 1 December 2014.
259. The advantage to the Council of operating enforcement powers since 2010 is that it has been given direct day-to-day control of the deployment of enforcement staff across the highway network thus allowing targeted enforcement in support of transportation strategies and more effective responses to local needs.
260. Civil Parking Enforcement is a ring-fenced account. The income generated from car parking fees, resident's permits, penalty charge notices and MTOs is used to fund the associated operational costs including the cost of the enforcement service. Any surplus or deficit will be transferred to the Parking & Enforcement Reserve and can only be used for specific purposes such as supporting transportation services, parking and highway and environmental services in accordance with section 55 of the Road Traffic Regulations Act 1984.
261. The anticipated operating surplus for 2016/17 is £5.415 million. When this and the budgeted eligible expenditure for the current year are applied to the brought forward figure the balance in the Parking & Enforcement Reserve at 31 March 2017 is estimated at £153,000.
262. For 2017/18 income from car parking fees, residents' permits, penalty charge notices and MTOs is forecast to be £11.755 million. This represents an increase of £863,000 compared to the forecast position for 2016/17 mainly due to anticipated increases from the expansion of moving traffic offences and additional parking fees following a planned reconfiguration of parking bays scheduled for September 2017.
263. Operating costs include staffing and other costs of enforcement services, administration, traffic regulation orders, maintenance of parking for both on and

off street parking and disabled bays. They also include capital financing costs in respect of repayments in relation to the investment in expanding bus lane and yellow box junction enforcement. Overall, expenditure is estimated to be £6.039 million, leaving a net surplus of £5.716 million in 2017/18.

264. Eligible expenditure commitments supporting overall highway, transportation and environmental improvements total £5.025 million in 2017/18. Direct revenue contributions to capital are also reflected as a commitment for 2017/18. These include £335,000 for Bus Corridor improvements to replace expenditure previously within the approved Capital Programme and £230,000 towards further expansion of the MTOs as set out in the Capital Programme. In addition a further £50,000 is planned for various highway and transport improvements and £7,000 for the maintenance of Driver Feedback Signs (DFS). It is estimated that the balance in the reserve at 31 March 2018 will be £222,000.
265. On the basis of known levels of operating expenditure, other commitments and anticipated increases in income, the future balance in the reserve is estimated at £727,000 by the end of March 2019, £743,000 by the end of March 2020 and £583,000 by the end of March 2021. The flat line position in the reserve in 2019/20 and the reduction in 2020/21 reflects an anticipated decrease in MTO activity.
266. A summary of the overall position on the Civil Parking Enforcement Account including the anticipated balances on the reserve is set out in Appendix 20 to this report.
267. The anticipated surpluses provide significant scope for future investment in line with the Local Development Plan and Parking Strategy to assist in delivering improvements and key transport schemes in the City. Use of the reserve for investment in initiatives will be reported as part of the Council's regular monitoring arrangements including a consultation process with the relevant Cabinet member.

### **Joint Committees and Relevant Bodies**

268. Cardiff is currently the lead Authority for Glamorgan Archives and Prosiect Gwyrdd; it is also a member of the Central South Consortium Joint Education Service and the Shared Regulatory Service. A new joint Regional Cabinet in relation to the CCRC is currently being set up with Cardiff as the Accountable Body. In addition, the Council has to meet a number of levies and contributions.

<b>Joint Committees and relevant Bodies</b>	<b>2016/17 Revenue Contribution £</b>	<b>2017/18 Revenue Contribution £</b>
<b>Joint Committees</b>		
Glamorgan Archives	211,520	209,280
Prosiect Gwyrdd	37,000	37,000
CSC Joint Education Service	1,504,650	1,419,429
Shared Regulatory Service	3,023,000	2,976,000
CCRCD	0	237,000
<b>Joint Bodies</b>		
South Wales Fire & Rescue	16,775,747	16,857,566
Natural Resources Wales	136,467	137,925
Cardiff Port Health Authority	114,904	113,755
Newport Port Health Authority	4,819	4,771

269. The figures shown for 2017/18 are subject to confirmation by the respective Joint Committees. The fees and charges for the Shared Regulatory Service are set either by the Joint Committee or externally by statute or other regulation.

#### **Activities inherited from Cardiff Bay Development Corporation including Harbour Authority**

270. The Council agreed to take on the role of the Cardiff Harbour Authority in April 2000 following the winding up of Cardiff Bay Development Corporation (CBDC). The functions and responsibilities of the Harbour Authority are detailed in the Agreement made between the Council and CBDC (now WG) under Section 165 of the Local Government Planning and Land Act 1980. The funding required to discharge these obligations is provided by a specific grant received from the WG. This funding and any income generated are ring fenced.
271. The arrangement has been subject to a number of negotiated changes over the past 17 years; the latest variation was signed on 3<sup>rd</sup> April 2014 and included a three year fixed cost budget for April 2014 to March 2017. The revisions ensured that a sufficient funding level was made available to the Harbour Authority to meet the liabilities under the agreement and any additional duties relating to the Cardiff Bay Barrage Act 1993.
272. During 2016/17 negotiations have taken place between the Council and WG officers to agree a new three year budget for the period 2017/18 to 2019/20.
273. Following a comprehensive review of the future resource requirements, a fixed cost and asset renewal budget was submitted to the WG for their formal approval. This identified a total funding requirement of £5.795 million for 2017/18 reducing to £5.299 million by 2019/20.

## Harbour Authority Funding Requirement 2017/18 – 2019/20

2016/17		2017/18	2018/19	2019/20
£000		£000	£000	£000
6,365	Expenditure	6,348	6,395	6,079
(820)	Income	(930)	(1,030)	(1,064)
<b>5,545</b>	<b>Fixed Cost Budget</b>	<b>5,418</b>	<b>5,254</b>	<b>5,015</b>
346	Asset Renewal	377	440	284
<b>5,891</b>	<b>Total Budget</b>	<b>5,795</b>	<b>5,694</b>	<b>5,299</b>

274. The proposed budget for 2017/18 is a net reduction of £96,000 compared to the revised 2016/17 budget. This reflects a combination of operating cost reductions and increased income totalling £211,000 offset by inflationary and financial pressures of £84,000 and an increase of £31,000 in Asset Renewal funding.
275. The budget reductions reflect current spending trends, thereby minimising risk. It is proposed to generate additional income of £110,000 by developing a more commercial approach to its activities. This should enable an additional £50,000 to be generated through car parking charges, £45,000 from lease and licence fees from various locations and a further £14,000 from other sources such as education, concessions and harbour dues.
276. The budget incorporates inflationary allowances for a pay award, general price increases and a provision for increased pension contributions following the outcome of an actuarial review.
277. An additional budget of £32,000 has been provided to cover the audit and accountancy charges following the requirement to prepare a separate Statement of Accounts for the Harbour Authority.
278. With the overall reduction in budgets the ability for the Council to fund large unforeseen operational costs is reduced. It is therefore proposed to remove the requirement to retain £100,000 as a minimum retention figure for unforeseen additional costs within the project and contingency fund. In future any unforeseen costs will be recoverable from the WG through an additional claim.
279. It is also proposed that funding from the WG should be provided to cover the actual net cost of discharging its obligations. Currently any underspend against the Fixed Cost budget is shared on a 50/50 basis but in the future any underspend will be retained by the WG.
280. Furthermore in respect of any major projects or enhancements it is proposed to agree or establish a protocol whereby the Cardiff Harbour Authority submits a proposal to the WG on a business case basis for consideration.
281. It is also estimated that funding of £377,000 will be required for asset renewal in 2017/18. The identified works include £300,000 for the replacement of a sailing vessel, £71,000 for various barrage structural work and £6,000 for the replacement of an aeration system compressor.

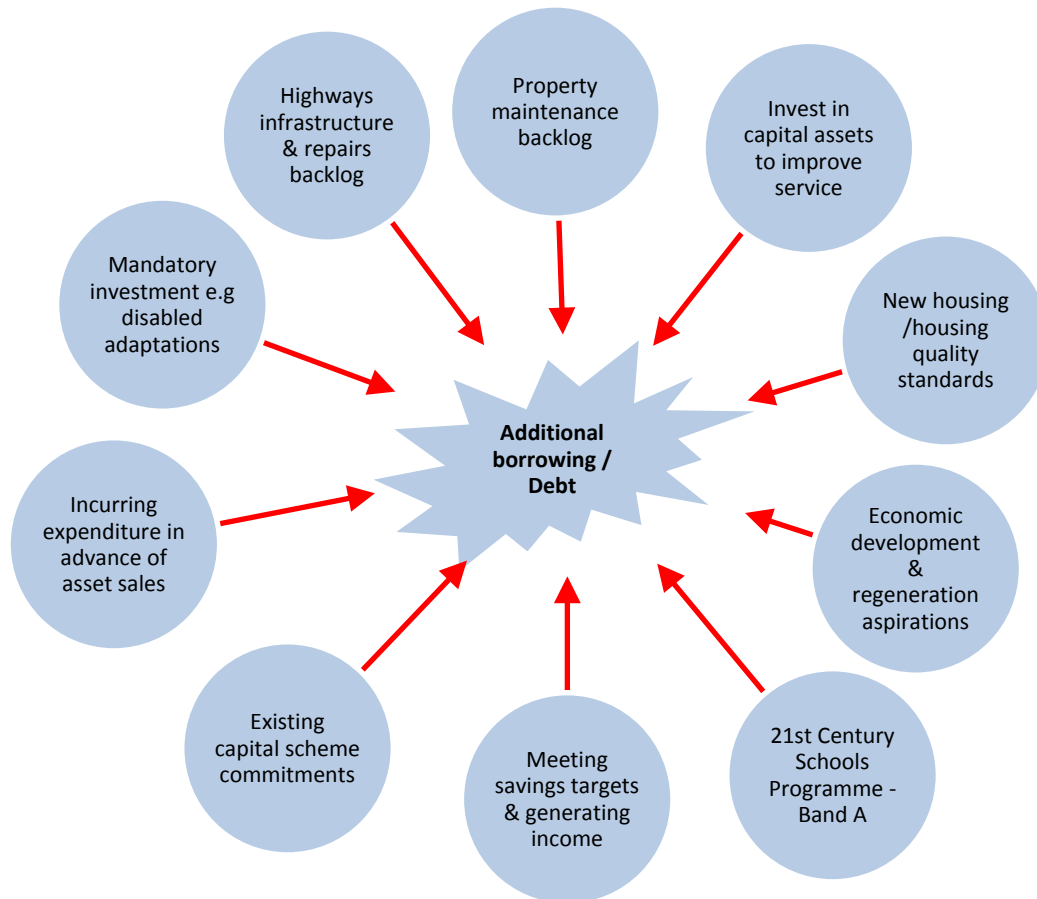
282. The Harbour Authority maintains a Project and Contingency Fund which is used to support small scale projects and provides a contingency if the approved budget is exceeded. The Fund receives contributions from a combination of receipts from the sale and disposal of land and past year underspends on the Fixed Cost budget. The balance is currently £756,000 with a further £320,000 expected in 2017/18 from land sales. A drawdown of £37,000 is required towards the cost of de-shoaling part of the River Taff and a £400,000 commitment has been made towards the hosting costs of the Volvo Ocean Race in 2018. There is also a plan to redevelop land at Alexandra Head in association with the VOR which would also provide opportunities for future events. This would require a contribution in the region of £500,000 from the fund thereby leaving a residual balance of £139,000.
283. The proposed budget and revised changes have provisionally been accepted by the WG but are subject to approval by Welsh Ministers. This will require a Deed of Variation and it is anticipated this will be concluded by 31<sup>st</sup> March 2017.

## **Capital**

284. The Capital Programme for the period 2017/18 to 2021/22 has been prepared following consideration of the demands on capital expenditure as well as resources for capital investment.
285. The Prudential Code for Capital Finance in Local Authorities includes Capital and Treasury Management indicators to be considered by the Council when approving capital expenditure plans and borrowing limits to ensure they are affordable, prudent and sustainable. Capital indicators are set out in this section of the report and treasury indicators and limits are included as part of the Treasury Strategy, also in this report.
286. The Council is, over a period of time, increasing the amount it needs to borrow which will have a consequential increase on the capital financing budget within the revenue account and the Council's MTFP. The local capital financing prudential indicator shown later in this report highlights that the proportion of the Council's General Fund revenue budget that it spends on capital financing is increasing.
287. There are other initiatives such as the CCRC and 21<sup>st</sup> Century Band B schools investment being developed which, when progressed, will have significant capital expenditure implications. Careful consideration will need to be given to the affordability of additional borrowing as well as the amount and timing of income receivable to support any borrowing and risk implications on the Council's Treasury Management Strategy.
288. However in the medium term the Council must decide, following consideration of advice from the Section 151 Officer, the affordability of additional Council borrowing.

## Capital Programme Plan and Capital Financing Requirement (CFR)

289. Capital Expenditure commitments and pressures are arising from a number of sources as illustrated below.

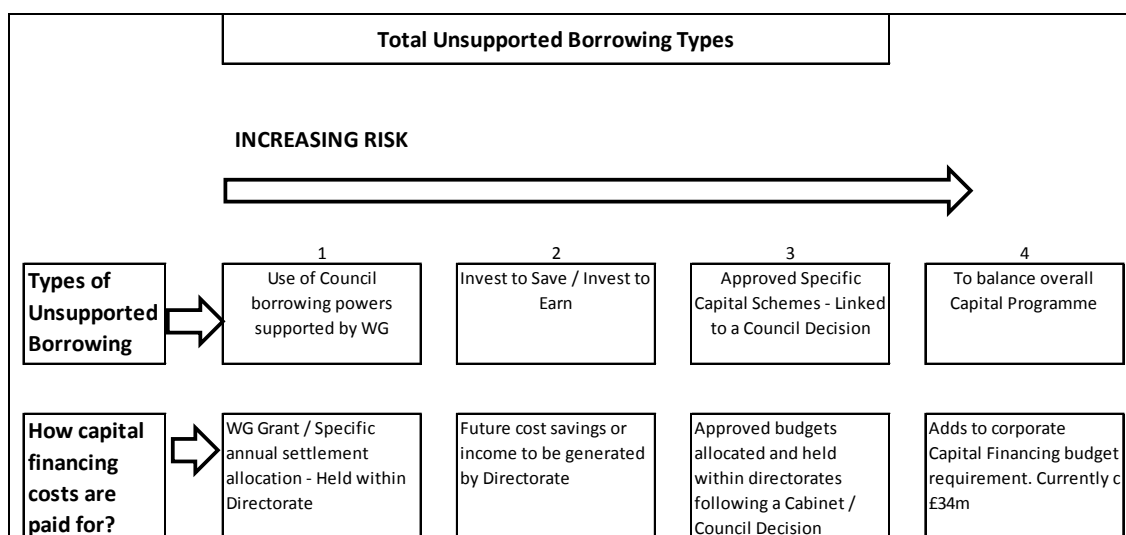


290. Expenditure in excess of WG funding can only be met by taking additional unsupported borrowing or from selling assets.

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

- 'Supported Borrowing' - costs of servicing are included within the annual RSG the Council receives from WG.
- 'Unsupported Borrowing' – costs of servicing to be met by the Council from Council Tax, savings, additional income or sale of assets. The types of unsupported borrowing typically undertaken by the Council and how capital financing costs are paid for are shown in the next diagram.





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

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

293. The actual CFR as at 31 March 2016 (excluding provision for landfill) and estimates for current and future years are shown below:

Capital Financing Requirement as at 31 March					
	2016 Actual £m	2017 Estimate £m	2018 Estimate £m	2019 Estimate £m	2020 Estimate £m
General Fund	432	449	476	472	462
Housing Revenue Account	277	274	282	291	292
<b>Total</b>	<b>709</b>	<b>723</b>	<b>758</b>	<b>763</b>	<b>754</b>

294. The timing of capital expenditure, capital receipts and new schemes that may be considered for approval in future years are risks to the CFR forecast, however summarising the above, it can be seen that the Council's underlying need to borrow is increasing. This will eventually need to be paid for by revenue savings, revenue income or Council Tax and Housing Rents.

295. Set against the demand for capital resources, tough choices are required, which may include determining that a greater share of the Council's revenue budget will need to be set aside to meet capital investment. As the Council realigns itself strategically to lower funding levels it needs to consider the level of debt, potential financial resilience and Well-being of Future Generations (Wales) Act 2015 issues that may be a consequence of increasing borrowing. The percentage of controllable budget that is committed to General Fund capital financing costs in the long term is increasing. Even if they remain static, they will account for a greater proportion of the Council's revenue base budget as the level of demand continues to exceed funding. This clearly limits the scope for additional borrowing in future years and will be a factor considered by Members when determining the current and future capital programme along with: -

- the prudential indicators highlighting the longer term impact of capital decisions on the revenue budget and affordability, prudence and sustainability
- use of control mechanisms for different types of unsupported borrowing before approval
- determining core areas of long term investment e.g. maximum exposure limits to unsupported borrowing for 'discretionary' type services
- whether the inherent risks in a project are better managed via commercial options rather than direct Council investment
- the key long term strategic priorities for the City for which investment to be funded by additional borrowing is to be approved.

### **Capital Programme 2017/18 – 2021/22**

296. The Capital Programme has been profiled in accordance with technical advice relating to regulatory processes, timetables and work plans. Whilst acknowledging that some delay cannot be avoided, directorates are reminded of the importance of:

- minimising slippage wherever possible
- their responsibilities to ensure that they have sufficient and capable resources to develop and deliver capital schemes
- notifying Finance of slippage at an early stage for inclusion in budget monitoring reports
- having contract management processes and procedures in place and ensuring variations are approved in accordance with the Council's Constitution.

297. The proposed Capital Programme for 2017/18 and indicative Programme for 2018/19 to 2021/22 is summarised in the following table:-

<b>Capital Programme</b>	<b>2017/18*</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Total</b>
	<b>£000</b>	<b>Indicative £000</b>	<b>Indicative £000</b>	<b>Indicative £000</b>	<b>Indicative £000</b>	<b>£000</b>
Annual Sums Expenditure	21,405	14,367	14,192	14,192	13,832	77,988
Ongoing Schemes	33,053	38,248	1,285	1,876	243	74,705
New Capital Schemes	2,942	3,135	2,015	1,715	1,715	11,522
Schemes Funded by External Grants and Contributions	22,684	15,615	285	0	0	38,584
Invest to Save Schemes	32,960	9,672	500	500	500	44,132
<b>Total General Fund</b>	<b>113,044</b>	<b>81,037</b>	<b>18,277</b>	<b>18,283</b>	<b>16,290</b>	<b>246,931</b>
<b>Total Public Housing (HRA)</b>	<b>30,005</b>	<b>31,350</b>	<b>24,490</b>	<b>18,250</b>	<b>22,050</b>	<b>126,145</b>
<b>Total Capital Programme</b>	<b>143,049</b>	<b>112,387</b>	<b>42,767</b>	<b>36,533</b>	<b>38,340</b>	<b>373,076</b>

\* Includes slippage estimated at Month 9. The final slippage figure, which will be known at outturn, will be reflected in the Month 4 2017/18 budget monitoring report.

298. The five year programme is detailed in Appendix 21, with some of the main items of expenditure highlighted below:-

<b>Theme</b>	<b>Types of expenditure</b>
<b>Annual Sums</b>	<ul style="list-style-type: none"> <li>• Disabled adaptations to allow people to remain in their homes</li> <li>• Highway infrastructure and property asset renewal</li> <li>• Neighbourhood regeneration</li> <li>• Parks asset renewal</li> <li>• Road safety; cycle and public transport network improvements including Western bus interchange</li> </ul>
<b>Previously Agreed / Ongoing Schemes</b>	<ul style="list-style-type: none"> <li>• Completion of Citizen Hub Strategy</li> <li>• Day Centre Opportunities Strategy</li> <li>• Maelfa Centre regeneration</li> <li>• Whitchurch High School accessibility for disabled pupils</li> <li>• Carriageway reconstruction</li> <li>• Bereavement Strategy</li> <li>• Roath Park improvements</li> <li>• Central Square public realm and Integrated Transport Hub</li> <li>• Dumballs Road land purchase</li> <li>• Modernising ICT to Improve Business Process</li> <li>• Children's Service Accommodation Strategy</li> </ul>

Theme	Types of expenditure
New Capital allocation approved in 2017/18 Budget	<ul style="list-style-type: none"> <li>• Further expansion of day centre strategy for dementia and other high need clients</li> <li>• Domestic abuse victims multi agency hub</li> <li>• Additional budget for carriageway reconstruction and highway resurfacing</li> <li>• Additional investment in the cycle network</li> <li>• Additional investment in school buildings</li> </ul>
External Grant and Contribution and Contributions assumptions	<ul style="list-style-type: none"> <li>• Subject to approval of bids, 21<sup>st</sup> Century School Band A grant from WG</li> <li>• Dwr Cymru and landfill communities fund for Greener Grangetown scheme</li> <li>• WG Transport and road safety grants</li> <li>• Harbour Authority asset renewal</li> <li>• Planning gain and other contributions received towards a range of schemes</li> </ul>
Invest to Save	<ul style="list-style-type: none"> <li>• 21<sup>st</sup> Century Schools Band A including completion of Eastern High, a new high school in the West and also new primary schools Glan Morfa, Howardian and Hamadryad</li> <li>• LED lighting on principal roads</li> <li>• Council leisure and arts venues investment as part of alternative service delivery</li> <li>• Energy efficiency measures</li> <li>• Dumballs Road land purchase</li> <li>• Recycling machinery upgrades</li> </ul>
Public Housing	<ul style="list-style-type: none"> <li>• Improvements to garages, gullies and open spaces</li> <li>• Investment in existing stock to sustain Welsh Housing Quality Standards (WHQS)</li> <li>• Energy efficiency</li> <li>• High rise block upgrades</li> <li>• Sheltered accommodation remodelling</li> <li>• New build Council dwellings as part of the HPP, with the first site to be started in March 2017</li> <li>• Opportunities for acquisition of stock and development of new dwellings on sites not part of the HPP</li> <li>• Disabled adaptations</li> </ul>

## Annual Sums

299. The level of general capital funding provided annually by the WG is insufficient to meet current, essential, annual capital expenditure commitments, which means additional unsupported borrowing is being undertaken annually to support a minimum level of investment.

## **Invest to Save Schemes – Additional borrowing to be repaid from revenue savings/income**

300. The General Fund Programme includes significant borrowing commitments of £44.1 million for directorate schemes modelled to pay for themselves over a set period of time, either from revenue resources budgeted for in future years, revenue savings or income generation. Directorates responsible for Invest to Save schemes will need to repay amounts owed from existing revenue budgets irrespective of whether the level of savings or income initially expected materialise. Accordingly it is essential that there is a robust review of business cases before commitments are entered into, a requirement supported by the Investment Review Board.
301. WG has increasingly been providing interest free loans or repayable grants using Financial Flexibility funding available to them for a range of schemes. Whilst welcome, where there is linkage between the strategic aims of the Council, these and other schemes that use Local Government borrowing powers present an ongoing risk to the Council. Such schemes increase the Council's capital expenditure and WG funding must be paid back in full.

## **New Capital Allocations Approved in 2017/18 Budget**

302. The Budget Strategy report considered by Council in July 2016, highlighted the pressures on the Capital Programme. Borrowing is a long-term commitment to the revenue budget and must be prudent, sustainable and affordable now as well as in the long term.
303. Whilst it was important to consider new pressures and the need for investment, any capital bids were only to be submitted if they met the following criteria:-
- delivers a statutory service and core strategic long term outcomes included in the Corporate Plan
  - has undergone a thorough options appraisal
  - investment needs to be made by the Council and cannot be better made by others
  - in accordance with property or other asset management plans proposed by scheme sponsors and has a robust and deliverable profile of expenditure in order to avoid slippage after the programme has been set
  - generates income from capital receipts, revenue savings or external grants.
304. Overall, the new schemes proposed in the 2017/18 budget support key priorities and improvement objectives of the Corporate Plan including investment in schools, highways and social housing.

## **External Grant and Contribution Assumptions**

305. Over the life of the Capital Programme and even in 2017/18 the level of external grants included are based on assumptions. This is due to the lack of

data being available from grant funding bodies and a bid submission process which clearly causes difficulty in longer term planning and implementation of capital investment decisions.

306. Any external grant approvals received during the year will be reported as part of the Council's budget monitoring as a basis for inclusion in the budget framework.

### **Public Housing/Housing Revenue Account (HRA)**

307. Investment in Public Housing includes the revenue benefit from housing finance reform in 2015/16 which is to be retained on an annual basis for re-investment in enhancing the condition of existing housing stock and development of new stock. It also assumes the continued receipt of £9.6 million annual Major Repair Allowance grant from WG in order to sustain the WHQS improvements made to the stock.
308. A number of sites will be appropriated from the General Fund into the HRA for the development of new housing as part of the HPP. These include the former school sites at Rumney, Llanrumney, Mynachdy and Howardian as well as the site of the old STAR Centre. No additional expenditure is shown as a result of these transfers in to the HRA, as this is achieved by a transfer of debt from the General Fund to the HRA.
309. The programme allows for creation of 600 new social rented and assisted home ownership properties as part of the HPP. The Council is also developing an additional house building and acquisition programme with the target to deliver, as a minimum, an additional 400 units over five years, bringing the total delivery of new affordable Council homes to 1,000 units over five years. A programme of housing development together with options for land and property purchase are currently being considered based on the priorities identified in the housing market needs assessment and in response to ongoing Welfare Reform parameters. The inclusion of acquisitions within the programme reflects the urgent need to increase the number of permanent and temporary affordable housing options across the City alongside more traditional house building projects.
310. As part of the agreement to exit from the subsidy system, the Council must adhere to a debt cap. Accordingly any new expenditure to be paid for by borrowing should be prioritised to ensure that improvements are either essential or have an element of pay back, to ensure that there are no long term issues of affordability and sustainability in respect of borrowing.

### **Capital Resources 2017/18 to 2021/22**

311. Resources proposed to be used to pay for capital works are summarised in the table below and detailed in Appendix 22.

<b>Capital Resources</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>Total £000</b>
WG General Capital Funding - Supported Borrowing	8,412	8,412	8,412	8,412	8,412	42,060
WG General Capital Funding - Grant	5,119	5,119	5,119	5,119	5,119	25,595
Major Repair Allowance Grant (HRA)	9,600	9,600	9,600	9,600	9,600	48,000
Additional borrowing	57,999	30,562	12,606	6,682	8,606	116,455
Earmarked Capital Receipts	28,760	35,874	0	0	0	64,634
Non earmarked Capital Receipts	2,000	1,000	1,000	1,000	1,000	6,000
Revenue & Reserves	6,175	5,755	5,745	5,720	5,603	28,998
Other External Grants and Contributions	24,984	16,065	285	0	0	41,334
<b>Total Resources</b>	<b>143,049</b>	<b>112,387</b>	<b>42,767</b>	<b>36,533</b>	<b>38,340</b>	<b>373,076</b>

312. The Council will receive £13.531 million in 2017/18 through grant and supported borrowing approval from the WG in order to determine its own spending priorities for capital items. This is a £41,000 increase from 2016/17 but a significant reduction of circa 35% compared with 2010/11. This means that WG resources barely meet current annual capital expenditure commitments therefore the Council has to increase its borrowing. The Council will be required to submit its Public Housing business plan to WG in March 2017, which assumes Major Repairs Allowance remains at previous levels of £9.6 million per annum.
313. Expenditure funded by unsupported additional borrowing of £116.5 million is proposed over a five year period. This is in order to meet General Fund capital expenditure and to pay for Invest to Save schemes of £70.5 million and £46 million of public housing capital expenditure. This excludes proposed land appropriations between the General Fund and the HRA.
314. Over the five years of the Capital Programme, £6 million of non-earmarked capital receipts has been assumed. In addition, earmarked receipts and specific contributions of £26 million have been identified to offset expenditure and minimise levels of borrowing for the 21<sup>st</sup> Century Schools Programme and £34.9 million for other schemes including Central Square redevelopment and the integrated transport hub. Until such sums are actually received this remains a significant risk to the level of additional borrowing. Should there be a delay in realising receipts or should amounts be lower than anticipated after contracts for expenditure have been let this will create significant financial risks to the Council.
315. Within this financial climate of reducing revenue resources it is clear that all necessary actions must be taken to reduce both initial capital expenditure by accelerating a reduction in the Council's asset base within a limited timeframe and also the subsequent need to borrow.

316. Releasing capital receipts often requires significant investment in improving other assets or providing alternative facilities which means an additional drain on realisable receipts. Additionally, the actual realisation of capital receipts will always be a relatively unpredictable exercise given the number of variable factors involved. Accordingly, it is not prudent to set a Capital Programme on capital receipt assumptions alone without a clear and approved strategy for the realisation and timing of such receipts in so far as this can be determined. To do otherwise will put additional pressure on the Council's borrowing requirement and future revenue budget pressures. In addition, with most receipts from disposals proposed to be earmarked for capital schemes, the availability of capital receipts to reduce the Council's borrowing requirement is limited.

### Planning Gain (Section 106) and Other Contributions

317. There remains a significant level of existing contributions which directorates must focus on utilising within relevant timescales and in accordance with the terms and conditions of the agreements.

318. The following table summarises the balances of Section 106 funding and other contributions currently held by the Council on a service basis, together with a planned profile of spend over future years determined by directorates. Due to the level of uncertainty, future amounts potentially receivable in respect of Section 106 balances have not been included, but could be significant in relation to large sites. In previous years the planned profile of Section 106 spend for Parks and Public Open Space has not been achieved. The Directorate is undertaking a ward based review of priorities and will need to ensure sufficient staff resource is available to implement improvements using this source of funding held.

Areas of Service	Projected Balance at 31 March 2017 £000	Planned Use 2017/18 £000	Planned Use 2018/19 £000	Planned Use 2019/20 and beyond £000
Traffic & Public Transport	1,849	458	667	724
Parks & Sport	3,350	884	1,328	1,138
Planning	295	93	186	16
Education	273	218	0	55
Economic Development	1,204	486	718	0
Neighbourhood Regeneration	896	276	570	50
Other				
<b>General Fund Total</b>	<b>7,867</b>	<b>2,415</b>	<b>3,469</b>	<b>1,983</b>
<b>Housing Total</b>	<b>2,756</b>	<b>2,309</b>	<b>447</b>	<b>0</b>
<b>Total</b>	<b>10,623</b>	<b>4,724</b>	<b>3,916</b>	<b>1,983</b>



319. Some of the schemes included in the profile above are:

- Traffic & Transportation – public transport improvements, junction improvements, bus stops and bus borders; installation of CCTV and real time information, telematics and transportation schemes including the provision of bus routes in the City and strategic transport initiatives.
- Parks – Subject to the ward based review potential schemes and amounts are subject to change and include:- Llanishen Park (£165,000), Hendre Lake (£152,000), Canal Park (£120,000), Hammond Way play area and other parks projects in Penylan (£117,000), Pontcanna and Llandaff Fields (£134,000), public open space and Cemetery Park in Adamsdown.
- Strategic Planning – public realm improvements at Bridge Street, Charles Street, Newport Road, Mount Stuart Square and the entrance to Cathays station.
- Schools – Howardian Primary School (£119,000) and Cardiff West Community High School (£76,000).
- Neighbourhood Regeneration – provision of library service within the Cardiff Royal Infirmary site (£205,000) in addition to the refurbishment of community facilities in Lisvane, Butetown and Cathays.
- Housing – development of new Council housing as part of the HPP.

320. The Community Infrastructure Levy (CIL) regulations came into force in April 2010. CIL is a system of regulations that allow local authorities in England and Wales to raise funds from developers undertaking new building projects in their area. CIL sits alongside the existing Section 106 process. However, CIL regulations change some of the key rules associated with Section 106, in particular to prevent overlap between the two funding mechanisms.

321. The money raised through CIL can be used to help fund a wide range of relevant infrastructure that is needed to support the development of an area. Relevant infrastructure is not clearly defined in the regulations but may include:

- roads and other transport facilities
- flood defences
- schools and other educational facilities
- sporting and recreational facilities
- open spaces

322. An Infrastructure Plan has been prepared in association with the LDP. This gives a broad indication of the range and extent of community infrastructure needed to support the projected level of growth as a result of the Council's LDP. It also provides an indicative cost and identifies potential funding sources to deliver the required infrastructure, however the financial implications of this will need to be considered as proposals are developed.

323. Public consultation on the stage two Draft Charging Schedule (DCS) was undertaken in September/October 2016. It is anticipated that the DCS will be

submitted for public examination during spring 2017, with the intention to be in a position to implement the CIL towards the end of the year.

### Other Capital Prudential Indicators

324. The Council is required to set a number of indicators for the years 2017/18 to 2019/20 to assist in determining whether it establishes a prudent, affordable and sustainable Capital Programme. The CFR forecast considered earlier is an example of capital prudential indicators. In addition, the Council has developed a local indicator which is detailed in this report for the period up to 2021/22. Treasury indicators are included in the Treasury Management section of this budget report.

### Capital Expenditure

325. The capital expenditure incurred in 2015/16 and estimates of capital expenditure for the current and future years as set out in the programme are as follows:

<b>Capital Expenditure</b>					
	<b>2015/16 Actual £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>
General Fund	82	85	113	81	18
HRA	207	23	30	31	24
<b>Total</b>	<b>289</b>	<b>108</b>	<b>143</b>	<b>112</b>	<b>42</b>

### Incremental Impact of New Capital Investment Decisions

326. Increases in capital expenditure must be affordable within the projected income of the Council for the foreseeable future. Accordingly, the Council must calculate its budget requirement for each financial year to include the revenue costs that flow from new capital expenditure decisions, which include:

- increases in capital financing costs (interest and prudent provision for repayment of borrowing)
- increases in running costs from new capital projects.

327. Whilst it is difficult to isolate the financial impact of new capital investment decisions proposed in this budget, the prudential indicator requires an estimate of the incremental impact on Band D Council Tax and on the weekly housing rent. The indicator is based on current gearing levels between central and local taxpayers. The calculation takes into account new schemes proposed in the budget only. It is required to exclude borrowing commitments for schemes proposed in previous budgets.

328. For the HRA it is assumed that the costs of any additional borrowing undertaken towards the development of new Council housing is offset by additional rental income from new properties.

<b>Incremental Impact of New Capital Investment Decisions</b>			
	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>	<b>2019/20 Estimate £</b>
For the Band D Council Tax	0.25	2.01	3.80
Average Weekly Housing Rent	0.30	1.55	3.12

### **Ratio of Financing Costs to Net Revenue Budget Stream**

329. An indicator of the affordability of historic and future capital investment plans is the ratio of financing costs to net revenue budget stream. It identifies the trend in the cost of capital financing (excluding the running costs of schemes). Financing costs include:

- interest payable on borrowing and receivable on investments
- penalties or any benefits receivable on early repayment of debt
- prudent revenue budget provision for repayment of capital expenditure paid for by borrowing
- reimbursement of borrowing costs from directorates in respect of Invest to Save schemes.

330. For the General Fund, the net revenue stream is the amount to be met from non-specific WG grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers. An increasing ratio indicates that a greater proportion of the Council's budget is required for capital financing costs over the planned Capital Programme period.

<b>Ratio of Financing Costs to Net Revenue Budget Stream</b>						
	<b>2015/16 Actual %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>	<b>2020/21 Estimate %</b>
General Fund	6.21	5.98	5.77	5.80	5.92	6.33
HRA	31.96	30.53	30.53	30.89	30.97	30.12

331. The percentage for the General Fund is estimated to increase from an estimated 5.98% in 2016/17 to 6.33% in 2020/21. This masks a change in the approach to calculating the prudent minimum revenue provision for supported borrowing from 2017/18 onwards, which is reduced from 4.5% to 4% per annum.

332. It should be noted that these figures include a number of assumptions such as:-

- no new approvals of additional borrowing apart from that currently proposed over the period
- estimated interest rates.

- the level of internal borrowing and timing of external borrowing decisions and capital expenditure
- the total level of the WG revenue support etc, which can fluctuate due to transfers in or out of the settlement.

These variables have long-term implications and are extremely uncertain.

333. Whilst the indicator above is required by the Prudential Code, it has a number of limitations:

- it does not take into account the fact that some of the Council's revenue budget is outside of its direct control
- it is impacted by transfers in and out of the settlement
- it includes investment income which is highly unpredictable, particularly in future years
- it does not reflect gross capital financing costs for schemes where additional borrowing is undertaken to be repaid from within directorate budgets.

334. Although there may be short term implications, Invest to Save schemes are intended to be net neutral on the capital financing budget. However, there are risks that the level of income, savings or capital receipts anticipated from such schemes will not materialise and would have a detrimental long term consequence on the revenue budget. This requires careful monitoring when considering future levels of additional borrowing.

335. Accordingly an additional local indicator has been developed for the General Fund and is shown in the table below for the period up to 2021/22. These local indicators show the ratio of capital financing costs of the Council expressed as a percentage of its controllable budget, excluding investment income:

<b>Capital Financing Costs expressed as percentage of Controllable Budget</b>								
	<b>2011/12 Actual %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>	<b>2020/21 Estimate %</b>	<b>2021/22 Estimate %</b>	<b>Difference 11/12- 21/22 %</b>
Net	13.47	15.78	14.77	15.29	15.78	17.11	18.32	36.01
Gross	15.17	19.68	19.44	20.13	20.51	22.00	23.19	52.87

336. In accordance with the principles of Invest to Save, the net ratio assumes that any costs of undertaking additional investment are recovered over time from directorate budgets, capital receipts or other budgets. The gross ratio indicates the gross capital financing cost i.e. it represents a worse case scenario.

337. An increasing percentage indicates that a greater proportion of the controllable budget 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 percentages take into account the significant level of savings having to be found in 2017/18 and over the medium term.

338. Approval of any additional capital schemes to be funded from borrowing would negatively impact upon the indicator. As set out earlier, this report reviews the Council's financial position across the life of the MTFP and identifies both the challenges ahead and the radical nature of the actions required. Council-wide solutions across this time frame will need to be holistic and could include consideration of both revenue and capital spend. Whilst approving the Capital Programme for the period up until 2021/22, Cabinet should be aware that together with new material commitments the later years position will be subject to an ongoing review of the Council's financial standing and resilience.

### **Treasury Management**

339. Treasury management involves:-

- ensuring cash is available when needed
- investing temporary cash balances and
- ensuring appropriate borrowing facilities to pay for the Council's capital expenditure commitments and for the prudent management of its financial affairs.

340. The Council carries out its treasury management activities in accordance with a Treasury Management Code of Practice developed for public services in 2011 by CIPFA. This requires the Council to set out the policies and objectives of its treasury management activities and adopt the four Clauses of Treasury Management. These were formally adopted by the Council in February 2010. Appendix 23 includes a glossary of terms used in relation to Treasury Management.

341. The Council's Audit Committee undertakes scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.

342. A number of reports are produced in relation to the Council's treasury management activities including a strategy at the start of the year, performance reports during the year, a mid year report and an outturn report.

### **Treasury Management Strategy**

343. The Strategy links plans for capital investment, financing and affordability of those plans and how cash will be safely managed to meet the Council's financial commitments and objectives. The Council accepts that no treasury management activity is without risk. However the overriding objective is to minimise the risk of adverse consequences or loss, whilst at the same time not unduly constraining investment returns or unnecessarily incurring interest costs.

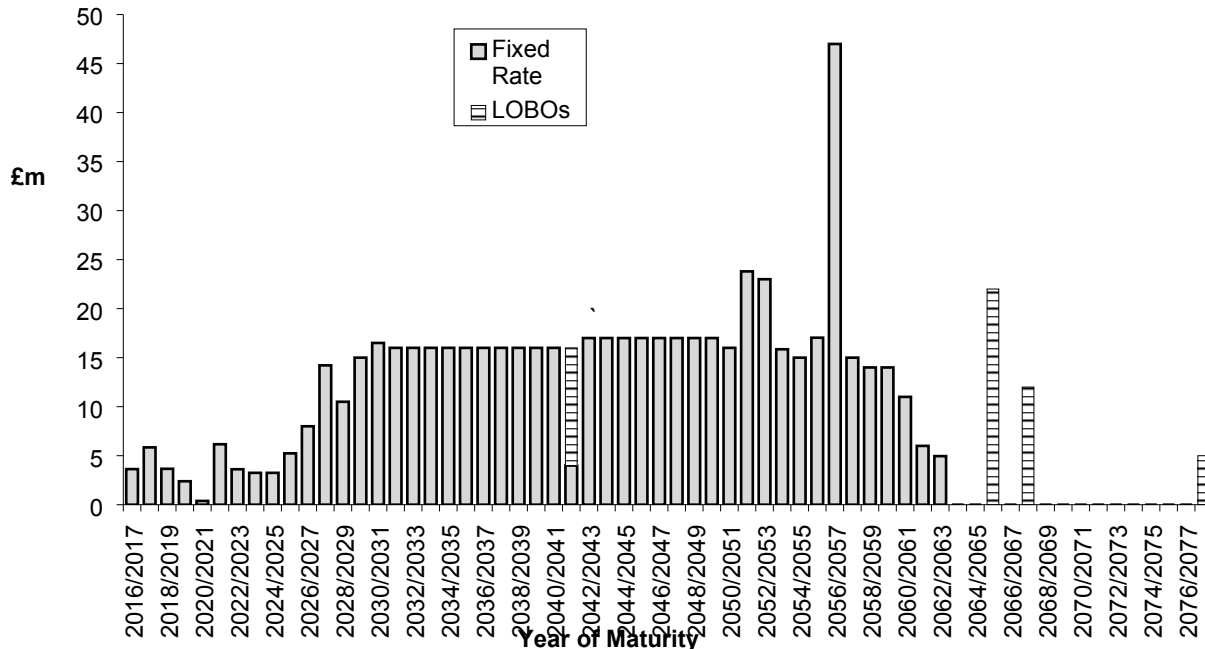
344. The successful identification, monitoring and control of risk are integral elements of treasury management activities. Risks include credit and counterparty, liquidity, interest rate, refinancing, fraud and regulatory. The Council has Treasury Management Practices to address and mitigate these risks which were last updated in March 2016 following a review by Internal Audit and Audit Committee.
345. Responsibility for treasury decisions ultimately remains with the Council however, the Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided by Capita Asset Services Treasury Solutions includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance, with the terms of appointment reviewed periodically.
346. The proposed strategy is an integrated strategy for the Council including the HRA. Significant changes will be reported in future scheduled reports to Council, Cabinet and Audit Committee during the course of the year. The strategy includes: -
- the current treasury position
  - economic background and prospects for interest rates
  - borrowing, including: -
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Council borrowing requirement and choice between internal and external borrowing and
    - Borrowing Strategy
  - treasury management indicators and limits for 2017/18 to 2019/20
  - investment Policy and Strategy, including security and investments approved for use
  - training.

### **The Treasury Position**

347. Borrowing and investments as at 31 December 2016 are shown in the following table. Borrowing is predominantly made up of fixed interest rate loans payable on maturity. Investments fluctuate daily and are represented by fixed term deposits, notice deposit accounts and money market funds. These balances arise due to the timing of cash flows and working capital as well as the existence of reserves, provisions and balances required for future use.

	Principal £m	Average Rate %
<b>External Borrowing</b>		
Public Works Loan Board	620.8	4.87
Market Loans	51.0	4.02
Welsh Government	2.6	0.00
Other	0.9	0.00
<b>Total Debt</b>	<b>675.3</b>	<b>4.78</b>
<b>Treasury Investments</b>	<b>75.1</b>	<b>0.61</b>

348. The Council's current debt maturity profile is shown in the following graph on the assumption that all loans run to their final maturity.



349. Loan maturities during 2017/18 are circa £6 million. Unless the Council's Lender Option Borrower Option (LOBO) loans are required to be repaid early, very little debt matures within the next 10 years. LOBO products are loans to the Council where the lender can request a change in the rate of interest payable by the Council on pre-determined dates. The Council at this point has the option to repay the loan. The Council has six such loans totalling £51 million.

350. Apart from the option to increase rates these loans are comparable to PWLB loans and have no other complications such as variation in interest rates or complex terms. Interest rates on these loans range between 3.81% and 4.35% and are below the Council's average rate of interest payable. Details of the loans are shown in the next table.

<b>Lender Option Borrower Option (LOBO) Loans</b>			
<b>Potential Next Repayment Date</b>	<b>Loan Value £m</b>	<b>Option Frequency Every</b>	<b>Full Term Maturity Date</b>
01/03/2017	6	6 months	23/05/2067
21/05/2017	6	6 months	21/11/2041
21/05/2017	6	6 months	21/11/2041
21/05/2017	6	6 months	23/05/2067
15/01/2018	5	5 years	17/01/2078
21/11/2020	22	5 years	23/11/2065

351. It should be noted that £24 million of the LOBO loans are currently subject to the lender potentially requesting a change in the rate of interest payable every six months. A further £5 million and £22 million have call options in January 2018 and November 2020 respectively and every five years thereafter. Risk of early repayment is deemed to be low, however in the longer term, options will need to be considered to reduce any potential large repayments in a single year.

### **Economic background and prospects for Interest Rates**

352. The following table gives the Council's treasury management advisor's latest forecast of interest rates taking into account the 20 basis point certainty rate reduction available for PWLB loans to eligible local authorities. It is a central forecast, acknowledging for example that the bank rate may rise sooner if there are sustained and robust UK growth, employment and inflation expectations.

	<b>January 2017 %</b>	<b>March 2017 %</b>	<b>March 2018 %</b>	<b>March 2019 %</b>	<b>March 2020 %</b>
Bank Rate	0.25	0.25	0.25	0.25	0.75
5yr PWLB rate	1.35	1.60	1.70	1.80	2.00
10yr PWLB rate	2.08	2.30	2.30	2.50	2.80
25yr PWLB rate	2.71	2.90	3.00	3.20	3.40
50yr PWLB rate	2.46	2.70	2.80	3.00	3.20

Forecast at December 2016

353. Financial markets remain volatile and economic forecasts remain uncertain particularly due to international political factors and the implications of the referendum vote in June 2016 on the economy. Growth and consumer confidence for the UK economy has remained strong however and inflation expectations in the short term have risen due to the fall in value of sterling impacting on the price of imports. Growth and inflation are two key factors used by the Bank of England in determining when to change interest rates.



354. The bank rate was reduced in August 2016 to 0.25%, having remained unchanged since March 2009, and further quantitative easing and low cost funding was made available for bank lending to counter what the Bank of England forecast would be a sharp slowdown in the Economy. Given uncertainty regarding growth prospects, base rate is forecast to remain at current levels until 2019. As a consequence, and coupled with the Bank of England's funding for lending scheme, returns from Council investments are likely to remain minimal. In respect of future borrowing rates, PWLB rates have been experiencing significant volatility due to political events nationally and internationally, however the overall longer term trend is for borrowing rates to rise, albeit gently. This is as a result of higher levels of UK Government borrowing and reversal in quantitative easing. This will result in higher future borrowing costs for the Council.

## **Borrowing**

### **Borrowing Policy**

355. Borrowing to pay for capital investment has long-term financial consequences and risks, with decisions taken many years ago impacting currently and in the future in the form of interest and provision for repayment of capital expenditure. These costs are assumed in the Council's revenue budgets.
356. Loans are not generally undertaken for specific schemes or directorates; they are pooled and taken in the name of the Council and secured on all revenues of the Council. This includes HRA debt and investments for the reasons set out in the Budget Report of February 2016.
357. The Council's Borrowing Strategy for 2017/18 and the capital financing revenue budgets included in the MTFP will consider all options to meet the long-term aims of:
- promoting revenue cost stability to aid financial planning and avoid a stop-start approach to service delivery, although it is recognised that this may have a financial impact
  - pooling borrowing and investments to ensure the whole Council shares the risks and rewards of treasury activities
  - reduction over time in the average rate of interest on overall Council borrowing
  - ensuring any refinancing risk is manageable each financial year, using opportunities to re-profile borrowing where cost effective to do so both in the short and long term
  - ensuring borrowing plans are aligned to known capital expenditure spending plans, the useful life of assets created, financial reserve levels and consistent with the prudent provision for the repayment of any such expenditure paid for by borrowing
  - having regard to the effects on current and future Council Tax and Rent Payers.

358. The Council will only borrow if needed and may not do so just to gain financially. However, this option may be considered if it is felt that by borrowing in advance of need up to a maximum of three years, there may be opportunities to lock into favourable long-term rates with associated credit risks that can be managed.

### **Prudent Repayment of Capital Expenditure – Annual Minimum Revenue Provision (MRP) Policy Statement for 2017/18**

359. The Council has a statutory duty to calculate and set aside each year from its annual revenue budget an amount 'which it considers to be prudent'. This results in a reduction in the Council's underlying need to borrow known as the Capital Financing Requirement (CFR).

360. Legislation does not define what constitutes a 'prudent provision'. Instead WG has provided guidance and examples in order to interpret that term. Whilst authorities must consider that guidance, other approaches can be adopted if they are deemed prudent by the Section 151 Officer and individually designed for each local authority circumstance.

361. A statement on the Council's policy for its annual MRP is required to be submitted to full Council for approval before the start of the financial year to which the provision will relate. Decisions in respect of the allocation of MRP have short, medium and very long term impacts. Impacts of changes in policy decisions should be considered over that time horizon including compliance with legal duties under the Well-being of Future Generations (Wales) Act 2015.

362. Following consideration by Audit Committee in November 2016, it is proposed that the Council's MRP Policy will be as included in Appendix 24.

### **Council's Borrowing Requirement**

363. The following table shows the level of external borrowing currently held by the Council and any scheduled loan repayments. It compares this to the projected CFR based on current, known estimates and timing of the Council's capital expenditure plans. The difference between the projected CFR in 2019/20 (£754 million) and the level of external borrowing after any planned repayments (£666 million) is £88 million, i.e. there is a requirement for further external borrowing over the medium term.

<b>Gross Debt compared to Capital Financing Requirement</b>					
	<b>2015/16 Actual £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>	<b>2019/20 Estimate £m</b>
External borrowing at 1 April	470	666	673	671	668
Known New borrowing	202	14	4	tbc	tbc
Scheduled repayments	(6)	(7)	(6)	(3)	(2)
<b>External Borrowing at 31 March</b>	<b>666</b>	<b>673</b>	<b>671</b>	<b>668</b>	<b>666</b>
Capital Financing Requirement	709	723	758	763	754
<b>Under / (Over) borrowing</b>	<b>43</b>	<b>50</b>	<b>87</b>	<b>95</b>	<b>88</b>

364. To be meaningful for treasury management purposes, the CFR figures in this strategy exclude the accounting provisions for the management and aftercare of landfill sites which may not be incurred for many years to come. Accordingly, when setting the treasury indicators, landfill provision is excluded from the calculations, except for the setting of the Authorised Limit for external debt, which is required to be set under statute. Some of the CFR may be financed by internal borrowing in the short term, dependent on the sustainability and risks of any internal borrowing position.

### **External versus Internal Borrowing**

365. Whilst interest rates for borrowing are greater than interest rates the Council receives for investments (the cost of carry), it makes financial sense to use any internal cash balances held in the short-term to pay for capital expenditure and minimise costs (Internal Borrowing), rather than undertake external borrowing. However, there is a risk that the Council may have to borrow at higher rates when it does actually need to borrow in future and so this position is kept under continuous review.

366. A high level balance sheet review undertaken suggests that a maximum level of internal borrowing is circa £80 million. However, this is dependent on cash flows, the timing of use of earmarked reserves and provisions and longer term pressures in the MTFP. During the year options will be considered with the Council's Treasury Advisors as to whether trigger points could be determined to support the timing of borrowing decisions and level of internal borrowing. This will include benchmarking with other Local Authorities the levels of internal borrowing, whilst noting context and the risks of comparison.

### **Borrowing Strategy**

367. In the short term, using internal borrowing to meet the CFR is deemed manageable. However, based on the current forecasts of capital expenditure plans and high level analysis of the sustainability of internal borrowing from the Council's balance sheet position for future years, external borrowing will be required to be undertaken in the very short term.

368. The following strategy is proposed to manage the Council's Capital Financing Requirement: -
- Whilst investment rates remain lower than long term borrowing rates internal borrowing will be used to minimise short-term costs where possible.
  - In order to mitigate against the risk of borrowing rates rising faster than currently anticipated, external borrowing for an element of the Council's borrowing requirement will be taken as has been done in previous years.
369. If there was a significant risk of a sharp rise in long and medium-term rates, then fixed rate borrowing may be undertaken whilst rates were still comparatively lower. If there was a significant risk of a sharp fall in rates, then long-medium term borrowing would be deferred, following consideration of internal borrowing capacity.
370. Current interest rates on the Council's existing debt portfolio compared to new borrowing rates and the high penalty rates charged by the PWLB for early debt repayment, results in limited options for restructuring of debt. Options have been considered but these have resulted in very short term financial gains outweighed by the risk of higher longer term costs.

## **Treasury Management Indicators and Limits**

### **Indicators and Limits for 2017/18 – 2019/20**

371. The Council is required to set its treasury management indicators for the years 2017/18 - 2019/20. Appendix 23 gives further background in respect of the Prudential Indicators.
372. The Council must set and keep under review how much it can afford to borrow from debt or other long-term liabilities for the forthcoming year and the following two financial years (the Affordable Borrowing Limit). It must have regard to the Prudential Code and locally determined indicators when setting this limit and be content that capital investment plans are within sustainable limits and that the impact upon future Council Tax payers and Council tenants is acceptable.
373. It is recommended that the Council approve the following authorised limits (Statutory limit under Section 3(1) of the Local Government Act 2003) and operational boundaries for the next three years (figures for 2016/17 are for comparison only). The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.

### Authorised limit for external debt

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Limit for external borrowing and other long-term liabilities	780	776	776	776

374. This limit is consistent with proposals contained within the budget for capital expenditure, financing and revised accounting requirements in relation to landfill obligations. The limit for the Council overall has been set at a constant level of £776 million for 2017/18 to 2019/20.

375. Whilst there is currently no self-imposed or nationally imposed overall cap on the level of General Fund borrowing, the exit from the Housing Subsidy system set a cap for the HRA based on its CFR, with financial penalties from WG if breached. The table below shows the Council is forecast to be within the cap currently set.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
HRA CFR forecast at 31 March	274	282	291	292
HRA CFR Current Cap	316	316	316	316
<b>Headroom / (Excess)</b>	<b>42</b>	<b>34</b>	<b>25</b>	<b>24</b>

376. The HRA thirty-year business plan will need to be monitored closely in order to ensure that any risks to the breach of the Cap and any unsupported borrowing is prioritised for investment in assets, remains affordable and sustainable in the long term.

### Operational boundary for external debt

377. The proposed operational boundary or projected level of external debt (excluding landfill) is set at the anticipated level of the CFR at the end of each year. This will be subject to the level and timing of borrowing decisions.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Boundary for external borrowing and other long-term liabilities	723	758	756	754

378. The Council's actual external debt represented by borrowing at 31 March 2016 was £666 million, with no significant other long-term liabilities.

### Limits for fixed and variable interest rate exposure

379. Various upper limits must be set in order to manage risk and reduce the financial impact on the Council of any adverse movement in interest rates. The limits below reflect that whilst the majority of Council borrowing is currently at long term fixed rates, there could be exposure to variable rates. This is in

the form of interest on LOBO loans being changed early, the strategy to utilise internal borrowing where possible and short term external borrowing when required to manage cash flow.

	<b>2016/17</b> %	<b>2017/18</b> %	<b>2018/19</b> %	<b>2019/20</b> %
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	25	25	25	25

### **Maturity structure of fixed rate borrowing**

380. Limits are set to guard against a large element of the Council's debt maturing and having to be refinanced in a very short space of time, when it may not be economically favourable to do so. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be undertaken for the optimum period. The table assumes that loans run to their final maturity, however a separate column is also included to show the maturity profile should the Council repay its LOBO loans early.

<b>Maturity structure of borrowing in 2017/18</b>	<b>Upper limit</b> %	<b>Lower limit</b> %	<b>Actual to Maturity</b> %	<b>Actual if LOBOs Repaid Early</b> %
Under 12 months	10	0	0.53	4.83
12 months and within 24 months	10	0	0.87	0.87
24 months and within 5 years	15	0	0.95	4.21
5 years and within 10 years	20	0	3.19	3.19
10 years and within 20 years	30	0	21.35	21.35
20 years and within 30 years	35	0	24.29	22.51
30 years and within 40 years	35	0	26.46	26.46
40 years and within 50 years	35	0	19.84	16.58
50 years and within 60 years	15	0	1.78	0.00
60 years and within 70 years	5	0	0.74	0.00

### **Investments**

#### **Policy**

381. The Council has regard to the WG Guidance on Investments issued in 2004 and its subsequent amendments, as well as the 2011 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA Treasury Management Code).

382. The Council recognises that given the nature of investments, a trade-off between security, liquidity and yield cannot be avoided i.e. there is risk of default. The Council will aim to achieve the optimum return on its investments

commensurate with proper levels of security and liquidity, however the level of risk will be contained by ensuring: -

- all investments and repayments are in sterling
- investment instruments identified for use in the financial year are listed under 'Specified' investments and 'Non-Specified' investment categories, dependant on their complexity and risk
- a list of highly credit worthy counterparties with whom to invest is created and monitored
- diversification of approach, investment product and counterparties are sought where possible to avoid concentration of risk
- any set limits are implemented with immediate effect following approval of this Treasury Management Strategy by the Council
- continual monitoring of treasury activities with the categories of investments that may be used, the credit criteria and associated limits in determining with whom to invest and timing of decisions being delegated to the Section 151 Officer.

383. The Markets in Financial Instruments Directive (MiFID II) is to be implemented in the UK in January 2018. The aim is to ensure financial institutions undertake more extensive checks on their client's suitability for investment products. Organisations undertaking investments will be either classified as 'retail' or 'professional'.

384. Whilst there is likely to be additional administrative costs to the Council, the Council will aim to secure professional status with each organisation it invests with. Not doing so may limit the products and interest rates offered by financial institutions for what may be similar risk.

385. In order to secure professional status, the Council will need to demonstrate to each financial institution, that it meets certain qualitative and quantitative criteria. These are likely to include an assessment of expertise, size of portfolio, number of similar transactions undertaken in a year.

### **Specified Investments**

386. A specified investment is defined as one:

- being for a period up to one year.
- which is in straightforward easily understood low risk products.
- not involving corporate share or loan capital.
- where the principal sum to be repaid at maturity is the same as the initial principal sum invested.

387. Specified investments may comprise up to 100% of the Council's total investments.

<b>Instruments approved for use</b>	<b>Minimum Credit Criteria</b>
Debt Management Agency Deposit Facility	Assumed Government Guarantee
Term deposits – UK government and other Local Authorities	Assumed Government Guarantee
Deposits with the Council's banking services provider	Long-term A /Short-term F1
Term deposits – banks and building societies	Long-term A /Short-term F1
Term deposits with variable rate and variable maturities up to one year e.g. structured investment products	Long-term A /Short-term F1
Deposits with banks wholly or partly nationalised or where guaranteed by high credit rated (sovereign rating) countries	Long-term A /Short-term F1 Assumed Government Guarantee

### **Non-Specified Investments**

388. These are all other investments not meeting the definition of a specified investment which could be used in order to achieve diversification and manage liquidity needs. A maximum upper level of £60 million is to be set for non-specified investments including investments for greater than one year.

<b>Instruments approved for use</b>	<b>Min Credit Criteria</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Term deposits with Local Authorities (with maturities in excess of 1 year)	Assumed Government Guarantee	15	2 Years
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA- /Short-term F1+	15	2 Years
Deposits over one year with banks wholly or partly nationalised institutions where guaranteed by high credit rated (sovereign rating) countries	Long-term A /Short-term F1 Government Guarantee	20	2 Years
Term deposits with variable rate and variable maturities in excess of 1 year e.g. structured investment products	Long-term AA- /Short-term F1+	10	2 Years
Certificates of Deposit (In-house)	Long-term AA- /Short-term F1+	10	Maximum 2 year duration
UK Government Gilts and Gilt funds (In-house)	Assumed Government Guarantee	40	Maximum 3 year duration
Treasury Bills (In-house)	Assumed Government Guarantee	40	6 months



Collective Investment Scheme structures - Money Market Funds	AAA Constant Net Asset Value	60	Weighted Average Maturity 60 days
Other Collective Investment Schemes structures - e.g. enhanced cash funds, Government and Corporate Bond, Gilt or Liquidity Funds and floating rate notes	AAA Variable Net Asset Value	20	Weighted Average Maturity 3 years

389. The Council uses money market funds and other collective investment funds which pool together investments in a diversified portfolio of products and sectors. These may include short-term money market instruments such as bank deposits, certificates of deposit, government guaranteed bonds, corporate bonds and commercial paper. It should be noted that any such funds are triple A rated and allow instant access.

### Security

390. Credit and fraud risk are managed through procedural requirements and controls. The Council uses Fitch Credit ratings as a basis for assessment of credit worthiness of institutions it will invest with (See Appendix 25). Changes in the criteria and decisions with whom to invest are delegated to the Section 151 Officer. Commercial organisations (counterparties) on its approved list will have at least the short-term credit rating of F1 and be authorised institutions within the meaning of the Financial Services and Markets Act 2000. The rating F1 infers “Highest Credit Quality” and indicates the strongest capacity for timely payment of financial commitments.

391. For internally managed investments provided by the private sector, the lending list for any new direct investment in an organisation is based on the following credit criteria:

<b>Fitch Ratings (minimum)</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Limit £m</b>
Overnight to one year	A	F1	10
Overnight to two years	AA-	F1+	12
UK Part Nationalised Banks overnight to two years	A	F1	15

392. For internally managed funds the maximum limit for direct investment in any one group of related companies is £15 million.

393. Credit ratings are monitored regularly through use of the treasury management advisor’s credit service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council’s criteria, its further use for new investment will be withdrawn immediately.

394. Where investments are held with a counterparty which falls below the Council's approved criteria for new investment, the investments will be reviewed and options to call back funds before the maturity date would be investigated. It should be noted that any early repayment is only at the discretion of the borrower and often at a penalty.
395. Whilst Fitch ratings form the basis of the Council's threshold criteria, the Council will also have regard to the following when determining with whom to invest:
- rating updates provided by treasury advisors in respect of all three credit rating agencies, as well as other market data
  - media reports as well as sovereign credit ratings with the minimum requirement being a Fitch sovereign rating of AA- for non UK based institutions
  - the informed judgement of treasury staff and treasury management advisors after consideration of wider economic factors
  - financial sector and country exposure
  - the extent to which organisations who do not meet the above criteria, are nationalised.

## **Liquidity**

396. The Council aims to have sufficient funds to ensure it does not become a forced borrower for a significant period of time at rates in excess of what may be earned on such investments. In determining the maximum periods for which funds may be available and can be invested, short term cash flow forecasts are undertaken and a longer term balance sheet review is undertaken as part of the calculation of Prudential Code indicators.

## **Investment Strategy**

397. Given uncertainty of financial markets, the Specified and Non Specified investments above allow for a range of products to be available to manage short term investment balances and diversification.
398. Given the likelihood of internal borrowing and the interest rate forecasts identified above, longer term investments above one year will be unlikely. The Debt Management Agency Deposit Facility will be used only as a last resort.
399. The Investment Strategy for 2017/18 will continue to adapt to changing circumstances and market sentiment, with a pragmatic approach taken. Credit criteria changes are delegated to the Section 151 Officer. This allows a prompt response to uncertainties, with the Council being kept informed of significant changes through the various reports it receives on treasury activities during the course of the year.

## Treasury Management Training

400. Treasury staff directly and regularly involved in borrowing and lending activities are provided access to a wide range of training. This includes seminars and workshops organised by treasury advisors bringing together practitioners from different authorities; seminars organised by CIPFA and other national bodies; regular contact with a client relationship manager as well as their briefing notes and articles. Staff responsible for treasury activity on a day to day basis have a recognised accountancy qualification and are encouraged to undertake relevant treasury management training.
401. The Council's Audit Committee Members who are responsible for scrutiny of treasury management activities have also been provided with training and offered one to one training opportunities in order to support their role.

## Budgetary Framework

402. Under the Budget and Policy Framework Procedure Rules the Council is able to specify the extent of virement within the budget and the degree of in-year changes. The Council's Financial Procedure Rules also allow virements within directorate budgets as set out in the following table.

	Revenue	Capital
Relevant Assistant Director in consultation with the Section 151 Officer	Up to £50,000	Up to £100,000
Relevant Director in consultation with the Section 151 Officer	£50,001 - £250,000	£100,001 - £250,000
Cabinet	Over £250,000	Over £250,000

403. It is proposed to continue the current policy whereby the Cabinet has the authority to vire amounts between directorates of up to £500,000 and, subject to the Section 151 Officer raising no objection, to use reserves and to commit expenditure in future years up to a total in the year of £1.5 million.
404. In addition to the virements shown above, the Section 151 Officer will also undertake all necessary technical adjustments to the budgets and accounts during the year and reflect any changes to the accounting structure as a result of management and organisational changes within the Council.

## Reason for Recommendations

405. To enable the Cabinet to recommend to Council approval of:
- the Revenue and Capital budget and to set the Council Tax for 2017/18
  - the budget for the Housing Revenue Account
  - the Treasury Management Strategy

- the Prudential Code for Borrowing indicators for 2017/18-2019/20
- the Capital Programme for 2017/18 and the indicative programme to 2020/21, delegating to the Section 151 Officer authority to bring forward or delay schemes within the programme to match resources where necessary
- The Minimum Revenue Provision Policy for 2017/18.

406. To enable Cabinet to:

- approve the level of fees and charges for Council goods and services for 2017/18
- approve the level of rent and charges for 2017/18 in respect of Council Houses, garages and other service charges
- approve the Supporting People Spending Plan for 2017/18
- note the work undertaken to raise awareness of and ensure the financial resilience of the Council
- note the financial challenges facing the Council as set out in the Medium Term Financial Plan
- note the opportunities for savings over the medium term and that officers will continue to develop them to inform the Budget Strategy Report in July 2017.

### **HR Implications**

407. The Final Settlement was better than anticipated in the Budget Strategy Report, however the overall budgetary position remains challenging. The final proposals are based on the outcome of the consultation exercise and the priorities set out in the Corporate Plan. The budgetary position as outlined in this report represents a necessary response to the identified budget shortfall. Appendix 10 shows that there will be a net increase of 53.55 FTE Council posts overall made up of the deletion of 43.90 FTEs offset by the creation of 97.45 FTEs. This reflects posts deleted through a combination of vacant posts, redeployment and voluntary redundancy. The net increase in posts is a positive position to note in the context of previous years of net decreases in council posts.

408. Whilst the numbers of staff impacted by this budget proposal may not be as significant, the Council retains a range of mechanisms designed to support the people implications of the Council's budget proposals. Through the continued use of such mechanisms, the Council will consistently work hard to reduce the number of compulsory redundancies wherever possible. In addition to redeployment, other mechanisms include use of flexible working policies plus access to skills support through the Cardiff Academy and Trade Union Learning Representatives (TULR). Access to skills training either through the Academy or TULRs will continue to support staff in either refreshing their existing skills or developing new skills in order to enhance their opportunities to find another role in the Council or externally.

409. The Trade Unions have been consulted throughout the budget planning process and their comments have been considered. As part of the Council's commitment to partnership working, the Trade Unions will continue to be involved in all the proposals which impact on staff.

### **Legal Implications**

410. The Budget Report sets out certain duties and constraints in relation to setting a balanced budget and Council Tax. They form part of the legal implications to which the decision maker must address its mind notwithstanding that they are not repeated in this section of the Report.

### **Budget duties**

411. The Local Government Finance Act 1992 (LGFA 1992) requires the Council to set a balanced budget, including the level of the Council Tax. This means the income from all sources must meet the proposed expenditure. Best estimates must be employed to identify all anticipated expenditure and resources.
412. The approval of the Council's budget and Council Tax, and the adoption of a final strategy for the control of the Council's borrowing or capital expenditure are matters reserved, by law, to full Council. However, the Cabinet has responsibility for preparing, revising and submitting to Council estimates of the various amounts which must be aggregated in making the calculations required in order to set the budget and the Council Tax; and may make recommendations on the borrowing and capital expenditure strategy. (Pursuant to the Local Authorities (Executive Arrangements) (Functions and Responsibilities) (Wales) Regulations 2007.)
413. Local authorities must decide every year how much income they are going to raise from Council Tax. This decision must be based on a budget that sets out estimates of what the Council plans to spend on services. As the Council Tax must be set at the start of the financial year and cannot be increased during the year, consideration must be given to risks and uncertainties, and allowances made in funds for contingencies and reserves.
414. The budget and the Council Tax must be set by 11th March in the preceding financial year. A failure to comply with the time limit may leave the Council open to challenge by way of judicial review.
415. When the Council is considering its budget, it must have regard to the Section 151 Officer's report on the robustness of the estimates and the adequacy of the reserves in the budget proposals (section 25 of the Local Government Act 2003). This ensures that Members make their decision on the basis of authoritative advice. Members should provide clear reasons if they disagree with the professional advice of the Section 151 Officer.
416. Members should note that, after the Council has approved its budget and Council Tax, it is possible for the Council to make substitute calculations during the year (although the basic amount of Council Tax cannot be increased),

subject to certain provisos (s.37 LGFA 1992). The Local Government Act 2003 establishes a system to regulate the capital expenditure and borrowing of the Council. The heart of the prudential borrowing system is the duty imposed upon authorities to determine and keep under review how much money they can afford to borrow. The Local Authorities (Capital Financing and Accounting) (Wales) Regulations 2003 (as amended) specify the prudential code for capital finance to which local authorities in Wales must have regard in setting and reviewing their affordable borrowing limits (sections 3 and 5 of the 2003 Act).

417. The Local Government & Housing Act 1989 Part VI sets a statutory regime for housing finance. The Council has a general duty to review the rents of its houses from time to time and in fixing rents the Council must have regard, in particular, to the principle that the rents of dwellings of any class or description should bear broadly the same proportion to private sector market rents as the rents of dwellings of any other class or description. The review of the rents is a Cabinet function, and is undertaken with regard to the provisions of Part VI of the 1989 Act which governs housing finance and housing subsidy. Rents for council houses are a credit to the HRA and outgoings a debit. The Council is under a duty to prevent a debit balance on the HRA which is ring-fenced. There are restrictions in the way in which the account can be operated and the proposals in this report must comply with these accounting requirements to ensure that the rent should be set so as to ensure that the Council is able to comply with its duty to prevent a debit balance arising on the HRA.

### **Cardiff Capital Region City Deal**

418. The body of the report contains provisions relating to the CCRCD. The CCRCD has recently been the subject of separate reports to Cabinet and Council, with the detailed legal advice being set out in those previous reports .

### **Equality Duty**

419. The Council has to satisfy its public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties) – the Public Sector Equality Duties (PSED). These duties require the Council to have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of ‘protected characteristics’. The ‘Protected characteristics’ are:

- Age
- Gender reassignment
- Sex
- Race – including ethnic or national origin, colour or nationality
- Disability
- Pregnancy and maternity
- Marriage and civil partnership

- Sexual orientation
- Religion or belief – including lack of belief

420. As noted in the report, consideration has been given to the requirements to carry out Equality Impact Assessments in relation to the various saving proposals and EIAs have been carried out in respect of certain of the saving proposals, to ensure that the decision maker has understood the potential impacts of the proposals in terms of equality. This assists the decision maker to ensure that it is making proportionate and rational decisions having due regard to the public sector equality duty.
421. Where a decision is likely to result in a detrimental impact on any group sharing a Protected Characteristic, consideration must be given to possible ways to mitigate the harm. If the harm cannot be avoided, the decision maker must balance the detrimental impact against the strength of the legitimate public need to pursue the service remodelling to deliver savings. The decision maker must be satisfied that having regard to all the relevant circumstances and the PSED, the proposals can be justified, and that all reasonable efforts have been made to mitigate the harm.
422. It is noted that Equality Impact Assessments (which include consideration of views and information obtained through consultation) are available on the Council's website and as background papers to this report. The decision maker must consider and have due regard to the Equality Impact Assessment prior to making the decisions recommended in the report.

### **Employee and Trade Union Consultation**

423. The report recognises that notwithstanding efforts to reduce impacts on staff resulting from the level of funding cuts imposed, there will be some staff reductions during the financial year 2017/18. Legal Services are instructed that (i) engagement has been ongoing between Directors and Trade Unions to discuss budget saving implications and (ii) the Council has formally consulted with Trade Unions about the 2017/18 budget proposals and the likely impact on staff, particularly where posts are at risk of redundancy. Under the general law relating to unfair dismissal all proposals to make redundancies must involve reasonable consultation with the affected employees and their trade unions. In relation to any potential redundancies it is important that all required statutory notices are served.
424. Due to the fact that the potential number of redundancies could exceed 20 posts Section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 requires consultation to be undertaken with the Unions to include ways of avoiding the dismissals, of reducing numbers of employees being dismissed and or mitigating the consequences of dismissals. To this end Legal Services are instructed that consideration is being given to redeployment opportunities, VR and that consultations are ongoing. It is noted that the budget proposals also provide for the creation of posts.

## **Charging**

425. Each proposal to make or increase charges must comply with the statutory framework (including primary and secondary legislation and any statutory guidance issued) relating to the activity in respect of which charges are being levied, including any limitations on levels of charges.
426. Where reliance is placed on the power to charge for discretionary services (Section 93 of the Local Government Act 2003), any charges must be set so that when the charges are taken as a whole no surpluses are made (i.e. the power is limited to cost recovery).
427. Where activities are being undertaken for which charges are being made with the intention of producing surplus income, it is necessary to consider whether that activity is material and would amount to “commercial trading”. For commercial trading, the Council must develop a business case and establish an arms’ length company to undertake that activity (in accordance with the general trading power under Section 95 Local Government Act 2003), or identify another statutory power for a particular trading activity.

## **Consultation**

428. Duties to consult certain stakeholders in respect of proposals may arise from a number of different sources. Members will note that the Council has engaged in consultations as part of the budget process as set out earlier in the report under the heading “Consultation and Engagement”. In considering this matter, Members must genuinely and conscientiously consider the feedback from each consultation and have proper regard to it when making any decision in relation to the subject matter of that consultation. Members should carefully consider the results of the consultation as set out in Appendix 2.

## **The Well-Being of Future Generations (Wales) Act 2015**

429. This places a well-being duty on public sector bodies to take action to achieve 7 well-being goals in accordance with the ‘sustainable development principle’. The 7 well-being goals are: "a prosperous Wales", "a resilient Wales", "a healthier Wales", "a more equal Wales", "a Wales of cohesive communities", "a Wales of vibrant culture and thriving Welsh language" and "a globally responsible Wales"; and a description of each goal is given in the Act. Decision makers should consider how the proposed decision may contribute towards, or impact upon, achievement of the well-being goals. The Council must set well-being objectives to achieve the well-being goals and publish these objectives by 31 March 2017. Once the Council’s well-being objectives have been set, decision makers must have regard to the same, and must be satisfied that all reasonable steps have been taken to meet those objectives. In order to comply with the well-being duty, the Council must act in accordance with the ‘sustainable development principle’, which is defined as meaning that the Council must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must



take into account the impact of their decisions on people living their lives in Wales in the future. There are a number of factors which the Council must take into account in this regard, specifically, decision makers must:

- Look to the long term
- Focus on prevention by understanding the root causes of problems
- Deliver an integrated approach to achieving the 7 well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

430. In considering the above, due regard must be given to the Statutory Guidance issued by the Welsh Ministers.

### **General**

431. All decisions taken by or on behalf of the Council must:

- Be within the legal powers of the Council and of the body or person exercising powers on behalf of the Council.
- Comply with any procedural requirement imposed by law.
- Be undertaken in accordance with procedural requirements imposed by the Council e.g. procedure rules.
- Be fully and properly informed.
- Be properly motivated (i.e. for an appropriate, good and relevant reason).
- Be taken having regard to the Council's fiduciary duty to its tax payers as elected members are trustees of the public interest and of its statutory purposes for which public powers are conferred on them. This general duty requires the Council to act prudently and in good faith in the interests of those to whom the duty is owed.
- Otherwise be reasonable and proper in all the circumstances

### **Financial Implications**

432. The financial implications are written within the context of this report and with reference to the new requirements of the Future Generations Act while the following paragraphs summarise the significant points and related financial matters. Given the materiality of the current and forthcoming financial challenges, it is important that the level of detail in the report and financial implications is considered. Of interest is a similar message that was included in the 1937 Financial Report of Cardiff Corporation which stated that "The reader, at the cost of patient thought, may find herein some little entertainment and more certainly much information." G.W. Barker, City Treasurer.

433. The financial outlook over the medium term remains a concern and the Medium Term Financial Plan details these challenges in respect of ongoing financial austerity, increasing financial pressures and the difficulty of setting and realising year on year budget savings.

434. The budget for 2017/18 has been compiled against the backdrop of continued financial constraint with many expert commentators suggesting that the period of austerity will now last at least to the end of the decade. In commenting on his Financial Settlement for Local Government the Welsh Government's Cabinet Secretary for Finance said that local government should use an "18 month period of relative stability to prepare for harder choices and more difficult times ahead" and that they should not "sit back and have a breather because for one year, things are less awful than they have been."
435. The details included in the Final Local Government Revenue Settlement announced in December 2016 confirmed that for 2017/18 Cardiff will receive a cash increase in its funding of £2.3 million (0.5%) when compared with 2016/17. However, the actual increase in spending power reduces to £294,000 once new responsibilities and other differentiating year on year factors are taken into account. In addition, when inflation is taken into account the Settlement can be seen as a real terms cut in resources.
436. The Cabinet in its budget strategy and subsequent budget proposal has been conscious of the impact its proposal may have on the citizens and communities of Cardiff. For 2017/18, budget consultation has been carried out in two stages. General financial and service questions were included in the Summer 2016 Ask Cardiff survey while the specific budget proposals were subject to a period of public scrutiny lasting for over four weeks during late Autumn. Responses to these consultations have been reflected on by Cabinet and senior officers as part of their final deliberations. The Cabinet's budget proposal has, therefore, considered the issues raised having regard to the WG Settlement, the requirements of the Future Generations Act and in conjunction with the priorities in the draft Corporate Plan.
437. The budget proposals set out in this report will again result in significant operational and financial challenges as evidenced by the risk assessment exercise. The progress with these challenges will be monitored through directorate plans, performance reports and the Corporate Risk Register when reported to Cabinet, Scrutiny Committees, Audit Committee and the Senior Management Team.
438. Particular challenges for 2017/18 and the medium term have been identified and are set out in paragraph 64 of the report with the most significant being:
- the need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays to delivery of the proposal may have on the budget monitoring position
  - continuing demographic demand for social care services reflecting both volume and complexity of need
  - the level of additional borrowing undertaken in previous years and proposed in the Capital Programme will require the use of more revenue resources for capital financing in future years
  - the challenging financial position in respect of reducing WG resources, increasing financial pressures against a reducing controllable base

budget together with increasing volatility and uncertainty in respect of hypothecated grants

- the identified maintenance backlog impacting on the condition of property and infrastructure assets including statutory maintenance obligations places additional pressure on scarce resources
- The uncertain implications of BREXIT on the economy.

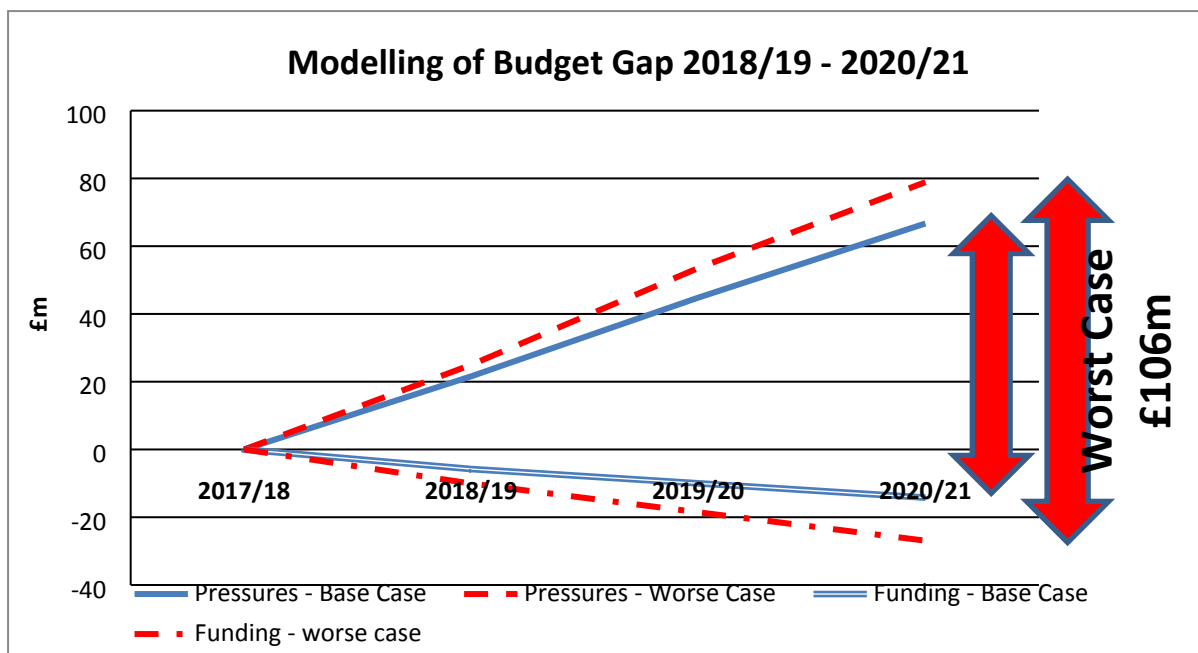
439. The budget process has been rigorous and has fully engaged the expertise of officers in directorates across the Council.

440. In formulating their budget proposal, the Cabinet through deliberation must come to a balanced judgement between the need to provide for services and the financial impact of the cost of those service needs on Council Tax payers. In coming to this judgement and as a result of the WG's financial settlements, the Council's budget now stands at £586.984 million, an increase of £8.823 million over 2016/17.

441. It should be noted that although the Council received a better than anticipated WG Settlement, the budget for 2017/18 still contains a significant element of risk and complex savings proposals will need to be relentlessly driven if they are all to be achieved as planned. In summary, the revenue budget proposal includes:

- savings of £13.264 million from directorate proposals and £3.743 million from addressable spend savings
- inclusion of the General Contingency of £3 million to mitigate the achievability risks associated with the level of savings to be delivered
- continuation of the Specific Issues contingencies of £2.029 million broken down between £950,000 for external placement costs in Children's Services, £350,000 to protect against price volatility in the MRF and £729,000 to recognise the difficulty of predicting Waste Disposal tonnages
- reinstatement of budget savings amounting to £1.073 million outstanding from 2016/17 and 2015/16 where, following review they are deemed to be no longer achievable
- directorate financial pressures amounting to £4.638 million
- the use of £1.5 million from earmarked reserves to support the budget based on a review of the Council's Balance Sheet
- continuation of the £4 million Financial Resilience Mechanism that was introduced in 2016/17 to reduce future risk, improve resilience and allow one-off investment and development in priority areas
- estimated net increase of 53.55 posts made up of the creation of 97.45 fte posts partially offset by a reduction of 43.90 fte posts
- increase in the Schools Budget of £7.233 million including both demographic and 70% of non-demographic growth
- a Council Tax increase of 3.7% resulting in a Band D charge of £1,099.52

442. Within the budget proposals are a number of initiatives that may require option appraisal, complex procurement arrangements or the implementation of new operating or delivery models. These elements of work will need to be completed within strict timescales in order that the budgeted levels of savings can be achieved. A number of the budget proposals require the continued development of a commercial approach that will enable the Council to respond speedily to market shifts and financial opportunities within an appropriate risk appetite. The Investment Review Board will continue to be the forum to test these matters before they progress to the appropriate governance route.
443. In addition, it is important that the Council retains sufficient support and project management capacity to enable the transition to a lower financially sustainable cost base.
444. The continuing financial challenges facing the Council are such that the financial resilience snapshots introduced in 2015/16 will continue to be prepared and used to raise members' overall awareness of financial matters. The position in respect of risks and reserves will require careful monitoring throughout the financial year, particularly in light of the achievability of savings and the future financial interventions that may be required.
445. The Council's position in respect of its reserves has again been assessed as part of budget preparation. The resultant judgement is that the projected level of both general and earmarked reserves up until 31 March 2018 is adequate when considering the 2017/18 budget. The expected balance on earmarked reserves as at 31 March 2018 is £36.186 million while the Council's General Reserve currently stands at £14.255 million.
446. The level of School Balances requires close attention as at 31 March 2016, within an overall net surplus of £1.7 million are deficit balances amounting to £3.5 million. Council officers will continue to support schools to ensure that spending plans are in alignment with their budgets and deficit budgets are avoided or reduced.
447. The Medium Term Financial Plan set out in paragraphs 166 to 218 uses the best available information to assess the financial gap facing the Council over the next three years. It is clear that anticipated resources will not cover emerging financial pressures and the resulting funding gap will need to be addressed through a combination of directorate budget reductions, use of reserves and increases in the rate of Council Tax. Although the Council has made over £213 million savings over the past decade, the base budget has not reduced by this amount. This is because the most significant reason for the Council to need to find savings is escalating demand, as illustrated by the following graph:



448. The next table demonstrates the funding gaps forecast to 2020/21 using sensitivity analysis to demonstrate a further potential adverse position.

Medium Term Financial Plan	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Base Case	27,379	27,457	26,071	80,907
Worse Case	35,059	37,029	33,736	105,824

449. The above table shows a base case scenario Budget Gap of £81 million over the next three years and while detail proposals to meet the gap in the final year are yet to be determined, it is clear that the focus will need to be on increased digitalisation of services and back office functions, commercialisation of activities, review of grants and subsidies together with prevention and early intervention actions. The ODP continues to play a key role in understanding these challenges and supporting the Council in realigning itself to a lower, financially sustainable base. For 2018/19 and 2019/20 savings options are being developed as set out in Appendix 17(b) and work will continue apace on 2018/19 proposals so that the Budget Strategy Report in July 2017 will include early considered proposals.

450. Notwithstanding the importance of the three year time horizon for medium term planning, councils also need to consider likely impacts beyond that timeframe. This is because the cumulative impact of decisions taken now can have a significant impact on the Council's budget in later years and it may be that current policies are considered unaffordable when viewed in hindsight over an extended timeframe.

451. Following the significant cuts that the Council has made in the recent past, either of the above scenarios reaffirms the position expressed in the 2015/16 Budget Report that radical changes are required in order for it to remain operational and resilient. In order to assist with this a re-assessment of

directorate base budgets will be undertaken to inform work leading to the Council's next Budget Strategy Report in July 2017.

452. The Council has a statutory duty to ensure that the HRA achieves a balanced budget and this has been evidenced as part of this Budget Report. The average weekly increase in housing rents of £4.20 (excluding service charges) is within the WG's Target Rent Band.
453. The SOP Financial Model brings together the projected capital expenditure and funding schedule over the life of the SOP initiative. The model is designed to be self-funding and the projects, included within the Council's Capital Programme, commence once the particular scheme business case has been approved by WG. However, the resultant significant financial exposure for the Council demands that close monitoring of the key risks is continued, contract management is robust and issues are escalated where necessary.
454. The inclusion of schemes in the Capital Programme have been profiled in accordance with technical advice relating to regulatory processes, timetables, expectation of grants and workflow priorities. In previous years the Council has experienced significant slippage of capital schemes which has prompted adverse comments from the Wales Audit Office and the Audit Committee. Consequently, capital scheme sponsors have again been reminded of the importance of robust profiling in order that capital plans are achieved as expected. Nevertheless, with such an extensive programme there is a residual risk that expenditure will slip between years and so any resultant impact on the programme will be addressed through the monitoring process in 2017/18.
455. Robust control of project costs is another area where issues have been in evidence and so it is important that directors give sufficient weight to good contract management capacity when allocating resources.
456. Resources to finance the General Fund Capital Programme between 2017/18 and 2021/22 include non-earmarked capital receipts to be achieved of £6 million. Additional borrowing of £71.7 million is also required to resource the programme and is made up of:

<b>Additional borrowing</b>	<b>£m</b>
To support estimated slippage from 2016/17	6.9
Capital Programme 2017/18 approved in February 2016	9.2
Finance for new schemes to be approved in February 2017	11.5
Invest to save schemes	44.1
<b>Total</b>	<b>71.7</b>

457. Particular attention needs to be given to the medium and long term impact of additional borrowing on the Council's revenue budget as it is clear that continuing to increase levels of additional borrowing within the General Fund is not consistent with the significant levels of savings required to be found. Accordingly, local affordability indicators are maintained to track the impact of decisions in the medium term although this is also impacted by reductions in the level of RSG received. It should be noted that whilst approving the Capital

Programme for the period up to 2021/22, Cabinet should be aware that the later years of the Programme will be subject to an ongoing review of the Council's financial resilience.

458. In addition to the Capital Programme included within this Report there are two further areas of investment that will need to be considered during the next twelve months and that are likely to require revisions to the Programme set as part of this Budget Report:

- The Council has recently confirmed its involvement in the CCRCD with full financial commitment invoked once the Reserved Matter has been discharged. At that stage the Capital Programme and related Treasury and Prudential indicators will need to be amended to recognise the additional commitment.
- The second stage of the WG's 21<sup>st</sup> Century School Programme is due to be formalised during 2017/18 and this will also impact on the Council's future Capital Programme, external borrowing and related revenue implications.

459. In the current extensive period of significant budget reductions and consequential loss of employee resources in many parts of the organisation, financial control continues to be of fundamental importance. It is vital that responsible officers take ownership of their budgets and that expenditure remains within the approved positions. Compliance with financial rules and governance requirements is expected and this will continue to be monitored and reported regularly as part of performance management arrangements.

460. In concluding the financial implications of this Budget Report and in recognition of the continuing financial challenge facing the Council, I would bring the following statement to members' attention.

*"In the financial implications of the 2015/16 Budget Report I referred to the materiality of the service choices ahead of the Council and that those difficult choices were facing all Councils. The 2016/17 Budget Strategy responded to this challenge through development of the reshaping of the Base Budget approach to determining targets for directorates over the medium term. It is positive that during 2016/17 some significant decisions in respect of service changes have been taken and the changes implemented, although the risk remains that the Council may not be able to achieve financial savings of sufficient magnitude to meet the target savings over the medium term. I will keep this under review and report progress to members as part of the financial monitoring regime. As well as highlighting the financial challenges in the medium term, the role of the Section 151 Officer is to advise members if the Cabinet risks setting an unbalanced budget. I do not consider this to be the case in 2017/18."*

## RECOMMENDATIONS

### (a) Recommendations to Council

The Cabinet, having taken account of the comments of the Corporate Director Resources in respect of the robustness of the budget and the adequacy of reserves as required under Section 25 of the Local Government Act 2003, and having considered the responses received to the Budget Consultation recommend that Council:

1.0 Approve the Revenue, Capital and Housing Revenue Account budgets including all proposals and increasing the Council Tax by 3.7% as set out in this report and that the Council resolve the following terms.

2.0 That it be noted that at its meeting on 15 December 2016 the Council calculated the following amounts for the year 2017/18 in accordance with the regulations made under Section 33(5) of the Local Government Finance Act 1992:-

a) 143,032 being the amount calculated in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) (Wales) Regulations 1995, as amended, as its Council Tax base for the year.

b)	Lisvane	2,350
	Pentyrch	3,258
	Radyr	3,651
	St. Fagans	1,295
	Old St. Mellons	1,400
	Tongwynlais	823

being the amounts calculated in accordance with Regulation 6 of the Regulations as the amounts of its Council Tax base for the year for dwellings in those parts of its area to which special items relate.

2.1 Agree that the following amounts be now calculated by the County Council of the City and County of Cardiff for the year 2017/18 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-

a) Aggregate of the amounts which the Council estimates for the items set out in Section 32(2)(a) to (d) (including Community Council precepts totalling £309,600). £1,077,570,600

b) Aggregate of the amounts which the Council estimates for items set out in Section 32(3)(a) and (c). £492,127,791

c) Amount by which the aggregate at 2.1(a) above exceeds the aggregate at 2.1(b) above calculated in accordance with Section 32(4) as the budget requirement for the year. £585,442,809



- d) Aggregate of the sums which the Council estimates will be payable for the year into its Council Fund in respect of Revenue Support Grant and redistributed Non-Domestic Rates.

£428,216,560

- e) The amount at 2.1(c) above less the amount at 2.1(d) (net of the amount for discretionary relief of £350,000), all divided by the amount at 2.0(a) above, calculated in accordance with Section 33(1) as the basic amount of Council Tax for the year.

£1,101.69

- f) Aggregate amount of all special items referred to in Section 34(1).

£309,600

- g) Amount at 2.1(e) above less the result given by dividing the amount at 2.1(f) above by the amount at 2.0(a) above, in accordance with Section 34(2) of the Act, as the basic amount of Council Tax for the year for dwellings in those parts of the area to which no special items relate.

£1,099.52

- h) The amounts given by adding to the amount at 2.1(g) above the amounts of special items relating to dwellings in those part of the Council's area mentioned below, divided in each case by the amount at 2.0(b) above, calculated in accordance with Section 34(3) as the basic amounts of Council Tax for the year for dwellings in those parts of the area to which special items relate.

	£
Lisvane	1,113.99
Pentyrch	1,127.45
Radyr	1,132.39
St. Fagans	1,113.42
Old St. Mellons	1,119.23
Tongwynlais	1,122.61

- i) The amounts given by multiplying the amounts at 2.1(g) and 2.1(h) above by the number which in the proportion set out in the Council Tax (Valuation Bands) (Wales) Order 2003 is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D calculated in accordance with Section 36(1) of the Act as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

## VALUATION BANDS

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Area</b>									
Lisvane	742.66	866.43	990.21	1,113.99	1,361.54	1,609.10	1,856.64	2,227.98	2,599.31
Pentyrch	751.63	876.90	1,002.18	1,127.45	1,378.00	1,628.55	1,879.08	2,254.90	2,630.72
Radyr	754.92	880.74	1,006.57	1,132.39	1,384.03	1,635.68	1,887.31	2,264.78	2,642.24
St. Fagans	742.28	865.99	989.71	1,113.42	1,360.85	1,608.28	1,855.70	2,226.84	2,597.98
Old St. Mellons	746.15	870.51	994.87	1,119.23	1,367.96	1,616.68	1,865.39	2,238.47	2,611.55
Tongwynlais	748.40	873.14	997.87	1,122.61	1,372.08	1,621.55	1,871.01	2,245.21	2,619.42
All other parts of the Council's Area	733.01	855.18	977.35	1,099.52	1,343.86	1,588.20	1,832.53	2,199.04	2,565.55

- 2.2 That it be noted that for the year 2017/18, the Police and Crime Commissioner for South Wales has stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992 for each of the categories of dwelling shown below:-

## VALUATION BANDS

<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>
<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
145.50	169.75	193.99	218.24	266.74	315.24	363.74	436.49	509.24

- 2.3 Having calculated the aggregate in each case of the amounts at 2.1(i) and 2.2 above, the County Council of the City and County of Cardiff in accordance with Section 30(2) of the Local Government Finance Act 1992 hereby sets the following amounts as the amounts of Council Tax for the year 2017/18 for each of the categories of dwellings shown below:-

## Part of Council's Area VALUATION BANDS

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>I</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Area</b>									
<b>Lisvane</b>	888.16	1,036.18	1,184.20	1,332.23	1,628.28	1,924.34	2,220.38	2,664.47	3,108.55
Pentyrch	897.13	1,046.65	1,196.17	1,345.69	1,644.74	1,943.79	2,242.82	2,691.39	3,139.96
Radyr	900.42	1,050.49	1,200.56	1,350.63	1,650.77	1,950.92	2,251.05	2,701.27	3,151.48
St. Fagans	887.78	1,035.74	1,183.70	1,331.66	1,627.59	1,923.52	2,219.44	2,663.33	3,107.22
Old St. Mellons	891.65	1,040.26	1,188.86	1,337.47	1,634.70	1,931.92	2,229.13	2,674.96	3,120.79
Tongwynlais	893.90	1,042.89	1,191.86	1,340.85	1,638.82	1,936.79	2,234.75	2,681.70	3,128.66
All other parts of the Council's Area	878.51	1,024.93	1,171.34	1,317.76	1,610.60	1,903.44	2,196.27	2,635.53	3,074.79

2.4 That the Corporate Director Resources be authorised to make payments under Section 38 of the Local Government (Wales) Act 1994 from the Council Fund by equal instalments on the last working day of each month from April 2017 to March 2018 in respect of the precept levied by the Police and Crime Commissioner for South Wales in the sum of £31,215,904.

2.5 That the Common Seal be affixed to the said Council Tax.

2.6 The Common Seal be affixed to precepts for Port Health Expenses for the period 1 April 2017 to 31 March 2018 namely

	£
The County Council of the City and County of Cardiff	113,755
The Vale of Glamorgan County Borough Council	12,846

2.7 That notices of the making of the said Council Taxes signed by the Chief Executive be given by advertisement in the local press under Section 38(2) of the Local Government Finance Act 1992.

3.0 Approve the Prudential Indicators for 2017/18, 2018/19 & 2019/20 delegating to the Section 151 Officer the authority to effect movement between the limits for borrowing and long term liabilities within the limit for any year.

4.0 Approve the Treasury Management Strategy for 2017/18 in accordance with the Local Government Act 2013 and the Local Authority (Capital Finance & Accountancy) (Wales) Regulations 2003 and subsequent amendments.

5.0 Approve the Minimum Revenue Provision Policy for 2017/18.

6.0 Authorise the Section 151 Officer to raise such funds as may be required to finance capital expenditure by temporary or long term borrowing within the limits outlined in the strategy above and to bring forward or delay schemes within the Capital Programme.

7.0 Maintain the current Council Tax Reduction Scheme as set out in the report.

#### **(b) Matters for Cabinet Decision**

The Cabinet, having taken account of the comments of the Section 151 Officer in respect of the budget and the adequacy of reserves as required under Section 25 of the Local Government Act 2003 and having considered the responses to the Budget Consultation is recommended to:

8.0 Approve the changes to fees and charges as set out in Appendix 12(a) & 12(c) to this report.

- 9.0 Delegate authority to the appropriate Director in consultation with the Section 151 Officer and the Cabinet Member for Corporate Services & Performance to amend or introduce new fees and charges during the year.
- 10.0 Agree that the rents of all Housing Revenue Account dwellings (including hostels and garages) be increased having taken account of WG guidance.
- 11.0 Approve all service charges and the management fee for leaseholders as set out in Appendix 12(b).
- 12.0 Agree that all Housing Revenue Account rent increases take effect from 3 April 2017.
- 13.0 Recognise the work undertaken to raise awareness of the financial resilience of the Council and approve the steps taken within the budget to improve this position.
- 14.0 Recognise the financial challenges facing the Council as set out in the Medium Term Financial Plan and to note the opportunities for savings over the medium term.
- 15.0 Approve the Supporting People Programme Grant Spending Plan for 2017/18 as set out in Appendix 16.

**CHRISTINE SALTER**

Corporate Director Resources

10 February 2017

*The following Appendices are attached:*

- |            |   |
|------------|---|
| Appendix 1 | (a) Budget and Corporate Plan<br>(b) Budget and Sustainable Development Principle   |
| Appendix 2 | Consultation responses<br><br>(a) Changes For Cardiff Budget Consultation<br>(b) Budget Letter - School Budget Forum – 14 December 2016<br>(Cllr Hinchey) |
| Appendix 3 | List of known Specific Grants from Welsh Government at the all Wales level  |
| Appendix 4 | Revenue Resources Required  |
| Appendix 5 | Directorate Financial Pressures   |
| Appendix 6 | 2017/18 Budget Savings<br>(a) Overview 2017/18 Savings<br>(b) Directorate Savings 2017/18<br>(c) Addressable Spend Savings                                |
| Appendix 7 | Risk Assessment Summary of Savings Proposals  |

Appendix 8	Financial Snapshot report – Budget Report version
Appendix 9	Earmarked Reserves
	(a) General Fund
	(b) Housing Revenue Account
Appendix 10	Employee Implications of Budget
Appendix 11	Use of Financial Resilience Mechanism
Appendix 12	Summary of Fees and Charges
	(a) General Fund
	(b) Housing Revenue Account
	(c) Outdoor Activities
	(d) Fees and Charges - <i>confidential</i>
Appendix 13	Directorate Revenue Budgets
Appendix 14	Cabinet Portfolio Revenue Budgets
Appendix 15	Amendments since publication of consultation proposals
Appendix 16	Supporting People Programme Grant Spending Plan
Appendix 17	Medium Term Financial Plan
	(a) MTFP 2018/19 – 2020/21
	(b) Themed Opportunities for savings – 2018/19 and 2019/20
Appendix 18	Housing Revenue Account
Appendix 19	School Organisation Plan Reserve
Appendix 20	Civil Parking Enforcement Account
Appendix 21	Capital Programme Expenditure
Appendix 22	Capital Programme Resources
Appendix 23	Glossary of Terms
	(a) Prudential Indicators
	(b) General
Appendix 24	Minimum Revenue Provision Policy
Appendix 25	Approved list of Counterparties

*The following Background Papers have been taken into account:*

- Budget Strategy Report (July 2016)
- 2017/18 Budget Proposals – For Consultation (November 2016)
- The WG Final Financial Settlement (December 2016)
- Equality Impact Assessments of Cardiff Council’s 2017/18 Budget
- Details of Fees and Charges
- Analysis of Section 106 Balances
- Treasury Management Practices (April 2016)