CYNGOR CAERDYDD
CARDIFF COUNCIL

COUNCIL: 22 FEBRUARY 2018

CABINET PROPOSAL

BUDGET PROPOSALS 2018 - 2019

Appendix 11(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. 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, having considered and reflected on the responses to all aspects of the consultation.

2. Recommend to Council the strategy and plan for the control of the Authority's borrowing and investments for the year 2018/19 (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 2018/19 – 2020/21 and the Council's Minimum Revenue Provision Policy for 2018/19.

6. Set the rent levels for Housing Revenue Account properties, service charges and management fees for leaseholders for 2018/19.

7. Agree the rates of fees and charges for Council services for 2018/19.

Structure of the Report

8. The Council's Budget Report needs to provide sufficient assurance that a balanced budget and affordable Capital Programme have been set and that robust consideration has been given to the Council's financial standing. It also needs to set out the Council's financial strategy over the medium term.

9. 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 (S151) Officer contained within those implications should be noted.

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Background

10. Cabinet received the 2018/19 Budget Strategy Report in July 2017. The report identified the anticipated budget reduction requirement for the period 2018/19 to 2020/21 and set a framework for addressing the identified gap. Since July, the budget reduction requirement has been updated to take account of the most recent information and further work has been undertaken in relation to savings proposals, including consultation. Further information on these updates is included in later sections of this report.

11. The savings requirement for 2018/19 of £14.3 million builds on £145 million savings achieved over the past five years. Continued delivery of significant levels of savings over a sustained timeframe becomes increasingly difficult. In recognition of this, work has been ongoing throughout the current financial year to progressively challenge the 2018/19 budget proposals put forward by directorates in order to ensure that all savings:-

- included within directorate proposals are owned by the relevant director
- have been properly evaluated for residual and achievability risk
- have been subject to a robust equality impact assessment where relevant
- include wherever possible, the full-time equivalent employee implications of the saving proposal
- identify both cross directorate opportunities and risks that have been discussed by relevant senior officers and Cabinet Members
- demonstrate transparency to ensure clarity at scrutiny committees and with other stakeholders

12. The 2018/19 Budget Strategy Report also set the approach for development of the Council's Capital Programme, as this is an integral part of the overall budget. The level of general capital support provided by Welsh Government (WG) as part of the annual settlement is insufficient to meet current annual sum commitments. This means that the Council has an underlying need to borrow each year, even before any new schemes or additional amounts are approved. Whilst additional borrowing can resolve an issue in the short term, it must also be affordable when considered over a longer timeframe and in the context of competing demands on the revenue budget.

13. Against this backdrop, the Budget Strategy set an initial framework for developing the investment priorities in the Capital Programme between 2018/19 – 2022/23. This stated that new funding bids for this iteration of the five-year Capital Programme should relate to the renewal of existing assets, be risk assessed, evidence based and have considered all alternative funding solutions that could achieve the same outcome. The strategy also stipulated that any new capital expenditure pressures that do not relate to existing assets must be considered in the context of external funding or robust invest to save business cases. Since approval of the Budget Strategy, work has been ongoing to set a level of investment in existing assets over the life of the current five-year programme that is realistic and affordable. This approach is explained in more detail later in the report.

14. Challenging financial circumstances place even greater emphasis on the need to be clear about priorities. The Council's priorities and vision for the city are set out in its Corporate Plan, and in Capital Ambition, the five-year plan for the city. As the Council's key strategic financial document, the Budget must align with these plans as far as possible.

15. Cabinet and Council will consider the 2018/19 Corporate Plan in March 2018. The key priorities identified in the Corporate Plan, along with the way in which these are reflected at a high level within the 2018/19 Budget, are summarised below:

Corporate Plan Priority	**Key Features of 2018/19 Budget**
Better Education and Skills for All	• Continued investment in schools • Funding for the Cardiff Commitment
Supporting Vulnerable People	• Net investment in Social Services • Savings with an emphasis on early intervention or prevention • Additional support to tackle homelessness
An economy that benefits all our citizens	• Investment in transport and infrastructure • Support for the Cardiff Capital Region City Deal (CCRCD)
Working together to transform services	• Savings that strive to focus on how the Council can work differently by generating income, reviewing processes, continuing collaboration and focussing on prevention or early intervention to avoid cuts to front line services wherever possible • Two stage consultation process

16. The Wellbeing of Future Generations (Wales) Act 2015 requires public bodies to put long-term sustainability at the forefront of their thinking and to work together through Public Service Boards (PSBs) to improve the wellbeing of each local authority area. To do this, they must contribute towards seven national Well-being Goals and adopt five ways of working that are aimed to ensure the needs of the present generation can be met without compromising future generations' ability to meet their own needs. Cardiff's draft Wellbeing Plan sets out seven well-being objectives for Cardiff as identified by the PSB. They reflect the wider Wales Goals as well as taking account of Cardiff's Well-being Assessment.

17. In times of budgetary pressure, it can be challenging to maintain a focus on the long term. However, in setting the budget, every effort is made to keep in mind that decisions taken now can have an impact well beyond the life of the Medium Term Financial Plan (MTFP.) In recognition of this,

a number of key technical features of the budget process are designed to weigh up how budget decisions taken now may affect future generations and the Council's long-term financial position. These features are summarised below and are set out in further detail in Appendix 1, which also identifies other ways in which the Council's financial planning reflects the five ways of working.

- ensuring the long term affordability of the Capital Programme through consideration and regular review of prudential indicators and the Council's local affordability indicator
- ensuring that debt repayment periods are set at levels that avoid "mortgaging" future generations, constraining 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 over an extended timeframe
- identifying current and future risks and assessing the Council's financial position and performance in order to evaluate ongoing financial resilience
- weighing up the fact that financial opportunities foregone in one year will be lost not only in that year, but for each year thereafter with significant cumulative impact over an extended period. This relates to both income generation and reductions in expenditure.

18. The above features are aimed at ensuring the Council's finances are as healthy as they can be for future generations. In addition, in setting the budget, although resources are limited, they have been targeted in a way that reflects the Council's priorities, including the seven wellbeing objectives included in the draft Well-being Plan. This is more evident within the capital programme, which by its nature, invests in assets and infrastructure that will benefit the city in the longer term. Appendix 1 sets out the ways in which the 2018/19 Budget invests in the future of the city.

19. More generally, despite the extremely challenging financial situation the Council has aimed as far as possible, to preserve key frontline services for future generations, albeit in some instances the method of delivery may be different. The Council has sought to collaborate with others, with ongoing examples including the Shared Regulatory Service (SRS) and the leisure arrangements with Greenwich Leisure Limited (GLL). Whilst significant levels of savings have been inevitable over recent years, the Council has tried to protect front line services for as long as possible, instead focussing on maximising income streams, implementing preventative measures, reviewing internal processes and securing value from external contracts wherever possible.

Capital Ambition

20. Cabinet approved Capital Ambition as a statement of the Administration's priorities and principles for change that will be required in response to the pressures affecting local public services. It sets out four priorities, each of which contain a series of 'commitments for Cardiff' covering a wide-range of Council services:

- **Working for Cardiff**: Making sure that all our citizens can contribute to, and benefit from the city's success
- **Working for Wales**: A successful Wales needs a successful capital city
- **Working for the Future**: Managing the city's growth in a sustainable way
- **Working for Public Services**: Making sure our public services are delivered efficiently, effectively and sustainably in the face of rising demand and reducing budgets.

21. Capital Ambition also set out a series of principles that will underpin the development of the Council in coming years:

- **Getting the Basics Right**: Maintaining a relentless focus on the performance of key statutory services.

- **Digital First**: Making the best use of new technologies to deliver our services, and providing digital access indistinguishable from that available to citizens in every other aspect of their lives.

- **Putting Communities Front and Centre**: Aligning community services, making sure that developments and investments in local communities are well-planned and maximise the impact of public investment through a new approach to 'locality working', building on the success of the Community Hub programme.

- **Joining-up of Frontline Services**: Staff from across the Council, and across public services, will work increasingly across departmental and organisational silos, with a focus on delivering the best for citizens, communities and the city.

- **Purposeful Partnerships**: We will build strong partnerships, at the local, city, regional and national level to deliver for Cardiff.

- **A New Deal with Citizens**: Keeping our streets clean, hitting our sustainable transport targets and looking after our most vulnerable people cannot be achieved by the Council alone. We need a new deal with citizens through which we can work together to tackle problems and realise our shared ambitions for Cardiff.

22. To ensure that the Council's resources support the delivery of the Administration's new priorities, the development of a new Corporate Plan is being undertaken in tandem with the development and setting of the

Council's budget for 2018/19. The Corporate Plan will be supported by Directorate Delivery Plans, which will set out in greater detail how objectives will be delivered, as well as how directorate business will be taken forward. These key business planning documents will be supported by a significantly strengthened Performance Management Framework.

23. Delivering Capital Ambition will require coordinated action by the Council and its partners. The Cardiff Public Services Board (PSB), chaired by the Leader of the Council, brings together the city's public and third sector leaders, and builds on the long-established platform of partnership working in the city.

24. Delivering this extensive programme will require a significant refocusing of the Council's change management capacity. In particular, a small number of key priorities will require a mobilisation of corporate leadership and resources including dedicated project teams with corresponding governance and performance management arrangements. To facilitate this a four-year Capital Ambition Delivery Programme has been established with a focus on areas where fundamental change is required.

25. The establishment of the Capital Ambition Delivery Programme replaces the Council's existing Organisational Development Programme (ODP), established in 2014 as a three-year programme to support organisational change and to deal with a series of systemic issues including improving corporate governance and performance in key statutory services. An independent review of the ODP, undertaken in May 2017, concluded that it had effectively served its purpose and the overall arrangements in place should allow the Council to respond and adapt to the changing operational environment. This has been confirmed by the Wales Audit Office's review of progress of the ODP.

26. The independent review also recommended that any 'reset' ODP should focus on a small number of transformational programmes and projects aligned clearly with the Council's Corporate Plan and Budget, and that any programmes and projects considered as service changes should be built into service improvement via existing service planning and performance management arrangements. This concentration on a small number of areas of focus will be a central feature of the Capital Ambition Delivery Programme.

27. The Capital Ambition Delivery Programme is composed of two discrete components:

Modernisation: *Transformation of corporate systems and processes that support service delivery*

28. Delivering Capital Ambition will require an interlocking programme of work to modernise the Council's corporate systems and processes that support service delivery; streamlining and simplifying the Council's internal processes and systems; making better use of the Council's (and

partners’) asset base; and finding new and better ways of working to take advantage of new technology. Specific programmes will include:

- Digital First
- Assets and Property
- Regional collaboration on Shared Services
- Focussing on the Needs of Citizens
- Fundamental Reviews of Services

29. Given the scale of the long term financial challenges facing the Council, all services will need to be subjected to detailed and challenging review. A rolling programme of Fundamental Reviews will therefore be undertaken, with external input where necessary.

Resilient Services: *Transformation of front-line services*

30. As stated in Capital Ambition, there is a need for the Council to work “*across the public services in order to deliver lasting solutions to complex problems*”. Projects in this programme will typically require change across services, often working in partnership with other organisations, with local communities and with those who receive the service. Specific projects in this programme will include:

- Service Integration in Social Care, Health and Housing
- Service Integration in Support of Vulnerable Children
- Total Street
- Inclusive Growth

31. Given the scale of the change envisaged, and the need to maintain a clear focus on the delivery programme over a sustained period, strong governance and programme management arrangements, integrated into the Council’s existing governance structures and established boards, will be required.

32. At senior management level, the Chief Executive and the Senior Management Team will support the delivery of the Capital Ambition Delivery Programme in consultation with the Leader of the Council, Cabinet Member for Finance, Modernisation and Performance and the Cabinet as a whole.

Consultation and Engagement

33. Consultation and engagement on the 2018/19 Budget has taken a number of forms as set out in the following table:

Consultee Group	Nature of Consultation / Engagement
Public Consultation	Public consultation on the 2018/19 Budget began as part of the Ask Cardiff Survey during the summer. This consulted on a number of budget themes, received 5,598 responses and paved the way for a more detailed, second stage budget consultation that took place between 2 November 2017 and 14 December 2017. There were three strands to the second stage consultation:- • **Citywide public consultation** on issues of general interest. Further detail on the format and responses to city-wide consultation is summarised in the next section with further detail in the “Changes for Cardiff” consultation document at Appendix 2(a). • **Service specific consultation** with identified service users / group of organisations • **General Council Consultation** on internal changes within the Council including back office efficiencies, staff changes, process improvements and broader changes around income generation and other service implications.
Scrutiny Committees	Budget briefings and consideration of the detailed budget proposals have taken place in February 2018. Responses received in respect of Scrutiny Committees’ 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 6 December 2017 to consider Cabinet’s budget proposals as it affected their remit. Appendix 2(b) includes their response.
Audit Committee	At its meeting on 20 January 2018, the Audit Committee considered the Treasury Management Strategy as part of their scrutiny function. The relevant parts of this report reflect their views.

Citywide Consultation

34. A mixed methodology was used for the citywide consultation in order to maximise accessibility and engagement. This included promotion of electronic and paper copy questionnaires alongside targeted face-to-face engagement. Mechanisms to promote engagement were:

- promotion of the online survey electronically with both the survey and information on the consultation available on dedicated Council web pages www.cardiff.gov.uk/budget and www.cardiff.gov.uk/haveyoursay

- regular promotion via social media throughout the consultation period via @cardiffcouncil and @cardiffdebate
- Facebook “boosts” to increase the visibility of the promotion
- the ability to email comments directly via budget@cardiff.gov.uk
- promotion of the consultation via email to members of the Cardiff Citizen’s Panel and the wider Council email address list (91,391 unique email addresses)
- communication to approximately 6,000 staff within Cardiff Council via “Your News”
- distribution of 2,000 paper copies throughout leisure centres, libraries and hubs and at face-to-face events held at locations across the city
- eighteen community engagement events at community buildings across the city
- focus groups with specific individuals who are less frequently heard, e.g. mental health service users, Black and Minority Ethnic groups and younger people

35. The citywide consultation received 2,937 completed returns and further detail on the responses received is included in Appendix 2. In summary, the consultation reflected strong support for specific savings proposals including:

- over nine in ten (91%) agreed with the emphasis on early intervention and helping people stay in their own homes for longer, with 88% of people in agreement that the Council should be working with the Health Service to deliver bespoke packages of care
- around seven in ten (72%) of respondents agreed with the aim of reducing care home placements
- over three quarters (76%) supported the move towards separate glass collections in order to reduce costs and meet recycling targets
- more than two-thirds (68%) agreed with proposals to explore the merger of the passenger transport team with a neighbouring authority
- amongst families using the school meals service 52% showed support to the proposal to increase costs compared to 42% that disagreed
- just under three quarters (73%) of respondents agreed with the proposal to expand the Meals on Wheels service, with 22% of respondents knowing someone who could benefit from the service
- over 70% of respondents indicated they would sign up for e-billing of Council Tax
- just under three quarters (74%) of respondents agreed with ending the publication of the Council’s free newspaper “In Cardiff”

- there was support for various proposed increases to fees, including in respect of cremations and burials, the rehoming of dogs and Cardiff International White Water (CIWW) Centre.

36. As well as consulting on specific 2018/19 savings proposals, the citywide consultation also sought views in relation to volunteering opportunities and investment priorities. People indicated that they were most interested in volunteering opportunities that would improve community safety and help the elderly or most vulnerable in their neighbourhoods.

37. The three areas that people indicated they would prioritise for investment, all of which are reflected within the 2018/19 Revenue Budget or the 2018/19- 2022/23 Capital Programme, were:
    - building more affordable houses and tackling homelessness
    - investing in sustainable transport to reduce congestion and improve air quality
    - intervening early to support vulnerable children

Issues

38. Under Section 33 of the Local Government Finance Act 1992, it is a statutory requirement for the Council to produce a balanced budget. This Budget Report sets out the financial issues facing Cardiff Council and within that context, it outlines the setting of the 2018/19 revenue budget and the likely position over the medium term. It sets out the Capital Programme and the Council's limited choices in respect of additional borrowing given affordability constraints. It also considers the Council's financial standing in respect of risks, reserves and resilience.

Revenue Budget

The 2018/19 Settlement

39. The Final Local Government Revenue and Capital Settlement for 2018/19 was announced by the Cabinet Secretary for Local Government and Public Services in December 2017. The published list of known Specific Grants from WG at the all Wales level is attached as Appendix 3. 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 +0.9% with a Welsh average of +0.2%
    - the provision of top-up funding to ensure that no authority received a settlement decrease of more than 0.5%
    - the transfer into AEF of six specific grants including the Welsh Independent Living Grant, the Social Care Workforce Grant, the Looked After Children Grant, the Carer's Respite Grant and the Grant for Social Care for Prisoners in the Secure Estate, with a partial transfer of the Single Revenue Grant

- the inclusion within the overall funding envelope of two new responsibilities in relation to homelessness and increases to residential care cap limits

40. The published position for Cardiff is a funding increase of 0.9%, which equates to additional cash of £3.898 million when compared to 2017/18. However, this sum is eroded to £2.426 million (+0.55%) after taking account of the new responsibilities that are included within the overall settlement quantum.

41. The specific grant information within the settlement indicated that there would be an 11% reduction to Education Improvement Grant (EIG) in 2018/19. The reduction involves the removal of the Minority Ethnic Achievement Grant (MEAG) and Gypsy and Traveller elements of the grant. These grants, total £10 million across Wales, of which Cardiff receives £4.1 million. At Cardiff, the funding is primarily allocated to individual schools to enable them to fund additional classroom support for these learners.

42. Due to the significance of this issue, the Welsh Local Government Association (WLGA) and individual authorities have been in discussions with WG who have agreed to put in place a transitional funding arrangement for 2018/19. This will take the form of a specific grant totalling £5 million of which Cardiff is expected to receive £3 million.

Resources Available

43. The resources available to the Council in funding the budget include non-hypothecated revenue funding from WG, Council Tax and use of reserves. The level of these resources for 2018/19, before any Council Tax increase, are set out in the following table:

Resources Available	**£000**
Resources from WG (per final settlement)	440,947
Council Tax at nil increase	157,729
Use of reserves to support the budget	2,350
Total Resources Available	**601,026**

44. The Council Tax base approved by Cabinet in December 2017 anticipated an increase in the number of Band D equivalent properties by the end of March 2019. In setting the tax base, it was considered prudent to retain the current collection rate of 98.5% due to the potential impact of welfare changes and uncertainty regarding the economy and inflation. The change in the Council Tax base results in an increased level of resources of £480,000 for 2018/19, before any increase to the rate of tax.

45. The 2018/19 Budget Strategy Report included an assumption that £2.35 million would be available to support the 2018/19 budget through drawdown of reserves. The Appendix on Earmarked Reserves sets out further detail in this regard while additional information regarding current

and future level of reserves and balances is included in a later section of the report.

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.

Resources Required	**£000**
2017/18 adjusted base budget (after transfers)	595,674
New Responsibilities (per settlement)	1,472
Employee Costs	3,361
Demographic Pressures	5,308
Commitments	3,656
Directorate Expenditure and Income realignments (net)	1,194
Exceptional Inflation	4,550
Schools non-pupil number growth (net)	5,039
Total Resources Required	**620,254**

Funding Gap

47. Comparing the resources available to the Council (before any increase in the rate of Council Tax) with the resources required, results in the following shortfall:

Funding Gap	**£000**
Resources required	620,254
Resources available	601,026
Funding Shortfall before savings and new pressures	**19,228**

48. The following table shows the level of resources allocated to support new directorate pressures with more detail set out in Appendix 5. The table also identifies that the amount to be raised from additional Council Tax in 2018/19 is £6.406 million after allowing for the impact on the Council Tax Reduction Scheme (CTRS) amounting to £1.480 million. The impact of this will result in a Council Tax increase of 5%.

Budget Shortfall	**£000**
Shortfall before directorate pressures and savings	19,228
New directorate pressures	1,474
Sub Total	**20,702**
Less	
Savings	**(14,296)**
Net amount to be raised from additional Council Tax	**6,406**

49. 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 2018/19 Budget Strategy. The two other components, use of earmarked reserves and a cap on schools pressures (non-pupil number) have already been accounted for within the calculation of the resources required and available for 2018/19. The following table sets out in full the four components of the 2018/19 Budget Strategy along with their respective contributions to balancing the budget.

Budget Strategy to address shortfall	**£000**
Cap on schools growth (non-pupil number)	2,196
Use of Earmarked Reserves	2,350
Savings	14,296
Council Tax at 5% (net)	6,406
Total	**25,248**

50. The cap on school's growth has been applied to schools' financial pressures with the exception of growth attributable to increasing pupil numbers, which has been fully funded. The £2.35 million drawdown from earmarked reserves is described in the section on financial resilience while further detail in respect of savings are included in Appendix 6 and in the section of the Report on Service Implications of the Revenue Budget.

Financial Standing, Risks and Financial Resilience

51. In considering the budget, members must have regard to the Council's financial standing, risks and resilience both now and in the future. The extended period of financial challenge renders these considerations even more important.

52. To help provide a rounded view of the Council's financial position, snapshots of financial health are prepared and reported to senior management and Cabinet on a regular basis. The snapshots contain information on past performance, including levels of reserves and financial performance ratios. They summarise the current year's monitoring positon for capital and revenue and outline the quantum of

savings proposals that are expected to be unachieved. Finally, they provide an insight into the MTFP and capital financing requirements for future years. The Financial Resilience Snapshot at the time of setting this budget is included at Appendix 7. The information it contains is considered over the next few pages, along with a summary of the more general financial risks facing the Council.

53. As summarised in the snapshot, the Month 9 Budget Monitoring Report identifies a balanced position against the overall Council budget. Within the balanced position there is a projected overspend of £5.204 million in relation to directorate budgets together with a projected overspend of £630,000 on capital financing. These are offset by the £3.0 million General Savings Contingency and by savings in corporate areas including NDR refunds on Council properties, a surplus on Council Tax collection and by savings in insurance and in-year release of specific contingency budgets. The projected overspend within directorates includes £3.990 million in relation to Social Services with significant cost pressures identified in relation to looked after children. As part of the due diligence considerations, the 2018/19 Budget includes £5.490 million in order to reflect the full year effect of these budget pressures.

54. Within the directorate overspend position, there is a projected shortfall of £2.159 million against the savings targets for 2017/18, with a further shortfall of £2.001 million projected in relation to the shortfalls carried forward from 2016/17. The due diligence for the 2018/19 budget process has taken account of the risk associated with unachieved savings, in particular, reviewing their achievability in future years. It is clear that the majority of the unachieved savings relate purely to timing issues rather than the ability to make the saving itself. Therefore based on this review, the 2018/19 budget allows for the write out of £306,000 of 2017/18 savings, with the remainder anticipated to be achieved during 2018/19 given the perceived risk associated with their ongoing achievability. The write out of savings are set out in the table below:

Directorate	**Savings Title**	**£000**
Economic Development	St David's Hall & New Theatre	116
Social Services	Review Emergency Accommodation Service for Learning Disability Users	190
TOTAL		**306**

55. The Snapshot identifies that in order to achieve a balanced budget the Council has had to identify cumulative savings of almost £160 million over the past six years. This is an extremely challenging context for the £14.3 million savings identified for 2018/19 and the predicted MTFP budget reduction requirement of £91 million. The MTFP section of this report provides further detail in relation to period 2019/20 – 2021/22 which remains a concern, particularly given the difficulty of setting and realising year on year budget savings on such a significant scale.

56. The following practices are aimed at understanding and mitigating the risk associated with achieving significant savings proposals over a sustained timeframe:

Practice	Description
Initial Risk Assessment	• Directorates assess and report the risk associated with their budget proposals in accordance with the Council's risk methodology. • The equalities impact of all proposals is considered and full impact assessments are undertaken for those with a red or red-amber rating. • The planning status of all proposals is regularly reviewed to identify those that are not yet at a detailed planning stage. Further information on the risk rating of the 2018/19 savings proposals is set out in subsequent paragraphs.
Review & Challenge	• Senior Management Team (SMT) and Cabinet Members receive regular updates on the overall shape of the budget, emerging financial issues and key areas of risk. • Scrutiny Committees are given the opportunity to review and scrutinise budget proposals.
Monitoring	• Budgets are monitored closely throughout the year and Cabinet Members and directorates receive regular monitoring information. • Progress towards achievement of savings is reviewed as part of the monitoring process and directorates are challenged to bring delivery of savings back on course where issues of achievability are identified.

57. In recognition that it is impossible to eliminate all risk relating to the achievability of savings proposals, the budget retains a general contingency of £3 million. This is an important part of the Council's financial resilience, especially given that the Council's General Reserve, which is intended to help cushion the impact of unexpected events or emergencies, is comparably low for an authority the size of Cardiff.

58. The budget has continued to include issue specific contingency allocations. These include £950,000 to reflect the potential for increased costs in relation to external placements for looked after children in Social Services and £350,000 to offset potential income shortfalls in relation to the Material Recycling Facility as a result of volatility in the market for recyclate materials. A contingency budget of £192,000 is also maintained in relation to waste disposal reflecting the difficulty in predicting tonnage figures and the consequent impact on disposal costs. The 2018/19 Budget also provides an additional £250,000 to meet the impact of

pressures in School Transport and this will also be held as a contingency budget whilst a review of the service is undertaken.

59. The budget also continues to retain a contingency in relation to the CTRS which is to reflect potential changes in the volume of claimants. The contingency budget includes an additional £1.480 million to reflect the proposed increase in the rate of Council Tax in 2018/19 but also includes a budget realignment of £1.064 million which has been used to support the overall Council budget. After reflecting these adjustments, the revised balance in the Contingency for 2018/19 is £2.138 million. This is considered sufficient to meet any new pressures that may arise during the year.

60. The risk analysis of the 2018/19 budget savings proposals is set out in detail at Appendix 8 and summarised in the table below:

Risk Assessment	**Residual Risk £000**	**Achievability Risk £000**	**Equality Impact Assessment £000**
Red	2,400	0	27
Red-Amber	3,755	6.910	1,854
Amber-Green	3,196	3,783	5,162
Green	4,945	3,603	7,253
TOTAL	**14,296**	**14,296**	**14,296**

61. Appendix 8 also indicates the planning status of each saving proposal. This identifies that savings of £743,000 have been realised, £12.119 million are at detailed planning stage and £1.434 million have a higher degree of risk as only general planning has been undertaken to date. The general planning category accounts for 10% of the total savings proposed.

62. The above risk analyses relate specifically to the 2018/19 budget savings proposals. The wider financial risks and challenges facing the Council are set out in the table below. These risks are regularly reviewed as part of financial resilience updates, the budget monitoring process and updates to the Corporate Risk Register. The following table categorises the main risks to be considered.

Theme	Identification of Key Risks
CAPITAL AND TREASURY	• The level of additional borrowing in previous years and proposed in the Capital Programme will require the use of more revenue resources for capital financing in future years. • Capital schemes approved on an income generation basis (through generating savings or increasing income) but which fail to do so will also increase pressure on the revenue budget. • The Capital Programme includes a significant net target of £40 million in capital receipts to fund the programme. • The increasing financial exposure to the Council of the completion of the 21st Century Schools Band A Programme and the development of the Band B Programme from 2019/20 onwards. • The impact on the Treasury Management Strategy of the timing of capital expenditure and the receipt of income in relation to major projects. • The current five-year programme assumes that no additional expenditure funded by borrowing will be undertaken beyond that agreed in this budget unless it is self-financing. • The condition of property and infrastructure assets including statutory maintenance obligations places additional pressure on scarce capital resources. • The potential impact of major projects and development initiatives which arise during the year.
FUNDING	• The potential impact on funding if there are any negative redistributive impacts of specific grants transferred into the Revenue Support Grant (RSG). • The challenging financial position in respect of reducing WG resources and increasing financial pressures against a reducing controllable base budget. • The impact of increasing volatility and uncertainty in respect of hypothecated grants. • The intention of WG to revisit reform of Local Government Finance in Wales. • The impact on Cardiff Bus, which is wholly-owned by the Council, should the WG make significant reductions to the reimbursement rate in respect of concessionary fares. • The potential requirement to address significant specific grant reductions at short notice where these are integral to the functions of the authority.

Theme	Identification of Key Risks
DEMAND	• The imminent implementation of Universal Credit, on the ability of individuals to contribute to the cost of services provided where that is relevant. This links with the impact of progressive implementation of welfare reforms together with financial risks in respect of the (CTRS). • Continuing demographic demand for social care services – reflecting both volume and complexity of need. • Pressures on supported additional learning needs due to both continuing pupil number growth and complexity of need. • Reducing demand for services where the Council has historically charged for the activity, creating an income shortfall.
SAVINGS	• The significant amount of cashable savings predicated on preventative strategies and the difficulty of tracking their impact in terms of financial monitoring. • The necessity to deliver budgeted savings from change proposals that are not yet fully defined. • The significant level of savings based on income initiatives that are yet to be tested in the market. • The need to deliver significant levels of savings during a period of prolonged financial austerity, particularly given the impact delays to delivery of the proposal have on the budget monitoring position. • The cumulative impact of achieving savings, in addition to the unachieved 2017/18 savings which remain to be realised. • Managing the apparent trajectory of growth in Social Services and Schools as diverting resources from other services cannot be a long term solution to funding this demand
ORGANISATIONAL CHANGE	• The on-going service impact of the past reduction in headcount that has taken place over an extended period. • The impact for functions delivered as part of a collaborative arrangement if the planned benefits are not realised. • The capacity to deliver organisational change in conjunction with increasing demands on business as usual activities.

Theme	Identification of Key Risks
OTHER	• The proximity in recent years of the Council's partial exemption calculation (VAT) to the 5% threshold. • The risk of WG levying fines if the Council fails to meet recycling or landfill diversion rates. • The impact of pay awards over the period of the MTFP as they move above the 1% cap imposed in previous years, together with any change to the overall grading structure. • Inflation over the MTFP period with potential impact on pricing. • Exceptional price inflation that is being experienced in some areas resulting from the National Living Wage (NLW) and other pressures. • The uncertain implications of BREXIT on the economy. • The implications of the White Paper, Reforming Local Government: Resilient and Renewed.

63. Given the identified risks, care will continue to be taken to ensure that significant changes to business processes or headcount do not have a negative impact on the financial control environment. In addition, due consideration will be given to understanding appropriate governance arrangements, including financial accountability, where different models of service delivery are considered.

64. The S151 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. A further key factor in relation to the Council's financial resilience are its General and Earmarked Reserves, which are considered in further detail in the next section.

Council Reserves

65. The Council's strategy for holding and utilising reserves is set out in its Financial Procedure Rules. Members, following advice provided by the S151 Officer, will consider both the level of reserves held and whether any amounts should be used to support the budget setting process. As part of this consideration, members are made aware that the use of reserves is finite in nature and therefore care is required to ensure that their use does not create a significant budget gap which would need to be filled in the following year.

66. 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 and noted the protocol in November 2017.

67. The next table shows the actual balance at 31 March 2017 and projected balances for 31 March 2018 and 31 March 2019 for the General Fund and Housing Revenue Account (HRA) earmarked reserves. The projection at 31 March 2018 includes assumptions contained within 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 balances as at 31 March 2019 include 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.

68. 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. 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 is currently a projected surplus of £436,000 on the HRA in 2017/18 which is anticipated to be transferred to the Reserve at the year end.

	Actual at 31 March 2017 £000	**Projection at 31 March 2018 £000**	**Projection at 31 March 2019 £000**
General Fund Earmarked Reserves	54,492	43,020	33,823
HRA General Reserves	8,438	8,874	8,874
HRA Earmarked Reserves	4,086	2,129	848

69. 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 2016/17 financial year was £14.255 million. This reserve 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 S151 Officer, it is the intention of Cabinet not to make any use of the General Reserve to fund the 2018/19 budget.

70. Previous benchmarking reports published by WG have identified that the Council has some of the lowest levels of general and earmarked reserves in Wales. The financial resilience snapshot in Appendix 7 shows that earmarked reserves represented 8.0% of the gross revenue expenditure (6.63% in 2015/16). There is no set statutory minimum level of reserves and decisions made should reflect the individual position of each council.

71. The Council has historically taken a proactive role in relation to the use of its reserves and identified, as part of its 2018/19 budget strategy that a

figure of £2.35 million would be released to support the budget. This will include a contribution of £1.0 million from the Strategic Budget Reserve which was set up specifically to support financial resilience and the future budget requirements of the Council over the medium term. Other contributions include £450,000 from the Insurance Reserve, £250,000 from the Employee Changes Reserve, £200,000 from the Welfare Reserve, £154,000 from the Cardiff Enterprise Zone Reserve and £20,000 from the Emergency Management, Safeguarding & Prevent Reserve. In each of these cases, the contributions are considered prudent given the size of the reserve and the level of known commitments. In addition, reserves have been identified where there have been no recent movements and future commitments are not anticipated. These include £222,000 from the Local Lend a Hand Mortgage Scheme which ended in December 2017, £31,000 from the Integrated Partnership Reserve and £23,000 from the Public Service Board Initiative Reserve.

72. 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 S151 Officer determines that the provisions contained within the relevant schemes or procedure rules have been substantially or persistently breached or a budget allocation has not been satisfactorily managed, then intervention powers will be taken to suspend delegations for that school.

73. The total school balances as at 31 March 2017 were a net surplus of £4.243 million. Within this overall balance was a combination of both surplus and deficit balances in respect of individual schools, with total deficits amounting to £2.749 million. Of these deficit balances, a balance of £1.421 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 Organisation Programme (SOP) and, as both of these schools closed at the end of the 2016/17 academic year, the final balance will be written off during 2017/18. Although the deficit balance in respect of these schools has now been cleared, a significant deficit balance still exists in respect of Cantonian High School. This deficit amounted to £891,000 at 31 March 2017. A planned deficit repayment plan has been agreed with the school, with the aim being to clear this balance over a 10 year period. The position at 31 March 2017 represented a significant improvement on the position at 31 March 2016 and was one year in advance of the repayment plan.

74. The judgement of the Council's S151 Officer, taking into account the budget monitoring forecast as at 31 December 2017, the corporate budget position, the General Reserve, as well as the General Contingency budget of £3.0 million is that the projected level of both general and earmarked reserves up until 31 March 2019, is sufficient to allow the £2.35 million drawdown to contribute to funding the 2018/19 budget and that the level of reserves remains adequate to 31 March 2019.

75. Overall, the position in respect of reserves, particularly in light of the achievability of savings and unexpected financial issues that may occur will require careful monitoring throughout the financial year to understand any impact on financial resilience. Beyond this, given the information and uncertainty contained in the MTFP, the position with regard to reserves will continue to be carefully monitored alongside the Council's general standing in respect of financial resilience.

Service Implications of the Revenue Budget

76. The following paragraphs describe the general assumptions that are reflected within the 2018/19 Budget regarding pay and price inflation and other council-wide issues. The specific impact of these issues on individual directorates, along with further detail on those directorates' savings and financial pressures are detailed later in the report.

77. The Budget Proposal includes £14.296 million in savings. As outlined earlier in the report, wherever possible directorates have sought to minimise the impact on front line services. The savings which are set out in more detail in Appendix 6 can be summarised into the following themes:

2018/19 Savings Proposals by Theme	**£000**
Income Generation	2,455
Collaboration	180
Business Processes including digitalisation	4,503
Review of External Spend	4,758
Prevention and Early Intervention	2,400
Total	**14,296**

78. The budget includes significant resources in relation of employee related costs and these are set out in the following table.

	Non Schools £000	**Schools (after cap) £000**	**Total £000**
NJC Pay Award	3,073	1,506	4,579
Teachers' Pay Award	76	1,381	1,457
Actuarial Review of LGPS	212	76	288
Total	**3,361**	**2,963**	**6,324**

79. The National Joint Committee (NJC) pay award for 2018/19, which covers most of the Council's non-teaching employees, is yet to be agreed. At present, it is subject to an employer's offer that was made in December 2017, which is currently being considered by Trade Unions and their members. For 2018/19, the offer comprises an increase of 2% on spinal points 20 and above, with larger increases on lower spinal points. In the absence of more definitive information regarding potential 2018/19 pay levels, the 2018/19 Budget reflects the current employer's offer. In the event that the agreed award is higher than the current offer, the impact will be managed through reserves in 2018/19 with the ongoing impact taken into account when refreshing the MTFP.

80. The 2018/19 Budget reflects the next phased increase in employer's superannuation contributions in relation to the Local Government Pension Scheme (LGPS). Following the latest actuarial review of the LGPS, which took place as at 31 March 2016, a series of staged increases in the employer's contribution rate were agreed. These included an increase from 23.3% to 23.5% in 2018/19.

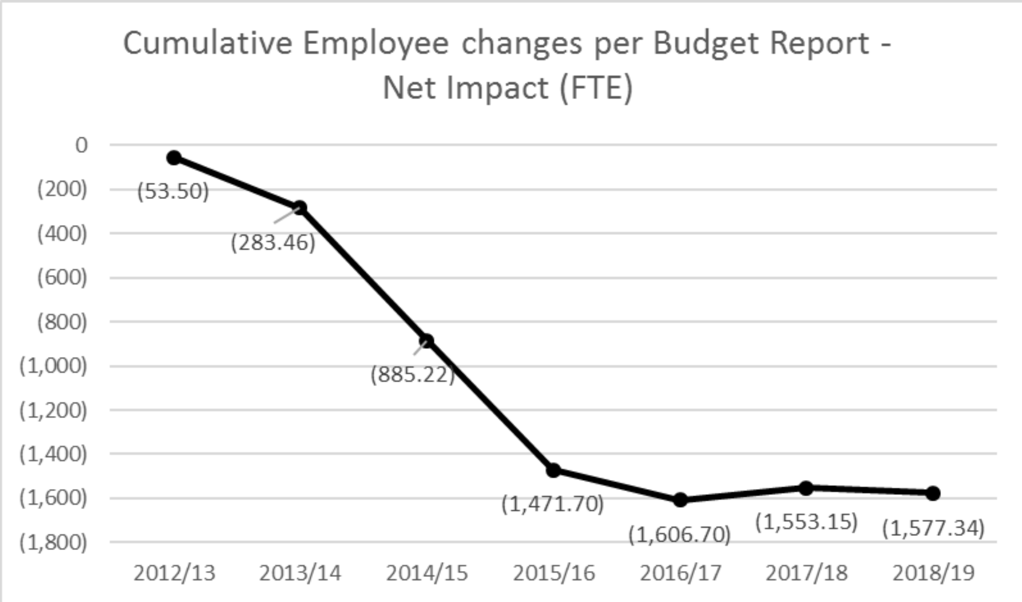
81. The next pay award in respect of teachers' pay will take effect from 1 September 2018. Whilst there is currently no indicative information as to what this may be, in light of the NJC offer, an award of 2% has been assumed for planning purposes. The budget also includes the full year effect of the September 2017 teachers' pay award, which saw a general increase of 1%, with awards of 2% limited to certain grades.

82. The posts deleted or created as part of the budget are set out in Appendix 10. This shows that there will be a net decrease of 24.19 full time equivalent (fte) posts, comprising 39.19 fte deletions offset by the creation of 15.0 new fte posts. The budget assumes that the post deletions will take effect through the following mechanisms:

Employee Implications of Budget	**fte**
Voluntary Redundancy	(6.25)
Vacant Posts	(17.40)
Redeployment	(1.00)
Retirement	(1.24)
TBC	(13.30)
Total fte posts deleted	**(39.19)**
Total fte posts created	**15.00**
Net Impact	**(24.19)**

83. Employee changes for each of the last six years are shown in the following graph. The figures shown are the net fte impact as detailed in

previous Budget Reports. They include vacant posts and posts that have transferred out of the Council's direct control, as well as posts deleted through redeployment or redundancy. Over the period shown, 2017/18 is the only financial year in which there was a net increase in posts. This was largely attributable to the creation of additional Social Services posts to address demand pressures and the requirements of the Social Services and Well-being Act 2014.



84. The budget includes the release of £715,000 previously set aside to meet the cost of voluntary redundancy. This release is based on the Council's model for funding voluntary redundancy costs. The model assumes that over the medium term, the costs of voluntary redundancy will be funded partially from within the base budget and partially via drawdown from an earmarked reserve that has been specifically set up for this purpose. In updating the MTFP, this model will need to be kept under review given that at present the financial outlook for future years shows little sign of improvement.

85. As in recent years, the budget assumes that directorates will manage the impact of price inflation within existing resources except in exceptional circumstances. These may relate either to the scale of the increase or the quantum of the budget to which the increase applies. The budget includes inflationary provision for Social Services to meet the costs of anticipated fee increases, out of county placements and fostering rates. Provision is also made for uplifts on schools' out of county placements, and in relation to ICT contracts that have renewed at higher rates partly due to exchange rate fluctuations. The budget also includes inflationary provision for the 2018/19 NDR multiplier uplift, and to allow for anticipated increases in energy prices that will affect the Council's buildings and street lighting.

86. The insurance budget will be reduced by £700,000 in 2018/19. The reduction is based on the latest actuarial review of the Council's Insurance Fund. The actuary's review, which takes place annually, considers the current level of the fund, past claims experience and the

potential for emerging claims. It combines this information with sophisticated statistical modelling techniques and use of insurance industry data to predict future fund requirements.

87. The Capital Financing Budget includes the Council's net costs for external interest on borrowing, interest on temporary cash balances and provision for the prudent repayment of debt. There is an increased budget requirement of £1.519 million in 2018/19. This reflects a combination of factors:-

- an increase in the provision for the repayment of debt following finalisation of the amount of capital expenditure incurred in previous years paid for by unsupported borrowing having taken into account the estimated useful life of the assets funded by this borrowing
- dealing with the outstanding liability following approval in 2011 of a business case for subsidising the Doctor Who exhibition. This assumed the scheme would be cost neutral, but has a sum outstanding of £1.1 million, which will be charged to future revenue budgets over a seven year period
- assumes recovery of invest to save capital financing costs from directorate revenue budgets
- assumes no dividend is receivable from Cardiff Bus
- reflects a reduction in the level of interest receivable from the HRA as a result of changes to the overall debt structure and the impact of internal borrowing in reducing the consolidated rate of interest within the overall pool of Council debt.

88. The budget is consistent with the Council's Treasury Management Strategy contained within this report, however is subject to fluctuations in a number of complex variables in respect of timing and quantum of capital expenditure incurred, financial markets and the timing of treasury management decisions.

89. It is proposed that the approach to CTRS should remain unchanged for 2018/19. The scheme will continue to comply with the relevant WG regulations. In addition, the scheme will continue to provide additional help for war pensioners by disregarding the income from war pensions including War Widows Pensions, War Disablement Pensions 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 budget provides for the impact on the CTRS of the proposed 2018/19 Council Tax increase. It also includes a budgetary realignment reflecting the lower demand on this budget in recent years.

90. 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 2018/19, they should consider the particular circumstances for which they charge for functions and reflect any such changes in their savings proposals. Appendix 11 sets out the list of proposed revisions to fees and charges in 2018/19.

91. 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) for 2018/19. In the majority of instances, this decision has been taken on the basis that a larger increase would be likely to 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 2018/19.

92. A number of savings are based on the generation of income. Some savings have assumed securing a wider market share such as Trade Waste (£200,000) and Pest Control (£40,000). Other areas have looked at achieving additional income through maximising opportunities for recharging existing costs such as Security Services (£50,000) and Street Lighting (£30,000).

93. Income will also be generated through price and volume increases. Social Services will increase their income by £350,000 and Bereavement & Registration by £50,000, whilst Planning fees are expected to generate an additional £55,000. For 2018/19, the School Catering Unit will increase the price of primary school meals by £0.10 per day thus taking the charge to £12.50 per week. The cost of secondary school meals will increase by £0.10 per day to £2.95. This will result in additional income of £350,000.

94. It is important that the Council is able to react quickly and appropriately to changing events, both in terms of opportunities and shortfalls. To enable this to happen, it is proposed that the Council continues to delegate to the appropriate officer and Cabinet Member, the ability to introduce and amend prices as and when needed. Decisions will be taken in conjunction with the S151 Officer and the Cabinet Member for Finance, Modernisation and Performance. Where appropriate, Cabinet will need to consider a report within a reasonable timescale of the decision.

95. 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 (EIA) screenings for each of their savings and financial pressures. Following initial screening, any proposals regarded to have a red or red-amber rating have undergone a full EIA. Following moderation by the Council's equality team, these assessments have informed the budget setting process.

Amendments since Publication of Consultation Proposals

96. The Council's budget proposals were released for consultation in November 2017. Since then, the Council's funding position has been confirmed and a number of other technical updates and new commitments have emerged. These updates, which are set out in full in Appendix 12, include:

- receipt of the final settlement on 20 December 2017, confirming the level of AEF for 2018/19 along with one further new responsibility
- approval of the 2018/19 Council Tax base by Cabinet in December 2017
- the December 2017 employer's offer in respect of the NJC pay award for 2018/19
- the month 9 monitoring position, which identified additional pressures in respect of Children's Services along with some opportunities to realign budgets downwards in other areas
- confirmation of the 2018/19 levies the Council must pay to relevant bodies including the South Wales Fire Service
- confirmation of pricing information
- minor adjustments to savings proposals to reflect clarifications since consultation.

97. In addition to the above technical updates, in drafting the final Budget Proposal Cabinet have had regard to consultation feedback. As the consultation indicated significant support for key budget assumptions and themes, no consultation related changes have been made to the budget savings proposals. However, care has been taken in drafting the final budget, to ensure that respondents' identified expenditure priorities were reflected as far as possible in the current financial circumstances.

98. At consultation, savings proposals included a sum of £1.2 million to reflect council wide efficiencies, to be achieved through delivering business efficiencies, reviewing third party spend and changing processes, technology and staff resources. In finalising the budget proposal, £600,000 of this has been allocated to directorates to allow specific savings to be proposed. A summary of this change is included in Appendix 12. The residual £606,000 is retained corporately and will be targeted through modernisation measures including end-to end process review and digital efficiencies. During 2018/19 the Council will look to accelerate the implementation of its Digital Strategy and will consider how Robotic Process Automation (RPA) and Artificial Intelligence (AI) can enhance service delivery more efficiently. This will be complementary to savings achieved through the implications of extending the Council's self-service offering and the introduction of the Cardiff App.

99. As part of the 2016/17 Budget, a Financial Resilience Mechanism (FRM) was established to protect against unforeseen reductions in WG funding levels. The mechanism is a £4 million base budget that can be used to

support one off investment in priority areas. As supported investment is one off, the budget could be cut at short notice in future years, with no impact on ongoing services. This provides an important level of financial resilience for the Council in light of the uncertainty and timing of funding settlements. At £4 million, the FRM provides the Council with the means to withstand a worsening in the AEF position of just under 1%.

100. Use of the FRM for 2018/19 was determined following the final settlement, which confirmed that the budget would not need to be released in 2018/19. In determining the one-off investment of FRM for 2018/19, Cabinet have taken account of consultation feedback and there will be significant support for visible street scene services, including improvements to the highway. In addition, the FRM includes allocations for property condition as well as to enable up-front investment in areas such as kerbside recycling and expansion of the meals on wheels service. To improve financial resilience, the FRM also includes £1.1 million transitional funding to help mitigate any specific grant issues during 2018/19.

101. The table below summarises the proposed use of the mechanism for 2018/19 and further detail is set out in Appendix 13.

Financial Resilience Mechanism - one-off use for 2018/19	
Category	**£000**
Visible Street Scene	1,897
Property Condition	200
City Centre Enforcement	40
Transitional Arrangements	1,180
Other	683
Grand Total	**4,000**

Directorate Commentaries

102. The directorate section of the report provides a commentary on significant areas of change within the budget. Appendix 14 shows the overall changes to individual directorate budgets between 2017/18 and 2018/19 whilst Appendix 15 shows the same information on a Cabinet Member Portfolio basis.

Corporate Management

103. The savings proposed in Corporate Management amount to £877,000 and are summarised in the following table:

2018/19 Savings	**£000**
Business Processes including digitalisation	626
Review of External Spend	251
Total	**877**

104. A saving of £606,000 is anticipated in respect of council-wide efficiencies linked to the Council's Digital Strategy. This saving will be achieved by delivering business efficiencies through reduced third party spend, changes to processes and technology and staff resources. This is in line with the aims set out in Capital Ambition with the use of digital forms of communication and service delivery at the heart of how the Council operates and interacts with the people it serves. A further £20,000 is expected to be achieved through the Procure to Pay process review.

105. A number of savings are also anticipated in relation to external spend. These include £210,000 through a reduction in the amount available to support events and market the City, £31,000 from reduced external audit fees and reductions to the amount required to support contributions to pension funds in relation to ex-employees and £10,000 through efficiency savings based on reduced expenditure on supplies and services.

106. The Corporate Management budgets also include budget realignments in relation to the Volvo Ocean Race and corporate insurance budgets. As part of the 2017/18 Budget £500,000 was provided in order to meet the Council's commitments in relation to its share of the costs of the Volvo Ocean Race. This was a one-off sum in 2017/18 and is not required in 2018/19. The corporate insurance budget has been reduced by £700,000, the reduction reflecting the latest actuarial review of the Council's Insurance Fund.

107. Additional funding of £325,000 has been provided to meet the additional costs arising from the South Wales Fire Service Levy in 2018/19 with a sum of £430,000 also allocated to provide additional funding for Council initiatives in relation to the Central Enterprise Zone as part of the previously agreed funding model. A one-off allocation of £60,000 has been provided through the FRM in relation to Corporate Initiatives.

Economic Development

108. Within the Economic Development Directorate, funding totalling £280,000 is being allocated as part of the one-off FRM. The first component relates to the completion of 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, £80,000 is being allocated to enable the consolidation of the Welsh Language Centre at the Old Library building by providing transitional funding to cover the costs of hosting the centre whilst a permanent income sources is identified.

109. As part of the due diligence for the 2018/19 budget process, the level of risk attached to current shortfalls against budget savings targets in 2017/18 was assessed. Based on this, previous year budget savings totalling £116,000 have been written out of the base budget for 2018/19. These relate to the previous intention to identify an alternative delivery model for St David's Hall and New Theatre and the residual level of

unachievable savings following the Arts Management competitive dialogue procurement process, as reported to Cabinet in February 2017.

110. In addition to the funding increases provided to the Directorate, there has also been a requirement to identify budget savings totalling £2.486 million. The breakdown of savings is outlined below.

2018/19 Savings	**£000**
Income Generation	457
Business Processes including Digitalisation	1,056
Review of External Spend	973
Total	**2,486**

111. Savings totalling £457,000 have been proposed in relation to income generation initiatives. The first of these totals £253,000 and is expected to be achieved through increased income from the investment portfolio and operational estate. Other income generation proposals total £204,000 and include an increased market share for the Pest Control Service, improved internal and external charging for Security Services, implementation of a new marketing and service delivery plan for Building Cleaning Services and an increase in prices at the CIWW Centre.

112. Business process savings, including digitalisation, have been proposed totalling £1.056 million. These include £175,000 from a new operational plan to reduce overtime, improved scheduling and achievement of efficiencies in the Building Services supply chain. In addition, the continued implementation of the agreed model for Children's Play is expected to achieve £115,000 and £47,000 will be achieved by deleting two vacant posts within Tourism. In addition is a combined saving totalling £538,000 which relates to St David's Hall, New Theatre and the Castle resulting from a review of costs, income and service delivery. In addition is a proposal totalling £141,000 relating to Parks, which is intended to be achieved by reducing management costs, generating additional income and a reduction in the cost of external contracts by bringing work back in-house. Furthermore, £40,000 is anticipated through general business efficiencies across the directorate. The final saving, as part of a review of external expenditure, amounts to £973,000 and relates to the Cardiff International Pool subsidy. New arrangements will be in place from 2018 and will result in the removal of the Council's subsidy to the pool, with the facility operating under nil subsidy from 2018/19.

Education & Lifelong Learning

113. For 2018/19, the delegated school budgets will increase by a further £7.222 million (3.2%) which is on top of a 3.3% increase in the previous year. Of the £7.222 million being allocated to schools, £5.319 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 estimated impact of the actuarial review, pensions auto-enrolment, non-

domestic rates, increasing energy costs and associated pupil needs such as complex needs enhancements, specialist resource base provision and the financial pressure outlined in the following paragraphs. A further £2.008 million is being provided in relation to increasing pupil numbers in both mainstream and special school settings.

114. In addition to the 30% cap on non-demographic growth outlined in the previous paragraph, is an additional reduction to school growth to reflect the need to create a revenue budget to fund the capital financing costs arising from the 21st Century Schools Band B Programme and additional asset renewal. 2018/19 represents the first year of an additional reduction to create the necessary budget. The creation of this budget will be spread over a 10-year period and is detailed further in the sections on Band B and asset renewal later in this report. The additional cap amounts to £105,000 in 2018/19, increasing in future years. Of this amount, £45,000 will remain within the Education budget to specifically fund costs associated with Band B. The balance will form part of the corporate capital financing budget and will fund costs associated with asset renewal.

115. An amount of £50,000 has been allocated, as a financial pressure, to the Cardiff Commitment initiative and will enable a permanent staffing resource to be established. This resource will manage the programme of partnership activity and deliver the processes and links required between students, employers and training and education organisations. Furthermore, a financial pressure has been accepted in connection with the Junior Apprenticeship Scheme. This pressure totals £175,000 and will enable support to the scheme, over and above that funded directly by schools. This pressure will be allocated directly to the delegated school budget and, as a consequence, has been subject to the cap on school growth.

116. Further to the issue outlined earlier in this report in respect of the fallout of the MEAG and Gypsy & Traveller components of the EIG, WG have confirmed that £3 million will be provided as one-off specific grant funding for 2018/19. This transitional funding is intended to enable the services provided to be sustained until further clarity is afforded to the position for 2019/20 and beyond. WG have committed to working with local authorities to develop this strategy, with a particular focus on the opportunities around delivering these services on a regional footing in line with the National Model for Regional Working. To protect the Council's financial resilience the FRM contains an amount of £1.1 million to enable the Council to react to specific grant issues that may arise in 2018/19.

117. Whilst additional funds have been allocated to delegated school budgets, the Education Directorate has identified budget savings totalling £1.278 million. These savings are outlined in the following table:

2018/19 Savings	£000
Income Generation	110
Business Processes including Digitalisation	815
Review of External Spend	353
Total	**1,278**

118. The savings within the Education directorate include £110,000 in relation to income generation. This saving is expected to be achieved through a planned 10p increase in the price of a school meal. This saving represents the anticipated net increase in income after allowing for the impact of inflationary costs of food and employee costs within the School Catering Service. In addition are savings proposals totalling £353,000 as part of reviews of external expenditure. The first totals £200,000 and relates to the central budget held for commissioning nursery places within the private sector. This is expected to be achievable as a result of increasing the number of available places within Cardiff primary schools. The other saving totals £73,000 and is intended to be achieved through a combination of a reduction in the Council's annual contribution towards the running costs of the Central South Consortium and a reduction in the Council's requirement to match fund the remaining components of EIG. The Directorate have also proposed a saving of £80,000 to be achieved from a reduction in the cost of the SIMS and ONE system licences, following a procurement exercise, and the termination of an online Continuing Professional Development software package.

119. Business process savings totalling £815,000 have been proposed. These include the full year effect of the delegation of the Pupil Referral Unit. The costs of this provision will now be met by the delegated school budget following the successful identification of a secondary school to oversee this provision, saving £365,000. A saving of £250,000 will also be achieved by delegating the responsibility for the cost of licences associated with school provision to the school budget. In addition, £200,000 is proposed in connection with central staffing and management costs. This saving represents the full year effect of proposals made in respect of 2017/18 and is intended to be achieved through a reorganisation of staffing structures within the Directorate, ensuring maximisation of the use of grant and trading income to offset costs wherever possible.

People & Communities

Communities & Housing

120. The paragraphs below set out directorate specific financial pressures and savings in relation to Communities & Housing. Within this, £76,000 is being allocated in relation to an accepted financial pressure bid regarding the Joint Equipment Service to reflect increasing demands on this service provision. In addition, the Final Settlement included an allocation of £836,000 in relation to a new homelessness responsibility. This additional funding is being allocated in full and will significantly enhance existing resources to tackle homelessness.

121. In addition to the funding increases provided, there has also been a requirement to identify budget savings totalling £689,000. The breakdown of savings is outlined below.

2018/19 Savings	£000
Income Generation	315
Business Processes including Digitalisation	254
Review of External Spend	120
Total	**689**

122. Savings totalling £315,000 have been proposed in relation to income generation. The first totals £105,000 and relates to the additional selling of services associated with Disabled Facilities Grants, particularly to charging for low level equipment provided through the Joint Equipment Service. In addition is a £17,000 proposal to remove the subsidy for Adult & Community Learning, enabling the service to become fully self-financing. In addition to these savings are proposals totalling £193,000. The most significant of these is a £103,000 proposal to integrate the Appeals & Complaints Team so that it covers the entire directorate, facilitating a recharge for services provided to the HRA. In addition is a £50,000 proposal relating to a new approach to Employability Services whereby better alignment of grant funding and training income should offset existing management costs. The other savings include £14,000 in respect of a Supporting People Grant realignment and £26,000 in relation to an Assessment & Support realignment.

123. Savings proposals totalling £254,000 have been made under the heading of business processes and digitalisation. The first of these is in relation to a new approach to building resilient communities and totals £80,000. This will be achieved by better aligning Communities First Legacy Grant funding to Neighbourhood Partnerships Locality Planning and Community Engagement budgets to release savings. A £60,000 saving is intended to be achieved by deleting two vacant Benefit Officer posts, whilst deletion of a Community Care Aid Worker post within Preventative Services and realignment of budgets within Neighbourhood Regeneration are expected to save £23,000 and £11,000 respectively. £80,000 has also been proposed and is expected to be achieved through digital efficiencies and the introduction of the new housing online form. In addition, a total of £120,000 is proposed in relation to a review of external spend. This will include the removal of the Neighbourhood Partnership Fund, saving £40,000, an agreed reduction of £30,000 against the Advice Services contract and a £50,000 reduction in the Library Book Fund.

Social Services

124. 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 £8.405 million (5.33%)

compared to the controllable base in the current year. This is after taking into account Directorate savings totalling £5.160 million. Additional funding has been provided to both Children's and Adult Services with budget allocated to meet demographic pressures and exceptional cost and fee increases, a range of financial pressures and the write out of an unachievable savings target from the current financial year. The budget also includes an additional £469,000 to reflect the full year cost of new posts approved as part of the 2017/18 budget. The Final Settlement also included £636,000 to reflect the transfer of a new responsibility in relation to an increase in the capital limits on charges for residential care. This sum has been allocated to Social Services and is reflected in the budget increase set out above.

125. In addition to this, there were transfers into the Final Settlement totalling £4.766 million. This relates to specific grant funding received in 2017/18 but which has now been built into the Council's financial settlement. These include £2.131 million in relation to the Social Care Workforce Grant which was to assist local authorities in managing the financial impacts of changing workforce costs and arrangements in the social care sector, particularly pressures arising from the National Living Wage (NLW). Other specific grants which have transferred include £993,000 relating to Looked after Children, £336,000 in relation to Carer's Respite and £53,000 for the provision of social care for prisoners in the secure state. An amount of £1.253 million has also transferred in relation to funding costs arising from the Welsh Independent Living Fund which closed on 30th June 2015 with costs transferring to local authorities and which has since been funded via specific grant. These sums have also been allocated to Social Services as part of the 2018/19 Budget.

126. In Children's Services an additional £5.490 million has been allocated in order to reflect the budget pressures in the current financial year. This is largely due to the increasing number of looked after children and as in the current financial year a specific contingency allocation of £950,000 will also be maintained in 2018/19 in order to fund any growth in external placements should this become evident during the year. Funding of £450,000 has also been provided to meet exceptional inflation costs in Children's Services including the impact of the Children's 4 Cs Collaborative Framework.

127. The budget for Adult Services has been increased by £1.7 million in order to meet new demographic growth in 2018/19 with a further allocation of £2.725 million also provided in order to reflect potential fee increases in the coming year including the impact of the NLW. A further £1 million has also been allocated to meet anticipated costs in relation to residential and nursing home care in 2018/19, with exceptional levels of cost increases continuing to be evident in the current financial year and of this amount £400,000 is a one-off allocation through the FRM.

128. Funding of £400,000 has been allocated to meet specific financial pressures identified by the Directorate. This includes £85,000 in relation to Cardiff's contribution to the Vale, Valleys & Cardiff Regional Adoption

Collaborative Service in order to meet additional pressures on this service as approved by the Joint Committee in December. The balance of £315,000 will be used to support a range of pressures including additional staff for the Internal Day Care Service in Learning Disabilities, an increase in the number of occupational therapy posts in the Review Team and to create additional support worker posts in order to enhance the work of specialist services and to improve support to looked after children, care leavers and homeless young people.

129. As part of the due diligence for the 2018/19 budget process, the level of risks attached to current shortfalls against budget savings targets in 2017/18 was assessed. Based on this assessment an amount of £190,000 has been allocated to meet unachievable savings in relation to the review of the emergency accommodation service for Learning Disability service users.

130. The budget savings proposed by the Directorate for 2018/19 total £5.160 million and are summarised in the following table:

2018/19 Savings	**£000**
Income Generation	350
Business processes including Digitalisation	120
Review of External Spend	2,290
Prevention & Early Intervention	2,400
Total	**5,160**

131. The savings from income generation relate to an increase in service user charges for non-residential services based on changes to the maximum weekly charge a council can make. This is in line with WG policy. The saving of £2.4 million in relation to prevention and early intervention includes £1.2 million through maximising the impact of the Community Resource Team (CRT) to support more people to become independent. This will enable the right level of support to be provided to the right people thereby reducing the level of care and support required from both Health and Social Care. A further saving of £1.2 million is also anticipated as a result of changes to the way domiciliary care services are commissioned and delivered. These changes place the emphasis on supporting people to maximise their level of independence, whilst ensuring they receive the type and level of care and support they require.

132. Savings of £2.290 million are anticipated through a review of external spend. This includes £820,000 from a review, with Health partners of the relative contributions to care packages to continue to ensure compliance with Continuing Health Care (CHC) guidance on how an individual's needs are most appropriately met and funded. A saving of £680,000 is also anticipated through reducing the number of children placed in settings outside Cardiff. This is in combination with other on-going preventative initiatives aimed at reducing the number of looked after children in external placements. There are two savings in relation to new care home placements in Adult Services, £450,000 based on reviewing care home fees and £300,000 based on reducing the number of new

care home placements with the focus on helping people to fulfil their wish to continue to live in their own home as opposed to moving into a care home. As part of the review of external spend a saving of £40,000 has also been identified in relation to mainstream awareness raising budgets, with this service already funded via other budgets within Children's Services. A saving of £120,000 has also been identified in relation to business process and digitalisation. This is based on proposals to expand the use of technology as a complementary service when commissioning care. This proposal is in its early stages, although the Directorate has already begun to work with other areas of the Council and with external providers to pilot the appropriate technology and approach.

Planning, Transport & Environment

133. The paragraphs below set out directorate specific financial pressures, commitments and savings in relation to the Planning, Transport & Environment Directorate. Funding of £773,000 has been allocated to reflect specific financial pressures identified during the budget process. The first of these amounts to £250,000 and relates to the need to increase school transport provision in response to demographic pressures. These pressures relate to primary school pupils, Additional Learning Needs (ALN) and pupils educated outside of mainstream education. This amount will be held as part of a corporate contingency whilst a review of the service is undertaken. In addition, £523,000 has been allocated to support the growth of dry recycling processing and to compensate for the reduction in income received due to a global decline in market prices. In addition to the accepted financial pressures, £3.923 million has been allocated in relation to the transfer of certain elements of the Single Revenue Grant into the Council's RSG. The value of the transfer is lower than the 2017/18 grant amount and, therefore, an additional £189,000 is being allocated to the Directorate to reflect this, in order that the same level of service is provided in 2018/19.

134. A total of £2.102 million is also being allocated as part of the Council's FRM to support one-off investment in priority areas. This includes £200,000 to promote the free recycling collection service and to enhance public awareness of recycling services and locations together with £165,000 to support changes to kerbside recycling collections and the implementation of the first year of separate glass collection. An allocation of £720,000 is also being made to enable localised highway asset improvement works and £400,000 is being allocated in relation to essential road markings, signs and street furniture refurbishment including public litter bins. In addition, £150,000 has been made available for city centre public realm improvements, including those connected with the Central Square development. Furthermore, £427,000 is being allocated to further the work undertaken in previous years to complete additional street cleansing works and enforcement activities with £40,000 allocation to continue the taxi enforcement service.

135. In addition to the Council's FRM allocations outlined in this paragraph, £250,000 has been allocated to further the reuse and recycling of

materials, enabling the achievement of statutory recycling targets. £100,000 is also being allocated to Waste Services to reflect demographic pressures in relation to recycling and waste collections.

136. The following table sets out Planning, Transport & Environment's Directorate savings proposals for 2018/19.

2018/19 Savings	**£000**
Income Generation	675
Collaboration	180
Business Processes including Digitalisation	501
Review of External Spend	482
Total	**1,838**

137. Savings totalling £675,000 relate to a range of income generation proposals. The first of these totals £212,000 and is based on improved charging and income generation projects across the Directorate, in line with increased fees and charges and the use of digital solutions. In addition, a net £160,000 has been proposed in relation to Trade Waste with the intention to expand the Council's market share in Cardiff and explore opportunities to work in partnership. Within Central Transport Services, £60,000 has been proposed and is intended to be achieved by utilising capacity in the fleet maintenance facility to bring external contracts back in-house and increase external income. Bereavement Services, Cardiff Dogs Home and Planning Services plan to increase income by £50,000, £15,000 and £55,000 respectively as a result of price and volume increases. Both Transportation Policy and Street Lighting intend to increase income by £30,000 each as a result of improved recharging for services, including in relation to capital schemes. A further saving of £38,000 has been proposed in relation to twin stream waste and recycling collections, which should increase income and reduce costs at the same time. Furthermore, a total of £25,000 is anticipated as a result of renewable energy schemes, enabling the sale of energy and income from feed-in tariffs, and phasing in the reduction of certain bus passes within School Transport.

138. Collaboration savings proposed amount to £180,000. The first totals £93,000 and is in connection with the Shared Regulatory Service and a further year's saving from the creation of the shared service under a single management structure. In addition, £37,000 is proposed in relation to collaborative working with a neighbouring authority to merge the passenger transport team enabling efficiencies in employee and external expenditure. In addition £50,000 has been proposed within Waste Services, where new opportunities for income generation through partnership and cross-boundary working are intended to be achieved from a focus on back office support provision and direct services.

139. Savings totalling £501,000 have been proposed in relation to Business Process reviews. Of this total, £271,000 has been proposed as a result of the use of new technology to improve collection efficiency, reduce vehicle costs and reduce agency usage within domestic collection

rounds. Other proposals within Waste Services amount to £70,000 and are anticipated to be achieved by increasing productivity in relation to treatment and disposal, and improving attendance at work within Domestic Waste Collection to reduce the reliance upon agency staff. £60,000 is also intended to be achieved by reducing vehicle costs within the corporate fleet through reduced damage and insurance claims enabled by better reporting, monitoring, training and the new fleet management system. In addition £100,000 is planned to be achieved by digitalisation of Waste Services, including hybrid printing and digitalisation of income recovery, and using technology to control lighting levels and faults across the city.

140. A number of savings totalling £482,000 have been proposed in connection with reviews of external expenditure. The most significant of these amounts to £130,000 and relates to a change in the energy procurement strategy where it is intended to introduce an approach specific to Cardiff and move away from the current arrangement whereby energy is procured through a joint arrangement. Two further energy savings are proposed, the first of which totals £30,000 and is expected to be achieved by identifying energy efficiencies within Council buildings. The second amounts to £50,000 and will reflect a reduction in energy costs across the estate through improved management and behaviour change as part of the Carbon Reduction Strategy. Furthermore, a saving totalling £30,000 is anticipated from the full year effect of replacing main route lighting with LEDs to reduce energy expenditure.

141. External expenditure savings totalling £152,000 have also been proposed within School Transport. These include a review of the transport provided to ALN pupils including route optimisation and mergers, with a particular focus on those pupils within 2-3 miles of their respective school. In addition, roll out of the travel support allowance, as opposed to provision of transport, will be continued and a phased approach to the reduction of bus passes provided to Llanishen High School pupils outside of the catchment area will be introduced. £50,000 has also been proposed in relation to contract rationalisation and improved business process efficiencies and £40,000 has been proposed in connection with a review of the delivery of maintenance work currently undertaken by external companies, for areas such as Housing and Parks, within Infrastructure & Maintenance.

Resources

Governance & Legal Services

142. The following table below sets out the 2018/19 budget savings proposals for the Governance & Legal Services Directorate.

2018/19 Savings	**£000**
Income Generation	226
Business Processes including Digitalisation	133
Review of External Spend	83
Total	**442**

143. Budget savings of £226,000 under the heading of income generation are proposed. Within Legal Services, additional income of £40,000 is being proposed in relation to the service level agreements with schools, £55,000 income in relation to services provided to the CCRCD and additional income totalling £35,000 in relation to charges against proceeds from capital receipts. Further income generation totalling £90,000 is proposed in respect of the benefit of collaborative working in relation to Bilingual Cardiff delivery of Welsh translation services and an increase of £6,000 in line with the fees and charges for Legal Services is also proposed.

144. A number of business process changes are proposed. These comprise a reduction to the number of posts within the Scrutiny function totalling £53,000, a £20,000 reduction to the Democratic Services employee budget and £20,000 in relation to efficiencies within Democratic and Member Services. A £40,000 saving is anticipated to be achieved through efficiencies within Legal Services and Bilingual Cardiff and savings within Democratic Services arising from reduced internet, print and translation charges. In addition, a saving proposal totalling £83,000 has been proposed in relation to external legal expenditure following the centralisation of external legal budgets and the increased in-house capacity that has been created.

Resources

145. Within the Resources Directorate £250,000 has been allocated to meet the increased costs of a new three year contract for Microsoft licences. These costs are held in ICT but support services across the Council. Additional funding of £80,000 has also been provided to meet increased costs in relation to the telephony system in C2C. A pressure of £58,000 has also been identified in order to support an expansion of the Meals on Wheels Service to cover weekends and bank holidays. It is proposed that this be funded in 2018/19 through an allocation from the FRM with net costs in future years expected to reduce as income increases.

146. Budget savings of £1.526 million are proposed in the Resources Directorate and these are summarised in the following table:

2018/19 Savings	**£000**
Income Generation	322
Business Processes including digitilisation	998
Review of external spend	206
Total	**1,526**

147. Savings based on income generation total £322,000.This includes £100,000 through an expansion of the Meals on Wheels Service with plans to increase service users up to full capacity, increasing income and enabling the removal of the existing subsidy. Cost recovery and income generation within the Capital Ambition Delivery and Enterprise

Architecture teams is anticipated to generate a saving of £109,000. This includes the recovery of staff costs where work is undertaken to support specific projects together with exploring new income opportunities with external organisations. Other income generation savings include £53,000 through the on-going plan to continue to develop cost effective training within the Cardiff Academy including the provision of training to other public sector bodies. This includes health and safety training. Income of £40,000 is also anticipated as a result of taking on the hosting of the South East Wales Schools Capital and Public Buildings (SEWSCAP) and South East Wales Highways Frameworks by Commissioning & Procurement. Further savings of £20,000 are also anticipated by this service through the Council's wholly owned trading company Atebion Solutions which trades commercial and procurement services to other public sector organisations.

148. A range of savings have been identified in relation to business processes and digitalisation. These include efficiency savings identified by the various divisions within the Resources Directorate in relation to their staffing structures and external spend. These savings include £346,000 in Finance, £152,000 in ICT, £123,000 in Performance & Partnerships, £52,000 in Human Resources and £19,000 in Information Governance. In addition to this, further efficiency savings of £80,000 have also been identified across the Directorate including through a review of the procure to pay process, reductions in budgets for printing and stationery and transport and from a further review of staffing resources. Other savings in relation to business processes and digitalisation include £178,000 arising from the planned reduction in support costs for HR IT systems, £11,000 as a result of moving the Council's HR IT system on to the Council's private cloud platform and £37,000 from the cessation of the "In Cardiff" newspaper. The latter saving reflects the Council's Communication Strategy which clearly puts the use of digital forms of communication, especially social media, at the heart of how the Council interacts with the people it serves. A saving of £206,000 has also been identified in relation to external spend in ICT following a further review of ICT funded licences and support contracts.

Medium Term Financial Plan and Financial Strategy

149. The budget reduction requirement refers to the gap between the Council's likely resources and its anticipated funding over the medium term. The outlook over the next three years continues to be extremely challenging with a further significant budget reduction requirement identified for the period 2019/20 – 2021/22. As in previous years, the key reason for the budget reduction requirement is that funding is anticipated to reduce over the medium term, whilst costs are expected to rise significantly due to inflation and demand for services.

150. The Council undertakes regular updates to the budget reduction requirement, as an important part of financial resilience. Following the Budget Report, the next formally reported update will be included in the Council's Budget Strategy Report in July 2018. In recognition of the areas of uncertainty inherent within the plan, the MTFP includes a base

case as well as a sensitivity analysis which models the impact of changes in key variables.

Medium Term Financial Plan Overview

151. This section sets out, as far as possible through using available information, assumptions and estimates, the financial challenges the Council is facing for the period 2019/20-2021/22. The table below identifies an estimated budget reduction requirement of £91 million over this three-year period. An extended version of the table below is set out in Appendix 16(a).

Component of Budget Gap	2018/19	Medium Term Financial Plan 2019/20	2020/21	2021/22
	£000	£000	£000	£000
Adjusted base Budget B/forward	**595,674**	**608,913**	**602,154**	**597,788**
Employee costs*	3,361	4,052	3,231	3,257
Price Inflation	4,550	3,146	3,167	3,469
Schools Growth	6,943	11,653	8,912	8,178
Capital Financing	1,624	1,176	1,416	2,696
Commitments (net)	6,283	999	(112)	1,101
Non Schools Demographic Growth	3,300	3,500	3,538	3,577
Emerging Financial Pressures	1,474	3,000	3,000	3,000
2018/19 Savings	(14,296)			
Budget Reduction Requirement**		**(34,285)**	**(27,518)**	**(29,600)**
Net Expenditure	**608,913**	**602,154**	**597,788**	**593,466**
Funding				
Aggregate External Finance	(440,947)	(436,538)	(432,172)	(427,850)
Use of Earmarked Reserves***	(2,350)			
Council Tax (at 2018/19 Rate)***	(165,616)	(165,616)	(165,616)	(165,616)
Total Funding	**(608,913)**	**(602,154)**	**(597,788)**	**(593,466)**

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

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Budget Reduction Requirement	£000
2019/20	34,285
2020/21	27,518
2021/22	29,600
TOTAL	**91,403**

*** Before any planning assumption on Council Tax increases and use of reserves which are considered in the Response to the Medium Term Plan Section of this Report

MTFP Assumptions – Future Expenditure

152. Financial pressures account for £76 million (84%) of the anticipated budget gap. Within the £76 million, a total of £32 million relates to pressure in schools and £21 million in Social Services.

Employee Costs

153. For non-teaching staff, Local Government pay is a matter for collective bargaining between the national employers and trade unions through the NJC. In December 2017, the employers issued a pay offer covering the financial years 2018/19 and 2019/20. The offer was for 2% per annum on higher grades, with higher awards on lower spinal points in order to bring them up to £9.00 an hour by 2019/20, when a new spinal point structure is due to be introduced. The offer has not yet been accepted and Trade Unions are currently consulting their members. However, in the absence of any other definitive information, the MTFP reflects the pay offer for 2019/20 and 2% per annum on all grades thereafter. The potential for higher pay awards is modelled in the MTFP scenario analysis.

154. In previous years, the MTFP has included allowances to continue to meet the Council's voluntary living wage (VLW) commitment. Under the proposed new structure, fewer spinal points will remain within the scope of the VLW and therefore the costs of the VLW are encompassed within the overall costs of the pay award.

155. The MTFP allows for the cost of teachers' pay progression. It also includes a reduced estimated requirement each year in recognition that over time, annual provision should result in an employee budget that is sufficient to cover the top of each pay grade.

156. No provision for pay progression is included in the MTFP for NJC staff. Since the new pay and grading structure was implemented in 2012/13, annual provision has been made to address pay progression. As grades are limited to a maximum of five increments and it is now over five years since implementation of the structure, employee budgets should be sufficient to cover each post at the top of the grade.

157. The LGPS is subject to actuarial review on a triennial basis. Further to the last valuation, which was as at 31 March 2016, stepped increases in the employer's contribution rate have taken place over the past few years. It is very difficult to pre-empt the outcome of the next actuarial review, which is due as at 31 March 2019 however, at present it is considered reasonable to assume that the existing rate of 23.5% may remain static, especially in light of the increases undertaken over the past few years and the continued buoyancy of the stock markets.

158. The Teachers' Pension Scheme (TPS) is an unfunded public service pension scheme. It was announced in the Chancellor's Budget of March 2016, that the discount rate used by the Actuary to set employer contributions to such schemes would reduce from 3% above CPI to 2.8%

above CPI. In the absence of any confirmation from the Teacher's Pensions Agency it has been assumed this will impact the TPS from September 2019, which is consistent with prior years adjustments to TPS contribution rates. The full impact of this change will be dependent on the actuarial review of the TPS, which is yet to be undertaken. However, it is suggested that the employers' contributions to the scheme will increase from the current rate of 16.48% to just over 18% which would require a 10% increase on existing teachers' pensions budgets. The base case MTFP reflects this pressure over the financial years 2019/20 and 2020/21. 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 factor is a factor of the inflation rate, which will be changeable over this period.

Price Inflation

159. At present CPI is running at 3.0%, which is above the Bank of England's 2% target. Expectations are that CPI will average 2.4% for 2018. Current estimates from the Office of Budget Responsibility suggest the following inflation rates over the course of the MTFP.

	2018	**2019**	**2020**	**2021**
RPI (%)	3.3	2.8	2.9	2.9
CPI (%)	2.4	1.9	2.0	2.0

160. In line with established practice, the MTFP assumes that directorates will manage the impact of price inflation within existing resources except in exceptional circumstances. These may relate either to the scale of the increase or the quantum of the budget to which the increase applies.

161. The areas deemed exceptional over the course of the MTFP include, out of county placement costs, NDR and potential fee increases in relation to Social Services. As well as considering the potential impact of general inflationary increases on the latter, the MTFP also reflects the potential for the NLW to have some impact in this area. Inflationary provision is also included within the plan in respect of assumed fluctuations in energy costs. The move from carbon reduction commitment to climate change levy in 2019/20 has also been considered in the context of energy pricing calculations.

Capital Financing

162. The assumptions that underpin the capital financing figures within the plan are covered in further detail elsewhere in the report. Some key assumptions to note are:

- the capital financing costs included in the MTFP reflect the 2018/19 Capital Programme and there is no assumption of any new scheme approvals in 2019/20 and onwards

- the Council’s share of contributions towards the CCRCD are included within future estimated capital financing costs
- there is an assumption that 21st Century Schools Band B and schools asset renewal costs will be met through capital receipts amounting to £25 million and by an additional reduction to schools growth
- the MTFP assumes a level of internal borrowing which minimises external interest costs

Commitments

163. The commitments section of the MTFP includes estimated increases to the amounts that the Council is committed to pay to other bodies by way of levy or contribution. As well as statutory bodies, these include the Regional Cabinet for CCRCD.

164. As outlined elsewhere in this report, the Council is undertaking significant investment in schools to reorganise school places, ensure effective use of resources and fitness for purpose buildings. 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 the SOP.

165. The commitments section of the MTFP also reflects further estimated reductions to the Single Revenue Grant. Whilst there will be other specific grant reductions to address over the next three years, the reduction to this stream has been reflected in the MTFP in recognition that it supports recycling activity which if compromised, could have an adverse impact on the Council’s financial positon through the imposition of fines.

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

Demographic Pressures

167. Of the £78 million expenditure pressure identified over the next three years, £22.8 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. Indications are that this trend will continue with statistical projections suggesting significant population growth out to 2034.

168. In recent years, Cardiff has experienced significant growth in age groups in which demand for services can be more costly. An increasing school age population places an additional financial burden on schools’ budgets. Similarly, an increase in the older population creates additional financial

pressures on Social Services, as people become more likely to need services or to require more complex care packages.

169. The £22.8 million demographic pressure within the MTFP and summarised in the table below occurs in areas that already account for over 60% of the Council's total budget. In the absence of additional government funding to meet these pressures, meeting these anticipated costs will involve the Council redirecting funds from other areas of its budget.

Demographic Increases	**Predicted 3 year pressure £000**
Social Services – Adults	5,815
Social Services – Children's	4,500
Schools – Pupil Number	8,676
Schools – Associated Needs of Pupils	3,540
Other	300
Total	**22,831**

170. Whilst labelled as demographic growth, the sum in respect of Children's Services is also reflective of increasing complexity of demand. This is extremely 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.

171. A further area that will need to be closely monitored over the MTFP in terms of its demographic impact is the Local Development Plan (LDP), which sees significant growth planned for the city over the period to 2026. Whilst this will result in additional demand for services, this should be accompanied by a degree of recognition within the settlement funding formula as well as in the Council Tax base. Further modelling will need to take place as the LDP progresses.

Emerging Financial Pressures

172. The MTFP includes £3 million per annum to address emerging financial pressures. This sum, which equates to approximately 0.5% of the Council's net budget is included in recognition that it is impossible to foresee all issues. In reality, additional burdens are likely to arise due to issues such as legislative and policy changes and specific grant fall out. Review of these sums will take place at each refresh point of the MTFP when they will be updated to reflect most recent information.

Aggregate External Finance

173. For 2019/20, the Provisional Settlement for 2018/19 set out an average indicative reduction in AEF of 1.5%. This was stated to be on the assumption that the UK Government would proceed with £3.5 billion of

cuts that were planned for 2019/20, but which were yet to be allocated at the time. The Provisional Settlement noted that the indicative 1.5% reduction would be reviewed in the event that the UK Budget signalled an intention not to proceed with these cuts.

174. Following the UK budget in November 2017, it became clear that over £200 million of funding from the Barnett formula was due to come to Wales with £112 million in 2018/19 followed by a further £98 million in 2019/20. It was also the case that the £3.5 billion of cuts assumed by WG for 2019/20 were not as grave as WG had initially anticipated. In light of this improved position, the WLGA made representations to WG to reconsider the indicative funding position for Local Government as set out in the Provisional Settlement.

175. The Final Settlement announced a £20 million improvement on Provisional Settlement for 2018/19 with a further £20 million in 2019/20. Whilst the Final Settlement did not restate the indicative All Wales 2019/20 funding decrease following these changes, there is an understanding amongst Welsh Authorities that it has been ameliorated from a 1.5% reduction to a 1% reduction. Due to its particular set of population pressures, Cardiff's AEF is consistently above the Welsh average. However, at this stage it is considered prudent to assume a funding position in line with the All Wales reduction of 1% for 2019/20. This is in light of the potential for formula or grant changes that could have negative redistributive effects on the Council's funding. The blurring of boundaries between specific grant streams and non-hypothecated RSG is a cause for concern over the MTFP.

176. The assumption of a 1% funding reduction has been extended into later years of the MTFP, resulting in a total assumed funding reduction of £13 million over the three-year period. This position is extremely uncertain and in light of the significant impact that small percentage changes in AEF can have on overall funding levels, a worse-case scenario has been modelled as part of the sensitivity analysis on the MTFP. As set out earlier in this report, the Council has a £4 million FRM, which is available for release in the event that funding levels are worse than anticipated. This would assist in coping with a 1% worsening funding position in one year of the MTFP.

Specific Grant Funding

177. 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 RSG wherever possible. Whilst on the face of it 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 or that transfers into RSG are not effected in the correct way. This hinders visibility and results in a worse than published position in relation to AEF.

178. The 2018/19 settlement indicated further challenges to specific grant streams in 2019/20, including a further reduction at an all Wales level of £11 million to EIG and £9.8 million to schools' post-16 grant. These reductions are in addition to the need to address the full effect of the fallout of the £4.1 million MEAG and Gypsy & Traveller elements of the EIG in 2018/19. As outlined earlier in the report, transitional funding is being provided for the 2018/19 financial year, however this funding may cease to be available in 2019/20. In addition to the challenges in respect of these education grants, within 2018/19 a number of specific grants that support early intervention, prevention and support including Supporting People, Flying Start and Families First will be merged into a single grant stream. The new single grant is expected to reduce by 5% in 2019/20. Opportunities for flexibility across these grant streams, following the merge, will need to be reviewed during the course of the coming year in order to accommodate the anticipated 2019/20 reduction.

179. The Council has a base budget of £250,000 to deal with in-year specific grant funding issues. Over and above this amount, the MTFP reflects anticipated reductions to specific grant streams, where failure to do so could ultimately result in a larger cost, for example the financial fines risk associated with recycling activity funded by Single Revenue Grant. Beyond this, the assumption is that any future specific grant reductions would be dealt with either by reviewing the grant funded activity to address the issues, providing transitional funding through the FRM if it is still available or through the sums sets aside within the MTFP for emerging financial pressures.

Reserves

180. Good practice is to avoid over-reliance on reserves as budget funding for a number of reasons:

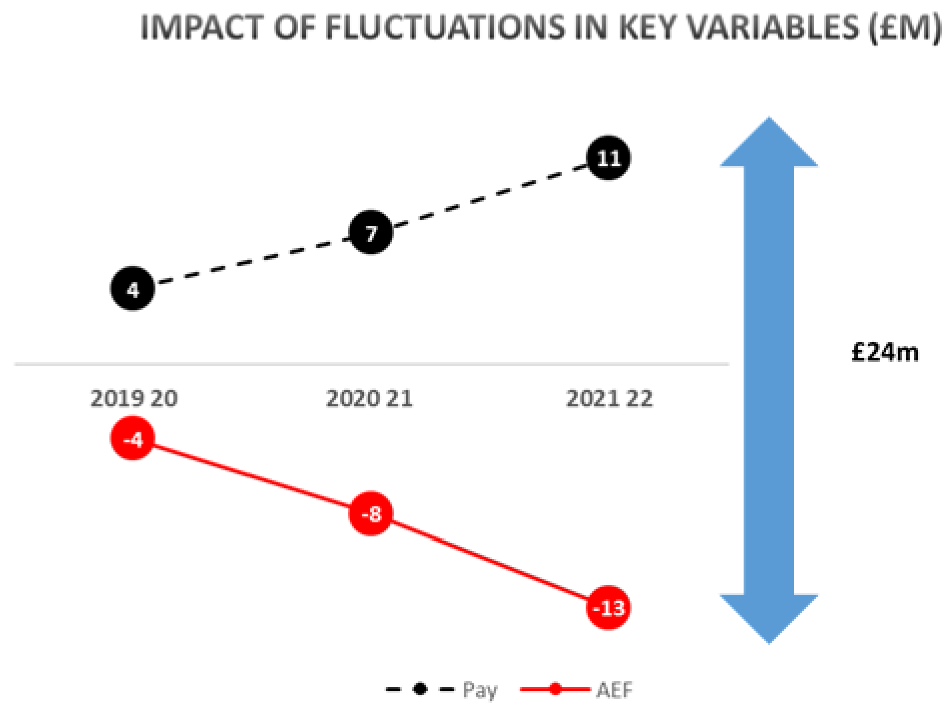
- Firstly, reserves are finite in nature, which means that their use to support the budget creates an immediate gap in the finances of the following year.
- Secondly, earmarked reserves are originally set aside either for a specific purpose or to support financial resilience, acting as a contingency for known areas of volatility. These functions would be compromised if large levels of reserves were routinely taken for budget funding.
- Thirdly, the existence of reserves means that the Council has cash balances, which to a degree mitigate the need to undertake short-term external borrowing with its associated costs.
- Finally, it is also of note that the level of reserves held by the Council may be considered to be just at an adequate level for an authority the size of Cardiff. As a percentage of gross revenue expenditure, Cardiff has one of the lowest levels of general and earmarked reserves compared to other Welsh Authorities.

181. Therefore a careful balance needs to be struck between holding too much and too little cash in reserves. Holding too little cash in reserves

increases the Council's exposure to risk whilst holding too much would tie up funding that could otherwise be used in support of services in times of financial pressure. It is also important to note that cash in reserves is not idle. It generates investment income in line with the Council's Treasury Management Strategy and as noted above, avoids the need to undertake short-term borrowing with its associated costs.

Sensitivity Analysis

182. Minor fluctuations in key variables can have a significant impact on the MTFP. The following graph illustrates the cumulative cash impact of an annual 1% fluctuation in two key variables, pay and funding.



183. The graph depicts that if AEF decreases are annually 1% worse than estimated and pay awards are 1% higher, this would have a cumulative impact of £24 million over the three year period. The impact of the funding reduction in the first year could be offset by releasing the Council's FRM. This would avoid the need to identify additional directorate savings at short notice. However, it would also remove the availability of the mechanism in future years for investment or for financial resilience purposes.

Worse Case Scenario

184. The following table reflects a potential worse-case scenario for the Council over the medium term. This reflects the possibility of:

- pay awards 1% higher than modelled in the base case
- annual funding reductions of 2% over the MTFP compared to 1% within the base case

- a more pessimistic view of potential Teachers Pension Scheme contribution rates

Worse Case Scenario	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**TOTAL £000**
Base Case MTFP Position	**34,285**	**27,518**	**29,600**	**91,403**
Changes:				
AEF	4,409	4,366	4,322	**13,097**
Pay Award	3,550	3,595	3,640	**10,785**
Pensions Issues – actuarial	1,245	889	0	**2,134**
Revised MTFP Shortfall	**43,489**	**36,368**	**37,562**	**117,419**

185. The base case MTFP reflects the December 2017 employer's pay offer for NJC staff. This award has yet to be accepted by the Trade Unions and covers only two of the three years within the MTFP. There is currently no indicative pay award for teachers and therefore the base case MTFP reflects an assumed award. There is therefore a risk that pay awards may be higher than reflected in the base case MTFP. For this reason and given the significant impact that a small variation in award can have in terms of budgetary impact, the worse-case scenario models the potential for awards to be 1% higher in each year of the MTFP for all categories of staff.

186. A 1% annual fluctuation in AEF has the biggest impact on the base case MTFP, adding £13.1 million to the estimated budget reduction requirement. Release of the Council's FRM would mitigate this sum by £4 million. It would however, remove the opportunity for further one-off investment through the FRM in future.

187. The worse-case scenario models the potential for employers' contribution 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 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 and which will therefore be changeable over this period. The impact is anticipated to take effect in September 2019, with a full year effect in 2020/21.

188. A number of "known unknowns" are being monitored in relation to the MTFP period. These are currently too uncertain to quantify but will be monitored closely as many have the potential to be significant in terms of quantum. These include:

- The terms agreed as part of the UK's exit from the European Union and their impact on the economy
- 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
- Local Government Reform in Wales and associated requirements for pooled budgets.
- Future pressures on demand led budgets which may require budget realignments to be considered
- 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

Council Response to the Medium Term Financial Plan

189. The previous section set out a further potential budget gap of £91 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 will require further review of assumptions around the use of reserves to support the budget, schools growth and potential future Council Tax increases. The following table sets out medium term assumptions regarding these areas in order to determine the amount that will need to be found from savings over this period.

	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**TOTAL £000**
Budget Reduction Requirement	**34,285**	**27,518**	**29,600**	**91,403**
Cap on Schools Growth	(2,883)	(2,172)	(1,946)	**(7,001)**
Council Tax	(5,785)	(6,034)	(6,293)	**(18,112)**
Use of Earmarked Reserves	(1,500)		750	**(750)**
Savings	**(24,117)**	**(19,312)**	**(22,111)**	**(65,540)**
Total	**(34,285)**	**(27,518)**	**(29,600)**	**(91,403)**

190. The assumptions outlined above will be reviewed and refreshed as part of the Budget Strategy Report to be developed in July. However, at present they reflect:

- A 30% cap on schools growth (excluding pupil numbers, Band B and asset renewal adjustments)
- A Council Tax increase of 4.3% in each year
- A £1.5 million annual draw down of reserves in 2019/20 and 2020/21, reducing to £750,000 in 2021/22.

191. The decision to reduce planned reliance on reserves as budget funding over the medium term has been taken in the context of existing levels of reserves and the Council's ongoing financial resilience. The assumptions outlined above will require a total drawdown from reserves of £3.75 million over the three-year period, which keeps use of reserves over the medium term to around 10% of the estimated balances. The assumed use of reserves within the MTFP will be kept under review. If circumstances were to arise that rendered it possible to top-up reserves

over the next few years, for example the receipt of windfall income, the MTFP assumptions may be revisited.

192. As part of the 2018/19 budget process, directorates have also been considering savings opportunities over the MTFP period. Opportunities are summarised across the five themes that have been used in relation to the 2018/19 proposals. These are consistent with the principles for development of the Council over the medium term, as set out in Capital Ambition and summarised earlier in this report. Further description of the type of opportunities that are captured within each theme is set out in the table below:

Theme	Description
Income Generation	• Identifying how the Council can make better use of its assets. • Identifying opportunities in respect of income generation (in both existing and new markets.) • Reviewing and challenging the cost base associated with income streams.
Collaboration	• Considering opportunities to work together within the Council as well as alongside the public, partner organisations and others. • Exploring opportunities for new operating models and alternative delivery arrangements. • Reviewing opportunities for the sharing of assets and the use of multi-agency teams.
Business Processes inc Digitalisation	• Reviewing internal business processes, through efficiencies and reductions to more closely reflect available resources. • Understanding the ways in which we can make better use of technology in our internal functions. • Continuing the shift to online services, customer focus and enabling technology, encouraging people who are able to use digital services to do so.
Prevention and Early Intervention	• Moving towards preventative action and early intervention to provide more cost-effective services and to manage demand for services in the future.
Review of External Spend	• Ensuring that we secure value on all our contracts. • Reviewing services that are subsidised by the Council. • Reviewing grants given to outside organisations to provide a service.

193. The opportunities for 2019/20 and 2020/21 are at varying stages of development. Further work on developing a fully defined set of proposals for these years and for 2019/20 in particular, will take place over the spring in order to inform the 2019/20 Budget Strategy Report which will be considered by Cabinet in July 2018. At present, savings in respect of 2021/22 are much more loosely defined than the two earlier years. The

shape of savings opportunities over the medium term is captured in Appendix 16 (b) and summarised in the following table:

Themed Opportunities for Savings	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**TOTAL £000**
Sum Required from Savings	**(24,117)**	**(19,312)**	**(22,111)**	**(65,540)**
Income Generation	2,213	1,762	2,017	**5,992**
Collaboration	3,576	578	661	**4,815**
Business Processes inc Digitalisation	10,626	10,317	11,813	**32,756**
Review of External Spend	6,115	5,282	6,048	**17,445**
Prevention and Early Intervention	1,587	1,373	1,572	**4,532**
TOTAL	**24,117**	**19,312**	**22,111**	**65,540**

194. The Financial Standing, Risk and Financial Resilience section has already set out the challenges of finding savings at significant levels over an extended timeframe. This is a key issue that will need to be kept in mind when developing further detail around savings, particularly for later years of the MTFP. It will be key to keep in mind the irreversible impact that decisions taken in connection with budget strategy can have on the future shape of the Council's budget. This is considered in further detail in the next section.

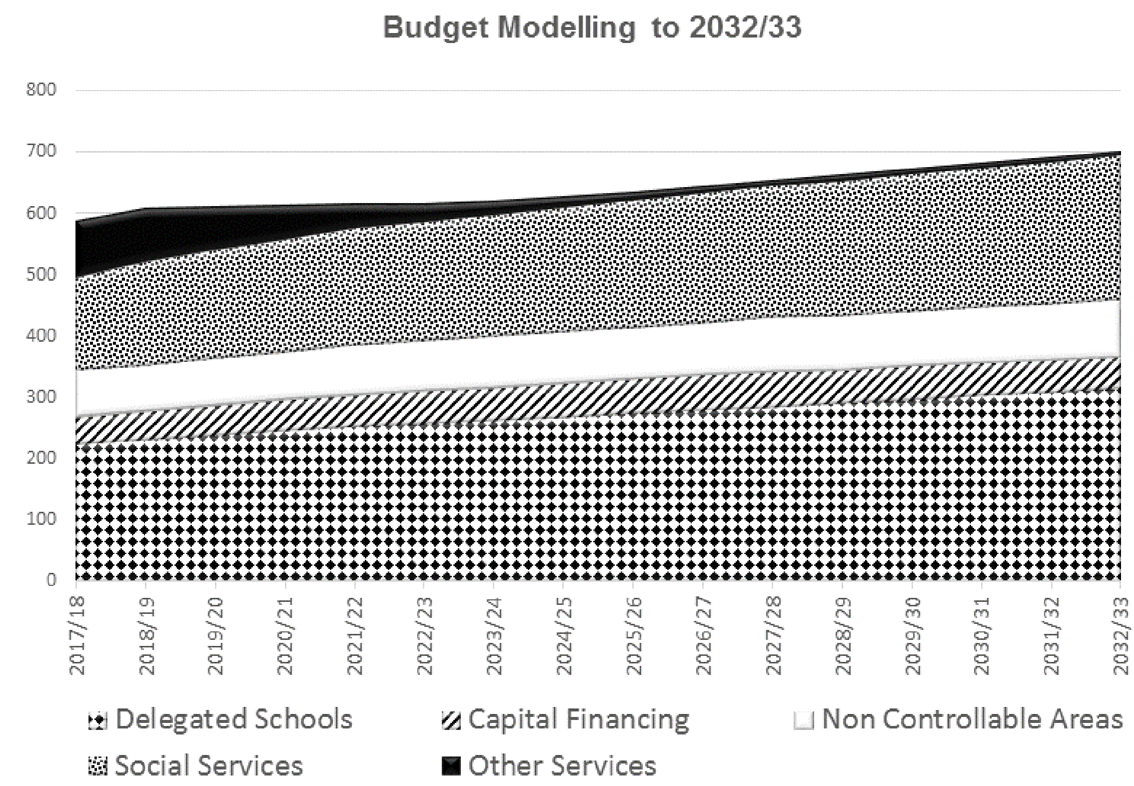
Future Years Outlook

195. A brief review of historic trends will assist in understanding the key influential factors on the potential shape of the Council's future budget. Although the Council has made £213 million savings over the past decade, the net budget has not reduced by this amount. This is because the most significant driver for the Council to make savings, are financial pressures for which it receives no additional grant funding.

196. In order to manage these unavoidable pressures, or to offer protection to certain elements of the budget, the Council must divert existing resources from other services. Two areas that have experienced exceptional demand and price pressures over an extended timeframe are Social Services and schools. Together, these areas account for proportionately more of the Council's budget each year. This is because cumulatively, they have received net additional funding of £60.677 million over the period 2014/15 – 2018/19. The MTFP predicts further significant pressures for these areas.

Financial Year	Delegated Schools Net Growth £000	Social Services Net Growth £000	Total £000
2014/15	2,720	736	3,456
2015/16	6,574	3,211	9,785
2016/17	11,185	4,082	15,267
2017/18	7,233	9,155	16,388
2018/19	7,376	8,405	15,781
5 Year Total	**35,088**	**25,589**	**60,677**

197. The prospect of sustaining the levels of growth identified above, over an extended future period will not be possible purely through diverting resources from other services. This is modelled on the graph below, which shows "other services" reducing to an extremely small proportion of the Council's budget. This is not feasible given that these areas themselves include statutory functions.



198. It should be noted that it is extremely difficult to model beyond the timeframe covered by the MTFP given the number of unknown factors. The graph therefore can only be taken as a high-level indication of how things may look in future based on the extrapolation of historic trends. Some of the key assumptions underpinning the graph include:

- The capital financing section of the graph assumes no further growth beyond the existing Capital Programme. Consequently, any new schemes dependent on additional borrowing will result in the capital financing section of the graph increasing at the expense of other areas.

- The growth assumed for schools and social services over the illustrated period is more modest than in recent years.
- The challenging funding position has been extrapolated over the medium term, moving to an optimistic view of modest funding increases moving into the longer term.

199. The graph highlights the importance of considering how decisions that are taken in one area may affect other areas both now and many years into the future. It re-emphasises the point made at the outset of this section; at times when funding levels are static or reducing, growth in one area is usually at the expense of others. This highlights the importance of continuing to set clear assumptions and policies at an early enough stage to manage the potential shape of the budget indicated by the graph. 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 timeframe. Robust annual challenge on this point will be a key part of financial planning and resilience.

Cardiff Capital Region City Deal

200. The Cardiff Capital Region City Deal (CCRCD) valued at £1.2 billion was signed in Cardiff on 15 March 2016, the core proposition being the provision of funding to support investment in projects to stimulate economic growth: £734 million is allocated to the Metro while £495 million covers a Wider Investment Fund (WIF) to support additional economic development activities. The WIF consists of a Local Government capital contribution of £120 million and UK Government Grant of £375 million provided over a 20-year period. The local authority partners operate within an affordability envelope of £210.8 million within which they will manage the total capital and revenue financing costs of the WIF over its life. The local authority contributions are calculated on a population basis with Cardiff's contribution proportion of 23.7% representing £50 million.

201. The basis of how the CCRCD is governed (Joint Working Agreement), how the WIF is managed and approved (Assurance Framework) and the proposals for implementing the CCRCD (Implementation Plan) were approved by Cabinet and Council in January 2017. Cardiff Council has been approved as the Accountable Body to administer the CCRCD, hold the funds from UK Government, local government and other sources and to ensure financial and legal compliance, for which resources are met from a Regional Cabinet budget. The Cardiff Capital Region Joint Cabinet (Regional Cabinet) was established in 2017 to oversee the delivery of the CCRCD and has overall collective responsibility for decisions relating to the WIF. The Regional Cabinet has approved an operating budget for 2018/19 of £1.05 million, of which Cardiff's contribution is £248,850.

202. The Joint Working Agreement (JWA) include some matters that have been reserved for consideration by councils at a later date. A particular funding implication is that until a JWA Business Plan is approved by Regional Cabinet and all partnering local authorities, Regional Cabinet is only authorised to commit up to £50 million pounds of the UK Government revenue funding in respect of ‘Initial Project Investments’ and the local authority contributions cannot commence. Following a period of development with each of the ten partnering local authorities, Regional Cabinet is to consider the approval of a JWA Business Plan on 23 February 2018. Cardiff will consider the JWA Business Plan in its Council meeting on 22 March 2018.

203. An ‘Initial Project Investment’ has been approved by Regional Cabinet of £38.5 million for a Compound Semi-Conductor Project. The loan starts to be repaid in 2020/21, and will be recycled for further City Deal investment. Further projects are in a process of feasibility study and business case development following which detailed investment requests will be submitted for appraisal in accordance with the Assurance Framework and then submitted to Regional Cabinet for approval.

204. Cardiff’s capital planning for its WIF contribution is predicated on the JWA Business Plan being approved by all Councils in March 2018, following approval by Regional Cabinet. This approval will discharge the ‘reserved matter’ at which time local authorities will be required to contribute their share of funding towards the capital project costs of £24.2 million for 2017/18. The contribution requirements are in accordance with a Regional Cabinet decision on 15 January 2018 to ‘resource switch’ and fund the initial investments in 2017/18 from capital funds, in order to preserve the £50 million of UK Government revenue funding for future use.

Housing Revenue Account and Rent Setting 2018/19

205. 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 must not subsidise costs relating to council housing from the General Fund or vice versa (i.e. from Council Tax or from the RSG).

206. 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. This will include the costs of servicing and repayment of all borrowing.

207. The major income streams include rents and income from service charges.

208. 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 set by the WG. The WG current policy for social housing rents, which is in place until the end of 2018/19, applies a mechanism for uplifting annual rents which is based on CPI (at the previous September) plus 1.5% plus a maximum of £2 per week.

209. In line with this, it is proposed that from April 2018, rents should increase by 4.5% plus £2 per week. As a result of the change, the average rent for a council home will increase by £6.18 per week (£6.56 based on the 49 week collection) exclusive of service charges.

210. Consultation on the rent increase took place between 19th December 2017 and 17th January 2018. A letter and flyer were sent to 6,700 randomly selected tenants with a freepost return address; this represented 50% of tenants. The information was also sent to tenants who engage in tenant participation events. Approximately 75% of tenants are in receipt of help with their housing costs and, in most cases, this will cover the increase. Those tenants most affected will be those in work with low earnings and those affected by welfare reform such as the Benefit Cap.

211. As a result 105 responses were received; 69% were content with the rent increase while 31% disagreed with the proposed changes. The main issues raised were around affordability. Council rents remain good value and are lower than rents charged by private landlords.

212. A number of ways to mitigate the impact of the increase have been identified, including improved into work services to help people upskill and to seek better paid employment, a more supportive approach to rent arrears and a hardship fund for tenants struggling to pay arrears.

213. Tenants were also asked how they would like the Council to use their rent payments. Respondents were able to vote on multiple priorities. 68% of respondents said the money should be spent on building new Council homes; 67% on improving existing housing and neighbourhoods; 51% on improving Council services and 43% on help for those struggling to pay rent.

214. Additional revenue generated through the rent increase will be used primarily for direct investment in existing housing stock and estates and to deliver the Council's target for building new affordable homes.

215. The Council has already set a target of building 1,000 new council homes over the next five years through a combination of open market buy backs, developer packages and new builds. The additional resource available as a result of the rent increase will contribute to the Council's additional target of between 1,800 and 2,000 homes in total, subject to the agreement of WG to extend Cardiff's HRA borrowing cap. This is further detailed in the capital section of the report.

216. Other factors which make up the HRA budget proposal as set out in Appendix 17 include the following main items:

- provision is made for the pay award in line with the Employers offer, changes due to the next stepped increase of the actuarial review and employee increments as well as any other full year impacts of employee costs
- a £17.6 million budget has been set for Council Housing Repairs. This budget reflects the estimated requirements for both planned and responsive maintenance under the new Building Maintenance Framework
- the direct revenue financing budget for capital expenditure assumes a contribution of £8.050 million in 2018/19
- provision is made for the ongoing estimated 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 Housing Partnership Project
- the HRA's fair contribution to the planned corporate and other initiatives where HRA activities are involved

217. The detailed proposals for changes to the HRA charges which can be found in Appendix 11(b) are summarised as:

- following a review of costs, 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
- some charges have been maintained 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

218. For future years 2018/19 to 2021/22, the budget proposals are in line with the HRA Business Plan which will be reported to Cabinet in March 2018 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 WG guidelines taking account of forward indicators for inflation factors
- 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

School Organisation Plan and 21st Century Schools Band A Programme

219. The School Organisation Plan (SOP) relates to the significant programme of capital investment that aims to reorganise school places in Cardiff, thereby using resources more effectively and ensuring that schools are fit for purpose. The SOP Financial Model includes Cardiff's

21st Century Schools Band A programme, which totals £164.1 million and which is entering the final year of a seven year programme, which commenced in 2011/12. The Band A programme is funded on a 50:50 basis with WG, with WG's contribution taking the form of grant and Local Government Borrowing Initiative (LGBI) revenue funding to facilitate additional borrowing. The overall model comprises 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:

School Organisation Plan (2011/12 to 2018/19)	**Budgeted Expenditure £m**	**Budgeted Funding £m**
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
Total	**226.2**	**226.2**

220. 21st Century Schools Projects completed to date including two new build primary schools, a replacement secondary school in partnership with Cardiff & Vale College and a number of extensions to primary schools. A number of projects are ongoing and include two new build primary schools, three replacement primary school buildings, a replacement secondary school and an extension to another primary school. The ongoing projects are scheduled for completion by the end of 2018/19, with a number scheduled for completion in time for the new academic year in September 2018.

221. 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 £4.877 million in 2019/20.

222. The SOP also includes significant revenue expenditure in connection with organisational restructuring costs attached to the schemes. These include project management costs, additional costs incurred by schools that are closing or are in transition, and contributions toward the establishment of new educational provision. For example, the expenditure in respect of 2017/18 included a significant commitment to remove the deficit school balance for the federation between Michaelston Community College and Glyn Derw High School, following the closure of both schools in August 2017. Following a review of commitments, a comprehensive SOP revenue budget for 2018/19 has been produced and will be submitted for approval by the SOP Programme Panel in

February 2018. A summary table of the budgeted revenue expenditure is shown below:

SOP Revenue Expenditure 2018/19	**£000**
Project Team Costs	1,495
Transition Costs	183
Newly Established Schools Support	150
Ongoing Commitments	755
Contingency	500
Total	**3,083**

223. The ongoing revenue funding available within the SOP Financial Model 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 21st Century Schools schemes, such as the 21st Century Schools Band B Programme.

224. 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
- cost over-runs and fluctuating construction cost inflation
- underachievement of capital receipts, 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

225. 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 projected movements on this reserve are shown in Appendix 18. This reserve is used to manage these cash flow implications and the risks as previously identified. 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 continue to be required.

21st Century Schools Band B Programme

226. In November 2017, the WG confirmed that, across Wales, £2.3 billion had been earmarked for Band B, the next phase of the 21st Century Schools Programme. As part of this announcement, the WG confirmed their commitment to support the projects submitted by local authorities in their outline strategic business cases, subject to the approval of business cases for specific schemes.

227. Further to this announcement, the Cabinet, at their meeting of 14 December 2017, approved the projects included by Cardiff Council in its outline strategic business case. These projects seek to address significant condition and sufficiency issues in all phases, including some

significant projects in a number of secondary and special schools. The indicative value of these projects total £284 million, with the Council required to match fund 50% of that figure. The exception relates to voluntary aided schools, of which Cardiff Council has one within its indicative programme, where the WG will provide 85% of the total funding.

228. The funding for the Council's share of the overall cost will be met from a combination of external borrowing and capital receipts. The total value of available capital receipts is to be finalised, however modelling has been carried out on the basis of £25 million being available to fund the Band B Programme. The current programme plan outlines the commencement of certain projects in 2018/19, with the majority of expenditure being incurred in the period from 2019/20 to 2023/24. As a result, the annual repayments required in relation to the borrowing undertaken would peak in 2023/24, at which point all borrowing will have been undertaken. Should the profile of expenditure, or the level of capital receipts, change the repayments in later years may change in line with this.

229. In order to meet the repayments requirement arising from the borrowing, it will be necessary to create a revenue budget that can be used over the 25 year repayment period to meet those costs. In respect of the Band A Programme, a revenue budget was created to fund both the capital financing costs arising and those in relation to programme management and school transition. With regard to Band B, it is proposed to create a new budget, sufficient in size to meet the capital financing costs as a minimum. It is anticipated that the residual Band A revenue budget will be sufficient to fund the programme management and school transition costs of the scheme, although this will be subject to continual review as the programme progresses. Revenue expenditure incurred will be managed via a revenue reserve to provide maximum flexibility in the timing of the use of resources.

230. The Band A revenue budget was created from revenue release savings within the delegated school budget, primarily as a result of falling pupil numbers. For Band B, it is not anticipated that pupil number savings will arise, due to the sufficiency challenges within the secondary sector particularly. Therefore, the proposal is to apply a reduction to non-pupil number school growth to provide the funding necessary. However, in order to minimise the impact upon individual schools, the reduction on this element of the growth will be spread over a ten year period, rather than in line with the six year period in which the capital expenditure will be incurred. Any temporary funding shortfalls that arise will be offset by use of general fund resources, to be repaid towards the end of the ten year period.

231. One the recommendations to this report requests delegated authority for the Director of Education to determine all aspects of the procurement process for those projects outlined within the Council's 21st Century Schools Band B programme, in consultation with the S151 Officer and relevant Cabinet members. This will include submission to WG of individual business cases for each project. A three-stage business case

approval process is in place, requiring approval of a Strategic Outline Case (SOC), Outline Business Case (OBC) and Full Business Case (FBC) before full grant approval is given. However, it is necessary to incur expenditure in relation to design works prior to submission of business cases and, therefore, in line with the approach to Band A projects, it is proposed that expenditure incurred in advance of SOC, OBC and FBC submissions for individual projects is limited. The thresholds proposed are 5%, 10% and 20% of the total cost of each project respectively and the Council should not be committed to any financial obligations outside of these thresholds.

232. Further considerations and risks in respect of the Band B Programme include:

- The risk that capital receipts do not meet the £25 million assumption. This presents a risk to the overall affordability of the programme.
- Each individual element of the programme requires full business case approval from WG. It is only at this point that the individual project budgets are approved and, therefore, there remains a risk to the overall affordability of the programme.
- There is a risk that capital expenditure incurred does not conform to the specific terms and conditions attached to the grant funding.
- There is a risk around inflationary increases in the capital expenditure to be incurred, again placing the overall affordability of the programme at risk. The same applies to currently unknown and unforeseen costs that arise during the programme. Whilst mitigations, such as contingency allocations can guard against this, there remains a risk that these mitigations are insufficient.
- Furthermore, there is a risk that initial estimated project costs are inaccurate and the actual costs of projects are higher than anticipated.
- Costs will be incurred in advance of projects gaining full business case approval and, should projects not gain approval, there is a risk that these costs will need to be aborted, at an additional cost to the Council via the SOP Revenue Reserve.
- There needs to be consideration given to any VAT implications arising from decisions made, particularly if any land transfers form part of the schemes. These present a risk around increased costs if irrecoverable tax is incurred and, therefore, would impact upon the affordability of the overall envelope.

Civil Parking Enforcement

233. 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.

234. 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.

235. 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 Civil 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.

236. The anticipated operating surplus for 2017/18 is £5.830 million. This has been used to fund a range of eligible expenditure in the current year and when this is taken into account the balance in the Civil Parking Enforcement Reserve at 31 March 2018 is estimated at £479,000.

237. For 2018/19, income from car parking fees, residents' permits, penalty charge notices and MTOs is forecast to be £12.186 million. Operating costs include staffing and other costs of enforcement services, administration, traffic regulation orders, maintenance for both on and off street parking and disabled bays. It also includes 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 £6.350 million, leaving a net surplus of £5.836 million in 2018/19.

238. Eligible expenditure commitments supporting overall highway, transportation and environmental improvements total £5.025 million in 2018/19. Direct revenue contributions to capital are also reflected as a commitment for 2018/19. These include £335,000 for Bus Corridor improvements to replace expenditure previously within the approved Capital Programme and a further £240,000 towards further expansion of the 20 mph zones as set out in the Capital Programme. In addition, a further £175,000 is planned for residential parking permit expansion, £50,000 for various highway and transport improvements and £7,000 for the maintenance of Driver Feedback Signs (DFS). A provision of £100,000 is made towards the Bike Hire Scheme and the British Cycling Core Cities Cycling Partnership. Furthermore, there is a provision of £60,000 for Transport LDP monitoring, £60,000 to provide a resource to help schools deliver their Active Travel plans and £40,000 for the Car Free Day initiative. It is estimated that the balance in the reserve at 31 March 2019 will be £223,000.

239. Based on known levels of operating expenditure, other commitments and anticipated increases in income, the future balance in the reserve is estimated to be £285,000 by the end of March 2020, £476,000 by the end of March 2021 and £636,000 by the end of March 2022. The incremental increase in the reserve in 2020/21 and 2021/22 reflects lower commitments towards bus corridor improvements.

240. A summary of the overall position on the Civil Parking Enforcement Account including the anticipated balances on the reserve is set out in Appendix 19 to this report.

241. The anticipated surpluses provide significant scope for future investment in line with the LDP 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 consultation with the relevant Cabinet member.

Joint Committees and Relevant Bodies

242. Cardiff is currently the lead authority for Glamorgan Archives, Prosiect Gwyrdd and CCRCD; it is also a member of the Central South Consortium Joint Education Service and the Shared Regulatory Service. In addition, the Council has to meet a number of levies and contributions.

Joint Committees and relevant Body	2017/18 Revenue Contribution £000	2018/19 Revenue Contribution £000
Joint Committees		
Glamorgan Archives	209	209
Prosiect Gwyrdd	37	37
CSC Joint Education Service	1,436	1,407
Shared Regulatory Service	3,585	3,615
CCRCD	237	249
Vale, Valleys & Cardiff Regional Adoption Consortium	488	573
Joint Bodies		
South Wales Fire & Rescue	16,858	17,181
Natural Resources Wales	138	139
Cardiff Port Health Authority	114	114
Newport Port Health Authority	5	5
Coroner	595	613

243. The figures shown for 2018/19 are subject to confirmation by the respective Joint Committees. The fees and charges for the Shared Regulatory Service are set by the Joint Committee or externally by statute or other regulation.

Activities inherited from Cardiff Bay Development Corporation including Harbour Authority

244. The Council agreed to take on the role of the Cardiff Harbour Authority (CHA) 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 the 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.

245. The arrangement has been subject to a number of negotiated changes over the past 18 years; the latest variation was signed on 3 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.

246. The existing agreement expired on 31 March 2017. The WG advised they would like an opportunity to review current arrangements and wished to extend the previous business period by twelve months, up until 31 March 2018, during which period such a review would take place. The impact of this arrangement is that for the financial year 2017/18, CHA operated under the same budget allocation of £5.891 million as in 2016/17.

247. The WG continues to have discussions with CHA over the way forward with a view to jointly agreeing a new funding agreement for 2018/19-2020/21. The WG have already emphasised the pressures on this budget and indicated that supporting CHA at current funding levels is unsustainable and consequently there is a desire to explore savings with the CHA.

248. CHA and the Council have responded positively and constructively to this request and plan to work jointly with the WG on developing an appropriate settlement within the context of a wide-ranging review of CHA activities. WG are conscious of CHA statutory functions, therefore exploring savings and efficiencies must be undertaken carefully and managed appropriately.

249. The WG has delayed the review, originally planned for the Autumn 2017, until next financial year. Subsequently the WG have advised the Council that total funding for 2018/19 is set at £5.4 million, representing a reduction of £491,000 or 8.33%. This allocation has to cover the financial pressures for a staff pay offer and general inflation increases so, in real terms the saving reduction amounts to 11.10%.

CHA Funding	**Budget £000**
2017/18 Funding	5,891
2018/19 Funding	5,400
Funding Reduction	**491**

250. CHA are assessing this position and developing a revised budget. The reductions are likely to come from reduced employee costs through a staff restructure, a range of operational savings and reviewing several asset renewal schemes. In addition, the proposals include a cessation of the subsidy for the Tourist Centre. Additional income generation from leases, increases to charges in car parking and harbour dues will help to achieve a balanced budget.

251. The funding for asset renewal is likely to be a significant issue in the future. Past renewals and replacements have been relatively small in value. The CHA plan to raise this with the WG and agree a way forward to determine the likely impact this will have in future years as part of an asset management plan.

252. The overall reduction in the budget reduces the ability to fund large unforeseen operational costs and consequently increases the financial risk to the Council. 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, the full cost of any unforeseen costs will be recoverable from the WG through an additional claims process.

253. Furthermore, in respect of any major projects or enhancements it is proposed to agree or establish a protocol whereby the CHA submits a proposal to the WG on a business case basis for consideration.

254. The budget and proposed changes to the existing agreement are subject to further discussions with the WG. It is anticipated these will be concluded before the commencement of the new financial year.

255. The CHA maintains a Project and Contingency Fund, which is used to support 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 a share of past year underspends on the Fixed Cost budget. The balance at 31 March 2018 is estimated at £475,940. This is largely required to fund the remaining costs of the Alexandra Head development scheme in relation to the Volvo Ocean Race. A significantly reduced balance will emerge which is unlikely to increase in the near future.

Capital

256. The Capital Programme for the period 2018/19 to 2022/23 has been prepared following consideration of the demands on capital expenditure as well as resources for capital investment.

257. The CIPFA 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. The Code was updated in December 2017, primarily in response to concerns in respect of authorities undertaking activities of a more

commercial nature such as investments in property and companies primarily for financial benefit.

258. The requirement for the two main changes to strengthen the Code are:-

- for full Council to approve a Capital Strategy that sets out the long term context in which both capital expenditure and investment decisions are made:-
  - to ensure that the strategy, governance procedures and risk appetite are fully understood by members
  - that the strategy should form part of the authority's integrated revenue, capital, treasury management and balance sheet planning to understand future financial sustainability
  - to include sufficient detail in the strategy to allow members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured to meet legislative requirements on reporting
  - the S151 Officer is required to report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions.
- a reduction in the number of required prudential indicators, but encouraging development of local indicators.

259. The Council already adopts a number of good practices that accord with the CIPFA code, however areas of development will be considered during 2018/19 to ensure that the best practice requirements under the Code can be demonstrated. The changes must be implemented by 2019/20 and so the Budget Strategy report in July 2018 will consider the main requirements of the capital strategy and set out the timescale for its approval by Council.

260. Borrowing is a long-term commitment to the revenue budget and must be prudent, sustainable and affordable in the long term as in 2018/19.

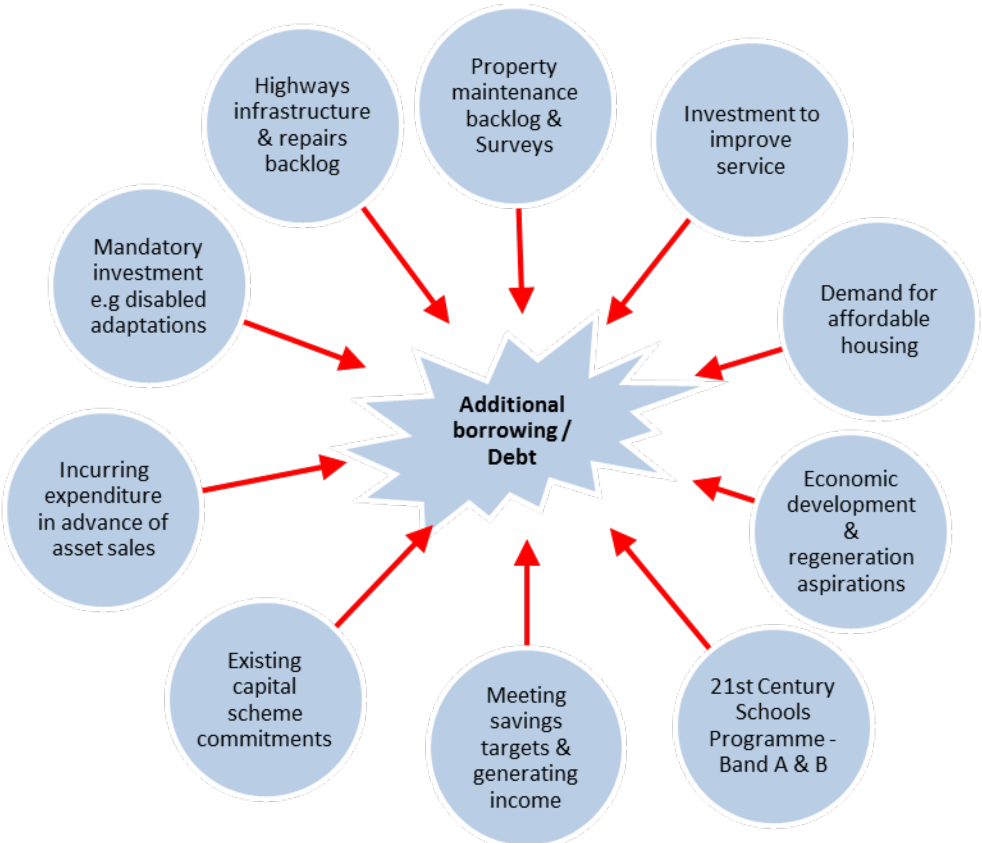
261. The Council continues to increase the amount it needs to borrow which will have a consequential increase on the capital financing budget within the revenue account and the Council's MTFP. The local capital financing prudential indicator shown in this section highlights that the proportion of the Council's General Fund revenue budget that it spends on capital financing is increasing. The paragraphs below set out the considerations taken in determining the Capital Programme. Careful consideration will need to be given to the affordability of additional borrowing as well as the amount, certainty and timing of capital receipts assumed as receivable towards investment.

262. Under the requirements of the Prudential Code of Borrowing, Local Authorities are required to publish a number of prudential indicators to assist in determining whether it has a prudent, affordable and sustainable Capital Programme. The indicators are set out in the Capital and Treasury Sections of the report. For readability and understanding, they are included at the most appropriate point in the text. Appendix 22(b)

indicates all the tables in this report that are required under the Prudential Code.

Capital Programme Plan and Capital Financing Requirement (CFR)

263. The Budget Strategy report considered by Cabinet in July 2017, highlighted the pressures on the Capital Programme, with pressures arising from a number of sources as illustrated in the following diagram.



264. 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. As highlighted later on in this report in consideration of the policy, it is essential that the level of this prudent provision continues to take into account previous and future borrowing commitments, the period over which the benefits of approved capital expenditure schemes are expected and that the Council takes a long term approach to minimise risk.

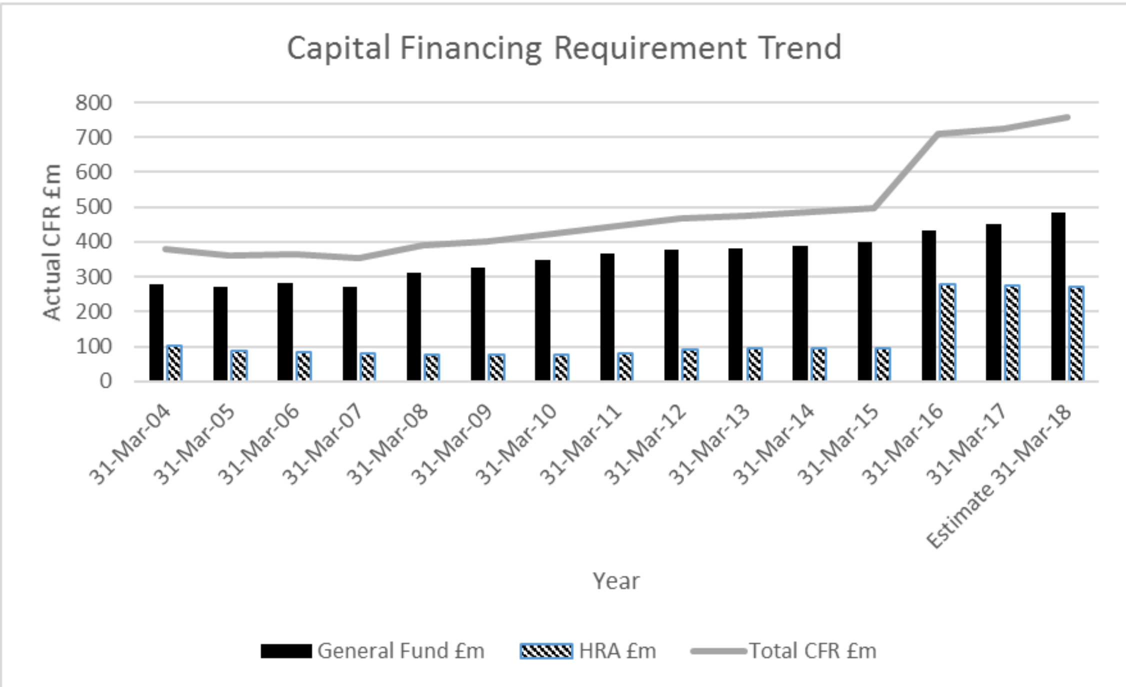
265. Calculation of the CFR is summarised in the table below and results in the need to borrow money.

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

266. The actual CFR as at 31 March 2017 and estimates for current and future years for the General Fund and HRA are shown below:

Capital Financing Requirement as at 31 March					
	2017 Actual £m	**2018 Estimate £m**	**2019 Estimate £m**	**2020 Estimate £m**	**2021 Estimate £m**
General Fund	450	484	500	510	541
Housing Revenue Account	274	272	295	294	303
Total	**724**	**756**	**795**	**804**	**844**

267. This continues a long-term increasing trend starting in 2004 when this measure was introduced, with a spike in 2015/16 as a result of payments made to HM Treasury to exit the Housing Revenue Account Subsidy System as demonstrated in the following graph.



268. The CFR forecast is subject to the timing of capital expenditure, capital receipts and new schemes that may be considered for approval in future years. It can be seen that the Council's underlying need to borrow is increasing and will need to be repaid from future revenue budgets either from savings, revenue income or Council Tax and Housing Rents. The

Council's MTFP reflects the costs of additional borrowing requirements and managing the CFR is considered in the Treasury Management Strategy.

269. As the Council realigns itself strategically to lower funding levels it needs to consider the level of debt, impact on financial resilience and Well-being of Future Generations (Wales) Act 2015. The Council must also consider the consequences of increasing borrowing. The percentage of controllable budget that is committed to General Fund capital financing costs in the long term is increasing. Given the extreme pressure on the revenue budget this clearly limits the affordability for additional borrowing in future years and must be a factor considered by members when determining the Capital Programme along with: -

- the prudential indicators highlighting the longer term impact of capital decisions on the revenue budget and affordability, prudence and sustainability
- the key long term strategic priorities for the city for which investment to be funded by additional borrowing is to be approved
- 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 services.

Capital Programme 2018/19 – 2022/23

270. 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:

- their responsibilities to ensure that they have sufficient and capable resources to undertake options appraisals, develop and deliver capital schemes
- minimising slippage wherever possible, but where likely, notifying Finance at an early stage for inclusion in budget monitoring reports to Cabinet
- ensuring costs charged to capital projects meet the definition of capital expenditure
- having contract management processes and procedures in place to ensure value for money and to ensure any contract variations are essential and approved in accordance with the Council's Constitution.

271. The proposed Capital Programme for 2018/19 and indicative Programme for 2019/20 to 2022/23 is summarised in the following table:-

Capital Programme	2018/19* £000	Indicative 2019/20 £000	Indicative 2020/21 £000	Indicative 2021/22 £000	Indicative 2022/23 £000	Total £000
Annual Sums Expenditure	20,465	15,247	15,247	15,247	14,620	80,826
Ongoing Schemes	27,275	22,513	1,238	770	130	51,926
New Capital Schemes	13,247	15,510	27,403	24,187	10,567	90,914
Schemes Funded by External Grants and Contributions	20,460	20,346	51,497	51,380	24,704	168,387
Invest to Save Schemes	18,292	22,385	35,823	42,880	21,204	140,584
Total General Fund	**99,739**	**96,001**	**131,208**	**134,464**	**71,225**	**532,637**
Total Public Housing (HRA)	**42,025**	**29,522**	**39,200**	**42,530**	**34,800**	**188,077**
Total Capital Programme	**141,764**	**125,523**	**170,408**	**176,994**	**106,025**	**720,714**

* Includes slippage estimated at Month 9. The final slippage figure, which will be known at outturn, will be reflected in the Month 4 2018/19 budget monitoring report.

272. Actual capital expenditure in 2016/17 was £106 million (£82 million General Fund, £24 million HRA). Projected capital expenditure in 2017/18 is £140 million (£111 million General Fund, £29 million HRA).

273. The five year programme is detailed in Appendix 20, with some of the main items of expenditure highlighted below:-

Theme	Types of expenditure
Annual Sums	• Disabled adaptations to allow people to remain in their homes • Highway infrastructure and property asset renewal • Neighbourhood regeneration • Parks asset renewal • Road safety; cycle and public transport network improvements
Previously Agreed / Ongoing Schemes	• Day Centre Opportunities Strategy • Facility to support victims and those at risk of domestic abuse • Whitchurch High School accessibility for disabled pupils • Bereavement Strategy • Western transport interchange • Completion of 21st Century Schools Band A programme • Economic development initiatives including Central Square public realm • Modernising ICT to improve business process

Theme	Types of expenditure
New Capital allocation proposed in 2018/19 Budget	• Neighbourhood renewal schemes • City Centre youth hub and Butetown pavilion • Additional asset renewal investment in existing assets, to support highway infrastructure, non schools buildings, parks play equipment and waste infrastructure • Strategic cycle routes • Council contribution to support WG grant bids for coastal erosion, transport links and a targeted regeneration investment programme • Development of a household waste recycling centre in the north of the city • Council agreed contribution to CCRCD expenditure in accordance with profile approved by Regional Cabinet in January 2018.
External Grant and Contribution assumptions	• 21st Century School Band A and Band B grant from WG • WG transport and road safety grants • Planning gain and other contributions received towards a range of schemes
Invest to Save	• 21st Century Schools Band A and Band B financial models • Schools property asset renewal, health and safety and additional learning needs • Council leisure centre investment as part of alternative service delivery • Loan to Cardiff City Transport Services Limited • New cemetery to increase burial space in the city • Building energy efficiency schemes • Lamby Way solar farm • Economic Development Initiatives
Public Housing	• Improvements to garages, gullies and open spaces • Investment in existing stock to sustain Welsh Housing Quality Standards (WHQS) • High rise block upgrades • Sheltered accommodation remodelling • New affordable housing including land acquisition • Disabled adaptations

New Capital Allocations Proposed in 2018/19 Budget

274. In considering new pressures for investment, a medium term view has been taken with new investment proposed on the following principles:-

- new schemes proposed support key priorities and improvement objectives of the Council's Capital Ambition
- additional borrowing principally for existing assets such as highway infrastructure and to address condition of properties to be retained in

the long term. This is following an assessment of risk and review of existing allocations for annual sums

- directorates to manage priorities within existing budgets as no further requests for additional asset renewal funding from directorates are expected over the five year period in future years
- recognition that the Council's controllable budget alone cannot afford the capital financing implications of additional investment required for existing and new schools
- investment where it needs to be made by the Council and cannot be better made by others
- taking advantage of opportunities for grant match funding to secure investment in schools, transport and regeneration

275. The Council is also developing feasibility studies into a number of major projects such as those supporting economic development, transport and energy projects. It is essential that due diligence is undertaken on business cases for such projects, with sourcing of external expertise where relevant to support decision making and to understand key risks and any financial liabilities that could arise from such investment. The taking forward of those projects must also consider whether investment needs to be made by the Council and cannot be better made by others.

External Grant and Contribution Assumptions

276. Over the life of the Capital Programme the level of external grants included are based on assumptions. Any external grant approvals received during the year will be reported as part of the Council's budget monitoring process as a basis for inclusion in the budget framework.

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

277. The General Fund Programme includes significant borrowing commitments of £140.6 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. This may be over a significant period of time, many years into the future, as is the case with the 21st Century Schools financial model.

278. Accordingly it is essential that there is a robust long term view of the strategic requirement for that expenditure, affordability and risks to repayment of borrowing before commitments for additional borrowing are entered into. The review of business cases is supported by the Investment Review Board, which is chaired by the S151 Officer.

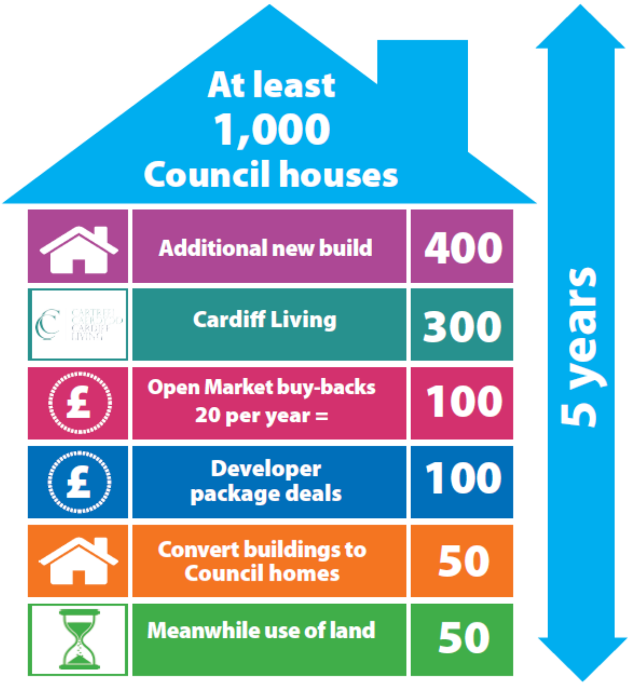
279. WG has increasingly been providing interest free loans or repayable grants using Financial Flexibility funding available to them for a range of schemes. Whilst welcome, where there is linkage to the strategic aims of Cardiff Council, these present an ongoing risk to the Council. Such

schemes increase the Council's capital expenditure and WG funding must be paid back in full.

Public Housing/Housing Revenue Account (HRA)

280. Investment in Public Housing includes enhancing the condition of existing housing stock, estate regeneration and development of new affordable housing.

281. Significant investment will deliver new council social rented homes through a combination of open market buy backs, developer packages and new builds in order to meet demand for affordable housing in the city and to help meet national targets. The programme currently includes £120 million of investment over the next five years.



282. As part of the agreement to exit from the housing subsidy system in 2015/16, the Council must adhere to a debt cap for the HRA and the level of investment proposed has been limited to ensure this remains the case. Opportunities to make a step change in the number of units delivered are being considered for much larger sites in the city, however, whilst affordable, such schemes cannot be considered without the agreement of WG to extend Cardiff's HRA borrowing cap.

283. The HRA business plan is prepared for a period of thirty years and will be submitted to WG in March 2018 following approval by Cabinet. It is subject to regular review to ensure new expenditure to be paid for by borrowing is for essential improvements or for schemes that have an element of pay back, so that there are no long term issues of affordability and sustainability in respect of borrowing.

284. A number of sites will be appropriated from the General Fund into the HRA for the development of new housing. These include the former school sites at Rumney, Llanrumney, and Howardian. 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. Subject to ensuring no breach in the cap and following a viability assessment acquisition of other Council or externally owned sites suitable for housing will be considered.

Capital Resources 2018/19 to 2022/23

285. Resources proposed to be used to pay for capital expenditure are summarised in the table below and detailed in Appendix 21.

Capital Resources	2018/19	2019/20	2020/21	2021/22	2022/23	Total	%
	£000	£000	£000	£000	£000	£000	
WG General Capital Funding - Supported Borrowing	8,468	8,468	8,468	8,468	8,468	42,340	6
WG General Capital Funding - Grant	5,153	5,153	5,153	5,153	5,153	25,765	3
Major Repair Allowance Grant (HRA)	9,532	9,532	9,532	9,532	9,532	47,660	7
Additional borrowing	59,841	49,401	74,610	77,156	42,178	303,186	42
Earmarked Capital Receipts	22,350	20,443	500	500	500	44,293	6
Non earmarked Capital Receipts	4,000	3,000	13,000	13,000	7,000	40,000	6
Revenue & Reserves	10,025	7,880	6,648	6,505	6,490	37,548	5
Other External Grants and Contributions	22,395	21,646	52,497	56,680	26,704	179,922	25
Total Resources	**141,764**	**125,523**	**170,408**	**176,994**	**106,025**	**720,714**	**100**

286. The Council will receive £13.621 million in 2018/19 through grant and supported borrowing approval from the WG towards funding the Council’s capital spending priorities. This is a £90,000 increase from 2017/18 but a reduction of circa 35% compared with 2010/11. This means that WG resources barely meet annual expenditure on annual sums, therefore the Council has chosen to increase its borrowing.

287. The Major Repairs Allowance receivable for Public Housing remains at previous levels of £9.5 million per annum.

288. Expenditure funded by unsupported additional borrowing of £303.186 million is proposed over the five year period of the programme. This is in order to meet General Fund capital expenditure and to pay for Invest to Save schemes of £213 million and £90.1 million of public housing capital expenditure.

289. Earmarked receipts of £44.293 million have been identified to offset expenditure and minimise levels of borrowing for the 21st Century Schools Band A programme and for economic regeneration schemes such as Central Square redevelopment.

290. Over the five years of the Capital Programme, £40 million of non-earmarked capital receipts have been assumed, a significant increase, and which are to be determined from a review across the Council’s whole estate.

291. The actual realisation and timing of capital receipts is relatively unpredictable given the number of variable factors involved. In order to take this into account, a Capital Programme that includes assumptions on significant levels of capital receipts needs to be supported by a clear, approved strategy for the realisation and timing of such receipts. To do otherwise would be a significant risk to the Council's borrowing requirement and future revenue budget pressures.

292. The Council's approach to delivery of capital receipts is to be set out in a disposal strategy developed by Strategic Estates and considered by Cabinet during the year. Progress in delivering receipts will be reported periodically to the Asset Management Board and as part of the budget monitoring reporting process. It is clear that within this financial climate of reducing revenue resources, all necessary actions must be taken to reduce both initial capital expenditure and by accelerating a reduction in the Council's asset base within a limited timeframe.

293. Releasing capital receipts may also require investment in improving other assets or providing alternative facilities, which means an additional drain on realisable receipts. In setting the target for capital receipts, earmarking will need to be limited, with the priority being to pay for schemes in the existing capital programme and any additional receipts, used to repay debt.

Ratio of Financing Costs to Net Revenue Budget Stream

294. This indicator 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.

295. 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.

Ratio of Financing Costs to Net Revenue Budget Stream						
	2016/17 Actual %	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**	**2021/22 Estimate %**
General Fund – Net Capital Financing Budget	6.00	5.85	5.76	5.79	5.81	6.06
General Fund – Gross Capital Financing Budget	7.57	7.41	7.53	7.69	7.95	8.65
HRA	30.46	32.66	31.53	33.58	33.10	32.97

296. 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.

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

298. 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

299. 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.

300. Accordingly an additional local indicator is calculated for the General Fund to support decision making and is shown in the table below for the period up to 2022/23. These local indicators show the ratio of capital financing costs of the Council expressed as a percentage of its controllable budget, excluding treasury investment income:

Capital Financing Costs expressed as percentage of Controllable Budget								
	2011/12 Actual %	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**	**2021/22 Estimate %**	**2022/23 Estimate %**	**Difference 11/12-22/23 %**
Net	13.47	14.40	13.87	14.49	15.11	16.46	16.65	23.61
Gross	15.17	18.16	18.07	19.21	20.56	23.38	24.62	62.29

301. 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 worst case scenario.

302. 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 2018/19 and over the medium term.

303. 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 significant 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 2022/23, Cabinet should be aware that the later years position will need to be subject to an ongoing review of the Council's financial standing and resilience.

Planning Gain (Section 106) and Other Contributions

304. Directorates must use contributions within relevant timescales and in accordance with the terms and conditions of the agreements.

305. The following table summarises the balances currently held by the Council at 31 December 2017 on a service basis, together with a planned profile of spend over future years, as determined by directorates. Due to the level of uncertainty, future amounts potentially receivable have not been included, but could be significant in relation to large sites.

Areas of Service	Projected Balance at 31 March 2018 £000	Planned Use 2018/19 £000	Planned Use 2019/20 £000	Planned Use 2020/21 and beyond £000
Traffic & Public Transport	2,299	862	763	674
Parks & Sport	3,616	1,356	1,093	1,167
Planning	164	33	131	0
Education	654	325	329	0
Economic Development	516	236	280	0
Neighbourhood Regeneration	1,196	581	571	44
General Fund Total	**8,445**	**3,393**	**3,167**	**1,885**
Housing Total	1,484	1,484	0	0
Total	**9,929**	**4,877**	**3,167**	**1,885**

306. Some of the schemes included in the profile for 2018/19 above are:

- Traffic & Transportation – footpath and cycle improvements, notably in Cathays, Creigiau, Penylan and Trowbridge (£283,000), public transport (£451,000), highway improvements (£177,000), installation of CCTV and real time information (£79,000), telematics and transportation schemes including bus service improvements and bus boarders (£103,000) and traffic orders throughout the city (£88,000)
- Parks – Adamsdown Open Space (£459,000), Hendre Lake footpath link (£119,000), 3G Pitch at Maindy Park (£106,000), Llanishen Park (£155,000) and the Roath Park Corridor cycle improvements (£226,000)
- Strategic Planning – public realm improvements at Bridge Street, Charles Street, Newport Road, Mount Stuart Square, the entrance to Cathays Station and City Road District Centre regeneration scheme
- Schools – Howardian Primary School (£141,000), Cardiff West Community High School (£76,000) and catering/kitchen improvement schemes in Lisvane (£274,000)
- Neighbourhood Regeneration – provision of library service within the Cardiff Royal Infirmary site (£206,000), the refurbishment of community facilities in Caerau, Gabalfa, Plasnewydd and Lisvane
- Housing – development of new affordable housing.

307. The Community Infrastructure Levy (CIL) regulations came into force in April 2010 to 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 (S106) process but the regulations change some of the key rules associated with S106 to prevent overlap between them.

308. A draft Charging Schedule has been consulted upon but progression onto the next stage depends on the possible devolution of CIL to the WG. Depending on the timescales, there may then be a need to re-visit the viability evidence and therefore it is unlikely that CIL will be in place in 2018. S106 will remain as the main vehicle to deliver infrastructure such as additional schools and affordable housing development.

Treasury Management

309. The Council carries out its treasury management activities in accordance with a Treasury Management Code of Practice for public services, updated by CIPFA in 2017. This requires the Council to set out the policies and objectives of its treasury management activities and adopt four Clauses of Treasury Management. These were formally adopted by the Council in February 2010. Appendix 22(a) includes a glossary of terms used in this strategy.

310. CIPFA has adopted the following as its definition of treasury management activities:

The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the *effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.*

This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and all investments.

311. 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. Reports produced in relation to the Council's treasury management activities include a strategy at the start of the year, performance reports during the year, a mid year report and an outturn report.

CIPFA Treasury Management Code update 2017

312. CIPFA have made two main changes to the Code in 2017 and expect these to be fully implemented by April 2019, if not earlier.

- Minor changes to the treasury indicators which were initially developed in 2004
- Clarifying that the definition of 'Investments' above includes:-
  - ➢ Treasury Management investments (as historically included in this Strategy, as well as
  - ➢ investments made for policy reasons and managed outside of normal treasury management activity.

313. The latter change is primarily in response to increasing commercialisation activities undertaken by Local authorities. Examples of investments made for policy reasons and managed outside of normal treasury management activity include:-

- 'service investments' held in the course of provision and for the purposes of operational services
- 'commercial investments' which are taken mainly for financial reasons. These may be shares and loans in business structures e.g. subsidiaries; investments explicitly taken with the aim of making a financial surplus for the Council; non financial assets such as investment properties held primarily for financial benefit.

314. Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, the Code requires that these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that robust procedures for the consideration of risk and return are applied to these decisions.

315. The Code requires that all investments have an appropriate investment management and risk management framework. This includes making it explicit in any decision making:-

- the powers under which investment is made
- the governance process including arrangements in place to ensure appropriate due diligence to support decision making
- the extent to which capital invested is placed at risk
- the impact of potential losses on financial sustainability
- the methodology and criteria for assessing performance and monitoring process
- how knowledge and skills in managing such investments is arranged and that these are monitored, reported and highlighted explicitly in the decision making process and due diligence.

316. The most significant investments currently held by the Council and managed outside of normal treasury management activity are the Council's 100% shareholding in Cardiff Bus and the Council's Investment Properties, which include various freeholds within the City held for income generation or capital appreciation.

317. The Council will need to consider this change in the Code during 2018/19 when considering any new proposals for non treasury investments as well as any updates to existing strategies, practices and reporting such as in the Statement of Accounts.

318. It will be recommended that Council adopt the practices for Non Treasury Investments identified in a separate section of the Treasury Management Strategy below.

Treasury Management Strategy

319. The Strategy links plans for capital investment, financing and affordability of those plans as well as how cash will be safely managed to meet the Council's financial commitments and objectives.

320. 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.

321. The identification, monitoring and control of risk are integral elements of treasury management activities with risks including credit and counterparty, liquidity, interest rate, refinancing, fraud and regulatory. The Council has Treasury Management Practices to address and mitigate these risks which were updated in March 2017 following a review by Internal Audit and Audit Committee.

322. 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 Link Asset Services includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance.

323. The proposed strategy is an integrated strategy for the Council including the Housing Revenue Account (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 based on its capital expenditure plans and choice between internal and external borrowing and
  - Borrowing Strategy
- treasury management indicators and limits for 2018/19 to 2020/21
- investment policy and strategy, including security and investments approved for use
- training.

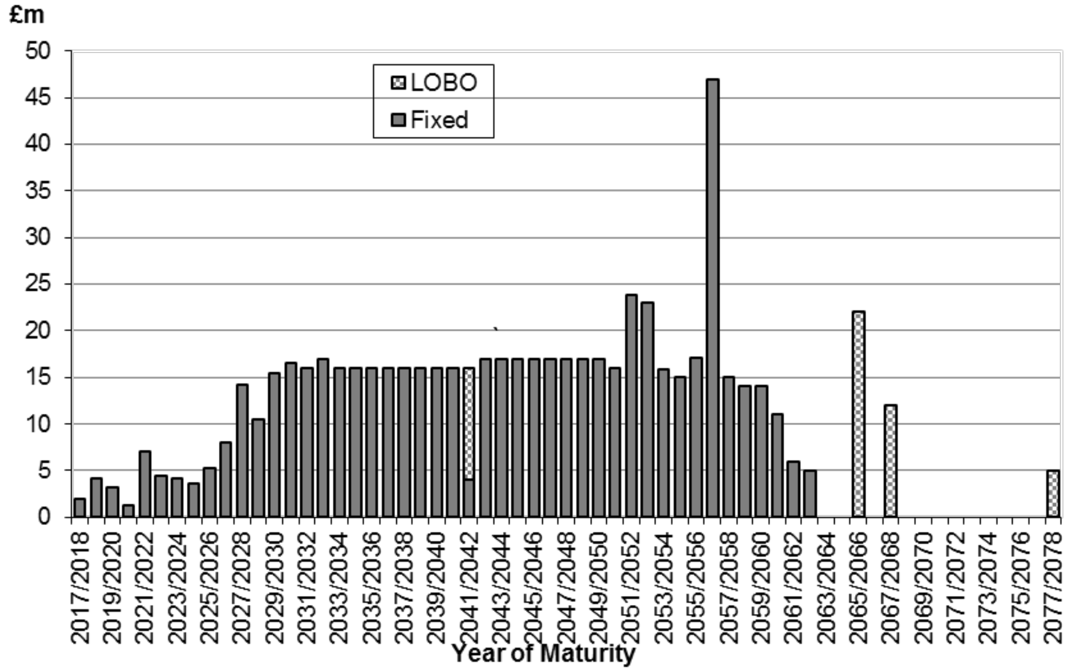
The Treasury Position

324. Borrowing and investments as at 31 December 2017 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.

	31 December 2016		**31 December 2017**	
	Principal £m	**Average Rate %**	**Principal £m**	**Average Rate %**
External Borrowing				
- Public Works Loan Board	620.8	4.9	613.8	4.8
- Market Loans	51.0	4.0	51.0	4.0
- Welsh government	2.6	-	4.5	-
- Other	0.9	-	5.1	-
Total Debt	**675.3**	**4.78**	**674.4**	**4.71**
Treasury Investments (net)	**75.1**	**0.61**	**46.0**	**0.53**

325. The reduction in investments reflects the strategy of internal borrowing by using temporary cash balances and is also as a result of timing of cash flows.

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



327. Loan maturities during 2018/19 are circa £4 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.

328. 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.

Lender Option Borrower Option (LOBO) Loans			
Potential Next Repayment Date	**Loan Value £m**	**Option Frequency Every**	**Full Term Maturity Date**
01/03/2018	6	6 months	23/05/2067
21/05/2018	6	6 months	21/11/2041
21/05/2018	6	6 months	21/11/2041
21/05/2018	6	6 months	23/05/2067
21/11/2020	22	5 years	23/11/2065
15/01/2023	5	5 years	17/01/2078

329. 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 £22 million and £5 million have call options in November 2020 and January 2023 respectively and every five years thereafter. The likelihood of a request for an increase in

rate is negligible, with options for early repayment not financially viable due to penalties.

Economic background and prospects for Interest Rates

330. 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.

	Actual 31/12/2017	March 2018	March 2019	March 2020	March 2021
Bank Rate	0.50%	0.50%	0.75%	1.00%	1.25%
5yr PWLB rate	1.56%	1.60%	1.80%	2.10%	2.30%
10yr PWLB rate	2.06%	2.20%	2.50%	2.70%	3.00%
25yr PWLB rate	2.65%	2.90%	3.10%	3.40%	3.60%
50yr PWLB rate	2.38%	2.60%	2.90%	3.20%	3.40%

Forecast at November 2017

331. Economic and interest rate forecasting remains difficult with so many external influences on the UK economy. Growth and consumer confidence for the UK economy was weak in 2017 due to inflation, following devaluation of sterling and reducing disposable incomes. Growth and inflation are two key factors used by the Bank of England in determining when to change interest rates.

332. One area of risk being considered by the Bank of England is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. This is why forward guidance from the Bank of England during the year continued to emphasise slow and gradual increases in Bank Rate in the coming years. The bank rate increased by 0.25% to 0.50% on 2 November 2017 removing the emergency cut in August 2016 after the EU referendum. Forward guidance indicates increases in Bank rate only twice more, by 0.25% each time to end at 1.00% by 2020. Another risk is that central banks also need to consider the timing and strength of reversing the quantitative easing which was undertaken to inject liquidity into economies after 2008. There are concerns that economic growth has been too reliant on this stimulus resulting in a search for returns on riskier financial assets. The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms and timetable for Brexit.

333. Investment returns are likely to remain low during 2018 and gently rise over the next few years. The approach of deferring external borrowing by using temporary cash balances has served well over the last few years. However, caution should be adopted to avoid incurring higher borrowing costs in the future when new borrowing is unavoidable.

334. Gilt yields and therefore PWLB rates can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period above.

335. Downside risks to PWLB rates would include:

- Bank of England raises Bank Rate quicker than anticipated causing UK economic growth and increases in inflation, to be weaker than anticipated.
- Geopolitical risks in Asia, Europe and the Middle East, which could lead to increasing safe haven flows to the UK.
- Re-emergence of the Eurozone sovereign debt crisis due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Rising protectionism.
- A sharp downturn in the global economy.

336. The potential for upside risks especially for longer term PWLB rates include:

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy.
- UK inflation returning to sustained significantly higher levels.
- Increases in the pace and strength of reversal of Quantitative Easing.

Borrowing

Borrowing Policy

337. 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 budget.

338. 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.

339. The Council's Borrowing Strategy for 2018/19 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
- ensuring borrowing plans are aligned to known capital expenditure spending plans and financial reserve levels and are also consistent

with the prudent provision for the repayment of any capital expenditure paid for by borrowing

- achieving a balanced maturity profile
- having regard to the effects on current and future Council Tax and Rent Payers.

340. The Council does not intend to borrow in advance of need and will not do so just to gain financially. However, this option may be considered if it is felt that borrowing in advance allows opportunities to lock into favourable long-term rates. This will be limited to no more than the expected increase in the Council’s borrowing requirement over a three year period.

Prudent Repayment of Capital Expenditure – Annual Minimum Revenue Provision (MRP) Policy Statement for 2018/19

341. The Council has a statutory duty to calculate and set aside each year from its 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).

342. Legislation does not define what constitutes a ‘prudent provision’. Instead WG has provided guidance and examples in order to interpret that term.

343. 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.

344. The proposed policy is included in Appendix 23 to this paper and it remains as considered by Audit Committee in November 2016.

Council’s Borrowing Requirement

345. The following table shows the level of external borrowing currently held by the Council, includes an assumption of £20m of external borrowing to be undertaken in March 2018 and highlights scheduled loan repayments. It compares this to the projected CFR based on current, known estimates and timing of the Council’s capital expenditure and funding plans. The difference between the projected CFR in 2020/21 (£844 million) and the level of external borrowing after any planned repayments (£711 million) is £133 million, i.e. there is a requirement for the Council to undertake borrowing over the medium term.

Gross Debt compared to Capital Financing Requirement					
	2016/17 Actual £m	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
External borrowing at 1 April	666	674	692	688	685
Known / New borrowing	15	25	27	tbc	tbc
Scheduled repayments	(7)	(7)	(4)	(3)	(1)
External Borrowing at 31 March	**674**	**692**	**715**	**712**	**711**
Capital Financing Requirement	724	756	795	804	844
Under / (Over) borrowing requirement	**50**	**64**	**80**	**92**	**133**
Requirement as % of CFR	**6.9%**	**8.5%**	**10.0%**	**11.4%**	**15.8%**

External versus Internal Borrowing

346. 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.

347. A high level balance sheet review undertaken suggests that a maximum level of internal borrowing is circa £80 million (10% of the 2018/19 CFR), meaning that the Council would have to take additional external borrowing in 2018/19 and in future years. However, this is dependent on cash flows, the timing of use of earmarked reserves and provisions and longer term pressures in the MTFP.

348. Whilst having regard to the risks of comparison, the Council and its advisors have undertaken benchmarking of internal borrowing levels of their other Local Authority clients. For Welsh Unitary Authorities in 2016/17, internal borrowing averaged 11.3% of their Capital Financing Requirement; for English Unitary Authorities it was 20.9% and 13.5% for all Authority clients.

Borrowing Strategy

349. 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.

350. Given the risks within the economic forecasts setting a fixed target for the quantum and timing of borrowing is not deemed appropriate. A pragmatic approach will be adopted by the S151 Officer due to changing

circumstances with the following strategy proposed to manage the Council's Capital Financing Requirement:-

- £20m external borrowing to be undertaken in March 2018
- 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 (short medium and long term) for an element of the Council's borrowing requirement will be taken as has been done in previous years. This will aim to keep internal borrowing to approximately 10% or less of the forecast Capital Financing Requirement for 2018/19.
- Any external borrowing will consider the balance between fixed rates and variable rates to meet the long term borrowing policy aims identified in this report previously. Fixed rates would be taken if the borrowing need is high and rates are likely to increase, and conversely variable rates, if any borrowing need is temporary and rates are likely to fall.

351. If there was a significant risk of a sharp rise in long and medium-term rates than that currently forecast, 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.

352. 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 2018/19 – 2020/21

353. The Council is required to set its treasury management indicators for the years 2018/19 - 2020/21. Appendix 22(b) to this paper gives further background in respect of the Prudential Indicators.

354. 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 the impact upon future Council Tax payers and Council tenants is acceptable.

355. 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 2017/18 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	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Limit for external borrowing and other long-term liabilities	776	863	863	863

356. This limit is consistent with proposals contained within the budget for capital expenditure, financing and accounting requirements in relation to landfill obligations. The overall limit for the Council has been set at a constant level of £863 million for 2018/19 to 2020/21. It has increased from 2017/18 primarily as a result of increases in the capital programme commitments to be approved in the budget including the CCRCD and the 21st Century Schools Band B investment programme.

357. Whilst there is currently no self-imposed or nationally imposed overall cap on the level of General Fund borrowing, there is a cap for the HRA which is 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, however discussions are taking place with WG to determine how the Council's cap can be increased in the medium term as part of a scheduled review in 2018/19 to allow further development of new council houses.

HRA borrowing cap	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
HRA CFR forecast at 31 March	272	295	294	303
HRA CFR Current Cap	316	316	316	316
Headroom / (Excess)	**44**	**21**	**22**	**13**

358. 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

359. 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.

Operational boundary	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Boundary for external borrowing and other long-term liabilities	692	795	804	844

360. The Council's actual external debt represented by borrowing at 31 March 2017 was £674 million, with no significant other long-term liabilities.

Maturity structure of borrowing

361. 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.

Maturity structure of borrowing in 2018/19	**Upper limit %**	**Lower limit %**	**Actual to Maturity %**	**Actual if LOBOs Repaid Early %**
Under 12 months	10	0	0.62	4.19
12 months and within 24 months	10	0	0.48	0.48
24 months and within 5 years	15	0	1.89	5.90
5 years and within 10 years	20	0	5.24	5.24
10 years and within 20 years	30	0	23.12	23.12
20 years and within 30 years	35	0	24.69	22.90
30 years and within 40 years	35	0	30.74	30.74
40 years and within 50 years	35	0	12.48	7.43
50 years and within 60 years	15	0	0.74	0.00
60 years and within 70 years	5	0	0.00	0.00

Treasury Management Investments

Policy

362. The Council has regard to the WG Guidance on Investments issued in 2004 and its subsequent amendments, as well as the CIPFA Treasury Management Code. The Council's investments include those arising from its own temporary cash balances as well as balances held from the activities of Joint Committees for which it is the accountable body.

363. 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 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 S151 Officer.

364. The Markets in Financial Instruments Directive (MiFID II) was implemented from 3 January 2018. Where requested by counterparties to do so, the Council has opted up to be classed as a ‘professional’ client following the submission of qualitative and quantitative information on its treasury activities.

Specified Investments

365. 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.

366. Specified investments may comprise up to 100% of the Council’s total investments.

Instruments approved for use	**Minimum Credit Criteria**
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 or Government Equity Support
Term deposits with variable rate and variable maturities up to one year e.g. structured investment products	Long-term A /Short-term F1

Non-Specified Investments

367. 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 £90 million is to be set for non-specified investments including investments for greater than one year.

Instruments approved for use	Min Credit Criteria	Max % of total investments	Max. maturity period
Term deposits with Local Authorities (with maturities in excess of 1 year)	Assumed Government Guarantee	30	2 Years
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA-/Short-term F1+	30	2 Years
Deposits over one year with banks wholly or partly nationalised by a high credit rated (sovereign rating) country	Government equity support	30	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	100	Liquid
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

368. 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

369. 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. Changes in the criteria and decisions with whom to invest are delegated to the S151 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.

370. The Council’s lending list for any new direct investment in an organisation is based on the following credit criteria, with the maximum

limit for direct investment in any one group of related companies being £12 million:

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

371. 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. The Council's current list of Approved Counterparties is shown in Appendix 24.

372. 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.

373. 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

374. 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.

Treasury Investment Strategy

375. The Specified and Non Specified investments above allow for a range of products to be available to manage short term investment balances held by the Council and to achieve diversification. Any funds held by the Council on behalf of joint committees will be managed within the products, criteria and limits set out above.

376. The Investment Strategy for 2018/19 will continue to adapt to changing circumstances and market sentiment, with a pragmatic approach taken. Credit criteria changes are delegated to the S151 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.

Non Treasury Investments

377. The Council recognises that investment for non-treasury management purposes in other financial assets and property, primarily for financial return, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

378. The Council will ensure that all the organisation’s investments are covered in its capital expenditure strategy, investment strategy or equivalent, and will set out, where relevant, the organisation’s risk appetite and specific policies and arrangements for non-treasury investments if undertaking such investments.

379. It is recognised that the risk appetite for these activities may differ from that for treasury management. The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation’s risk exposure.

Treasury Management Training

380. 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.

381. 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

382. 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.

Virement levels	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

383. 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.

384. 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

385. To enable Cabinet to recommend to Council approval of:

- the Revenue and Capital budget and to set the Council Tax for 2018/19
- the budget for the Housing Revenue Account
- the Treasury Management Strategy
- the Prudential Code for Borrowing indicators for 2018/19-2020/21
- the Capital Programme for 2018/19 and the indicative programme to 2022/23, delegating to the S151 Officer authority to bring forward or delay schemes within the programme to match resources where necessary
- The Minimum Revenue Provision Policy for 2018/19

386. To enable Cabinet to:

- approve the level of fees and charges for Council goods and services for 2018/19

- approve the level of rent and charges for 2018/19 in respect of Council Houses, garages and other service charges
- 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 2018.

HR Implications

387. The Final Settlement, although on first glance better than anticipated in the Budget Strategy Report, has left significant challenges in the overall budgetary position. The final proposals are based on the outcome of the consultation exercise and the priorities set out in the Corporate Plan to be approved in March 2018. 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 decrease of 24.19 FTE Council posts overall made up of the deletion of 39.19 FTEs offset somewhat by the creation of 15.00 FTEs. The reduction in posts reflects those deleted through a combination of vacant posts, redeployment and voluntary redundancy.

388. Whilst the numbers of staff impacted by this budget proposal may not be as significant as in previous years, 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.

389. 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 (including Equality Impact Assessment where appropriate)

390. 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

391. 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.

392. 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)).

393. 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.

394. 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.

395. 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.

396. 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).

397. 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 legislation, 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 (‘CCRCD’)

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

Equality Duty

399. 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

400. 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, so that the decision maker may 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.

401. 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.

402. 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

403. 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 2018/19. 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 2018/19 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.

404. 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

405. 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.

406. 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).

407. 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

408. 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

409. This places a well-being duty on public sector bodies to take action to achieve seven well-being goals in accordance with the ‘sustainable development principle’. The seven 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. Regards must be had to the well-being goals and objectives set by the Council in its Corporate Plan, 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 seven 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.

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

Council's 21st Century Schools

411. One of the recommendations to this report requests delegated authority for the Director of Education to determine all aspects of the procurement process for those projects outlined within the Council's 21st Century Schools Band B programme. Legal advice should be sought on the procurement and proposed terms and conditions of contract.

General

412. 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

413. These financial implications are written as a summary of the significant budgetary and related financial matters facing the Council although it is also important that the details throughout the report are considered and understood. These details set out the financial context and risks to the resilience of the Council in 2018/19 and into the medium term.

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

415. The budget for 2018/19 has been, once again, compiled against the backdrop of continued financial constraint.

416. The details included in the Final Local Government Revenue Settlement announced in December 2017 confirmed that for 2018/19 Cardiff will receive a cash increase in its funding of £3.898 million (0.9%) when compared with 2017/18. However, the actual increase in spending power reduces to £2.426 million (0.55%) once new responsibilities and other differentiating year on year factors are taken into account. In addition, when inflation is considered then the Settlement can be seen as a real terms cut in resources. This position is compounded further when considering the impact of significant reductions to specific grants, where an equivalent compensatory transfer of funding is not made into the RSG.

417. 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 2018/19, budget consultation has been carried out in two stages. A number of budget themed questions were included in the Ask Cardiff Survey during the Summer while a more detailed budget consultation took place during November to mid December. Responses to these consultations as well as from other stakeholders 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 Capital Ambition as reflected in the draft Corporate Plan.

418. The budget proposals set out in this report will again result in significant operational and financial challenges as evidenced by the risk assessment and planning exercises. The progress with these challenges will be monitored through directorate plans, performance and financial monitoring reports and the Corporate Risk Register when reported to Cabinet, Scrutiny Committees, Audit Committee and the Senior Management Team.

419. Particular challenges for 2018/19 and the medium term have been identified and are set out in paragraph 62 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 delays to the delivery of proposals have on the budget monitoring position
- the significant amount of cashable savings predicated on preventative strategies and the difficulty of tracking their impact in terms of financial monitoring
- continuing demographic demand in terms of both increasing numbers and complexity from citizens who are vulnerable
- the level of additional borrowing undertaken in previous years and proposed in the new Capital Programme will require an increasing level of revenue support for capital financing in future years
- Managing the apparent trajectory of growth in Social Services and Schools as diverting resources from other services cannot be a long term solution to funding this demand

- the challenging financial position in respect of reducing WG resources and increasing financial pressures against a reducing controllable base budget together with increasing volatility and uncertainty in respect of hypothecated grants
- the significant level of reductions to specific grants, without sufficient notice, where those reductions are in relation to services that are integral to the functions of the Council
- the uncertain implications of BREXIT on the economy

420. In formulating their budget proposal, the Cabinet 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 £608.913 million, an increase of £11.8 million over 2017/18 after transfers and new responsibilities from WG.

421. It should be noted that although the Council received a better than assumed WG Settlement, the budget for 2018/19 contains a significant element of risk and complex savings proposals which will need to be relentlessly driven if they are all to be achieved as proposed. In summary the revenue budget proposal includes:

- savings of £14.296 million in respect of directorate and council-wide proposals
- continued 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 contingency of £950,000 to protect against additional external placement costs in Children's Services
- reinstatement of budget savings amounting to £306,000 outstanding from 2017/18 where, following review they are deemed to be no longer achievable
- directorate financial pressures amounting to £1.474 million
- The use of £2.35 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, manage the impact of grant reductions and allow one-off investment and development in priority areas
- estimated net reduction of 24.19 FTE posts made up of the deletion of 39.19 FTE posts partially offset by an increase of 15 FTE posts
- increase in the Schools Budget of £7.222 million including both demographic and 70% of non-demographic growth
- a Council Tax increase of 5% resulting in a Band D charge of £1,154.50.

422. Within the budget proposals are a number of initiatives that require option appraisal, complex procurement arrangements or significant levels of partnership working. These elements of work will need to be completed within strict timescales in order that the budgeted level of

savings can be achieved. A number of the budget proposals require continued development of a commercial approach that will enable the Council to respond speedily to market changes and financial opportunities albeit with an appropriate risk appetite position. The Investment Review Board will continue to be the forum to test these initiatives before they progress through to the appropriate governance route. In addition, it will be important that the Council retains sufficient support and project management capacity to ensure change is delivered in accordance with the requirements of the Capital Ambition Programme.

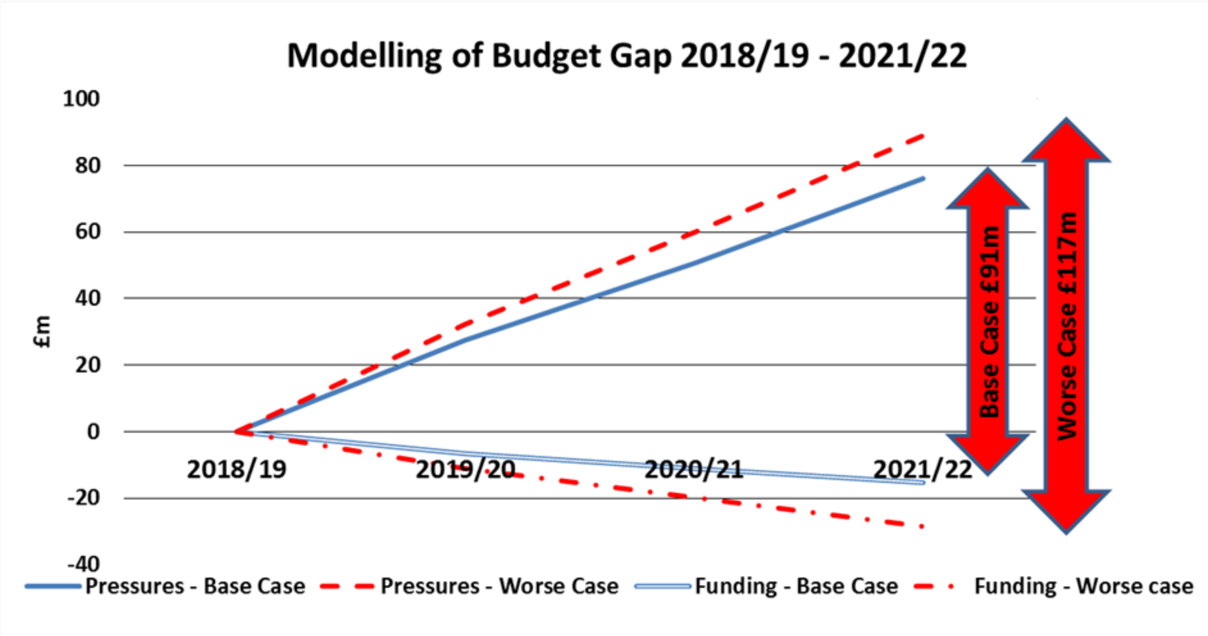
423. The continuing financial challenges facing the Council are such that the financial resilience snapshots introduced in 2015/16 now form part of the regular awareness raising of members to the Council's overall financial position. The position in respect of risks and reserves will require careful monitoring throughout the financial year, particularly in light of the achievability of savings and the future financial interventions that may be required. In order to protect the Council's overall financial resilience it is increasingly important to consider any windfall income received in context before any use is agreed for other matters.

424. The Council's position in respect of its reserves has 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 2019 is adequate after allowing for the planned use when considering the 2018/19 budget. The expected balance on earmarked reserves as at 31 March 2019 is £33.823 million with the Council's General Reserve currently standing at £14.255 million. However, the capacity for earmarked reserves to continue to contribute to the budget at similar levels to 2018/19 in the medium term is uncertain and the assumptions going forward need to be reset.

425. The level of School Balances requires close attention as these also impact on the Council's overall level of resilience albeit that they are not directly controlled by the Council but by School Governing Bodies. The total position as at 31 March 2017 was a net surplus of £4.243 million made up of surplus balances of £6.992 million partly off set by deficit balances of £2.749 million. The deficit balances included an amount of £1.421 million in respect of the federation between Michaelston Community College and Glyn Derw high School which will be written off during 2017/18 as these schools have now closed. Council officers will continue to support schools to ensure that spending plans are in line with their budgets and deficit budgets are avoided or reduced. As the funding for the Band B Schools Programme is implemented through further restrictions to the amount of growth awarded to schools it will be important for individual schools to examine their spending to take advantage of efficiency savings, collaborations and new ways of working wherever possible.

426. The Medium Term Financial Plan set out in paragraphs 149 to 199 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 diagram.



427. The next table demonstrates the funding gaps forecast to 2021/22 using sensitivity analysis to demonstrate a further adverse position. The table shows a base case scenario Budget Gap of £91 million over the next three years and while detailed proposals to meet the gap 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
- collaborative projects with others
- review of grants and subsidies
- concentration on prevention and early intervention actions.

428. For 2019/20 and 2020/21 savings options are currently in development and work will continue apace on 2019/20 so that the Budget Strategy Report in July 2018 can reflect early considered proposals.

Medium Term Financial Plan	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Base Case	34,285	27,518	29,600	91,403
Worse Case	43,489	36,368	37,562	117,419

429. 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. The Capital Ambition Delivery Team will play a key role in understanding these challenges and supporting the Council in realigning the organisation to a lower financially sustainable base. Internal capacity may need to be enhanced through working with specialist partners to ensure success is achieved as quickly as required.

430. 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 time period. Partially in response to this dilemma and in order to focus councils on how disparate decisions may have an impact on long term financial viability, the CIPFA Prudential Code for Capital Finance in Local Authorities has been updated. From 2019/20 this requires Councils to approve an annual Capital Strategy which sets out the long term context within which both capital expenditure and investment decisions are made.

431. 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 £6.18 (excluding service charges) is within the WG's Target Rent Band.

432. The SOP Financial Model brings together the projected capital expenditure and funding over the life of the WG's 21st Century Schools Band A Programme and ancillary projects and this has now been expanded to include the expected WG Band B programme. The model is designed to be self-funding and the projects, which are included in the Councils Capital Programme commence once the particular scheme business case has been approved by WG albeit there is some provision for pre-approval costs to be incurred. It should be noted, however, that these extensive programmes result in significant financial exposure to the Council and this demands that close monitoring of the key risks is continued, contract management is robust and issues are escalated where necessary.

433. The inclusion of schemes in the Capital Programme have been profiled in accordance with technical advice relating to regulatory processes, timetables, expectation of grants, capital receipts 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. In addition progress on capital projects is considered by the Asset Management Board on a regular basis. 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 2018/19.

434. 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.

435. Resources to finance the General Fund Capital Programme between 2018/19 and 2022/23 include a non-earmarked capital receipt target of £40 million. This figure is a significant increase when compared with previous non-earmarked receipt targets set by the Council and so enhanced governance arrangements will be put in place. A Disposal Strategy will be developed by the Director of Economic Development which will set out the methodology to be used to achieve at least this level of receipts over the period of the Capital Programme. Cabinet will consider the report in 2018/19. Subsequent to that regular monitoring of progress will be undertaken and reported as part of Asset Management Plan updates to Cabinet and the Asset Management Board.

436. Additional borrowing of £204.5 million is also required to resource the programme most of which is in respect of the Council's contribution to the WG Band B schools programme.

Additional Borrowing	**£m**
To support estimated slippage from 2017/18	9.0
Capital Programme approved in February 2017	8.5
New schemes approved in February 2018	54.9
Invest to save schemes	140.6
Total	**204.5**

437. 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 borrowing without specific income streams to support it, is not consistent with the significant levels of savings required to be found. Even where there are specific income streams to support capital financing charges, this still increases the inherent financial risk to the Council and must be kept under review. Accordingly, local affordability indicators are maintained to track the impact of decisions in the medium term although this is also impacted by the levels of RSG received. It should be noted that whilst approving the Capital Programme for the period up to 2022/23, members should be aware that the later years of the Programme will be subject to an ongoing review of the Council's financial resilience.

438. 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 approved levels. Compliance with financial rules and governance requirements is expected and this will

continue to be monitored and reported on regularly as part of the Council's performance management arrangements.

439. 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 and 2017/18 some significant decisions in respect of service changes have been taken and the changes implemented.

However, the financial impact of the iteration of the Medium Term Financial Plan to 2021/22 re-emphasises the point that the Council has much more to do if it is to successfully keep within its budgetary framework and maintain a healthy balance sheet for resilience purposes. It is clear that during this next medium term period sustained attention must be paid to the areas giving most concern in terms of spending volatility and that the Council's significant investment in preventative and early intervention strategies must start to deliver financial savings in addition to service benefits. It is vital that digitalisation in its widest application is relentlessly driven through the organisation and linked with partners for maximum impact which will result in simplified processes and increased levels of productivity across the Council.

Despite this agenda, a real 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 which are real, 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 2018/19."

Cabinet Consideration

The Cabinet considered the budget proposals on 15 February 2018 and 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 is recommended to:

1.0 the changes to fees and charges as set out in Appendix 11(a), 11(c) & 11(d) to this report be approved.

2.0 Authority be delegated to the appropriate Director in consultation with the relevant Cabinet Member, S151 Officer and the Cabinet Member for

Finance, Modernisation & Performance to amend or introduce new fees and charges during the year.

3.0 that the rents of all Housing Revenue Account dwellings (including hostels and garages) be increased having taken account of WG guidance.

4.0 all service charges and the management fee for leaseholders as set out in Appendix 11(b).

5.0 all Housing Revenue Account rent increases take effect from 2 April 2018.

6.0 the work undertaken to raise awareness of the financial resilience of the Council be recognised and the steps taken within the budget to improve this position be approved.

7.0 the financial challenges facing the Council as set out in the Medium Term Financial Plan be recognised and note the opportunities for savings over the medium term.

CABINET PROPOSAL

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 5.0% as set out in this report and that the Council resolve the following terms.

2.0 Note that at its meeting on 14 December 2017 the Council calculated the following amounts for the year 2018/19 in accordance with the regulations made under Section 33(5) of the Local Government Finance Act 1992:-

a) 143,453 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	3,263
Radyr	3,709
St. Fagans	1,311
Old St. Mellons	1,543
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 2018/19 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 £366,815). £1,007,699,815

b) Aggregate of the amounts which the Council estimates for items set out in Section 32(3)(a) and (c).
£401,119,579

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. £606,580,236

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, its council tax reduction scheme, redistributed Non-Domestic Rates.
£440,946,781

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.
£1,157.06

f) Aggregate amount of all special items referred to in Section 34(1).
£366,815

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.
£1,154.50

h) The amounts given by adding to the amount at 2.1(g) above the amounts of special items relating to dwellings in those parts 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	1,168.97
Pentyrch	1,198.32
Radyr	1,187.37
St. Fagans	1,168.23
Old St. Mellons	1,173.88
Tongwynlais	1,178.80

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.

	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Area									
Lisvane	779.31	909.19	1,039.08	1,168.97	1,428.73	1,688.51	1,948.27	2,337.93	2,727.58
Pentyrch	798.88	932.03	1,065.18	1,198.32	1,464.61	1,730.91	1,997.20	2,396.64	2,796.08
Radyr	791.57	923.51	1,055.44	1,187.37	1,451.22	1,715.09	1,978.94	2,374.73	2,770.52
St. Fagans	778.81	908.62	1,038.42	1,168.23	1,427.83	1,687.44	1,947.04	2,336.45	2,725.86
Old St. Mellons	782.58	913.01	1,043.44	1,173.88	1,434.73	1,695.60	1,956.46	2,347.75	2,739.03
Tongwynlais	785.86	916.84	1,047.82	1,178.80	1,440.75	1,702.71	1,964.66	2,357.59	2,750.52
All other parts of the Council's Area	769.66	897.94	1,026.22	1,154.50	1,411.05	1,667.61	1,924.16	2,308.99	2,693.82

2.2 Note that for the year 2018/19, 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

A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**I**
£	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
155.68	181.63	207.57	233.52	285.41	337.31	389.20	467.04	544.88

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 2018/19 for each of the categories of dwellings shown below:-

	Part of Council's Area **VALUATION BANDS** **A** **£**	**B** **£**	**C** **£**	**D** **£**	**E** **£**	**F** **£**	**G** **£**	**H** **£**	**I** **£**
Area									
Lisvane	934.99	1,090.82	1,246.65	1,402.49	1,714.14	2,025.82	2,337.47	2,804.97	3,272.46
Pentyrch	954.56	1,113.66	1,272.75	1,431.84	1,750.02	2,068.22	2,386.40	2,863.68	3,340.96
Radyr	947.25	1,105.14	1,263.01	1,420.89	1,736.63	2,052.40	2,368.14	2,841.77	3,315.40
St. Fagans	934.49	1,090.25	1,245.99	1,401.75	1,713.24	2,024.75	2,336.24	2,803.49	3,270.74
Old St. Mellons	938.26	1,094.64	1,251.01	1,407.40	1,720.14	2,032.91	2,345.66	2,814.79	3,283.91
Tongwynlais	941.54	1,098.47	1,255.39	1,412.32	1,726.16	2,040.02	2,353.86	2,824.63	3,295.40
All other parts of the Council's Area	925.34	1,079.57	1,233.79	1,388.02	1,696.46	2,004.92	2,313.36	2,776.03	3,238.70

2.4 Authorise the Corporate Director Resources 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 2018 to March 2019 in respect of the precept levied by the Police and Crime Commissioner for South Wales in the sum of £33,499,401.

2.5 Agree that the Common Seal be affixed to the said Council Tax.

2.6 Agree that the Common Seal be affixed to precepts for Port Health Expenses for the period 1 April 2018 to 31 March 2019 namely

	£
County Council of the City and County of Cardiff	113,773
Vale of Glamorgan County Borough Council	12,827

2.7 Agree 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 Indictors for 2018/19, 2019/20 & 2020/21 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 2018/19 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 2018/19.

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.

8.0 Delegate authority to the Director of Education & Lifelong Learning, in consultation with the Cabinet Members for Education, Employment & Skills and Finance, Modernisation & Performance, the Corporate Director Resources and Director of Governance & Legal Services, to determine all aspects of the procurement process, including, for the avoidance of doubt, development of all procurement documentation and selection and award criteria, commencement of procurement through to award of contracts, for specific 21st Century Schools Band B proposals in line with the thresholds set out in this report.

THE CABINET
15 February 2018

The following Appendices are attached:

Appendix 1	Budget and Sustainable Development Principle
Appendix 2	Consultation responses
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	2018/19 Budget Savings (a) Overview 2018/19 Savings (b) Directorate Savings 2018/19
Appendix 7	Financial Snapshot report – Budget Report version
Appendix 8	Risk Assessment Summary of Savings Proposals
Appendix 9	Earmarked Reserves (a) General Fund (b) Housing Revenue Account
Appendix 10	Employee Implications of Budget
Appendix 11	Summary of Fees and Charges (a) General Fund (b) Housing Revenue Account (c) Outdoor Activities (d) Fees and Charges – confidential
Appendix 12	Amendments since Publication of Consultation Proposals
Appendix 13	Use of Financial Resilience Mechanism

Appendix 14	Directorate Revenue Budgets
Appendix 15	Cabinet Portfolio Revenue Budgets
Appendix 16	Medium Term Financial Plan (a) MTFP 2019/20 – 2021/22 (b) Themed Opportunities for savings 2019/20 and 2020/21
Appendix 17	Housing Revenue Account
Appendix 18	School Organisation Plan Reserve
Appendix 19	Civil Parking Enforcement Account
Appendix 20	Capital Programme Expenditure
Appendix 21	Capital Programme Resources
Appendix 22	Glossary of Terms (a) General (b) Prudential Indicators
Appendix 23	Minimum Revenue Provision Policy
Appendix 24	Approved list of Counterparties

The following Background Papers have been taken into account:

- Budget Strategy Report (July 2017)
- 2018/19 Budget Proposals – For Consultation (November 2017)
- The WG Final Financial Settlement (December 2017)
- Equality Impact Assessments of Cardiff Council's 2018/19 Budget
- Details of Fees and Charges
- Analysis of Section 106 Balances
- Treasury Management Practices (April 2017)