

**CABINET MEETING: 12 JULY 2018**

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**BUDGET STRATEGY REPORT 2019/20 AND THE MEDIUM TERM**

**PORTFOLIO: FINANCE, MODERNISATION & PERFORMANCE  
(COUNCILLOR CHRISTOPHER WEAVER)**

**AGENDA ITEM: 7**

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**Reason for this Report**

1. To consolidate and update the financial strategy of the Council in readiness for the preparation of the 2019/20 revenue and capital budgets.
2. To outline the timetable that the budget process will follow in order to present the 2019/20 Budget to Council in February 2019.
3. To provide an update in relation to the Council's financial resilience.

**Structure of the Report**

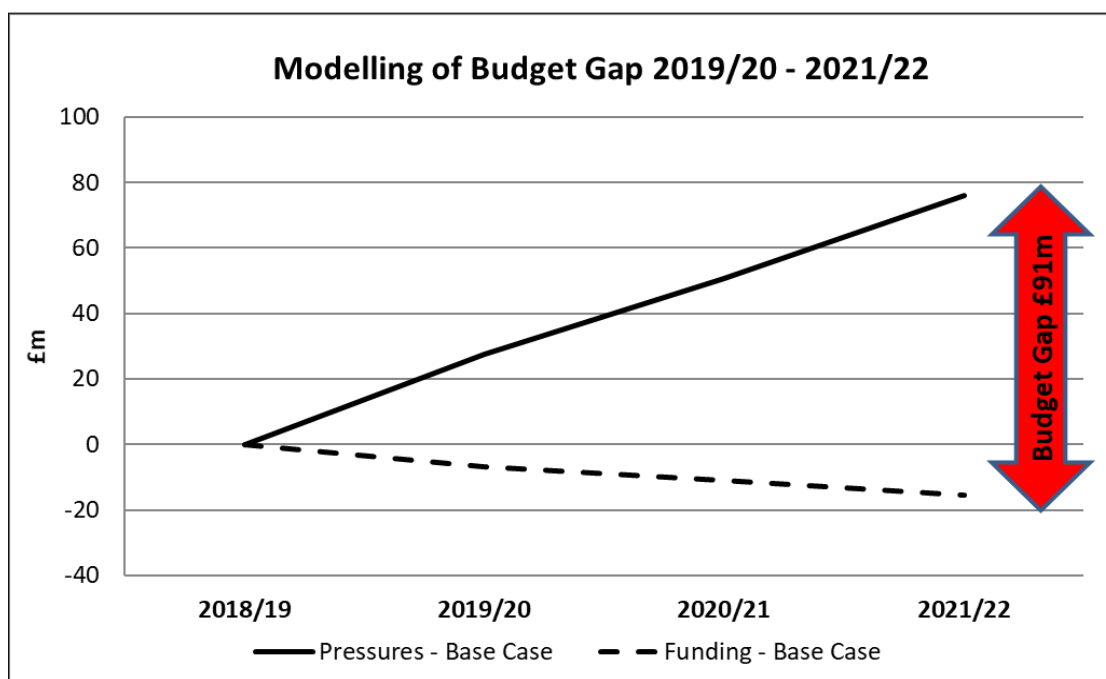
4. The following table provides a guide to the key sections of the Report. Appendix 1 provides a short overview of the Budget Strategy in a question and answer format.

<b>Section</b>	<b>From Para No</b>
<b>General Background and Context</b>	5
<b>Budget Reduction Requirement</b>	23
<b>Budget Strategy</b>	26
<b>Consultation and Engagement</b>	42
<b>Capital Programme</b>	45
<b>Financial Resilience and Risk</b>	74

**General Background**

5. The Medium Term Financial Plan (MTFP) included within the Council's 2018/19 Budget Report identified a potential budget gap of £34.2 million in

2019/20 and £91.4 million over the period 2019/20 – 2021/22. The budget gap is due to anticipated funding reductions, at the same time as demand and inflationary pressure on services is expected to rise significantly. This is illustrated in the chart below.



6. This Report reviews the budget gap, outlines the strategy and timetable for addressing it and considers the Council's ongoing financial resilience in the face of continued financial challenge.

## National Context

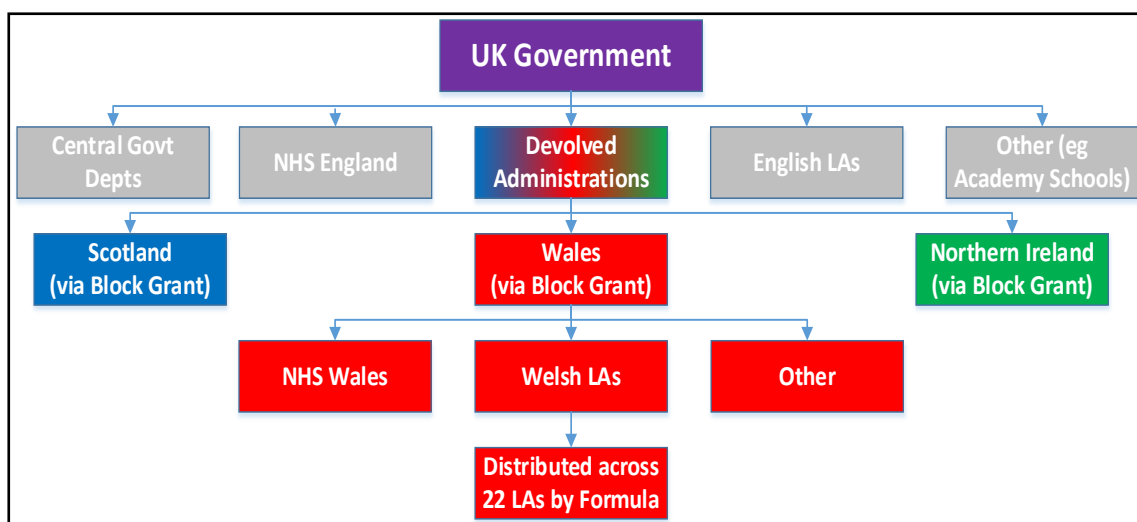
7. Local financial planning and horizon scanning is inextricably linked to the wider economic and financial context. The Chancellor's Spring Statement provides an update on the overall health of the economy and takes into account economic forecasts produced by the Office of Budget Responsibility (OBR). The 2018 Spring Statement identified some positive signs, including that:-
  - The economy has grown for five consecutive years, exceeding expectations in 2017. The OBR forecast growth of 1.5% in 2018 and 1.3% in 2019, a slight revision from the growth prediction of 1.4% in the Autumn Budget.
  - Employment has increased by 3 million since 2010 with predictions of a further 500,000 people in work by 2022.
  - Forecasts suggest inflation of 2.3% for 2018, falling to 2.1% in 2019 with wages anticipated to rise faster than prices over the next five years.
  - National debt as a percentage of GDP is forecast to fall from 85.5% in 2017/18 to 77.9% in 2022/23.
8. The level of national debt (relative to GDP) has been at the root of public spending reductions in recent years. Forecasts that this measure will begin to

fall this financial year are therefore positive. However, the Chancellor called for caution, indicating his view that national debt is still too high, leaving the UK economy vulnerable to future financial shocks. He advocated a balanced approach to weighing public spending against the ongoing need to reduce the deficit. Nevertheless, there was a suggestion within the Spring Statement that if public finances continue on an improved path, there could be increases to public spending and investment in the years ahead.

9. A key uncertainty in the economic analysis is how Britain's exit from the European Union (BREXIT) may ultimately affect forecasts. Throughout their analysis, the OBR note that because negotiations around the terms of exit are still ongoing, there is no firm basis upon which to reflect the end-point of BREXIT within their forecasts. It is also of note that whilst the forecasts outlined above appear broadly positive, the Institute for Fiscal Studies' (IFS) commentary on the Spring Statement noted that compared to two years ago, projections of growth are lower and the forecast national deficit is higher. The IFS also pointed out that despite forecast wage increases, 2022/23 levels would be similar to 2007/08 and that inflation will continue to erode most working age benefits, which are frozen in cash terms. The overall outlook therefore seems to be cautiously positive with ongoing uncertainty around BREXIT.
10. In June 2018, three months following the Spring Statement, the Government announced £20 billion additional funding for the NHS by 2023. The Prime Minister has suggested that this may be financed from possible tax increases and through the potential financial outcome of BREXIT. From a Welsh perspective the Barnett consequential of this announcement and subsequent Welsh Government decisions regarding its allocation will need to be kept under review.

### **The Welsh Context**

11. The diagram below sets out how funding flows through to Welsh Local Government. The previous section identified that there is uncertainty regarding future public spending at a UK level. The diagram is intended to illustrate how the level of uncertainty increases for bodies further down the flow chart, such as Welsh Local Government. This is because multiple decisions must be made as to how limited funds will be distributed across significant and competing demands before any funding reaches individual Welsh local authorities.



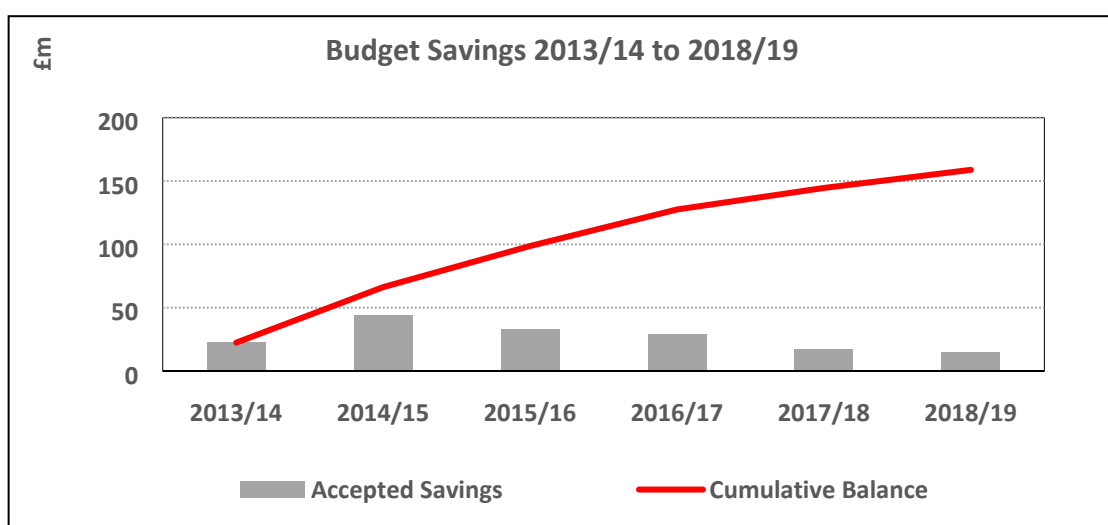
12. This illustrates the inherent difficulty for Welsh Local Government in trying to predict future funding settlements. It is also worth noting that the recent change to the timing of the UK budget (from Spring to Autumn) may increase the potential for changes to the Welsh Local Government funding settlement between its provisional announcement in October and final announcement in December. This is because any changes to fiscal policy announced in the Autumn Budget may have implications for the Welsh Block Grant, as was the case last year.
13. In October 2017, the 2018/19 Provisional Settlement set out an indicative average AEF reduction of 1.5% for 2019/20. As a direct result of announcements made in the UK budget in November 2017, Welsh Government announced a further £20 million for Welsh Local Government in 2019/20 at final settlement in December 2017. Although the final settlement did not restate the indicative 1.5% reduction previously announced, it is generally accepted that it has been improved to an average reduction of 1%. The additional funding is clearly very welcome, but this highlights the uncertainty inherent in the process. Given the significant impact that minor percentage fluctuations can have on the budget gap, provisional and final settlement are two crucial stages in the budget timetable, which is outlined at Appendix 2.
14. In recognition of the uncertainty in relation to general grant funding, the Council has a financial resilience mechanism (FRM) that was set up to provide support in the event that Aggregate External Finance (AEF) is worse than the Council had anticipated. The FRM is a £4 million base budget that is used annually for one-off investment in priority areas. This means that is available for immediate release in the event that AEF is worse than assumed in the MTFP, thus limiting the need to identify significant additional savings at short notice. Once released, the FRM will provide no further mitigation in respect of subsequent settlements.
15. The position in relation to specific grants is also likely to be challenging. A number of reductions are already anticipated for 2019/20, as indicated in the

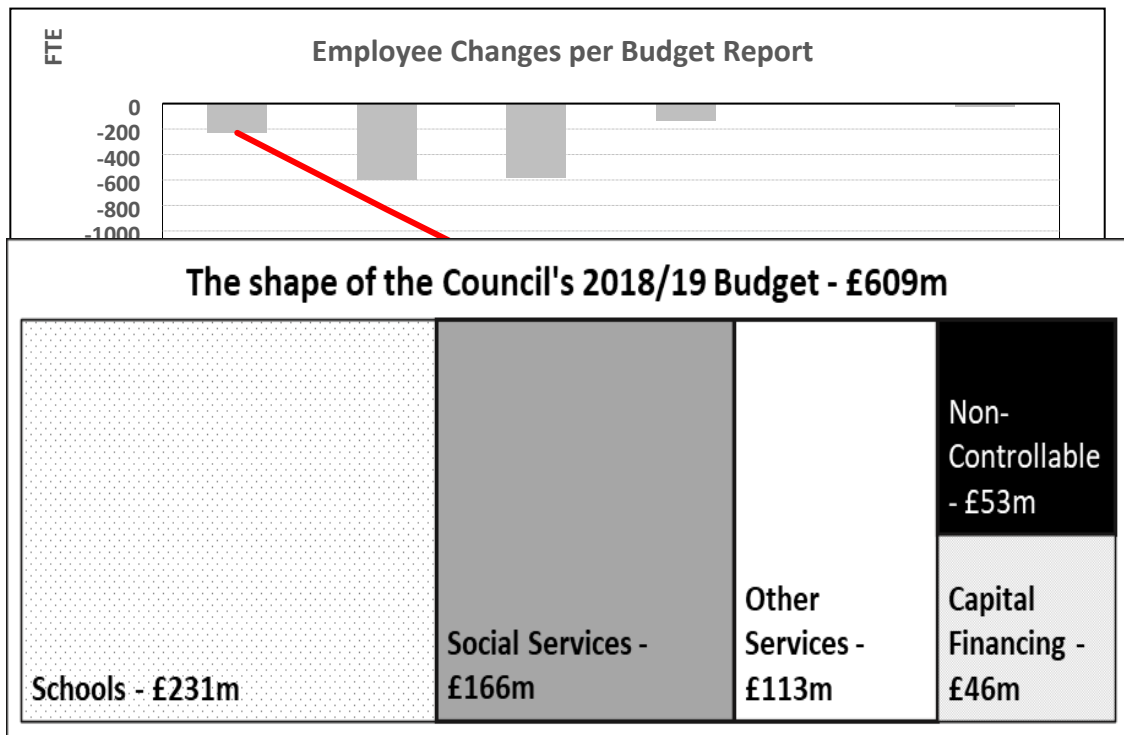
2018/19 settlement. The latter indicated that there would be reductions of £11 million to Education Improvement Grant (EIG) and £9.8 million to the schools' post-16 grant at an All Wales level, which are in addition to significant reductions experienced in the current financial year. In 2018/19, WG announced that there would be flexibility across a number of significant grant streams, including Flying Start, Supporting People and Families First. This is with a view to them becoming a single Early Intervention, Prevention and Support grant in 2019/20, which would be subject to a 5% reduction. Opportunities for flexibility across these grant streams will need to be considered during the course of this year in order to accommodate this.

16. Beyond these known reductions, the position on specific grants is relatively uncertain. Specific Grant information at Provisional Settlement tends to be at an All Wales level and is frequently incomplete at that stage. There is a risk that grants may reduce or fall out altogether or that transfers into Revenue Support Grant (RSG) are not effected in the correct way. The latter is particularly problematic as it hinders visibility and results in a worse than published position to AEF. This was the position in relation to the Minority Ethnic Achievement Grant (MEAG) element of the EIG in the 2018/19 settlement. The treatment of this grant within the settlement would have resulted in a £4 million loss of funding to Cardiff, however this was not initially evident as there was no identifiable transfer into RSG. Whilst WG have put in place transitional support for MEAG in the current year, the position for 2019/20 will need to be kept under review.

## Council Context – Financial

17. The charts below and overleaf highlight the intensity of the financial challenge that the council has faced, which will make it more challenging to deliver the significant savings required over the medium term. The first shows that the Council has identified cumulative savings of £145 million over the past five years with a further £14.3 million in the current year. The second shows that over 1,500 full time equivalent (FTE) posts have been lost over the same period.





18. The chart below sets out the current shape of the Council's budget. The bullet points below the graph provide a brief description of each identified area

- **Capital Financing** – this includes the budget for the repayment of borrowing associated with the capital programme, along with other budgets that relate to the funding of capital schemes such as contributions to the Schools' Organisation Plan Reserve. There is upward pressure on capital financing budgets in future years due to the additional borrowing reflected in the capital programme.
- **Non-controllable areas** – this block comprises budgets that are much more difficult for the Council to influence in terms of savings. It includes areas outside the Council's direct control including the Council Tax Reduction Scheme (CTRS) budget and the budget for levies paid to other organisations such as the Fire Service.
- **Other Services** – this includes all council services with the exception of schools and social services. It contains areas of statutory duty.
- **Schools and Social Services** - these blocks are self-explanatory and reflect the controllable budgets for these particular services.

19. The shape of the budget makes the medium term position even more challenging. Schools and Social Services are the subject of exceptional inflationary and demand pressure. They account for 65% of the current budget and 70% of the financial pressures identified over the medium term. Non-controllable areas are difficult to reduce and there is upward pressure on the capital financing budget. Collectively, Schools, Social Services, capital financing and non-controllable budgets account for 82% of the Council's overall budget. Consequently, in the absence of additional grant funding to meet particular pressures in these areas, funds are being diverted from other

services, which are being squeezed much harder and currently equate to just 18% of the Council's overall budget.

### **Council Context - Strategic**

20. The Council approved its Corporate Plan 2018-2021 in May 2018. The Corporate Plan, which was produced alongside the 2018/19 Budget, recognises that given the financial position, the reality is that there is a need to focus on a smaller number of key priorities. These priorities are identified in the Administration's Capital Ambition programme and are set out below.
  - **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 the rising demand and reducing budget
21. The Corporate Plan and the Well-being Plan are key documents in delivering Capital Ambition and translating the Administration's priorities into deliverable organisational objectives. The Corporate Plan focuses on the issues and services that the Council has prioritised and the Well-being Plan focuses on areas of collaborative advantage in the delivery of public services in the city. The well-being plan contains the following seven well-being objectives:
  - A Capital City that works for Wales
  - Cardiff grows in a resilient way
  - Safe, confident and empowered communities
  - Cardiff is a great place to grow up
  - Supporting people out of poverty
  - Cardiff is a great place to grow older
  - Modernising and integrating our public services
22. The well-being objectives outlined above have been adopted by all members of the Cardiff Public Services Board (PSB,) and are designed to contribute to the national well-being objectives for Wales. They have been developed in the context of the Well-being of Future Generations (Wales) Act. As well as aiming to improve the social, economic, environmental and cultural well-being of Wales, the Act aims to make public services more sustainable by encouraging public bodies to think about the long term, how they can work together and with their communities to prevent problems and take a joined up approach (known as the five ways of working).
23. The four priorities and seven well-being objectives outlined above form the strategic context for the development of the Budget Strategy. Budget Strategy assumptions will also need to have regard to the principles within the Well-being of Future Generations (Wales) Act.

## The Medium Term Budget Reduction Requirement

24. The 2018/19 Budget Report identified a budget reduction requirement of £34.2 million for 2019/20 and £91.4 million over the three-year MTFP period. These figures are a base case scenario predicated upon the Council receiving Welsh Government funding decreases of 1% per annum. This section of the Report outlines the key components of the budget gap and the assumptions that underpin them.
25. The MTFP undergoes regular review to ensure it reflects most recent information. A refresh undertaken during the first quarter of 2018/19 has resulted in minimal change, either confirming the assumptions already within the MTFP, or suggesting no reasonable basis to depart from them at this stage. The key components of the MTFP are summarised in the table below. Further detail on each component along with information on key assumptions can be found in Appendix 3.

	Medium Term Budget Gap			
	2019/20 £000	2020/21 £000	2021/22 £000	TOTAL £000
Schools Growth	11,184	8,532	8,183	<b>27,899</b>
Pay and Price Inflation (Non Schools)	7,438	6,768	6,726	<b>20,932</b>
Capital Financing, Commitments & Realignments	2,317	1,314	3,848	<b>7,479</b>
Non Schools Demographic Growth	3,500	3,538	3,577	<b>10,615</b>
Emerging Financial Pressures	3,000	3,000	3,000	<b>9,000</b>
Fall out of 2018/19 Reserve Funding	2,350	0	0	<b>2,350</b>
Estimated 1% funding reduction	4,409	4,366	4,322	<b>13,097</b>
<b>TOTAL</b>	<b>34,198</b>	<b>27,518</b>	<b>29,656</b>	<b>91,372</b>

26. The MTFP will undergo further review as the year progresses both to reflect any emerging issues and to make any necessary adjustments to assumptions in light of more recent information. Whilst all areas will be kept under review, particular consideration will need to be given to:
- Funding assumptions, following announcement of the Provisional Settlement in October 2018.
  - The 2018/19 monitoring position as the year progresses.



- The effect of the new NJC pay structure on local arrangements once this has been agreed.
- The Council Tax Base for 2019/20 when it is approved in December 2018, taking into account any related redistributive impact in AEF at final settlement.
- Teachers' Pensions Contribution rates, once there is further clarity of changes associated with the discount rate and pending actuarial review of the fund. At present, the impact within the MTFP is estimated.
- The proposed corporate landlord planned preventative maintenance programme for new buildings.
- The impact of the Local Development Plan, particularly in the last year of the MTFP and beyond given that the variables involved are complex. As well as identifying additional demand for services, there is a need to consider potential additional funding that could result from tax-base increases or population increases that feed through into the RSG funding formula, as people move into the area. For services such as schools, there is a need to consider population movement within Cardiff, as well as the potential influx of people from outside the city in shaping future service provision.

## Approach to Budget Strategy

27. The strategy to address the budget gap is framed around four over-arching assumptions. These assumptions along with their respective contributions to bridging the gap are set out in the table below and are in line with the 2018/19 Budget Report. These will require further review and refinement as the budget process progresses, not least because the budget gap itself may change.

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Council Tax (+4.3%)	5,785	6,034	6,293	<b>18,112</b>
Cap on Schools' Growth	2,796	2,172	1,926	<b>6,894</b>
Use Earmarked Reserves	1,500		(750)	<b>750</b>
Savings Required	24,117	19,312	22,187	<b>65,616</b>
<b>Total</b>	<b>34,198</b>	<b>27,518</b>	<b>29,656</b>	<b>91,372</b>

28. The council tax increase will be kept under review as the budget process progresses. The income is after taking account of the impact on Council Tax Reduction Scheme (CTRS) budgets and is therefore the **net** additional income that will be generated. Council Tax accounts for approximately 27% of the Council's funding. This means that to generate a 1% increase in the Council's overall funding would require a net 3.7% increase in council tax.

29. The Council Tax income in the table is based on the current year's tax base and will be updated for the 2019/20 tax base once it is approved by Cabinet in December 2018. Due to the way in which the local government funding formula works, any increase in tax base may result in an associated reduction in AEF. However, this is difficult to predict as the change is relative to the tax base fluctuations of all other Welsh Local Authorities. For this reason, the Council does not account for any increases in tax base until final settlement has been announced.
30. It is important to note that the cap on schools growth will not result in a reduction to the current level of schools' budgets. In fact, under the outlined strategy, schools would receive additional budget of £21 million over the next three years. By comparison, most other directorate budgets are expected to reduce from their existing base line over the next three years. The cap reflects schools contributing to the Budget Strategy by managing 30% of their emerging pressures. This is with the exception of increasing pupil numbers, which would continue to be fully funded. As set out in the 2018/19 Budget Report, schools will contribute the additional capital financing costs associated with the 21<sup>st</sup> Century Schools' Band B programme.
31. The 2018/19 Budget includes a £2.35 million drawdown from earmarked reserves as general budget funding. The Budget Strategy reduces the use of earmarked reserves to £1.5 million per annum in 2019/20 and 2020/21 and to £750,000 in 2021/22. The decision to reduce annual use of reserves was taken in the context of existing levels of reserves and the Council's ongoing financial resilience. Good practice avoids over-reliance on reserves for a number of reasons, including that their use in one year creates an immediate gap in the finances of the following year. The strategy will require a total drawdown from reserves of £3.75 million over the three-year period. The Council has a Strategic Budget Reserve to support this strategy. The reserve had a balance of £4 million as at 31 March 2018 of which £1 million will be used in support of the 2018/19 Budget. The remaining £3 million budget will support the £3.75 million requirement outlined in the Budget Strategy, accompanied by ongoing review of the Council's other earmarked reserves.
32. Directorate savings form the largest component of the strategy, with a requirement of £66 million over the three-year period. Clearly, this is a huge challenge in view of the significant levels of savings that have already been found. The Council will continue to explore opportunities to identify savings that align with its key strategic priorities, including for example digitalisation, prevention and early intervention. In addition, there will be ongoing review of external spend and collaborative arrangements to ensure that value is secured on commissioned spend and services. Directorates will continue to explore opportunities to maximise income, both in new and existing markets as well as reviewing and challenging the cost base associated with generating income. In addition, the Council will continue to review the use of specific grants to ensure they are used as efficiently and flexibly as possible.
33. In reality however, whilst every effort will be made to identify savings of the nature outlined above, it is no longer possible that all savings will be

achievable by these means and without impact on services. Savings at the quantum required in the Budget Strategy equate to an annual reduction of 17% in 2019/20 for all services with the exception of Schools and Social Services, with similarly challenging levels in years 2020/21 and 2021/22. It will not be possible to deliver savings on this scale without impact on services, particularly taking into account the significant levels of savings that have already been found over an extended period.

34. In reviewing and challenging existing budgets, all means of reducing spend will need to be explored, including review of the level at which discretionary services are currently subsidised and consideration of how universal services are delivered. Whilst Social Services will not be subject to the 17% reductions outlined above, there will be ongoing effort to identify savings within this area and to release as much as it is possible to take in support of the Budget Strategy. This will include exploring opportunities for an integrated approach to services.
35. The identification and delivery of the required level of savings will be extremely challenging. In recognition of this, there will need to be continued improvement to the challenge and due diligence process to improve savings achievability rates. To increase the deliverability of savings, every opportunity should be taken to accelerate detailed planning and preparatory work to maximise the chances of securing a full year saving in 2019/20. This report recommends that a reminder of the voluntary redundancy scheme be circulated to all staff to enable managers to consider expressions of interest alongside their preparatory work for savings delivery. To support this and where feasible, proposals may be actioned during this financial year particularly where policy decisions are not required or where decisions have already been taken.
36. Directorates have been undertaking work to review and challenge all areas of their budgets and further work on the detailed development of 2019/20 savings proposals will take place over the summer months. In line with the budget timetable set out in Appendix 2, this will enable 2019/20 proposals to be consulted upon over the autumn, once Provisional Settlement has been confirmed. In parallel to the more detailed work that is being undertaken in relation to 2019/20, directorates are also assessing what the medium term savings requirements mean for their areas in years two and three of the MTFP. Different scenarios are currently being modelled to enable discussion around the most appropriate way to manage the incidence of savings in later years, which will include exploring options for an integrated approach in this regard.

37. The table below summarises the key elements of the budget gap and the strategy to address it.

<b>Estimated Budget Reduction Requirement</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>TOTAL £000</b>
Schools Growth	11,184	8,532	8,183	<b>27,899</b>
Pay and Price Inflation	7,438	6,768	6,726	<b>20,932</b>
Capital Financing, Commitments & Realignments	2,317	1,314	3,848	<b>7,479</b>
Non Schools Demographic Growth	3,500	3,538	3,577	<b>10,615</b>
Emerging Financial Pressures	3,000	3,000	3,000	<b>9,000</b>
Fall out of 2017/18 Reserve Funding	2,350	0	0	<b>2,350</b>
Estimated 1% funding reduction	4,409	4,366	4,322	<b>13,097</b>
<b>Budget Reduction Requirement</b>	<b>34,198</b>	<b>27,518</b>	<b>29,656</b>	<b>91,372</b>

<b>Strategy to Address Budget Reduction Requirement</b>				
<b>Budget Strategy Assumptions</b>				
Council Tax at 4.3%	5,785	6,034	6,293	<b>18,112</b>
Cap on Schools Non-Demographic Growth @ 30%	2,796	2,172	1,926	<b>6,894</b>
Use of Earmarked Reserves	1,500		(750)	<b>750</b>
<b>Directorate Savings</b>	24,117	19,312	22,187	<b>65,616</b>
<b>Total Strategy to Address Gap</b>	<b>34,198</b>	<b>27,518</b>	<b>29,656</b>	<b>91,372</b>

### Medium Term Financial Plan Scenario Analysis

38. The sensitivity analysis below flexes some of the key assumptions within this report to produce a worse-case scenario. This reflects the possibility of:-

- pay awards 1% higher than modelled in the base case (where there is currently no accepted award)
- annual funding reductions of 2% over the MTFP compared to the 1% that has been assumed within the base case
- a more pessimistic view of potential Teachers Pension Scheme contribution rates

<b>Worse Case Scenario</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>2021/22 £000</b>	<b>TOTAL £000</b>
<b>Base Case MTFP Position</b>	<b>34,198</b>	<b>27,518</b>	<b>29,656</b>	<b>91,372</b>

Changes:				
AEF	4,409	4,366	4,322	13,097
Pay Award	1,554	3,595	3,640	8,789
Pensions Issues - actuarial	1,245	889		2,134
<b>Revised MTFP Shortfall</b>	<b>41,406</b>	<b>36,368</b>	<b>37,618</b>	<b>115,392</b>

39. 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 over the three-year period. Release of the Council's FRM would mitigate this sum by £4 million in total. As noted at the start of the Report, there is inherent uncertainty in trying to predict future funding settlements. The table above highlights that relatively minor percentage changes can be significant in terms of their impact on the MTFP.
40. One key risk over the MTFP period is the level of pay awards. The base case MTFP reflects the known award for NJC staff in 2019/20. It assumes 2% thereafter for NJC staff and assumes 2% per annum for teaching staff. Given the significant impact that minor changes to these assumptions can have, the worse-case scenario models the potential for awards to be 1% higher in each year of the MTFP in all instances where there is not currently an accepted award. The table above identifies that this could add £8.8 million to the MTFP.
41. The worse-case scenario models the potential for employer's contribution rates in respect of the teachers' pension to increase to 20% over the medium term. This is higher than the increase from 16.48% to 18% that is included within the base case MTFP. Commentators advising Academy Schools in England in relation to potential risk factors over the medium term have suggested that the rate could increase to 20%. This issue will require careful monitoring as it depends upon two factors, which are changeable or difficult to predict. Firstly, it depends upon a discount rate, which is changeable over this period. Secondly, it will be impacted by the outcome of the next actuarial review of the Teachers Pensions Scheme, which has not yet been published.
42. A number of "known unknowns" are also being monitored in relation to the MTFP period. These are currently too uncertain to quantify but will be monitored closely as many have the impact 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 tax powers
  - WG's stated intention to review the Local Government Finance system
  - Local Government Reform in Wales and associated pooled budget options
  - Future pressures on demand led budgets which may require budget realignments to be considered

- The impact of the Local Development Plan, particularly in the last year of the MTFP and beyond
- The impact of Universal Credit following its roll-out in Cardiff
- The potential for further changes or reductions to specific grants
- Wales Audit Office's suggested changes to the accounting treatment of the Council Tax Reduction Scheme (CTRS) within Welsh Authorities' Statement of Accounts and WG's interpretation of whether this requires any adjustment to tax-base calculations used within the funding formula
- Welsh Government policy changes that may come into force over the MTFP period

## **Consultation and Engagement**

43. The Council places a high regard on being open and honest about difficult choices. In order to provide an opportunity for people to have their say on what is important to them and their communities, a detailed consultation on 2019/20 budget proposals will take place in the autumn once provisional settlement affords additional clarity to the funding position. Over the summer, the Ask Cardiff survey will pave the way for the detailed consultation through consulting on a number of budget themes.
44. The proposed Budget Timetable Framework for 2019/20 is included at Appendix 2. Over this period, involvement and consultation will take place with Cardiff Citizens, the third sector, Budget Forum, Scrutiny Committee, Audit Committee, Trade Unions and schools.

## **Employee Engagement**

45. Employee engagement at all levels within the organisation continues to be given high priority through a number of mechanisms including frequent directorate and council-wide roadshows, dissemination of the core brief, the ambassador network and the staff app. The Council has in place various mechanisms to engage directly and work with employees at all levels of the organisation. Employees will continue to receive briefings through these channels at all key stages of the budget process.

## **Capital Strategy**

46. Councils have a legal requirement to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities and this was updated in December 2017. This was primarily to strengthen it in light of concerns regarding some authorities undertaking activities of a more commercial nature, such as investments in property and companies primarily for financial benefit.
47. The Code requires that by 2019/20, the Council or a body nominated by it, approves a Capital Strategy that sets out the long-term context in which both capital expenditure and investment decisions are made. This is:-
  - 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
48. The S151 Officer is required to report explicitly on the affordability and risk associated with the capital strategy and where appropriate, may access specialised advice to enable them to reach their conclusions.
49. The Council already adopts many of the good practices that accord with the CIPFA code. Areas of improvement identified will need to be embedded over future years as part of a process of continuous improvement. Appendix 4 highlights the main areas that form part of a Capital Strategy and how this already links to the Treasury Management Strategy, Revenue Budget plan and also the approach to repayment of historic borrowing, already approved by Council and integrated into the budget strategy process. With this in mind, the Capital Strategy will form part of the Council Budget report to be considered in February 2019 rather than be a separate document.

### **Current Capital Programme**

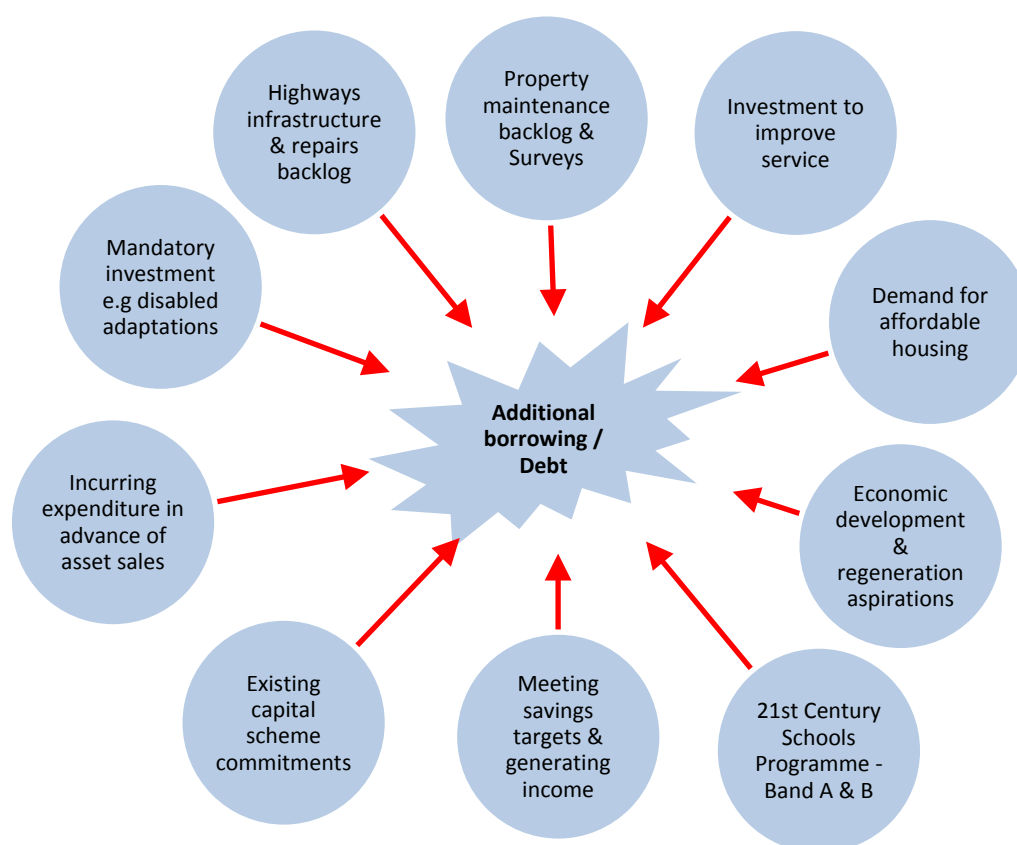
50. Capital Expenditure is incurred on the acquisition and enhancement of assets. The Council sets a five-year rolling capital investment programme, which is updated annually. The current programme was approved by Council in February 2018 and is summarised in the table below.

<b>Capital Programme</b>	<b>2018/19*</b>	<b>Indicative</b>	<b>Indicative</b>	<b>Indicative</b>	<b>Indicative</b>	<b>Total</b>
		<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>

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
<b>Total General Fund</b>	<b>99,739</b>	<b>96,001</b>	<b>131,208</b>	<b>134,464</b>	<b>71,225</b>	<b>532,637</b>
<b>Total Public Housing (HRA)</b>	<b>42,025</b>	<b>29,522</b>	<b>39,200</b>	<b>42,530</b>	<b>34,800</b>	<b>188,077</b>
<b>Total Capital Programme</b>	<b>141,764</b>	<b>125,523</b>	<b>170,408</b>	<b>176,994</b>	<b>106,025</b>	<b>720,714</b>

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

51. Pressures on the Capital Programme are arising from a number of sources as illustrated in the following diagram.



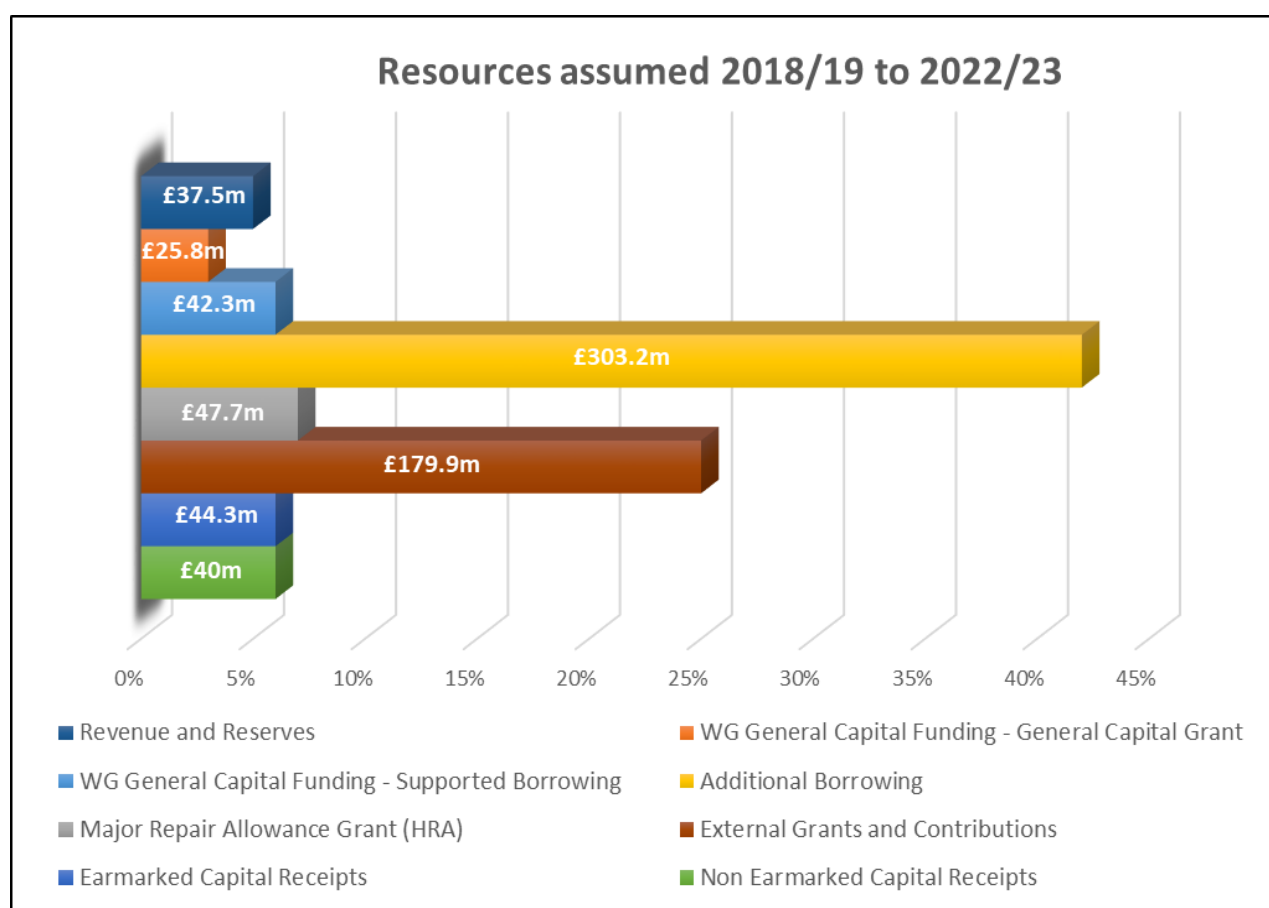
52. In recognition of the need to invest to meet the identified pressures, the 2018/19 budget process took a medium term view rather than an incremental approach and new investment was approved on the following principles:-

- New schemes proposed should support key priorities and improvement objectives of the Council's Capital Ambition



- Additional borrowing to be principally for existing assets such as highway infrastructure, and to address the condition of properties to be retained in the long term.
- Directorates should manage priorities within existing budgets and no further requests for additional asset renewal funding from directorates are expected over the five-year period 2018/19 – 2022/23, in future years.
- There should be recognition that the Council's controllable budget alone cannot afford the capital financing implications of additional investment required for existing and new schools.
- Investment to be confined to where it needs to be made by the Council and cannot be better made by others
- Take advantage of opportunities for grant match funding to secure investment in schools, transport and regeneration.

53. Appendix 5 details the key schemes included in the programme. The resources assumed to pay for capital investment during 2018/19 to 2022/23 are shown below.



54. The level of General Capital Support provided by WG as part of the annual settlement has reduced by 35% since 2010/11. This means that essential investment must be paid for by the Council. Expenditure approved to be funded by unsupported additional borrowing is £303 million. Of this, £213 million is to meet General Fund capital expenditure, including schemes

expected to pay for themselves on an invest-to-save basis. The remaining £90 million is in respect of public housing capital expenditure. The programme assumes £40 million of non-earmarked capital receipts which are to be determined through a review of the Council's whole estate.

## Borrowing and Affordability

55. The following sections of the Report outline some of the key considerations in developing the capital investment plan.

## Capital Financing Requirement Projection

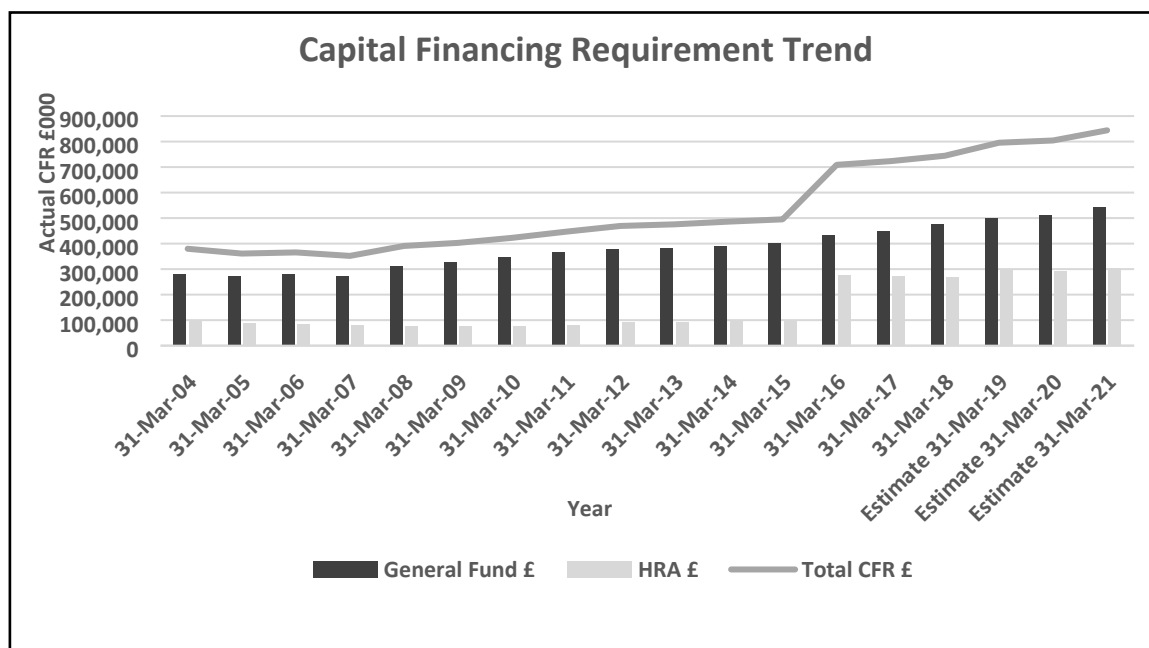
56. Where capital expenditure is incurred without a resource to pay for it immediately (e.g. via capital receipts, grants or other contributions), this increases the Council's Capital Financing Requirement (CFR), which is the requirement to borrow. The Council is required to make a prudent provision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

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

57. The actual CFR as at 31 March 2018 and estimates for current and future years for the General Fund and HRA as per the 2018/19 budget are shown below:

<b>Capital Financing Requirement as at 31 March</b>				
	<b>2018 Actual £m</b>	<b>2019 Est. £m</b>	<b>2020 Est. £m</b>	<b>2021 Est. £m</b>
General Fund	478	500	510	541
Housing Revenue Account (HRA)	267	295	294	303
<b>Total</b>	<b>745</b>	<b>795</b>	<b>804</b>	<b>844</b>

58. As shown in the chart below, this continues a long-term increasing trend since this measure was introduced in 2004. The spike in 2015/16 was a result of payments made to HM Treasury to exit the Housing Revenue Account Subsidy System.



59. The same considerations of affordability, prudence and sustainability to rent payers must be undertaken before additional investment is undertaken. Unlike the HRA, which has a debt cap of £316 million, there is no borrowing cap currently in place for the General Fund. The Council's borrowing requirement is managed in accordance with the Treasury Management Strategy approved by Council as part of the budget

### Minimum Revenue Provision

60. Where capital expenditure is paid for using borrowing, the Council must charge an amount to future revenue budgets for the eventual repayment of that expenditure. This spreads the cost of capital expenditure incurred now and historically, to future revenue budgets. The Council's policy to providing prudent provision is approved annually as part of the Budget Report and was considered by Audit Committee in November 2016, particularly in relation to the approach taken for any borrowing costs supported by WG as part of the revenue budget settlement.
61. Every authority's circumstances may differ and this will result in different approaches. However, it is important that a range of factors, specific to local authority circumstances are considered in determining a long term prudent approach. This could include:-
- Capital expenditure in terms of asset life and the period over which benefits will be spread
  - The efficacy of our approach and revenue resources to maintain assets
  - The Well-being of Future Generations (Wales) Act 2015
  - Consistency with the future direction of level of capital expenditure
  - Impact on Financial Resilience
  - WG Guidance

62. Welsh Government are reviewing their guidance and approach to supported borrowing within the Local Government Settlement and this will need to be kept under review.

### **Revenue Budget and MTFP Impact**

63. The Council's revenue budget makes no allowance for increasing the level of additional borrowing further. The Capital Financing revenue budget includes the costs of interest and a provision for repayment of historic expenditure. The latter is based on WG guidance and the Policy is approved by Council as part of the budget. Based on assumptions included in the 2018/19 budget, this is forecast to increase over the medium term and is now bigger than some directorate net expenditure budgets.
64. The proportion of the Council's controllable budget that is spent on capital financing has increased over recent years, with forecasts shown below:-

<b>Capital Financing Costs expressed as percentage of Controllable Budget</b>			
	<b>2011/12 Actual %</b>	<b>2022/23 Estimate %</b>	<b>Diff 2011/12 – 2022/23 (%)</b>
Net capital financing budget	13.47	16.65	23.61
Gross capital financing budget	15.17	24.62	62.29

65. Continuing to increase the amount of borrowing will have a consequential increase on the capital financing budget within the revenue account. In general terms, each £1 million of capital expenditure funded by borrowing, costs £65,000 in the initial years of the revenue budget and that is assuming a very long asset life of 25 years. In most cases, the types of schemes being undertaken by the Council mean that asset life is lower and so the annual cost of additional borrowing will be higher.

### **Capital Receipts – Disposal Strategy**

66. The Council's Corporate Land and Property Management Plan approved by Cabinet in February 2018 sets out the approach to managing the Council's property assets. 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.
67. Capital receipts are important to increase the affordability of the Capital Programme, however, the actual realisation and timing of capital receipts is relatively unpredictable given the number of variable factors involved. The budget assumes non-earmarked net capital receipts of £40 million, a significant increase on previous years. This includes:

- £4 million for commitments made in the 2017/18 five year capital programme
  - £11 million commitments for new capital schemes and grant match funding over the period 2018/19 – 2022/23 approved by Council
  - £25 million towards the 21<sup>st</sup> Century Schools (Band B) model
68. Such significant levels of capital receipts need to be supported by a clear, approved strategy for their realisation and timing. To do otherwise is a significant risk to the Council's borrowing requirement and future revenue budget. Accordingly, 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 in October 2018. In setting the target for capital receipts, it was recognised that earmarking would need to be limited, with the priority being to pay for schemes in the existing capital programme. Any shortfall in the £40 million target would necessitate a review of the affordability of the current programme. Should receipts exceed £40 million over the period, it is intended that they would be used to repay debt rather than to take forward further new commitments although this would be subject to review at the relevant time.

### **Invest-to-Save**

69. Examples of proposed capital investment to be paid for from borrowing on an invest-to-save basis are shown in Appendix 5. It includes investment in 21<sup>st</sup> Century Schools and essential health and safety improvements in schools. Invest-to-Save schemes are assumed 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. Accordingly, these represent an additional risk to borrowing levels and affordability, which requires robust due diligence and risk assessment of business cases before approval as well as ensuring any such schemes are essential to be undertaken by the Council to meet strategic objectives.

### **Developing the Capital Programme 2019/20 to 2023/24**

70. Borrowing has long-term financial consequences and costs span generations. Accordingly, previous advice for development of budget strategy in terms of the capital programme remains even more relevant.

*“Particular Attention needs to be given to the medium and long term impact of additional borrowing on the Council’s revenue budget, as it is clear that continuing to increase levels of additional borrowing within the General Fund is not consistent with the significant level of savings to be found” – S151 Officer*

*“Within this financial climate of reducing revenue resources all action necessary must be taken to reduce both initial capital expenditure and the subsequent need to borrow.”*

71. The Council must consider the consequences of increasing borrowing along with:-
- The Prudential Indicators highlighting longer term impact of capital decisions on the revenue budget and affordability, prudence and sustainability
  - Control mechanisms for different types of unsupported borrowing before approval
  - Whether the inherent risks in a project are better managed via commercial options rather than direct Council investment
  - The key long term strategic priorities for the city for which investment to be funded by additional borrowing is to be approved
  - Risk appetite and due diligence, where commercial or non-treasury investments are proposed.
72. In updating and formulating the five-year Capital Programme for 2019/20 to 2023/24, emerging pressures should be managed and prioritised where possible within the resources allocated in the 2018/19 and indicative future Capital Programme. As mentioned earlier, the capital financing budget in the MTFP does not make any allowance for additional borrowing. The approach to formulating the investment priorities will be as follows:-
- Directorates consider whether existing commitments remain essential or can be reduced / deferred
  - Determine the affordability of the existing programme following the Cabinet Report on generation of capital receipts
  - Any other expenditure requests to be considered in the context of external funding or robust invest to save business cases
  - For 2023/24, the new year covered by the 2019/20 – 2023/24 programme, funding requests to undertake additional borrowing will only be considered where they relate to Asset Renewal for existing assets to be retained
  - HRA investment to remain within the legal cap and business plan affordability modelling, with new build schemes subject to individual viability assessments.
  - All investment to be in accordance with Directorate Asset Management Plans, Capital Ambition delivery programme and :-
    - be evidence based
    - be risk prioritised
    - have considered all alternative solutions for funding and achieving the same outcome before request for council funding
    - demonstrate value for money in expenditure and approach to delivering outcomes.
73. There are also emerging capital expenditure and wider financial implications of major projects either being or planned to be undertaken by the Council that need to be developed as part of a longer term budget strategy process rather than on an ad-hoc basis. Examples are:-
- New Public Services Hub

- Economic regeneration initiatives such as indoor arena
- Transport Strategy
- Clean Air Zones
- Electric Vehicle Charging
- The Metro as it impacts on Cardiff Council aspirations
- Heat Network

74. 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 or together with others.

## **Financial Resilience**

75. Given the scale of the financial challenge and the risks that have been identified in previous sections, it is important to undertake regular review of the Council's financial standing and resilience. Key challenges in respect of financial resilience include:
- The need to continue to deliver significant levels of savings during a period of prolonged austerity.
  - The impact that delays to the delivery of savings proposals has on the budget monitoring position.
  - The cumulative impact of achieving 2018/19 savings in addition to the unachieved 2017/18 savings which remain to be realised.
  - The increasing ratio of capital financing charges as controllable budgets reduce, which impacts on the relative affordability of the capital programme.
76. The financial resilience snapshot included at Appendix 6 provides a high-level overview of the financial health of the Council at the time of setting the Budget Strategy for 2019/20. Financial snapshots are produced at intervals during the year and are designed to provide an overview of the Council's financial resilience through consideration of key past, present and future information. The current snapshot reflects information contained in the draft Statement of Accounts 2017/18, the 2017/18 Outturn Report, the risk profile of 2018/19 savings and the budget strategy reflected within this report.
77. The first column looks at past information, including trends over recent years. It provides important context to the information contained in the two subsequent columns. The challenges associated with the way in which the Council is funded and the cumulative level of savings over recent years have already been covered in previous sections and while they are not repeated here, they are an important part of the overall picture on financial resilience.
78. Reserves are also an important part of financial resilience. In times of uncertainty they provide a financial cushion and help to ensure a healthy cash position. The first column of the snapshot sets out changes in the levels

of the Council's Reserves over the past four financial years. The unaudited accounts show that the level of the Council's General Reserve as at 31 March 2018 was unchanged on the previous year at £14.3 million. As a proportion of net revenue expenditure there has been a slight reduction from 2.47% as at 31 March 2017 to 2.43% as at 31 March 2018. Whilst 2017/18 comparator information is not yet available, this remains below the Welsh average as at 31 March 2017.

79. The snapshot shows an increase in earmarked reserves during 2017/18 from £59.3 million as at 31 March 2017 to £61.8 million as at 31 March 2018. As percentage of the Council's net budget, the balance is still in the region of 10% of total net budget. Part of the increase in earmarked reserves relates to a top-up made to the strategic budget reserve at the end of 2017/18. This was made in order to improve resilience by supporting the budget process over the medium term period. As noted in earlier sections the balance on this reserve will assist in covering the planning assumptions on use of reserves that is contained within the 2019/20 Budget Strategy.
80. Whilst all earmarked reserves theoretically improve financial resilience, there are some that have a particular focus on resilience, which account for a significant component of the overall balance. These include the £6.5 million insurance reserve and the £7.3 million employee changes reserve. The latter will support the funding of voluntary redundancy costs over the medium term.
81. The first column also looks at financial ratios. Whilst these can be used to support benchmarking, scrutiny and challenge of finances, there are risks inherent in making such comparisons and care should be taken in doing so. It should be remembered that balance sheet data is taken at a point in time, and that accounting and other balances within a Council's accounts can skew comparisons.
82. The ratios provided in the Financial Snapshot are based on the Council's single entity Statement of Accounts and several show little change between 2017/18 and 2016/17. One of those that has changed is Working Capital as a percentage of Gross Revenue Expenditure. This indicator measures the authority's ability to cover existing expenditure from working capital (current assets less current liabilities). Whilst Local Authorities are protected to a degree, given their ability to obtain short-term borrowing, this measure acts as an indicator of how an authority manages its short-term finances. The inference of year-on-year increases in this ratio is that the Council continues to improve its position to cover day-to-day expenditure.
83. Another increase can be seen in the Usable Reserves as a percentage of Gross Revenue Expenditure Ratio. This measure indicates the level of funds the Council is retaining for future plans and unforeseen expenditure, relative to its expenditure. This increased from 11.48% to 13.28% between 2016/17 and 2017/18. This partly reflects the fact that, as already outlined above, the year-end position allowed the Council to increase the level of reserves for



use in connection with future demands and in support of budget strategy, thereby improving the Council's financial resilience. However, it should also be noted that the definition of usable reserves for the purposes of this ratio, includes capital receipts. As such, the annual increase in this indicator is also attributable to several asset disposals that were made in 2017/18. These generated capital receipts that formed part of usable reserves at year-end. The receipts will be used in support of the capital programme moving forward.

84. Council tax as a percentage of taxation and non-specific grants has been incrementally increasing over the four year period shown. This is to be expected in the current financial climate given that AEF has seen real term reductions over a number of years.
85. The middle section of the snapshot outlines the 2017/18 outturn position and the level of savings achieved in 2017/18. The snapshot shows that the 2017/18 outturn position was balanced overall, but with a £4.9 million overspend at a directorate level. This was offset by the Council's £3 million general savings contingency along with underspends in others areas such as insurance and the Council Tax Reduction Scheme.
86. The delivery of delayed savings in addition to those included in the 2018/19 Budget is a key area of risk that will be monitored closely as the year progresses. The 2018/19 Budget wrote out £306,000 of prior year savings deemed to be unachievable and realigned particular pressures in relation to Social Services which were a significant factor in the £4.9 million directorate overspend. The achievability risk associated with 2018/19 savings is set out at the foot of the middle column on the snapshot. Monitoring of savings has already commenced in the current year, with regular consideration at Senior Management Team and timetabled discussion with Cabinet Members. As the year progresses, further iterations of the snapshot will reflect the in-year monitoring position, setting out the position on achievement of in year savings.
87. The final column summarises the contents of this report and the future financial challenge that faces the Council. The challenge, which is significant in itself, is amplified by the context summarised in the preceding columns of the snapshot.

## **Risk**

88. The risk assessment carried out as part of 2018/19 budget preparation identified a number of financial and operational challenges over the medium term. These risks remain relevant and most have already been discussed during the course of this report. The table on the next page summarises the key challenges. These will need to be kept under careful review as the budget process progresses.

Area	Key Challenges
Demand Pressures	<ul style="list-style-type: none"> <li>Increased volume and complexity of demand in social services</li> <li>Increasing pupil numbers both generally and in relation to Additional Learning Needs budgets</li> <li>The potential impact of welfare reforms including the roll out of Universal Credit in Cardiff</li> </ul>
Pricing Pressure	<ul style="list-style-type: none"> <li>The expectation that inflation will remain at or above 2%</li> <li>The exceptional price inflation already being experienced in some areas as a result of the National Living Wage and other pressures</li> <li>The impact of pay award over the MTFP following the easing of the 1% public sector pay cap</li> </ul>
Funding Uncertainty	<ul style="list-style-type: none"> <li>The potential for negative redistributive impacts within the formula</li> <li>Recent volatility and uncertainty in relation to specific grants and transitional arrangements</li> <li>Increased potential for changes between the provisional and final settlement as a result of the timing of the UK budget</li> <li>The intention of WG to revisit reform of Local Government Finance in Wales</li> <li>The potential requirement to address significant specific grant reductions at short notice where these are integral to the functions of the Authority</li> </ul>
Capital Pressures	<ul style="list-style-type: none"> <li>Increased pressure on the revenue budget as a result of additional borrowing undertaken in previous years, which affects the ability to take forward new schemes</li> <li>Pressure on scarce resources due to the condition of property and infrastructure assets</li> <li>The increasing financial exposure of the Council in relation to the development of the 21<sup>st</sup> Century Schools Band B Programme and Cardiff Capital Region City Deal</li> <li>The potential for capital schemes predicated upon income generation failing to do so</li> <li>The need to realise capital receipts in support of the existing programme – net target of £40 million</li> <li>The current five year programme assumes that no additional expenditure funded by borrowing will be undertaken unless it is self-financing</li> </ul>
Resilience	<ul style="list-style-type: none"> <li>The need to continue to deliver significant levels of savings during a period of prolonged austerity.</li> <li>The impact that delays to the delivery of savings proposals has on the budget monitoring position.</li> <li>The cumulative impact of achieving 2018/19 savings in addition to the unachieved 2017/18 savings which remain to be realised</li> <li>The increasing ratio of capital financing charges as controllable budgets</li> <li>The ongoing impact of the past reduction in headcount that has taken place over an extended period</li> </ul>

## Reasons for Recommendations

89. To seek Cabinet approval for the Budget Strategy in respect of 2019/20 and the MTFP.
90. To note the Budget Timetable Framework and forward this to Council for approval.
91. To seek approval to request expressions of interest from officers in respect of the voluntary redundancy scheme.

### **Legal Implications**

92. It is the responsibility of the Cabinet to receive financial forecasts and develop a medium term financial strategy with a view to proposing a Budget for the Council to approve. The report highlights the seriousness of the financial challenges ahead. As stated in the body of the report, it is important that members take note of the statements made by the Section 151 Officer in this regard.
93. There are no general legal issues arising from the report. Specific legal issues will be addressed as part of the proposed budget preparation.
94. The report provides that the proposed Budget Timetable framework for 2019/12 will make provision for consultation. It is important to note that consultation raises the legitimate expectation that any feedback received from the consultation will be taken into account in developing the proposals consulted upon.
95. In considering this matter and developing the budget proposal regard must be had to the Council's duties under the Equality Act 2010 and appropriate steps taken to ensure that i) the Council meets the requirements of the Public Sector Equality Duties; and ii) due regard as been / is taken of the likely impact of decisions in terms of equality and discrimination.

### **Financial Implications**

96. The report sets out the Budget Strategy for 2019/20 and the medium term. It is written in a period of prolonged financial constraint and economic uncertainty. It outlines a likely budget reduction requirement of £91.4 million over the next three years, of which £34.2 million relates to 2019/20. The budget gap and the assumptions that underpin it will need to be kept under review as the year progresses.
97. The report sets out the strategy for addressing the budget reduction requirement. Collectively, a 30% cap on schools (non-pupil number growth), a 4.3% council tax increase and £1.5 million use of reserves (reducing to £750,000 in 2021/22) will contribute £25 million to the budget reduction requirement, leaving a savings requirement of £65 million. Further refinement of 2019/20 savings will take place over the summer to enable public

consultation on proposals once the 2019/20 funding position is confirmed by provisional settlement in October 2018.

98. The Council has identified £160 million in savings since 2013/14. The £65 million savings requirement indicated in the current strategy will add to this quantum. Delivering savings of this scale over a sustained period is extremely challenging. In circumstances such as these, careful monitoring of financial controls and financial resilience will continue to be extremely important. Due diligence and acceleration of planning and preparatory work will be important in aiming to improve the achievability rates of savings.
99. The financial resilience snapshot at the time of this report shows that earmarked reserves have increased during 2017/18. This improves the Council's financial resilience generally, as reserves provide a financial cushion. More specifically, one of the increased reserves was the Strategic Budget Reserve. This will assist with the challenging medium term position and is used as part of this budget strategy. Whilst the 2017/18 outturn position was balanced overall, there was an overspend of £4.982 million at a directorate level. This was offset by the use of the £3 million general savings contingency and underspends in corporate areas such as insurance and council tax reduction scheme. Delivery of delayed 2017/18 savings in addition to planned 2018/19 savings will require close monitoring and this has already begun.
100. The report models a worse-case scenario of £41.4 million for 2019/20 and £115.4 million over the medium term. The variables that contribute to this potential worsening are the potential for higher pay awards, less favourable funding settlements and higher TPS contributions than currently assumed within the plan. The Council has a financial resilience mechanism that would enable it to withstand one funding reduction of 1% worse than covered by the MTFP without having to resort to identifying additional savings at short notice. Thereafter, funding reductions that deviate from 1% would require a review of the strategy.
101. The report sets out that the position in respect of capital is equally challenging. The capital programme currently relies on £40 million capital receipts. Cabinet will receive a report in October regarding how and when these will be delivered. This could result in a need to review the affordability of the existing programme. The MTFP currently assumes there will be no further additional borrowing over and above that which is already assumed in the Capital Programme approved in February 2018. Any additional borrowing for 2023/24, the new year covered by the 2019/20-2023/24 programme should only be considered where it relates to asset renewal on existing assets that the Council intends to retain. All other funding requests will need to be considered in the context of external funding or robust invest-to save business cases. It is also essential that capital expenditure and wider financial implications of capital projects are factored into longer term budget strategy.

## **HR Implications**

102. The report outlines the UK and Welsh contexts under which the budget is being set together with the continued financial challenges faced by the Council in balancing reducing finances with increasing demands. The Council will continue to review the shape and scope of the organisation and the way in which services are delivered and efficiencies achieved. New service delivery models will need to meet demand pressures and reflect budgetary realities alongside securing further efficiency savings through better collaboration and partnerships, integration of service delivery and reducing duplication of effort and resources.
103. Given the level of savings required in 2019/20 and beyond, it will be key that the savings proposals identified are robust and deliverable. The extent of financial challenge in a continued period of restraint will result in savings targets for controllable budgets which will be considerably challenging and will result in significant changes to how local government services are delivered. The availability of resources to support the delivery of these radical and sustained changes will be key.
104. Whilst it is not possible to provide specific HR implications on any changes at this time, it is clear that the ongoing budget difficulties will continue to have significant people implications associated with actions necessary to manage the financial pressures facing the Council. As service delivery proposals are brought forward, there will be consultation with employees (those directly and indirectly impacted) and the Trade Unions so that they are fully aware of the proposals, have the opportunity to respond to them and understand the impact that the new model of service will have on them. Further and specific HR implications will be provided when relevant models are proposed. Any proposed reductions in resource levels will be managed in accordance with the Council's recognised policies for restructuring which include, where appropriate, redeployment and voluntary redundancy.
105. The Council's Voluntary Redundancy Scheme is always available however, following this report it will be widely publicised to employees. Whilst those interested in leaving on this basis (with a post subsequently deleted) should express an interest to do so, a business case to support the exit will still need to be made and signed off. Flexible retirement continues to be another option available and a Sabbatical policy is in place as well as ability to request voluntary reductions in working hours. Training and development to support new skill requirements will remain available in order to place employees in the best possible position for potential redeployment.
106. Initial Trade Union consultation has taken place on this report. A Trade Union Partnership Meeting has been established and will meet on a monthly basis to facilitate early discussion with Trade Unions on key organisational proposals, with more detailed discussion continuing with employees and trade unions at local directorate level. It is essential that there continues to be appropriate consultation on proposals that are taken forward, as and when they are developed. This could include early proposals which are required to be implemented in preparation for the 2019/20 financial year. Many of these

will have people implications that will need to be considered at an early stage in consultation with the Trade Unions and employees affected.

107. There will be employee engagement events during the autumn with the Leader of the Council and the Chief Executive that will include the budget strategy on the agenda as well as the developments within the Council around service delivery.

## **RECOMMENDATIONS**

The Cabinet is recommended to:

- (1) Agree the budget principles on which this Budget Strategy Report is based and the approach to meeting the Budget Reduction Requirement both in 2019/20 and across the period of the Medium Term Financial Plan. Whilst recognising the objectives set out in Capital Ambition.
- (2) Agree that directorates work with the relevant Portfolio Cabinet Member, in consultation with the Corporate Director Resources and Cabinet Member for Finance, Modernisation and Performance to identify potential savings to assist in addressing the indicative budget gap of £34 million for 2019/20 and £91 million across the period of the Medium Term Financial Plan.
- (3) Delegate to the Chief Executive, in consultation with the Leader and Cabinet Member for Finance, Modernisation and Performance, the authority to implement any saving proposal in advance of 2019/20 where no policy recommendation is required or where a policy decision has already been taken.
- (4) Agree that the Council indicates to Joint Committees and to bodies which raise precepts and levies on the Council, the level of the financial challenge facing the Council, and that this be taken into consideration when they are developing their own financial plans but still within the framework of the objectives set out in Capital Ambition.
- (5) Delegate to the Corporate Director Resources in consultation with the Cabinet Member for Finance, Modernisation and Performance, the authority to identify an alternative budget reduction requirement upon receipt of further clarification in respect of Welsh Government funding.
- (6) Delegate to the Corporate Director Resources in consultation with the Cabinet Member for Finance, Modernisation and Performance, the authority to amend the Budget Strategy, if this amendment does not significantly depart from the underlying principles. Any requirement to depart significantly from these principles would require a further Budget Strategy Report to Cabinet.
- (7) Agree that the Council seeks expressions of interest from officers in respect of the voluntary redundancy scheme by 14 September 2018.

- (8) Propose that Council agree to adopt the Budget Timetable Framework set out in Appendix 2 and that the work outlined is progressed with a view to informing budget preparation.
- (9) Agree that there will be a two stage process in relation to public consultation on 2019/20 proposals. This will commence with the Ask Cardiff Survey including a section on general budget themes, followed by more detailed consultation on 2019/20 proposals later in the Autumn, once there is further clarity on the 2019/20 funding position.

<b>SENIOR RESPONSIBLE OFFICER</b>	<b>CHRISTINE SALTER</b> CORPORATE DIRECTOR RESOURCES
	<b>6 July 2018</b>

*The following appendices are attached;*

Appendix 1 - Budget Strategy Frequently Asked Questions  
Appendix 2 - Proposed Budget Timetable Framework 2019/20  
Appendix 3 - Key Assumptions underpinning the MTFP  
Appendix 4 - Capital Strategy as part of Budget Strategy  
Appendix 5 - Key Schemes within the 2018/19 – 2022/23 Capital Programme  
Appendix 5 - Appendix 6 - Finance Snapshot – Financial Resilience

### **Background Documents**

2018/19 Budget Report – February 2018