CARDIFF COUNCIL
CYNGOR CAERDYDD

COUNCIL: 18 JULY 2019

CABINET PROPOSAL

BUDGET STRATEGY REPORT 2020/21 AND THE MEDIUM TERM

Reason for this Report

1. To provide an update in relation to the Medium Term Financial Plan.

2. To consolidate and update the financial strategy of the Council in readiness for the preparation of the 2020/21 revenue and capital budgets.

3. To outline the timetable that the budget process will follow in order to present the 2020/21 Budget to Council in February 2020.

4. To provide an update in relation to the Council's financial resilience.

Structure of the Report

5. 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.

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General Background

6. The Medium Term Financial Plan (MTFP) included within the Council's 2019/20 Budget Report identified a potential budget gap of £104.9 million over the period 2020/21 – 2023/24. The budget gap is a result of anticipated funding failing to keep pace with demand and inflationary pressure on services.

7. This Report updates the MTFP for most recent information, outlines the 2020/21 Budget Strategy and associated timetable, and sets out the approach that will be taken to rolling forward the Capital Programme. It also considers the Council's financial resilience in the face of continued financial challenge.

Issues

8. Before 11 March 2020, Cabinet Members have a collective duty to place before the Council proposals, which if approved, would result in the adoption of a balanced budget for 2020/21. This Report sets out a strategy and timetable in order to arrive at that position.

National Context

9. Local financial planning is linked to the wider economic and financial context. The Chancellor's Spring Statement, which is linked in the background documents to this report, included some positive signs including:
   - Forecast growth for the next five years.
   - Predictions of a further 600,000 people in work by 2023.
   - Inflation forecasts of 1.9% in 2020 returning to the Bank of England's 2% target in the medium term.
   - Forecasts that national debt (as a percentage of GDP) will continue to fall to 2023/24.

10. The Statement suggested that public finances had reached a turning point. However, it is difficult to predict what this may mean for spending on public services. The Chancellor indicated the Government would take a balanced approach to keep debt falling: "reducing borrowing and debt whilst supporting public services, investing in the economy and infrastructure and keeping taxes low."

11. The economic implications of Brexit are an unknown in forecasts. The Office for Budget Responsibility (OBR) has stated that the long-term impact on the UK economy will depend on the agreement that is reached with the European Union (EU.) The Chancellor had been expected to undertake a Comprehensive Spending Review (CSR) in 2019 to set the tone for post-Brexit Government Spending. However, with the timescale for Brexit extended until 31 October 2019, and a Conservative leadership election, the timeframe for the CSR has become increasingly uncertain.

12. The Chief Secretary to the Treasury recently told the House of Lords Economic Affairs Committee, that the launch of the Spending Review before the summer recess was "unlikely to happen given the current timetable for the Conservative leadership election." She added that while there would be a "need to set revenue budgets (for 2020/21), we do already have capital budgets for 2020/21." It is therefore uncertain whether there is the potential for a late CSR, (which would have timing implications for notification of the Welsh Block Grant and Local Government Settlement), or if it is more likely that the CSR will not take place in advance of setting 2020/21 budgets.

The Welsh Context and Local Government Settlement

13. The latest Welsh Government (WG) budget covers one year only, which means that Welsh Local Authorities have no indicative funding figures beyond 2019/20. Estimating the likely level of future Local Government Settlements is difficult. As well as uncertainty about public spending at a national level, it is difficult to pre-empt how the Westminster and Welsh Governments will distribute resources across the public sector.

14. Wales Fiscal Analysis (WFA) is a research body within Cardiff University's Governance Centre, which undertakes independent research into the public finances of Wales. WFA predicts that WG's spending will increase over the next five years, but do not expect day to day spending to reach its 2010 levels (in real terms) until 2023.

15. As general expectations seem to be for modest improvement, in February 2019, the Council's MTFP assumptions regarding base funding reflected a slight improvement on previous years. The MTFP reflects annual reductions in Aggregate External Finance (AEF) of 0.5%, compared to annual reductions of 1% previously.

16. Review of the potential impact of Local Government Settlement would be incomplete without consideration of specific grants. In recent years, WG has directed additional funding for core responsibilities through specific grants. Examples of this, and the sums involved for Cardiff in 2019/20 include Teachers' Pay (£0.9 million), support for Social Services' pressures (£3.3 million) and most recently Teachers' Pensions (£4.3 million.) These grants support core operational pressures, as opposed to policy initiatives. From a financial planning perspective, there is a risk these grants could reduce, or even be discontinued altogether. The Council will need to keep these funding streams, and the wider position in relation to specific grants under close review.

17. In recognition of the difficulties in predicting funding levels, the Council has a Financial Resilience Mechanism (FRM.) This is intended to provide support in the event that AEF is worse than the Council has anticipated in the MTFP, avoiding the need to identify further significant cuts at short notice. The FRM is a £3.8 million base budget that is used to invest in priority areas. However, that investment must be one-off and decided afresh each year. This means the budget could be deleted without affecting day-to-day services, if confirmed funding is worse than anticipated.

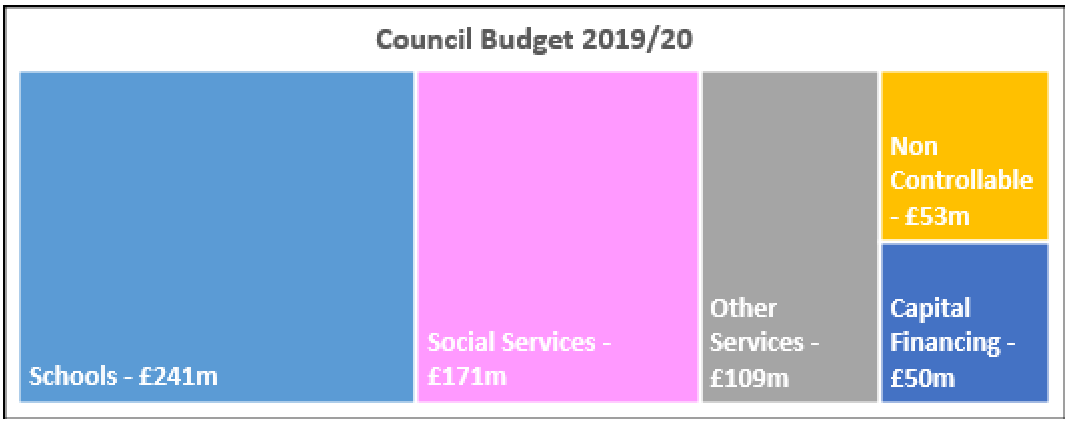
Council Context

18. Challenging financial circumstances reiterate the importance of clear links between strategic priorities and financial planning. It is important that scarce resources are allocated appropriately, with regard for impact on future

generations. The Council's financial strategy documents, including the Budget, MTFP, Capital and Treasury Strategies, are framed by the priorities and objectives set out in Capital Ambition, the Corporate Plan and the Wellbeing Plan. Budget Strategy assumptions also have regard to the principles within the Wellbeing of Future Generations (Wales) Act 2015. Further information on the Council's core priorities is contained in the MTFP at Annex 1.

19. The prolonged period of financial challenge experienced by Local Government will make it more challenging to deliver the savings required over the medium term. The Council has identified cumulative savings in excess of £220 million over the past ten years, and has seen a reduction of over 1,600 full time equivalent (FTE) posts since 2012/13 (in services other than schools). The continued need for significant savings over the medium term is an important factor in financial resilience, as considered later in the Report.

20. The shape of the Council's budget has changed over the past decade. With no real term increase in AEF to help meet cost pressures in areas where demand has grown significantly, (such as Social Services and Schools), this growth has primarily been financed from savings in other directorates. Over time, this has seen budgets for "other services" contract significantly. In 2019/20, Social Services and Schools account for 66% of the Council's net budget, following net budgetary increases of £73 million over the past five years. A further 8% of the Council's net budget is attributable to the financing of the capital programme. The pressure and ongoing affordability of this aspect of the budget is considered in the Capital sections of this Report.



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

The Medium Term Budget Reduction Requirement

21. The MTFP was last reported in February 2019, alongside the 2019/20 Budget Report. As part of sound financial practice, the MTFP undergoes regular review to ensure it reflects most recent information. Technical updates have been made during the first quarter of 2019/20 in order to reflect most recent base budget and pricing information, and to incorporate the 2019/20 Age Weighted Pupil Unit (AWPU) rate in Schools' calculations. The MTFP has also been updated to reflect the likely continuation in 2020/21 and beyond, of £80,000 base budget funding for the Child Friendly Cities Initiative.

22. The quarter one update also reflects revised assumptions in respect of funding for temporary accommodation at Cantonian High School. In December 2016, Cabinet approved funding of £1.443 million over three years for modular accommodation at the school. This took the form of a £481,000 base budget in each of the years 2017/18, 2018/19 and 2019/20, with the MTFP reflecting the fall out of this budget from 2020/21 onwards. However, further to the June 2019 Cabinet Report on redevelopment plans for the school, the MTFP has been updated to reflect the ongoing requirement for this accommodation during the period of redevelopment. It is now assumed that from 2020/21 onwards, there will be a continuation of the original £481,000 base budget, with a further £169,000 in order to base fund sums previously supported from reserves.

23. The most significant update to the MTFP during the first quarter of 2019/20 relates to a revision of assumptions with regards Teachers' Pensions. A 2016 actuarial review of the Teachers' Pension Scheme (TPS) coupled with a change in the discount rate used to set scheme contributions, means that there will be a significant increase in Employers' Contributions to the TPS with effect from September 2019. The 2019/20 Budget, and previous iterations of the MTFP, assumed that this cost would need to be fully borne by the Council. However, following approval of the 2019/20 Budget, WG announced specific grant funding to cover this additional cost pressure in 2019/20. In light of this development, the MTFP has been updated to reflect the assumptions that:

- the funding received in 2019/20 will be ongoing and;
- the full year impact of the TPS changes, due to take effect in 2020/21, will also be fully funded by Central Government.

24. The key components of the MTFP are summarised in the table below and estimate the budget gap as £25 million in 2020/21 and £101 million over the period 2020/21 – 2023/24. Further detail on each component of the gap, along with information on key assumptions can be found in the MTFP at Annex 1.

	Medium Term Budget Gap				
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	TOTAL £000
Employee Related	8,656	8,425	8,425	8,474	**33,980**
Prices	3,097	3,180	2,880	2,902	**12,059**
Commitments	244	(308)	293	(475)	**(246)**
Capital Financing	2,317	3,865	814	152	**7,148**
Demographic Pressures	6,414	7,549	7,083	7,169	**28,215**
Emerging Financial Pressures	3,000	3,000	3,000	3,000	**12,000**
Funding	1,251	2,212	2,201	2,190	**7,854**
Total	**24,979**	**27,923**	**24,696**	**23,412**	**101,010**

25. The MTFP will undergo further review as the year progresses, to reflect any emerging issues and to ensure assumptions reflect most recent information. Whilst all areas will be reviewed, particular consideration will be given to:

- Further pressure on demand led budgets, which may require budget realignments to be considered. In particular, there will be a need for ongoing review of the Children's Services budget due to significant and volatile demand pressures in this area. The number and complexity of new care packages can vary significantly year on year, and associated costs can be such, that a small number of packages can have a significant budgetary impact.
- AEF assumptions, following announcement of the Provisional Settlement
- Specific grant streams, particularly where grants support core operational activities, including Social Services and Teachers Pensions funding.
- Pay Awards, for both teaching and NJC staff, which are currently based on assumptions pending their negotiation and agreement.
- The 2019/20 monitoring position as the year progresses.
- The Council Tax Base for 2020/21 when it is approved in December 2019, taking into account any related redistribution of AEF at final settlement.
- The cost implications of contracts being let in the current year.
- Pupil numbers on roll in September 2019.

Approach to Budget Strategy

26. The high-level strategy to address the budget gap is set out below. These assumptions will be reviewed and refined as the budget process progresses, not least because the budget gap itself may change.

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	TOTAL £000
Council Tax (+4.5%)*	6,498	6,790	7,095	7,415	27,798
Savings Required	18,481	21,133	17,601	15,997	73,212
Total	**24,979**	**27,923**	**24,696**	**23,412**	**101,010**

** Levels are for modelling purposes and are subject to ongoing review and Member approval*

27. The identified council tax income is the net income that will be generated after taking account of the impact on Council Tax Reduction Scheme (CTRS.) It reflects the current year's tax base, and will be updated for the 2020/21 tax base (due to be approved by Cabinet in December 2019), after final settlement has been received.

28. Directorate savings form the largest element of the strategy with a requirement of £73.2 million over the four-year period. The Budget Strategy is to adopt a three-pronged approach to targeting savings. This will include identification across directorates of:
    - Efficiency savings
    - Income Opportunities
    - Service change / transformational opportunities

29. During the first quarter of 2019/20, directorates have been undertaking work to review and challenge all areas of their budgets, with an initial emphasis on reviewing the scope for efficiency savings and income generation opportunities. A total of £10.3 million of the 2020/21 savings requirement will be targeted through these channels. Efficiency targets emphasise the need to achieve the same for less, with no significant impact on services, and have been weighted more heavily toward back office services.

30. In previous years, the Budget Strategy has included a cap on the level of growth to Schools. However, for 2020/21, the proposed approach is for Schools to contribute to the efficiency targets described above, but at a lower level than all other services (currently modelled at 1%). As well as being simpler to understand and improving comparability with other Council services, this has the advantage of offering improved planning certainty for Schools. This is because a cap, which is based on financial pressures, is subject to frequent change.

31. After contributing the modelled 1% efficiency requirement, and taking into account school's contribution to funding the 21st Century Schools Band B Programme, schools would still receive net additional cash of £4.6 million in 2020/21 as set out in the table below. Additional Teachers' Pensions costs are not included in the table below, as it is assumed that these will be funded by WG, as in 2019/20.

Financial Pressure	**£000**
Pay (excluding Pensions)	5,322
Price Inflation	79
Pupil Number Growth	1,575
Associated Pupil Needs	1,180
Total (Gross)	**8,156**
Schools' contribution to Band B & Asset Renewal	(1,090)
Application of 1% Efficiency Target	(2,413)
Net Additional Cash at 1.9%	**4,653**

32. In order to improve the deliverability of savings and maximise the chances of securing full year savings in 2020/21 every opportunity should be taken to accelerate detailed planning and preparatory work. In order to continue to respond effectively to the extended period of financial challenge, there needs to be a proactive and ongoing approach to identifying and implementing savings that moves beyond an annual process and takes opportunities as they arise. To support this, where feasible, efficiency proposals that do not require a policy decision may be actioned during this financial year. 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 preparatory work for delivery of savings.

33. Work will continue over the summer to refine and develop efficiency and income proposals, and to secure the early implementation of efficiency proposals where possible. In addition, there will be further focus on framing proposals to meet the £8.2 million to be targeted through transformational change. Progress in this regard, along with the impact of any further clarity on funding issues, will be reported later in the year, in order to inform consultation.

Medium Term Financial Plan Scenario Analysis

34. Current assumptions within the MTFP are prudent and based on best available information. However, there is always a risk of change. If certain assumptions within the MTFP fluctuate by small margins, they have the potential to affect the forecast significantly. The table below sets out areas of sensitivity and their potential annual impact. The FRM gives the Council scope to withstand the first 0.9% adverse fluctuation in AEF without impact on the budget gap.

Assumption	£m
AEF 1% worse than anticipated	4.4
Teachers Pay Award 1% Higher	1.4
NJC Award 1% Higher	2.1
Price inflation 1 % higher (on permitted heads)	1.4
Total	**9.3**

35. The scenario analysis outlined in the above table shows the impact of flexing key assumptions. In addition and as already outlined above, scenario analysis needs to note the risk that specific grants that support operational duties may reduce or fall out.

36. 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 timing and impact of any subsequent CSR.
- The impact of WG's devolved tax powers.
- The potential impact of WG's intended review of the Local Government Finance system.
- Local Government Reform in Wales and shared service expectations.
- The impact of the Local Development Plan, particularly in the latter years of the MTFP and beyond.
- The ongoing impact of Universal Credit.
- The potential for further changes or reductions to specific grants.
- WG policy changes that may come into force over the MTFP period.
- Arrangements for Post 16 Learning Difficulties / Disabilities, responsibility for which is due to transfer to Local Government.

Consultation and Engagement

37. The Council places 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 2020/21 budget proposals will take place in order to inform the budget setting process.

38. The proposed Budget Timetable Framework for 2020/21 is included at Appendix 2. Over this period, consultation and engagement will also take place with the third sector, Scrutiny Committees, Audit Committee, Schools (via the School Budget Forum) and Trade Unions. In addition, employee engagement at all levels within the organisation continues to be given high priority.

39. The Council has various mechanisms in place to engage directly with employees including staff information emails, team briefings, the core brief, and the staff app. Employees will continue to receive briefings on the overall position through these channels at all key stages of the budget process. In addition, managers will also ensure that there is appropriate engagement and consultation with employees who may be specifically affected by any proposals.

Capital Investment Programme - Context

40. The Council sets a five-year rolling capital investment programme, which is updated annually. The current five-year programme was approved by Council in February 2019 and is summarised below. The 2020/21 Budget Strategy must set the approach to updating the programme and rolling it forward a year to cover 2024/25. Further detail on the nature of schemes included in the current programme is included at Appendix 3.

Capital Programme	2019/20* £000	2020/21 Indicative £000	2021/22 Indicative £000	2022/23 Indicative £000	2023/24 Indicative £000	Total £000
Annual Sums Expenditure	28,284	25,277	25,187	18,873	14,815	**112,436**
Ongoing schemes	14,589	18,335	17,277	9,075	3,224	**62,500**
New Capital Schemes	3,269	6,220	4,310	16,590	1,060	**31,449**
Schemes Funded by External Grants and Contributions	36,772	42,610	88,039	50,998	3,550	**221,969**
Invest to Save Schemes	16,257	19,695	36,988	24,190	3,011	**100,141**
Total General Fund	**99,171**	**112,137**	**171,801**	**119,726**	**25,660**	**528,495**
Total Public Housing (HRA)	**47,385**	**64,510**	**79,750**	**68,750**	**54,350**	**314,745**
Total Capital Programme	**146,556**	**176,647**	**251,551**	**188,476**	**80,010**	**843,240**

41. Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council must approve a Capital Strategy that sets out the long-term context in which capital investment decisions are made. The Council's Capital Strategy was approved by Council in February 2019. It provides the guiding principles within which the Capital Programme for 2020/21 – 2024/25 must be set, and is referenced at relevant points below.

Capital Programme Affordability

42. A key consideration in setting the Capital Investment Programme is affordability. General Capital Support provided by WG has reduced by 35% over the past decade, placing additional pressure on the Council to pay for investment. The reduction in General Capital Support has been accompanied by a range of pressures on the capital programme. In broad terms, these either relate to investment in existing assets, or investment in development projects to meet strategic aims. They include:

- Highways infrastructure and repairs backlogs
- Vehicle procurement options
- Property maintenance backlog and surveys
- Investment to improve service
- Demand for affordable housing
- Economic Development and regeneration aspirations
- School Building Development Programme
- Meeting savings targets and generating income
- Existing capital scheme commitments
- Incurring expenditure in advance of asset sales
- Mandatory investment e.g. disabled adaptations

42. In June 2019, WG announced a supplementary budget that includes a capital investment package of £85 million across Wales. This incorporates:

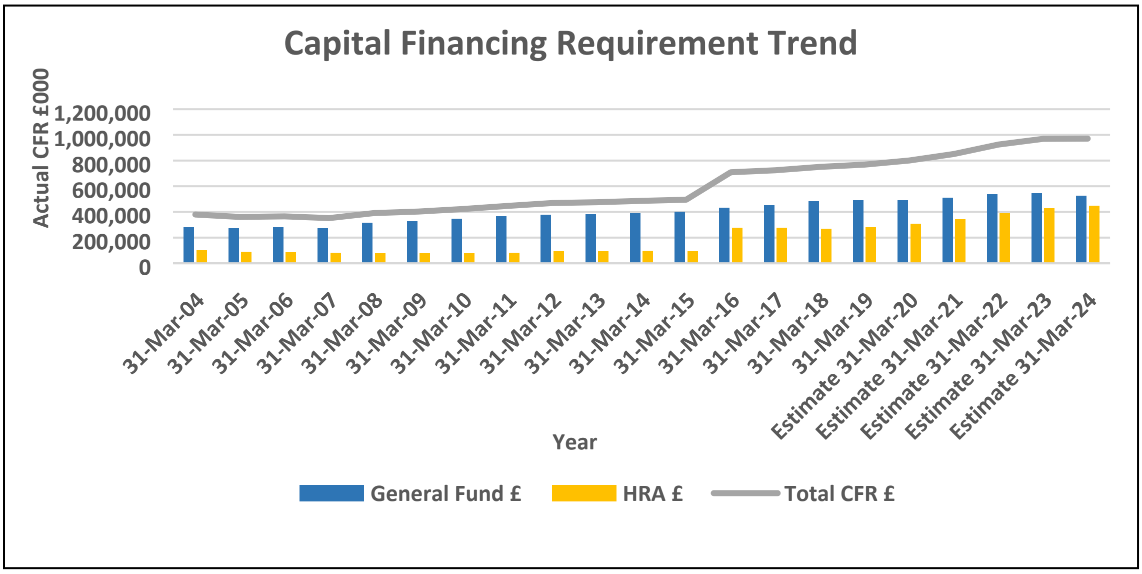
- £50 million to invest in local government social housing programmes.
- £5 million to support the maintenance of the road network.
- £10 million for the Economy Futures Fund.
- £20 million for Local Government (presumed to be General Capital Funding).

The detail of these funding streams, and Cardiff's potential share, will be kept under review, in order to ascertain the extent to which they may assist overall programme affordability.

43. The Council has two main resources that it is able to directly influence in order to fund investment - capital receipts and borrowing. Both of these are considered in further detail below.

Borrowing

44. Borrowing has long-term financial consequences and costs span generations. When the Council incurs capital expenditure without an immediate resource to pay for it (e.g. grant or capital receipt), it results in a need to borrow. While it may not be necessary to take additional external borrowing immediately, the Council's underlying need to borrow, called its Capital Financing Requirement (CFR), increases. In other words, there will ultimately be a requirement to borrow money, which will need to be repaid. The Council's CFR has increased since the measure was introduced in 2004. (The spike in 2015/16 reflects payments to HM Treasury to exit the Housing Revenue Account (HRA) Subsidy System.)



45. In order to reduce the CFR, the Council has a statutory duty to make "prudent provision" for the repayment of debt. This takes the form of a charge to the revenue account, called the Minimum Revenue Provision (MRP.) The MRP

spreads the costs of borrowing, helping to ensure that the Council is able to service the debt associated with the current and historic capital programmes. The MRP policy is reviewed and approved annually. It takes into account a range of factors including asset life, approach to maintaining assets, financial resilience and relevant WG guidance.

46. The MRP is met from the capital-financing budget within the revenue account. Generally, assuming a 25-year asset life, every £1 million of capital expenditure funded by borrowing places an additional pressure of £65,000 on the revenue budget in the initial years (assets with a shorter life result in a higher charge). In considering whether to increase the amount of borrowing, it is therefore important to take into account the affordability implications for the revenue budget, particularly in the context of the level of savings to be found.

47. The capital financing assumptions included within the MTFP are currently predicated upon there being no further increases in unsupported borrowing. Even on the assumption of no further borrowing, the capital financing budget will increase over the medium term. The proportion of the Council's controllable revenue budget spent on capital financing has increased over recent years, with forecasts shown below:

Capital Financing Costs expressed as percentage of Controllable Budget			
	2011/12 Actual %	**2023/24 Estimate %**	**Diff 2011/12 – 2022/23 (%)**
Net capital financing budget	13.47	15.56	15.52
Gross capital financing budget	15.17	22.81	50.36

48. The net capital financing percentages shown above assume that income or savings associated with Invest to Save (ITS) or Invest to Earn (ITE) Schemes will all be fully realised. The difference between the gross and net indicators highlights that there would be significant revenue implications if the level of income, savings or capital receipts associated with ITS/ITE schemes does not ultimately materialise. This additional risk to borrowing levels and affordability requires robust due diligence and risk assessment of business cases before approval, as well as ensuring that schemes are essential to meet strategic objectives. Examples of proposed capital investment to be funded from borrowing on an invest-to-save basis are shown in Appendix 3.

Capital Receipts

49. Capital receipts are an important means of increasing the affordability of the Capital Programme. The generation of capital receipts is also consistent with the need to accelerate a reduction in the Council's asset base in light of reducing resources. However, the realisation and timing of receipts is relatively unpredictable given the variables involved.

50. The 2018/19 Capital Programme set a £40 million target for non-earmarked receipts (net of fees) for the period 2018/19 and 2022/23, and a further £1 million was added to the target in the 2019/20 programme. As receipts of £5.6

million were generated in 2018/19, this leaves a balance of £35.4 million to be found between 2019/20 and 2023/24. The Council's approach to the delivery of the capital receipts target was set out in the Annual Property Plan approved by Cabinet in May 2019. Such significant levels of capital receipts need to be supported by a clear approved strategy for their realisation and timing. There is otherwise a significant risk to the Council's borrowing requirement and future revenue budget.

51. The Council's proposed approach to utilisation of capital receipts, as set out in the 2019/20 Budget Report, is summarised below:
    - Prioritise receipts required to meet the balance of the £40 million target for General Fund Capital Receipts (net of fees) assumed in the 2018/19 – 2022/23 Capital Programme.
    - Receipts in excess of target to be considered to reduce the level of debt
    - Where an asset has been funded specifically from prudential borrowing, any receipt arising from it would be used to reduce future repayments.
    - To limit the earmarking of capital receipts to capital expenditure essential to secure a disposal, or where approved by Cabinet as ring-fenced for specific projects of strategies.

Developing the Capital Programme 2020/21 to 2024/25

52. In the context of the challenges outlined above, the Capital Strategy 2019/20 framed the approach to affordability of capital financing budget in the medium term, as set out below:

Area	Approach
General Fund	Additional investment funded by borrowing over the medium term to be minimised unless approved on an invest to save / invest to earn basis.
Housing Revenue Account	Increasing over the medium term primarily as a result of implementing the Capital Ambition target of new affordable housing. Future rent policy will be key to affordability.
Strategic & Major Development Projects	To create an affordable revenue budget envelope to cover capital costs arising from approved business cases.

53. In line with this approach, in updating and formulating the five-year Capital Programme for 2020/21 to 2024/25, it is proposed that wherever possible, emerging pressures should be managed and prioritised within the resources allocated in the current Capital Programme. The approach to formulating investment priorities will be as follows:-

- Directorates consider whether existing commitments remain essential or can be reduced / deferred. This should include realistic appraisal of the capacity to deliver schemes.
- Consider ongoing affordability of the programme in the context of progress updates toward capital receipts targets.

- Any other expenditure requests to be considered in the context of external funding or robust ITS / ITE business cases.
- For 2024/25, the new year covered by the 2020/21 – 2024/25 programme, funding requests to undertake additional borrowing will only be considered where they relate to Asset Renewal for existing assets.
- HRA investment to remain within the legal cap and business plan affordability modelling, with new build schemes subject to individual viability assessments. Key to affordability will be WG approach to rent-setting.
- 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.

54. There are a number of key strategic projects, which the Council is considering in line with Capital Ambition. Due diligence and business cases in respect of these projects are being developed for Cabinet consideration during 2019/20. These projects include the development of an Indoor Arena in Cardiff Bay, Core Office Accommodation and the International Sports Village (ISV). Projects for Core Office Accommodation, the ISV and heritage buildings will seek to be self-financing.

55. The Indoor Arena may result in a number of different delivery and funding options. As these are yet to be confirmed, the 2019/20 Budget Report authorised an affordability envelope as part of the Budgetary Framework, in recognition that there may be some enabling costs to finance in the medium term. The principles of the affordability envelope are set out in detail in the 2019/20 Budget Report. However, in summary, up to a defined exposure, the envelope enables decisions to be taken that would commit future revenue budgets and affect the borrowing requirement. Triggering the affordability envelope would affect both the 2020/21 – 2024/25 Capital Programme and the MTFP, and is therefore an important ongoing consideration as the development of the 2020/21 Budget and Capital Programme progresses.

56. 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 financial liabilities that could arise from such investment. There must also be consideration of whether investment could be better made by, or together with, others.

Financial Resilience

57. Given the challenges identified, it is important to undertake regular review of the Council's financial standing and resilience. The snapshot included at Appendix 4 provides a high-level overview of the financial health of the Council at the time of setting the Budget Strategy for 2020/21. It reflects key past, present and future information, summarising key points from the draft

Statement of Accounts 2018/19, the 2018/19 Outturn Report, the risk profile of 2019/20 savings and the Budget Strategy reflected within this report.

58. The first column of the snapshot sets out the challenging historic context. Key points of note include:

Area	Issues Arising
Cumulative Savings	• Cumulative levels of savings over recent years are significant • This makes it more challenging to deliver further savings
Funding Sources	• With no real term increases in AEF, council tax is accounting for a larger proportion of the Council's overall funding • The "gearing" effect means that a 4.3% increase in Council tax is required to generate a 1% increase in overall funding (taking into account the impact on the CTRS)

Reserves	• Reserves are an important part of financial resilience. They provide a financial cushion and support a healthy cash position.
	• The unaudited 2018/19 Accounts show no change in the Council's General Reserve and a £8.1 million net reduction in Earmarked Reserves (from 10.5% to 8.8% of net budget.)
	• A reduction in earmarked reserves can be cause for concern if unplanned. However, this was not the case, and significant draw-downs in 2018/19 included:
	    • £2.2 million (net) from SOP reserve to support the costs associated with the 21st Century Band B Programme.
	    • £2.4 million from various reserves to fund the budget (as planned in the 2018/19 Budget Report).
	    • £0.9 million used from employee changes reserve to fund redundancy costs.
	    • £2.7 million (net) from HRA reserves. Whilst this was larger than anticipated in relation to some areas, including the housing repairs account, the position is being kept under close review in 209/20.
	    • £1.2 million net reduction in schools balances. This needs to be read in the context of the late receipt of a building maintenance grant (£1.4 m) in 2018/19, which artificially inflated the year-end balance. Also, during 2018/19, the Council directed some schools to spend their balances where they had exceeded local thresholds for three consecutive years.
	• The Budget Strategy currently assumes a lower use of reserves as general budget funding in 2020/21 (£0.75 million.) This sum can be accommodated from the Strategic Budget Reserve, which is held for this purpose. This assumption will be kept under review.

Other Financial Indicators	• Indicators that consider long term borrowing in relation to both long term assets, and to taxation, have remained at consistent levels and do not highlight any cause for concern • In 2018/19, working capital as a percentage of gross revenue expenditure has reduced. 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 access short-term borrowing, this measure acts as an indicator of how an authority measures its short-term finances. Whilst there is a reduction in the indicator in 2018/19, it is still at a healthy level, consistent with prior years, allowing the Council to cover day-to-day expenditure.

59. The middle column of the snapshot outlines the 2018/19 outturn position and the level of savings achieved in 2018/19. The snapshot shows that the 2018/19 outturn position was balanced overall, but with a £5.4 million over-spend at a directorate level. This was offset by the Council's £3 million general savings contingency along with underspends in other areas, a small surplus on Council Tax and NDR refunds.

60. The delivery of delayed savings in addition to those included in the 2019/20 Budget is a key risk that will be monitored closely as the current financial year progresses. The 2019/20 Budget wrote out £53,000 of prior year savings deemed to be unachievable and realigned particular pressures in relation to Social Services which were a significant factor in the £5.4 million directorate overspend. The achievability risk associated with 2019/20 savings is also included 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.

61. 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.

Reasons for Recommendations

62. To seek Cabinet approval for the Budget Strategy in respect of 2020/21 and the MTFP.

63. To note the Budget Timetable Framework and forward this to Council for approval.

64. To seek approval to request expressions of interest from officers in respect of the voluntary redundancy scheme.

<u>Legal Implications</u>

65. 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. It is important that Members take note of the statements made by the Section 151 Officer in this regard.

66. The report provides that the proposed Budget Timetable framework for 2020/21 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.

67. 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 has been / is taken of the likely impact of decisions in terms of equality and discrimination.

68. The Well-being of Future Generations (Wales) Act 2015 requires the Council to consider how its proposals will contribute towards meeting the well-being objectives set out in the Corporate Plan. Members must also be satisfied that budget proposals comply with the sustainable development principle, which requires that the needs of the present are met without compromising the ability of future generations to meet their needs.

69. Further legal advice on specific issues will be provided as part of the proposed budget preparation.

Financial Implications

70. The financial modelling assumptions and implications are set out in the detail of the report.

HR Implications

71. 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 ways of working 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.

72. Given the level of savings required in 2020/21 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.

73. 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 budget savings 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 service proposals 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.

74. The Council's Voluntary Redundancy Scheme is always available. 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.

75. Initial Trade Union consultation has taken place on this report. A Trade Union Partnership Meeting has been established and meets 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 2020/21 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.

Cabinet Consideration

76. The Cabinet considered this report on 11 July 2019 and resolved that:

(1) the budget principles on which this Budget Strategy Report is based and the approach to meeting the Budget Reduction Requirement both in 2020/21 and across the period of the Medium Term Financial Plan within the context of the objectives set out in Capital Ambition be agreed.

(2) 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 £25 million for 2020/21 and £101 million across the period of the Medium Term Financial Plan.

(3) Authority be delegated to the Chief Executive, in consultation with the Leader and Cabinet Member for Finance, Modernisation and Performance, to implement any saving proposal in advance of 2020/21 where no policy recommendation is required or where a policy decision has already been taken.

(4) It be noted that work will continue to update and refresh the MTFP and that this will be reported to Members as appropriate.

(5) expressions of interest be sought from officers in respect of the voluntary redundancy scheme, in order to support the delivery of savings required in the report.

(6) consultation on 2020/21 budget proposals take place in order to inform the preparation of the draft 2020/21 Budget.

CABINET PROPOSAL

Council is recommended to agree the Budget Timetable Framework set out in Appendix 2 be adopted, and that the work outlined be progressed with a view to informing budget preparation.

The Cabinet
11 July 2019

The following Annexes are attached:

Annex 1: Medium Term Financial Plan

The following Appendices are attached:

Appendix 1: Budget Strategy Frequently Asked Questions
Appendix 2: Proposed Budget Timetable Framework 2020/21
Appendix 3: Key Schemes within the 2019/20 – 2023/24 Capital Programme
Appendix 4: Finance Resilience Snapshot

Background Documents

2019/20 Budget Report – February 2019
Capital Strategy 2019/20
Chancellor's Spring Statement 2019: https://www.gov.uk/government/topical-events/spring-statement-2019