Annex 1

Cardiff Council

Medium Term Financial Plan

2021/22 – 2024/25

Contents

Section 1. Introduction

1.1 Aims and Purpose of MTFP

The Medium Term Financial Plan (MTFP) forecasts the Council's future financial positon. Preparation of an MTFP is good financial practice. In particular:

- It helps ensure that the Council understands, and can prepare for, the challenges in setting a balanced budget.
- It encourages discussion about the allocation of resources, helping to ensure they are directed towards delivering core responsibilities and policy objectives.
- It is an important part of understanding the Council's financial resilience, helping to protect the Council's long term financial health and viability.

1.2 Governance

The MTFP process is an integrated part of the Council's financial planning framework. It closely aligns with other key aspects of the financial planning process, including the Council's Capital Strategy.

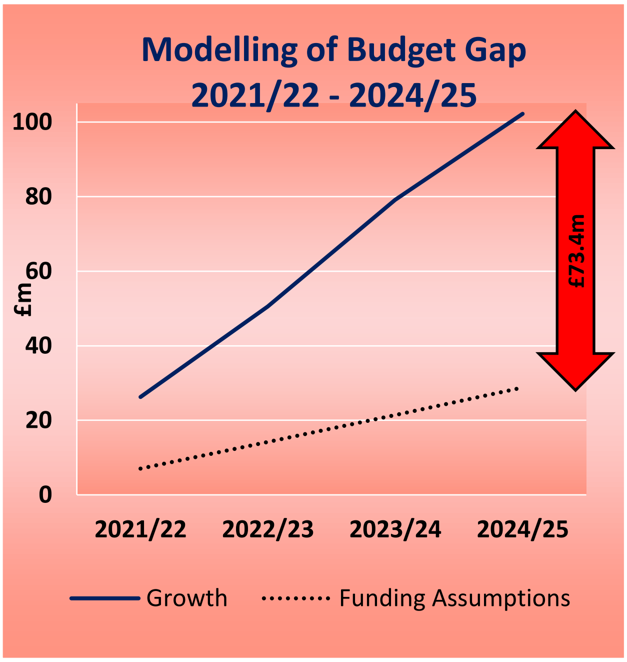
Development of the MTFP is an iterative process. Regular review is required to ensure it reflects most recent information and captures emerging issues. Elected Members and Senior Management are engaged in the process through a series of regular briefings, to scope, inform and scrutinise the plan.

The transition from high-level planning principles, to detailed budgets that align with the Council's priorities, is shaped by Elected Members with support and advice from senior management. As proposals develop, engagement is extended to a wider range of partners including citizens, Scrutiny, staff, School Budget Forum and Trade Unions. Consultation feedback is considered as part of the finalisation of annual budget proposals.

The MTFP is formally reported as part of the Council's Budget Report each February, and Budget Strategy Report each July.

1.3 MTFP Overview

In light of the positive 2020/21 Local Government Financial Settlement, the updated MTFP reflects more optimistic funding assumptions than previously used. However, this position is uncertain and will need to be kept under close review. Even with a more positive funding outlook, the MTFP still estimates a budget gap of £73 million over the period 2021/22 – 2024/25.



"Budget Gap" is the term used to describe the difference between the funding the Council expects to receive, and the estimated cost of continuing to deliver services at the current level. Put simply, the budget gap is a result of funding failing to keep pace with demand, inflation and other financial pressures.

Section 2. Key Considerations

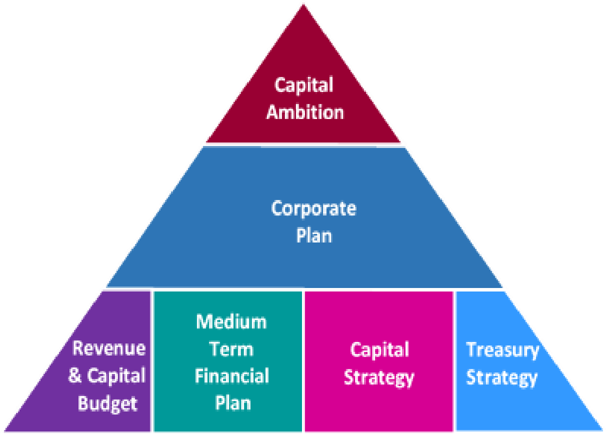
2.1 Council Priorities

The policy programme, Capital Ambition, sets out the Administration's priorities and principles for change. The Corporate Plan, "Delivering Capital Ambition", sets out how the Administration's priorities will be achieved. Key priorities and objectives are summarised below.

Capital Ambition	Corporate Plan
Working for Cardiff	• Cardiff is a great place to grow up • Cardiff is great place to grow older • Supporting people out of poverty • Safe,empowered communities
Working for Wales	• A Capital City that works for Wales
Working for the Future	• Cardiff Grows in a resilient Way
Working for Public Services	• Modernising and Integrating our Public Services

The Corporate Plan is consistent with wider local and national goals that support long-term sustainability. It is aligned with the Cardiff Well-being Plan, which contains the shared well-being objectives of Cardiff Public Services Board. These complement Wales' National Well-being Goals, which focus on creating a more sustainable Wales.

The Council's financial strategy documents, including the Budget, MTFP, Capital and Treasury Strategies, are framed by the above priorities and objectives.



This ensures that resources are spent in line with priorities and that financial strategy supports long-term sustainability, in line with the Council's duties under the Well-being of Future Generations (Wales) Act 2015.

Implications for Financial Planning

The MTFP needs to reflect the revenue funding requirements of Capital Ambition, including where applicable, the financing requirements of the capital investment needed to deliver the Administration's priorities.

In addressing the medium term budget gap, savings will be required. There will be a need to continue to ensure that scarce resources are allocated in a way that maximises priorities.

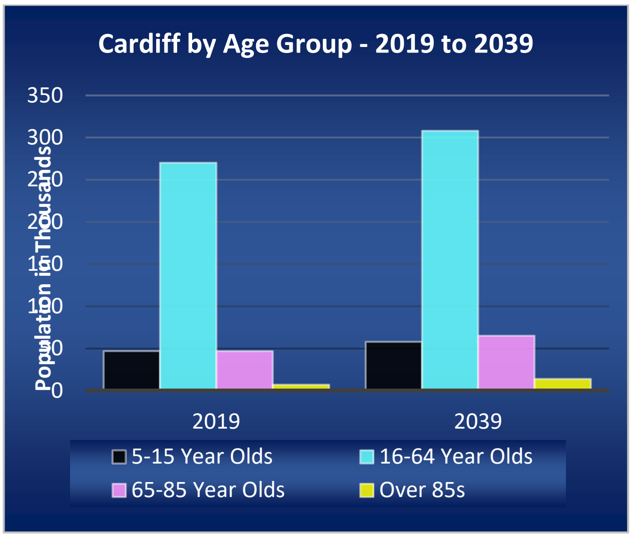
2.2 City Demographics

This section sets out the demographic profile of the city and its implications for financial planning.

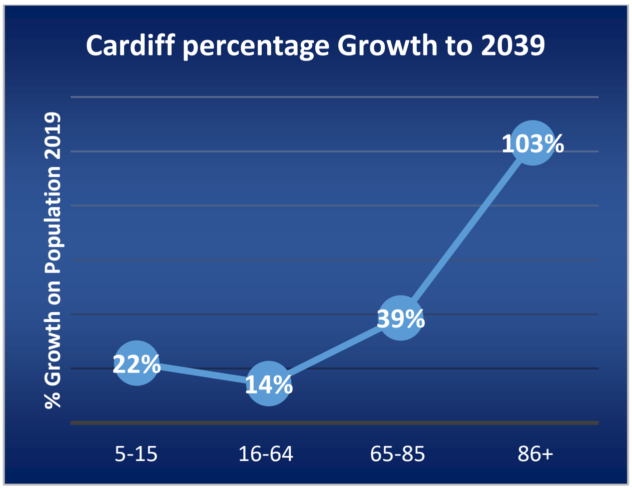
Population

As of 2018, Cardiff had a population of 364,000. Between 2008 and 2018, its population grew by 9.5%. This trend is set to continue with projected growth of 20% between 2019 and 2039. This will mean an extra 74,000 people living in the city by 2039.

Section 2. Key Considerations



Whilst growth is expected in all age groups, it is steeper within the under-18 and the over-65 age brackets. By 2039, the over-85 population is expected to double from its 2019 level.



Implications for Financial Planning

A growing city places greater demand on Council services, including housing, education, environment and social care.

Steeper growth in the under-18 and over-65 age brackets will mean continued demand on social services and education.

Education

In a city with a rapidly growing population, there will be increased demand for schools. With the existing system running at near full capacity, investment will be required to build new schools and to refurbish and improve existing accommodation.

This investment is being taken forward as part of the 21st Century Schools Band B Programme, along with programmed asset renewal works. New schools will also be developed in connection with the Local Development Plan (LDP).

Implications for Financial Planning

The cost of financing works and future operating costs will need to be reflected within forecast financial pressures.

Housing

Cardiff's LDP is a 20 year Plan from 2006 - 2026. It set a target for 41,000 additional homes by 2026. The Council also has an ambitious Housing Strategy to build affordable, high quality, energy sustainable homes.

Implications for Financial Planning

The financing costs of the Council's house building programme are captured in the Housing Revenue Account (HRA) business plan (as the HRA is a ring-fenced account.) From a general fund perspective, planned growth in housing will mean that new communities will exist. These will need the support of Council services, such as waste collection and schools. Demand for these services will require careful modelling, including the extent to which costs may be offset by additional Council Tax from more dwellings. There is a need to gauge how demand for services in new communities, including school places, might affect demand in other parts of the city.

Employment

The city economy is growing and jobs and businesses are being created. However, there are large disparities in unemployment levels across the city and there is in-work poverty.

Section 2. Key Considerations

Just over a fifth of people in employment earned less than the Real Living Wage (RLW). The RLW is an independently calculated hourly rate of pay, set to cover the basic cost of living. It is paid voluntarily by more than 4,700 UK business and organisations. Cardiff Council is a RLW employer and an advocate of the RLW in the city.

Implications for Financial Planning

Financial forecasts will need to consider future Real Living Wage rates, both as an employer and procurer of services within the city.

Deprivation

The 2018/19 National Survey for Wales indicates that 16% of people aged 16 or over in Cardiff live in households in material deprivation, which is slightly above the Welsh average of 14%. However, there is significant disparity across the city in terms of deprivation. The Wellbeing Plan notes that if the Southern Arc of Cardiff were a local authority in its own right, it would be by far the most deprived in Wales

Implications for Financial Planning

Policies to tackle poverty will need consideration in financial planning. These include the capital financing implications of the provision of affordable housing (HRA), making Cardiff a Living Wage City, together with a continued focus on education. Pressures on the homelessness service will be kept under review in terms of potential cost pressures.

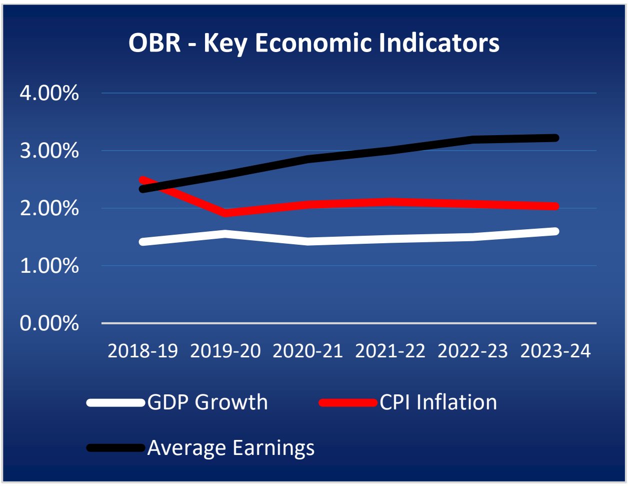
2.2 Economic and Financial Outlook

Local financial planning is linked to the wider economic and financial context.

UK Context

The Office for Budget Responsibility (OBR) produce medium term forecasts for key economic indicators. Latest published forecasts (March 2019) predicted that:

- Gross Domestic Product (GDP) will grow steadily between 1.4% - 1.6% per annum
- Inflation (CPI) is forecast to remain fairly steady at about 2.0% per annum between 2020 and 2023
- A steady increase in Average Earnings.



At December 2019, inflation (CPI) stood at 1.5% compared to 2.3% as at November 2018. Wages are anticipated to rise faster than prices.

Implications for Financial Planning

In theory, relatively stable forecasts of inflation between 2020/21 and 2023/24 should provide a degree of planning certainty.

General wage growth and the easing of restraints on Public Sector pay awards will mean additional financial pressure for the Council, both terms of its own workforce, and external spend, as suppliers pass on costs.

<u>The economic implications of Britain leaving the EU are still an unknown in these forecasts.</u>

Britain leaving the European Union

Despite Britain leaving the EU on 31st January 2020, there is uncertainty regarding the impact on the economy and public finances due to the lack of clarity regarding the future relationship with the EU and any other future trade deals.

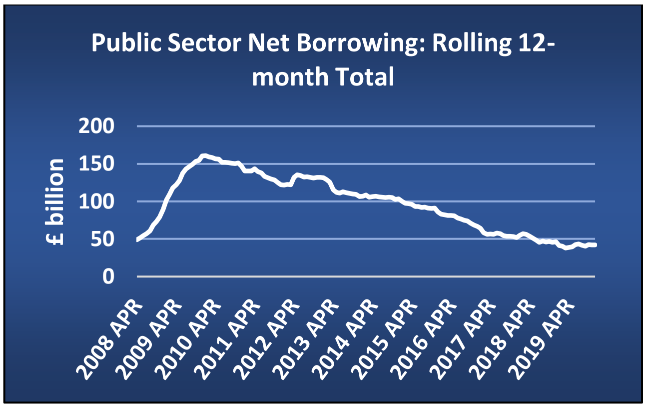
Section 2. Key Considerations

Implications for Financial Planning

The Council continues to consider potential implications and necessary actions, however at this stage it is not deemed appropriate to allocate additional resources to the issue.

Public Sector Net Borrowing

The level of Public Sector Net Borrowing (PSNB) influences UK public spending policy. Austerity has been a result of a targeted reduction in PSNB. Public Sector net borrowing (PSNB) as of December 2019 is 80.8% of Gross Domestic Product (GDP), 0.9% of GDP lower than a year earlier, although in absolute terms there was a slight increase in the first nine months of 2019/20.



Implications for Financial Planning

The position is uncertain, in terms of both the future economy, and its implications for spending on public services.

There will be a UK Budget on 11th March 2020. This will provide further clarity to the fiscal policy of the newly elected UK Government and its potential implications for the Welsh Block Grant.

Welsh Context

Due to uncertainty at the UK level, the WG Budget covers one year only which means the Council has no indicative funding figures beyond 2020.

Estimating funding is extremely difficult; national economic uncertainty may affect public spending generally, and funding distribution decisions must be made by both Westminster and Welsh Government before funding reaches individual Welsh Authorities.

Wales Fiscal Analysis (WFA) is a research body within Cardiff University's Governance Centre. It undertakes independent research into the public finances, tax and expenditure of Wales. WFA have modelled potential future levels of the Welsh Block Grant based on Conservative manifesto pledges. This modelling suggests that if the WG continued to allocate 2.7% real term annual increases to the NHS, the rest of the Public Sector may see a small increase (or remain flat) in real terms. The Council's assumptions on what this could mean for AEF are set out in the next section.

This modelling is set in the context of significant uncertainty and will need to be reviewed following the UK Budget in March 2020.

A number of taxes are devolved to WG control including landfill disposal tax, Non-Domestic Rates (NDR), land transaction tax and Welsh Income Tax. Whilst WG has the power to vary taxes, the current administration have pledged not to change income tax rates prior to the 2021 election.

2.2 Council Financial Context

Historic Context

Over the past 10 years, the Council has identified almost £225 million in savings and lost over 1,600 full time equivalent posts in services other than schools.

Section 2. Key Considerations

The sharp increase in savings from 2014/15 onwards coincides with a marked deterioration in general grant allocations.

Whilst Cardiff has not seen a ***cash*** reduction in AEF since 2015/16, until 2020/21 there were annual real term reductions. AEF has not kept pace with the level of inflationary and demand pressure that the Council has experienced.

Implications for Financial Planning

This context makes it more challenging to continue to deliver material levels of savings over the medium term. The Council's financial resilience will continue to be kept under close review.

Impact on the Council's Budget

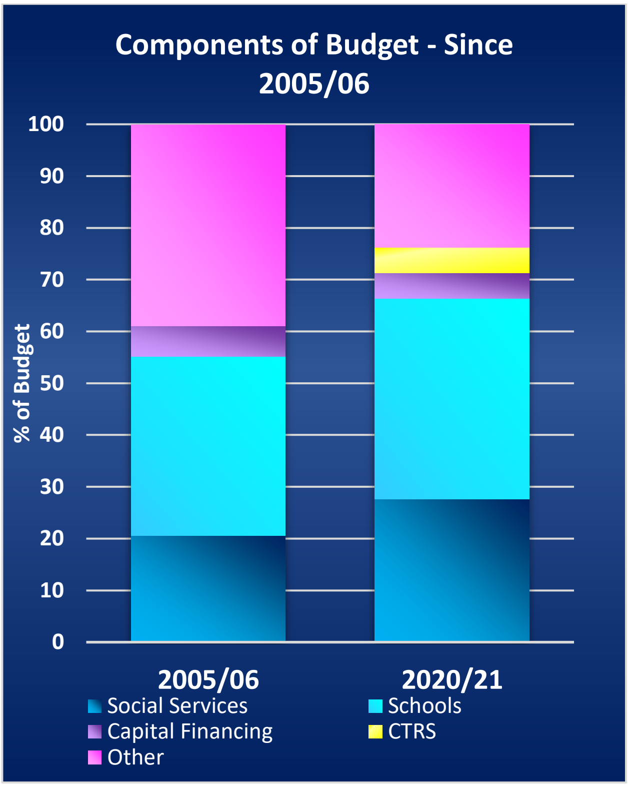
The extended period of financial challenge has had a significant impact on the *shape* of the Council's budget. Some directorate budgets have contracted significantly and others have grown.

Demand and price pressure has been acute in the areas of Social Services and Schools. Over the period 2016/17 – 2020/21, budgets in these areas have increased by £83 million.

Year	Schools £m	Social Services £m	Total £m
2016/17	11.2	4.1	15.3
2017/18	7.2	9.2	16.4
2018/19	7.4	8.4	15.8
2019/20	10.4	4.1	14.5
2020/21*	10.4	10.6	21.0
TOTAL	**46.6**	**36.4**	**83.0**

**proposed*

Until 2020/21, with no real term AEF increases to help meet this demand, it was primarily financed from savings in other directorates, causing those budgets to contract significantly over time.



The "Other Services" budget includes all Council services with the exception of Schools and Social Services. For example, it includes highway maintenance, waste collection, parks and homelessness. It contains areas of statutory duty.

Implications for Financial Planning

The City Demographics section showed that pressure on Schools and Social Services is unlikely to ease over the medium term.

In the past, meeting this pressure has been primarily from savings in other directorates. It will be increasingly untenable for this to be the case over the medium term.

As outlined in the next section, the 2020/21 Local Government Settlement is the most positive for a number of years.

The 2020/21 Budget has been recognised as an opportunity to consolidate financial resilience, following the extended period of challenge outlined above, and moving into the ongoing challenge forecast in the next section.

Section 3. Medium Term Financial Plan

3.1 Forecast Financial Position

The Council's forecast financial pressures, funding and resultant £73 million budget gap are set out below.

		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
	Base Budget Brought Forward	**656,186**	**663,222**	**670,363**	**677,611**
Schools	Pay Costs	6,366	6,178	6,237	6,264
	Price Inflation	75	75	75	75
	Pupil Numbers (Primary and Secondary)	1,789	1,208	1,071	713
	Special School Places / Resource Bases	928	756	929	919
	Complex Needs Enhancement	750	750	750	750
	Local Development Plan – Starter Schools	716	797	859	590
	Contribution to Band B & Asset Renewal	(1,090)	(1,090)	(1,090)	(1,090)
	Total Schools Pressures	**9,534**	**8,674**	**8,831**	**8,221**
Social Services	Pay Costs	950	969	990	1,009
	Price Inflation	2,561	2,123	2,224	2,326
	Commitments	464	(132)	(53)	0
	Demographic - Adult Social Services	1,405	1,427	1,449	1,471
	Demographic - Children's Social Services	2,175	2,175	2,175	2,175
	Total Social Services Pressures	**7,555**	**6,562**	**6,785**	**6,981**
Other Services	Pay Costs	2,270	2,279	2,343	2,384
	Price Inflation	730	480	480	730
	Commitments	1,338	1,486	538	788
	Demographic Growth	100	100	100	100
	Total Other Services Pressures	**4,438**	**4,345**	**3,461**	**4,002**
	Capital Financing	**1,717**	**1,660**	**6,603**	**842**
	Emerging Financial Pressures	**3,000**	**3,000**	**3,000**	**3,000**
	Resources Required	**682,430**	**687,463**	**699,043**	**700,657**
	Resources Available:				
	Aggregate External Finance	(476,083)	(483,224)	(490,472)	(497,829)
	Council Tax before any future increases	(186,389)	(186,389)	(186,389)	(186,389)
	Earmarked Reserves	(750)	(750)	(750)	(750)
	Total Resources Available	**(663,222)**	**(670,363)**	**(677,611)**	**(684,968)**
	BUDGET REDUCTION REQUIREMENT	**19,208**	**17,100**	**21,432**	**15,689**

3.2 Pressures Key Assumptions

Employee Costs

Pay Awards

There are no agreed pay awards for the period covered by the MTFP. The plan contains the following assumptions:

- Teachers' Pay Award - 2.5% per annum
- NJC Pay Award - 2% per annum

The plan allows for increases slightly higher than 2% per annum for NJC staff on spinal points affected by the voluntary living wage.

National Insurance

No significant changes to National Insurance rates or thresholds are anticipated. This position will be kept under review.

Employer's Superannuation Contributions

Actuarial review of the Local Government Pension Scheme took place during 2019/20. Resultant changes in Employers' contributions are reflected in the 2020/21 budget. The results of the next actuarial review could affect the final year of the MTFP, however at this stage, it is reasonable to assume no further change in contribution rate.

The Teachers' Pension Scheme (TPS) is an unfunded public service pension scheme. Employers' contributions to the scheme increased significantly in September 2019 due to an actuarial review and change in the discount rate used to set scheme contributions. At present, the MTFP reflects no further changes, but this position will need to be kept under close review. The Sept 2019 changes resulted in additional annual costs of over £7m for Cardiff Council.

Incremental Pay Progression

Forecast pay pressures include an allowance for teachers' pay progression. Estimates are reduced year on year, in recognition that over time, budgets should be sufficient to cover the top of each pay grade. No pressures are anticipated in respect of pay progression for non-teaching staff for this reason.

Apprenticeship Levy

Forecast pay pressures allow for the Council's Apprenticeship Levy to increase in line with general pay uplifts. The Apprenticeship Levy is a Government levy payable by larger employers at 0.5% of annual pay bill.

Redundancy Costs

In times of financial challenge, savings requirements mean that redundancy costs are an important consideration in financial planning. The Council has a base budget and earmarked reserve set aside to meet these costs. Financial forecasts include potential redundancy costs over and above existing provision.

Price Inflation

The Council's budgetary policy is that directorates manage price inflation within existing resources, except in exceptional circumstances. These may relate to the scale of the increase, or the quantum of the budget to which the increase applies.

Areas deemed exceptional and included as forecast price pressures include out of county placement costs, NDR, Social Services commissioned care costs and energy.

Where appropriate, forecast increases are in line with the OBR's estimate for CPI as outlined in the table below. However, consideration is also given to other key cost drivers in the services being commissioned, including for example wages.

2020/21	2021/22	2022/23	2023/24
2.00%	2.10%	2.10%	2.00%

Commitments

Forecast financial commitments include capital-financing costs, increases to levies the Council is committed to paying and the future implications of previous Cabinet or Council decisions. Further detail on each area is set out below.

Capital Financing Costs

Forecast capital-financing costs reflect the 2020/21 – 2024/25 Capital Programme and the cost of commitments made in previous years. They reflect the following key assumptions:

- No new commitments funded by additional borrowing unless on an invest to save basis
- The timing and delivery of expenditure will be as profiled in the capital programme
- The assumed interest rate for new borrowing is 3.5%
- Capital receipt targets will be met
- The timing and method of managing borrowing repayments will be as set out in the Treasury Management Strategy
- There will be one pool of debt for the General Fund and HRA. This will be a subject of review during 2020/21.

Levies

Forecast financial commitments include estimated increases to levies and contributions. The most significant of these is the South Wales Fire Services (SWFS), with a current Council contribution level of over £17 million.

The budget for the SWFS is levied across constituent local authorities on a population basis. Estimates allow for the Council's future levy to increase both as a result of population increases and due to potential increases to the SWFS' overall budget.

Other Commitments

These include:

- Additional base budget funding for the Council's Corporate Apprentice Scheme in 2022/23, which is when remaining reserve funding will be almost fully depleted.
- Revenue funding associated with the procurement of a new refuse vehicle fleet.
- Funding for homelessness to reduce reliance on the earmarked reserve.
- The operating costs of a Household Waste Recycling consistent with the timescales in the capital programme.
- The potential for market supplement arrangements for Children's Social Workers to be extended beyond 2020/21.

Climate Emergency

In March 2019, the Council declared a climate emergency. The Council is investing in a number of initiatives to decarbonise the city with many of these reflected in the Capital Programme including LED lighting, energy efficiency housing, electric vehicles and charging points. The capital financing of schemes within the programme is reflected in the MTFP. Any further investment will need to be considered as part of the refresh of the MTFP.

Demographic Pressures

As outlined in the section on City Demographics, population growth is expected to continue, with faster growth in the under-18 and over 65 age brackets.

The key areas of forecast demographic growth, and the associated financial impact over the period 2021/22 – 2024/25 are summarised below:

Demographic Increases	£m
Adults Social Services	5.8
Children's Social Services	8.7
Pupil Numbers	6.4
Additional Needs of Pupils	4.9
Local Development Plan - Schools	2.9
Other	0.4
TOTAL	**29.1**

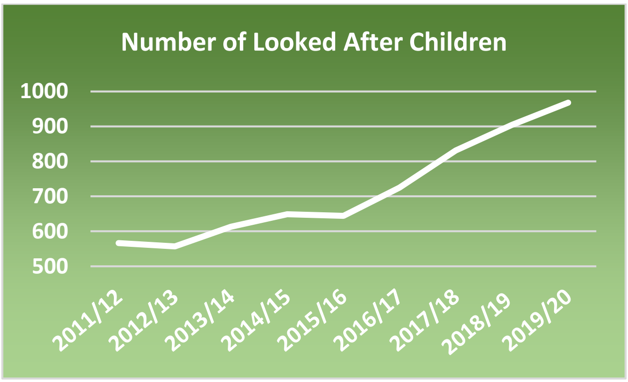
Adults Social Services

Estimated growth in Adult Social Services takes into account, projected growth in relevant areas of the population. It estimates the impact on commissioning budgets if demand (as a percentage of the overall population) were to remain consistent.

In practice, directorates have preventative strategies and early intervention work in place that should help manage this demand over the medium term, and this will be reflected as part of the Council's strategy to address the budget gap.

Children's Social Services

Estimated growth in Children's Services is more difficult to predict. The number and complexity of care packages for looked after children can vary significantly year on year. The graph below sets out annual increases in looked after children since 2011/12.



Financial forecasts currently include £2.2 million per annum to reflect potential growth in Children's Services. This assumes some flattening of the recent trend line as preventative measures currently being implemented by the directorate take effect.

Pupil Numbers & Associated Learning Needs

Pupil number projections reflect the existing pupil population moving up a year group each year. They are adjusted to take account of historic retention rates. New pupils starting nursery each year are modelled using published birth rate data.

Up until September 2023, projections show a continued reduction in primary pupil numbers and an increase in secondary pupils. Following this, the recent fall off in primary numbers begins to feed through into secondary schools.

Costs associated with the Associated Learning Needs (ALN) of pupils are more difficult to model. As well as estimating future predicted demand, there is also a need to consider complexity of need as different types of support have different costs. ALN forecasts are based on estimates by the Education directorate and take into account historic and projected pupil population information. They will be regularly reviewed to take account of most recent information.

Future operating cost of schools in LDP areas are difficult to predict and subject to change. At present, forecast figures assume that schools will begin to open in LDP areas from September 2021. Each new school may take a different form, with some being starter schools, which refer to schools that begin with reception and year one groups only and then grow year on year, and others offering places in all year groups from the outset. Assumptions are high level and will need refinement as development within the city progresses and demand for school places becomes clearer. There will also be a need to gauge whether the take up of school places in LDP areas affects demand in other areas of the city.

Emerging Financial Pressures

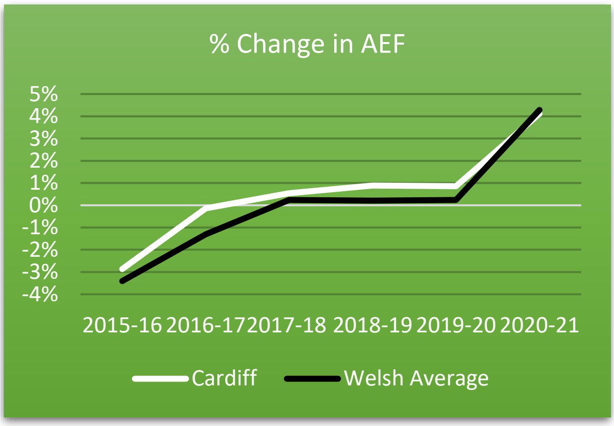
Forecast financial pressures include £3 million per annum to address emerging financial pressures, which equates to approximately 0.5% of the Council's net budget. This reflects the fact that it is impossible to foresee all issues and that in reality, additional burdens may arise over the next five years, through changes such as new legislation, unforeseen demand, policy change, and specific grant fall out.

The inclusion of a figure against emerging issues provides a margin of headroom within the medium term strategy, avoiding the need to identify additional savings proposals at short notice. Sums included for emerging pressures are kept under regular review and would be removed from plans in the event they are no longer considered necessary.

3.3 Funding Key Assumptions

Aggregate External Finance (AEF)

The 2020/21 Local Government Finance Settlement was for one year only. The settlement was significantly more positive than for many years with a real term increase in funding for Local Government. At +4.1% Cardiff's increase was slightly below the Welsh average of +4.3%. The chart below models recent settlements (in cash terms).



Whilst settlements in recent years have seen marginal increases in cash terms, often the benefit was eroded by the inclusion of new responsibilities within the overall funding envelope. This means at least part of the additional cash, came with additional responsibilities.

In this context of the 2020/21 settlement, it would seem overly prudent to plan for negative settlements in the MTFP, as has previously been the case. On the other hand, it would not be appropriate to assume that future settlement will be as positive as 2020/21. The Ministerial letter accompanying the settlement even warned that the positive 2020/21 position "does not mean that austerity is over."

The section on key considerations noted that WFA modelling of the impact of Conservative manifesto pledges on the Welsh Block Grant suggested that if the NHS continued to receive real term increases in line with previous years, the rest of the public sector may remain flat in real terms.

Weighing up the considerations above, and in the absence of any indicative funding figures, the MTFP assumes annual AEF increases of 1.5%.

This is more optimistic than previous iterations of the Medium Term Financial Plan but does not assume increases at the level of 2020/21. It is more prudent than a real term cash flat positon, not least because, there is the potential for Cardiff's settlement to be below average. This is a result of a reset of population figures within the formula, and was the reason for Cardiff's below average settlement in 2020/21.

If indicative funding is worse than these planning assumptions, there may be a need to identify significant additional savings at short notice. This could pose a material risk to the Council's financial resilience, as the achievability risk associated with such savings is likely to be high.

In order to address this risk, the Council has a £3.8 million base budget called a Financial Resilience Mechanism (FRM.) It is used to invest in priority areas, but that investment must be one-off and decided afresh each year. This means that the budget is used proactively, but could be deleted without affecting day-to-day services if required.

Reserves

In the interests of financial resilience, reserves should not be heavily relied upon to fund the budget. This is because:

- Reserves are cash sums and their use to fund the budget creates a gap in the finances of the following year.

- Earmarked reserves are set aside for a particular purpose.
- Reserves are an important part of financial resilience, providing a cash buffer.
- Cash in reserves is not idle; it generates investment income in line with the Treasury Management Strategy and avoids the need for short-term borrowing.
- The level of reserves held by Cardiff Council may be considered to be just at an adequate level for an Authority of this size. As a percentage of gross revenue expenditure, Cardiff has one of the lowest levels of reserves compared to other Welsh Authorities.

Funding forecasts assume that £0.75 million will be used from reserves to support the budget each year between 2021/22 and 2024/25. Together with the 2020/21 sum of £0.75 million, this means a total of £3.75 million will be used from reserves to support the budget over five years.

The Council has a Strategic Budget Reserve to support the medium term and any opportunities to increase that reserve at year-end will be taken. In addition, there is an annual review of reserves, and amounts will be released where they are no longer required for the purpose originally intended.

The proposed use of reserves is considered to strike an appropriate balance between the points set out at the start of this section, with the need to support services in times of financial pressure. These assumptions will be kept under review.

Grant Funding

Specific grants must be used for a particular purpose, which is defined by the grant provider. The funding may only be used for that purpose, and the Council is audited to ensure compliance. The Council receives a significant amount of specific grant funding, notably from WG.

Over an extended period, Welsh Local Government have pressed WG for "funding flexibility." This means that wherever possible, funding should be directed through AEF. As well as providing more flexibility for Local Authorities, this would also reduce administrative burdens.

There has been a tendency in recent years, for WG to direct additional funding for Local Government through specific grants. Examples of this have included Teachers' Pay and support for Social Services pressures. These grants support day-to-day operational pressures, as opposed to WG policy initiatives.

From a financial planning perspective, there is a risk that specific grants may reduce in cash or real terms, or be discontinued altogether. This risk increases where grants are supporting core activity. Whilst still a challenge where grants support specific initiatives, there is at least an opportunity to review whether those initiatives should continue.

The Council has a budget of £250,000 to deal with in-year specific grant funding issues. In addition, the MTFP reflects anticipated reductions to specific grant streams, where failure to do so could ultimately result in a larger cost, such as a fine. Beyond this, the MTFP is based on the assumption that any future specific grant reductions would be dealt with by:-

- Reviewing the grant funded activity
- Providing transitional funding through the FRM, (if it is still available)
- Providing funding through the sum included within the MTFP to meet emerging financial pressures.

Section 4. Addressing the Gap

4.1 Budget Gap

The estimated budget gap for the period 2021/22 – 2024/25 is set out below:

2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
19.2	17.1	21.4	15.7	73.4

This will need to be addressed through a combination of savings, income generation and Council Tax increases.

4.2 Council Tax

Council Tax accounts for 28% of the Council's general funding. This means that in order to generate a 1% increase in overall funding, Council Tax would have to increase by almost 4%. This is called the gearing of the tax. The Council has little control over the majority of its funding, which is through Welsh Government Grant.

Technical variables that must be considered when setting the Council Tax include:

- The Council Tax Base of the Authority
- Council Tax Support Budgets
- The level of the Council Tax

Council Tax Base

The Council Tax Base is the number of Band D equivalent properties in the city. In simple terms, it reflects the number and type of dwellings in the city, and takes into account if they may be eligible for Council Tax discounts or exemptions. Local Authorities use the Council Tax Base to calculate how much Council Tax they expect to generate.

Whilst other factors affect the Council Tax Base, broadly speaking, property development in an area usually means that the Council Tax Base will increase, generating more Council Tax income. Whilst there is the potential for the Council Tax Base to increase over the medium term given anticipated development in the city, budget strategy is not to pre-empt these increases within MTFP. This is because an increase in Council Tax Base often results in a reduction in AEF.

Council Tax Support Budgets

The Council pays Council Tax support to eligible recipients under the Council Tax Reduction Scheme (CTRS). The current annual budget is over £30 million.

The CTRS Budget must be considered when projecting future Council Tax income. If eligibility for Council Tax Support remains consistent; an increase in the rate of the Council Tax will place additional pressure on the CTRS Budget. This is because support must be paid at the new, higher rate. Figures quoted in the next section are net, in that they take into account the associated impact on the CTRS Budget.

The level of the Council Tax

In addressing the budget gap, it is assumed that Council Tax will increase by 4.0% per annum. An annual 4.0% increase would contribute the following amounts to addressing the budget gap:

2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
6.1	6.3	6.6	6.9	26.0

The assumption of annual 4.0% increases is not fixed, and will be kept under review over the medium term.

4.3 Savings Requirement

The residual budget gap to be met from savings after taking into account assumed Council Tax increases is:

2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
13.1	10.8	14.8	8.8	47.4

In addressing this gap there will be a need to:

- Capture the full financial benefit of the significant amount of early intervention and preventative work ongoing across the Authority, in order to manage the pattern of future demand for Council services.
- Consider the level at which it is affordable to continue to subsidise services of a more discretionary nature.
- Continue to maximise income streams and explore the potential for new income streams, particularly where services are not universal.
- Continue to target efficiencies, including baseline efficiencies for *all* services including schools.
- Continue to undertake service reviews and to identify cross-directorate savings in areas such as corporate landlord functions and transport.
- Identify opportunities to work across directorates and in partnership with other organisations.
- Target productivity savings to ensure that optimum value for money is achieved within scarce resources, including making best use of digital technology.
- Consider how targeted capital investment may deliver revenue savings.

In developing detailed savings proposals for the medium term, there will be a need to work across directorate boundaries to review all elements of expenditure that the Council is able to influence. This will include working with delegated schools to identify efficiency opportunities in relation to the £254 million Schools' budget.

Further work on developing a fully defined set of proposals for these years and for 2021/22 in particular will take place over the spring in order to inform the 2021/22 Budget Strategy Report which will be considered by Cabinet in July 2020.

Section 5. Risk and Uncertainty

4.1 Sensitivity Analysis

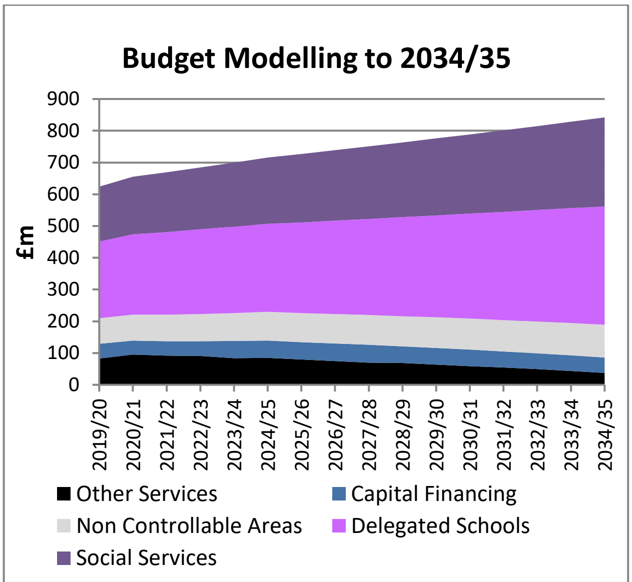
Current MTFP assumptions are based on best available information. However, there is always a risk of change. The table below sets out areas of sensitivity and their potential annual impact.

Assumption	£m
AEF 1% worse than anticipated	4.7
Teachers Pay Award 1% higher	1.4
NJC Award 1% higher	2.3
CPI 1% higher (on permitted heads)	1.4
Total Annual Impact	**9.8**

If ***all*** these variables changed unfavourably, they could have a £9.8m adverse impact in any individual year. The cumulative impact across the MTFP would be £39 million. It is unlikely that ***all*** variables would shift unfavourably, but the scale of the impact if they did highlights the importance of regularly reviewing assumptions.

4.3 Longer Term Outlook

This graph models a potential long-term outlook for the Council's budget. It is difficult to model beyond the MTFP due to unknown factors, but the chart is an indication of how things may look in future if historic trends are extrapolated.



The graph shows the continued contraction of "Other Services" over the medium term albeit not as quickly as in previous iterations of the MTFP due to more favourable funding assumptions. As this contains areas of statutory duty, the strategy to address the gap will need to reshape this profile as far as possible.

4.4 Key Risks

The key risks associated with the MTFP are recapped below:

Funding	• Worse than predicted LG financial settlements. • The potential fall out of specific grants – especially where these support core activity. • Challenges in relation to capital funding and the associated implications for revenue budgets. These include the impact of additional borrowing beyond that reflected in the current programme.
Demand	• A demographic profile that suggests ongoing demand in Social Services and Education. • The difficulty of modelling complexity of demand, including in Children's Services and Additional Learning Needs. • Welfare Reform • The difficulty in modelling increased demand for services resulting from the LDP. • Homelessness
Uncertainty	• Brexit and its unknown socio-economic impact. • The March 2020 UK Budget and the subsequent outlook for public spending. • The potential for key assumptions in the MTFP to fluctuate.
Financial Resilience	• The medium term budget gap, particularly when viewed in the context of historic savings levels. • The shape of the Council's budget – with over 70% now accounted for by capital financing, Social Services and Schools. • Planned use of reserves to support the budget, which will need to be kept under review • The difficulties associated with predicting the cash impact of preventative strategies.