CARDIFF COUNCIL
CYNGOR CAERDYDD

CABINET MEETING: 17 SEPTEMBER 2020

BUDGET STRATEGY REPORT 2021/22 AND THE UPDATED MEDIUM TERM FINANCIAL PLAN

FINANCE, MODERNISATION & PERFORMANCE (COUNCILLOR CHRISTOPHER WEAVER)

AGENDA ITEM: 8

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 2021/22 revenue and capital budgets.

3. To outline the timetable that the budget process will follow in order to present the 2021/22 Budget to Council in February 2021.

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

General Background

5. The Medium Term Financial Plan (MTFP) included within the Council's 2020/21 Budget Report identified a potential budget gap of £73.4 million over the period 2021/22 – 2024/25. This Report updates the MTFP for more recent information. It outlines the 2021/22 Budget Strategy and associated timetable, and sets out the approach for rolling forward the Capital Programme. It also highlights considerations directly associated with the Coronavirus pandemic that will need to be kept under close review from a financial planning perspective in the coming months. Finally, it includes an assessment of the Council's financial resilience in the face of continued financial challenges and the unprecedented circumstances being experienced during 2020/21. (Annex 1 contains the Council's updated Medium Term Financial Plan whilst Appendix 1 provides an overview of the Budget Strategy 2021/22 in a question and answer format.)

Issues

6. Before 11 March 2021, 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 2021/22. This Report sets out a strategy and timetable in order to arrive at that position.

7. The external environment in which an organisation operates has a direct influence on financial planning. At present, economic, demographic, social and global considerations, (that is, all key external factors that influence budget setting) are fraught with uncertainty due to the Covid-19 pandemic.

8. The backdrop against which the 2021/22 Budget Strategy is being prepared is unprecedented. It will therefore be key to:

   - Reflect on significant economic uncertainties. These have the potential to affect key assumptions within the MTFP, including future funding levels, as well as pay, inflation and interest rates. Unemployment rates may also affect demand for services.
   - Continue to review all directorate operational considerations, so that no key factors are overlooked, due to focussing on the crisis.
   - Consider how the pandemic may affect service delivery over the medium term, beyond the economic factors already outlined above. Considerations range from the ongoing impact on services of public health measures, to demographic changes that may affect future demand for services.
   - Recognise that in developing the 2021/22 Budget, it will be more critical than ever to continually review and revisit assumptions, given the speed with which circumstances can change.

9. Updates to the 2021/22 Budget Gap are currently predicated upon a review of operational considerations, alongside a revision of core underlying assumptions to reflect the Covid-19 economic climate. This position is supplemented by a set of specific Covid-19 related financial risks that will require continual scrutiny in coming months, as set out in paragraphs 37-41.

Economic Context

10. The UK is currently in recession, which is defined as a reduction in Gross Domestic Product (GDP) over two consecutive quarters. During January to March 2020, GDP fell by 2.2%. During the second quarter of 2020, as nationwide lockdown took effect, GDP fell by a further 20.4%, the biggest quarterly decline since comparable records began. Whilst monthly figures indicate that economic growth returned in May and strengthened in June, this was insufficient to offset the dramatic impact of the first full month of restrictions during April.

11. Looking forward, economic recovery is extremely uncertain. The longer-term impact on businesses of national and local lockdowns, and ongoing public health measures designed to control the spread of the virus, remain to be seen. Other uncertainties include whether there will be a shift in consumer confidence and behaviour, the potential for a second spike of the virus, and the timing and efficacy of any potential vaccine.

12. Brexit is an added uncertainty on the horizon. Although the UK left the EU on the 31 January 2020, it is still unclear whether a trade deal will be reached by the end of 2020. At the end of June 2020, the UK Government

rejected an extension to the transition period beyond 31 December 2020, which potentially increases the chance of a no-deal Brexit.

13. The Government's Job Retention Scheme (JRS) has mitigated the impact of the pandemic on job losses to date. However, unemployment is rising and the tapering of the JRS over coming months, ahead of its withdrawal in the autumn, is likely to lead to further increases. The Organisation for Economic Co-operation and Development (OECD) have estimated that the UK's unemployment rate could increase to between 11.7% and 14.8% by the end of the year, depending on whether there is a second spike of the virus.

14. Government support for jobs and businesses during the pandemic has had a significant impact on public sector borrowing. In July, UK public sector net debt reached £2 trillion for the first time and further heavy borrowing is anticipated in coming months. At the end of July, debt was 100.5% of GDP, the first time it has exceeded 100% in almost sixty years.

15. There will be a need to restore debt to more sustainable levels over time, and this clearly has the potential to affect spending on public services. The Chancellor Rishi Sunak stated that "figures are a stark reminder that we must return our public finances to a sustainable footing over time, which will require taking difficult decisions." The UK Autumn Budget and the outcomes of the Comprehensive Spending Review, which commenced in July 2020, may give further indications in this regard.

Cardiff Council Context

16. The Council has identified almost £225 million in savings 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). For a number of years, no Aggregate External Finance (AEF) increases were available to meet increasing demand and price pressure. These pressures, which were material in Social Services and Schools, were largely met from savings in other directorates. Over time, this has had a significant impact on the shape of the Council's budget. Along with capital financing, Schools and Social Services now account for over 70% of the Council's net budget. Whilst these challenges are well known, their impact on the Council's ability to continue to identify material levels of savings over the medium term should not be understated.

17. In the 2020/21 financial year, the Covid-19 virus and associated public health measures have had significant financial implications for the Council, both in terms of additional costs and loss of income - issues that have been experienced across Wales. Throughout the pandemic, the financial implications of the Council's actions to support the city through the crisis and to deliver services safely have been closely monitored. This has included the impact of adapting to an essential service model at the height of the crisis, through to the proactive measures the Council has taken to restart services and support city recovery as lock down measures have eased. Over the course of coming months, and throughout the period

covered by the MTFP, it will be key to ensure close links between financial planning and strategies to assist Cardiff's post-crisis renewal.

18. During the first quarter of 2020/21 alone, the Council incurred additional costs of £22.4 million in responding to the crisis and experienced income losses of £13.3 million due to lockdown measures. Further information on the nature of these pressures is included at paragraphs 37 and 38.

19. Over the early months of the pandemic, Welsh Government announced £155 million support for Local Government to assist in meeting additional cost pressures and £78 million to support lost income streams. On 17 August 2020, Welsh Government announced a further £264 million funding for the remainder of the financial year, bringing the total support package for Local Government, known as the Covid-19 Hardship Fund, to just under £0.5 billion in 2020/21.

20. Claims for reimbursement via the hardship fund are submitted to Welsh Government on a monthly basis. Full details on Cardiff's reimbursements to date are detailed in the Budget Monitoring - Month 4 Report 2020/21, and are not repeated here. However, the above paragraphs are intended to illustrate the extent to which the pandemic has affected Local Government finances, and the backdrop against which the 2021/22 Budget Strategy is set.

21. Challenging financial circumstances reiterate the importance of clear links between strategic priorities and financial planning. Scarce resources must be appropriately allocated, safeguarding the 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. The budget process will also need to take into account any emerging strategies, associated with adjusting to the "new normal."

The Medium Term Budget Reduction Requirement

22. The MTFP was last reported in February 2020, alongside the 2020/21 Budget Report. As part of sound financial practice, the MTFP undergoes regular review to ensure it reflects most recent information. Updates made in each key area contributing to the 2021/22 budget gap are summarised in the table below and explained in paragraph 23.

Components of 2021/ 22 Budget Gap	Feb 2020 £000	Updates £000	Revised £000
Employee Costs	9,586	1,934	11,520
Price Inflation	3,366	1,600	4,966
Capital Financing	1,717	0	1,717
Commitments	712	432	1,144
Current Year Risk / Monitoring Analysis	0	5,500	5,500
Demographic Pressures	7,863	(1,757)	6,106
Financial Pressures	3,000	(1,500)	1,500
RSG Differential - assumes +1.5%	(7,036)	0	(7,036)
TOTAL	**19,208**	**6,209**	**25,417**

23. The changes identified in the preceding table reflect the following updates:

Area	Summary of Changes
Employee Costs	• Recent Teachers Pay announcement (average +3.1%, Sept 2020) • Ongoing impact of 2020/21 NJC award - agreed at higher than rate previously assumed • Update of assumptions for 2021/22 award – from 2% to 2.5% for NJC
Price Inflation	• Updates to price inflation to reflect most current information • Review of NLW assumptions / impact on commissioned services • Allowance for potential price increases re: contracts due to be re-let and fee-setting strategies due to be finalised in coming months
Capital Financing	• No change required at present – will require ongoing review
Commitments	• Full year running costs of Children's Assessment Centre
Current Year Risk	• A marker for issues identified in the M4 2020/21 monitoring • This is pending further in year work to address and further clarity on the future of grant streams that are assisting in the current year plus actions needed by Services to mitigate pressures
Demographic Pressures	• Sums associated with LDP schools deferred to 2022/23 • Update to pupil number projections to reflect most current information – further reduction in primary numbers
Financial Pressures	• Halved sum for emerging pressures as now part way through year and some pressures are reflected above
RSG Differential	• No change for 2021/22, will need close monitoring • Have reviewed assumptions in later years of MTFP

24. The revised MTFP is summarised below. The estimated budget gap for 2021/22 is £25.417 million and £97.182 million over the period 2021/22 –

2024/25. 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				
	2021/22 £000	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**TOTAL £000**
Employee Related	11,520	10,627	10,788	10,912	**43,847**
Prices	4,966	3,548	3,529	3,881	**15,924**
Commitments & M4 Issues	7,217	264	(605)	(302)	**6,574**
Capital Financing	1,144	1,660	6,603	842	**10,249**
Demographic Pressures	6,106	5,186	5,639	7,369	**24,300**
Financial Pressures	1,500	3,000	3,000	3,000	**10,500**
Funding	(7,036)	(2,380)	(2,392)	(2,404)	**(14,212)**
Total	**25,417**	**21,905**	**26,562**	**23,298**	**97,182**

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:

- AEF assumptions, following announcement of the Provisional Local Government Financial Settlement in December 2020.
- Specific grant streams, including any potential shift in Welsh Government grant priorities.
- Pay Awards, for both teaching and NJC staff, which are currently based on assumptions pending their negotiation and agreement.
- The 2020/21 monitoring position as the year progresses.
- The Council Tax Base for 2021/22 when it is approved in December 2020, 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 2020.
- Any announcements in the UK budget regarding National Living Wage rates, and their potential impact on the cost of commissioned services.

Key Areas of Sensitivity

26. 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. These are considered in paragraphs 27 to 36.

Funding

27. The Council has no indicative AEF figures for 2021/22. Estimating the likely level is extremely difficult. Current assumptions reflect a 1.5% increase in 2021/22. This is more optimistic than assumptions in previous years, in light of the positive 2020/21 settlement (+4.1%). However, this

optimism is tempered by the Ministerial warning accompanying the 2020/21 settlement that it did not signify “austerity was over.”

28. It is difficult to judge how Covid-19 related developments may impact Local Government funding levels next year. As already noted, the unprecedented level of UK debt could mean tightening on public spending. Similarly, if business rates yields are affected by the potential failure of businesses, this could have knock-on implications for the Local Government Financial Settlement in Wales.

29. Notwithstanding these risks, at present, the assumption of a 1.5% AEF increase has been retained for 2021/22. However, funding assumptions have been reduced to a 0.5% increase in subsequent years. This position is predicated upon the assumption that whilst there may well be further tightening on public spending over time, this may not be whilst public bodies are still coping with the pandemic.

30. From a funding perspective, it should also be noted that potential population adjustments within the AEF funding formula are likely to have a negative impact for Cardiff. This issue will continue to be closely monitored over coming months in the lead up to receipt of Provisional Local Government Settlement in early December.

31. Minor fluctuations to funding assumptions can have a significant impact on the projected budget gap. For Cardiff, each 0.5% differential in AEF equates to £2.345 million in cash terms. Consequently, in the event that the 2021/22 AEF was cash flat (i.e. neither an increase nor a decrease), this would add £7.036 million to the budget gap in 2021/22.

32. In order to protect the Council from the risk associated with funding assumptions, the Council has a £3.8 million Financial Resilience Mechanism (FRM). The FRM is a 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.

<u>Pay</u>

33. The current year’s pay awards are higher than for a number of years, following an extended period of public sector pay restraint. It is difficult at present to gauge whether pay awards may be at similar levels in subsequent years, or if tightening on public spending will see a return to lower awards.

34. The current MTFP assumes that future pay awards will be around 2.5% per annum. Minor fluctuations in these assumptions can have a significant impact. Each 0.25% fluctuation in Teachers’ Pay equates to £0.180 million (taking effect from September) and each 0.25% fluctuation in NJC pay has a £0.570 million impact (including Schools support staff.)

Other Sensitivities and Issues

35. 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:

- Whether the UK will reach a trade deal with the EU by the 31 December 2020
- The output of the Comprehensive Spending Review that launched on the 21st July 2020
- The impact of Welsh Government's devolved tax powers
- The impact of the Local Development Plan, particularly in the latter years of the MTFP and beyond
- The potential for further changes or reductions to specific grants
- The outcome of actuarial reviews (Local Government Pension Scheme and Teachers Pension Scheme) during the timeframe of the MTFP
- Welsh Government 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

36. At present however, the key "known unknown" is the extent to which the Coronavirus pandemic will continue to have implications over the medium term. In this regard, the Council is closely monitoring the potential impact in a number of key areas, which are summarised in the next section.

Covid-19 Risk Assessment

37. In the current year, additional costs associated with Covid-19 have included the procurement of protective equipment, provision of emergency accommodation for homeless people, and the continued provision of food / financial assistance to those entitled to free school meals whilst schools were closed. They also reflect the provision of financial support to care providers, supplier relief in other areas and operational changes required to ensure the safe delivery of services.

38. Income loss associated with the pandemic to date reflects the closure during lockdown, of the Council's cultural and sporting venues, including theatres, Cardiff Castle and Cardiff International White Water. It also reflects a reduction in activity in other income generating areas including planning, parking, moving traffic offences, trade waste and school catering. The Council has taken action to mitigate these losses including, the furloughing of 471 individuals. It should be noted that the Council has only placed staff on furlough, and claimed against the job retention scheme where those individuals' posts are funded by income that could no longer be generated due to the pandemic.

39. Review of current year issues associated with the pandemic, such as those listed above is a starting point in identifying future considerations. However, the issues above are largely reflective of the first quarter of

2020/21, during which there was a national lockdown. As restrictions have been eased, there have been subtle shifts in the key issues that need to be addressed at each step. This will continue to be the case over the medium term.

40. Predicting the financial impact of Covid-19 into next year and beyond, is therefore extremely difficult for all the uncertainties already outlined in this Report. In addition, it is not possible to determine the likelihood of any further funding from Welsh Government beyond the current financial year, should Local Authorities continue to experience pandemic-related financial pressure.

41. The table below identifies some of the key overarching issues arising from the current pandemic and considers their potential implications for Cardiff Council next financial year and beyond. The risk rating takes into account likelihood and financial materiality of potential consequences. These issues are not reflected as figures in the MTFP at the moment, but they will be kept under close review and brought in incrementally as required.

Wider Issue	Potential Implications for Cardiff Council	Risk
Failure of businesses / Unemployment	• Potential increase in Council Tax Reduction Scheme Demand	R
	• Potential need to increase Bad Debt Provisions	R
	• Vacancies in investment estate	R
	• Free School Meals - any eligibility increase	R
	• Potential reduction in council tax collection rates	RA
	• Business Rates yield - could affect funding assumptions	RA
	• Extra demand on advice / into work services	A
	• Economic Development - pressure re: regeneration	A
	• Any increase in empty buildings - vandalism / ASB etc.	A
	• Impact on council tax base if development dries up	A
Public Health Measures	• Will there be a need for a PPE budget?	R
	• Any learning needs catch up (post schools closure)	R
	• Provider and Supplier viability / support	R
	• Longer term loss of income -venues etc.	R
	• Cleansing - schools and offices	R
	• School transport	R
	• School catering - any change in model required for new normal	R
	• Further Health & Safety requirements	RA
	• Shared Regulatory Service - pressure re: enforcing guidelines	A
	• Test Track Protect - assume funding ongoing and sufficient	G
Behavioural Shift	• New transport norms - impact on Parking & CPE income	R
	• New transport norms - impact on Cardiff Bus	R
	• More emphasis on outside space - maintenance / cleansing	RA
	• Office and ICT requirements - new ways of working	RA
	• Financial impact of any strategies developed for new normal	RA
	• Any changes to Welsh Government priorities?	RA
	• Recycling habits - any risk of fines	A
Demographics	• Changed demographic profile - difficulty predicting demand – particularly in Adult Social Care	R
	• Homelessness - transitional arrangements / any increase	R
	• Will there be increased family breakdown	RA

Approach to Budget Strategy

42. 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.

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	TOTAL £000
Modelled Council Tax (+4.0%)*	(6,090)	(6,334)	(6,587)	(6,880)	(25,891)
Savings Required	(19,327)	(15,571)	(19,975)	(16,418)	(71,504)
Total	**(25,417)**	**(21,905)**	**(26,562)**	**(23,298)**	**(97,395)**

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

43. 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 2021/22 tax base (due to be approved by Cabinet in December 2020), after the provisional settlement has been received.

44. Directorate savings form the largest element of the strategy with a requirement of £71.5 million over the four-year period, and £19.3 million next financial year. Work on identifying savings proposals has commenced. This was initially and necessarily, with a view to mitigating the impact in the current year of Covid-19 related financial issues. Recent funding announcements, including that of the 17th August, outlined above, have given a degree of further assurance with regards the in-year position. The next step, is therefore to identify how work already undertaken to identify in-year savings may assist with the 2021/22 savings requirement.

45. In order to improve the deliverability of savings and maximise the chances of securing full year savings in 2021/22, where feasible, efficiency proposals that do not require a policy decision may be actioned during this financial year. Work will continue over coming months to refine and develop proposals and to secure the early implementation of efficiency proposals where possible.

46. The quantum of savings required is such that there will be a requirement for more transformational proposals. Work on fully framing these, and developing business cases will be accelerated over the autumn. 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.

47. As part of work to support the 2021/22 savings process, as in previous years, expressions of interest in voluntary redundancy will be sought. As well as identifying a cost saving in line with business case requirements, any release through voluntary redundancy must take account of the shape of future operations and business need.

48. It should be noted that in previous years, income generation proposals have contributed to the Council's strategy to addressing the budget gap. Clearly, at a time when core income budgets are in jeopardy as a result of

the pandemic, the scope for income generation to form part of the 2021/22 Budget Strategy is far more limited.

Consultation and Engagement

49. 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 2021/22 budget proposals will take place in order to inform the budget setting process. This is likely to be during December, once the Council has received its Provisional Financial Settlement for 2021/22.

50. The proposed Budget Timetable Framework for 2021/22 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.

51. 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 affected by any proposals.

Capital Investment Programme – Context

52. 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 2020 and is summarised below. The 2021/22 Budget Strategy must set the approach to updating the programme and rolling it forward a year to cover 2025/26.

Capital Programme Expenditure						
	2020/21 £000	**2021/22 Indicative £000**	**2022/23 Indicative £000**	**2023/24 Indicative £000**	**2024/25 Indicative £000**	**Total £000**
Annual Sums Expenditure	24,906	21,587	15,787	14,815	14,815	91,910
Ongoing Schemes	18,036	30,980	41,934	9,159	9,134	109,243
New Capital Schemes (Exc ITS)	10,635	12,880	7,845	7,850	2,855	42,065
Schemes Funded by External Grants and Contributions	58,068	92,564	75,991	7,705	0	234,328
Invest to Save (ITS) / Earn Schemes	25,884	38,017	27,244	19,979	500	111,624
Total General Fund	**137,529**	**196,028**	**168,801**	**59,508**	**27,304**	**589,170**
Total Public Housing (HRA)	**56,775**	**87,565**	**87,330**	**55,805**	**62,230**	**349,705**
Total Capital Programme	**194,304**	**283,593**	**256,131**	**115,313**	**89,534**	**938,875**

53. 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 2020. It provides the guiding principles within which the Capital Programme for 2021/22 – 2025/26 must be set, and will include the approach to:

- Working with partners
- Asset Management Planning
- Risk Appetite
- Governance and decision-making
- Capital Investment Programme
- Funding the strategy and investment programme
- Managing the borrowing requirement
- Prudent Minimum Revenue Provision (MRP) Policy Statement
- Affordability
- Future years' strategy development

Capital Programme – Covid-19 Considerations

54. The impact of the COVID-19 pandemic on the programme to date has been dependent on the nature of the works being undertaken. Following initial delays to schemes during lockdown, contractors are adapting to COVID-19 work restrictions, although issues with labour and materials remain a risk. This is likely to have an impact on the costs of works and managing within estimated budgets, with new contracts being entered into being amended to make allowance for COVID-19 restrictions, to mitigate the risk of compensations events and additional costs.

55. In developing the updated Capital programme, the following potential impacts of Covid-19 will need to be considered in the context of overall affordability:
    - Changes in costs of existing schemes due to Covid-19
    - Reviewing existing schemes to facilitate those that prioritise resilience for future ways of working and service delivery in light of the impact of Covid-19
    - Impact on capital receipts and income sources currently assumed to pay towards capital projects.
    - Capacity and resources to deliver schemes

Capital Programme Affordability

56. Whilst capital expenditure is a key driver of economic stimulus, a key consideration in setting the Capital Investment Programme is capacity to deliver projects and affordability. General Capital Support provided by Welsh Government 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:

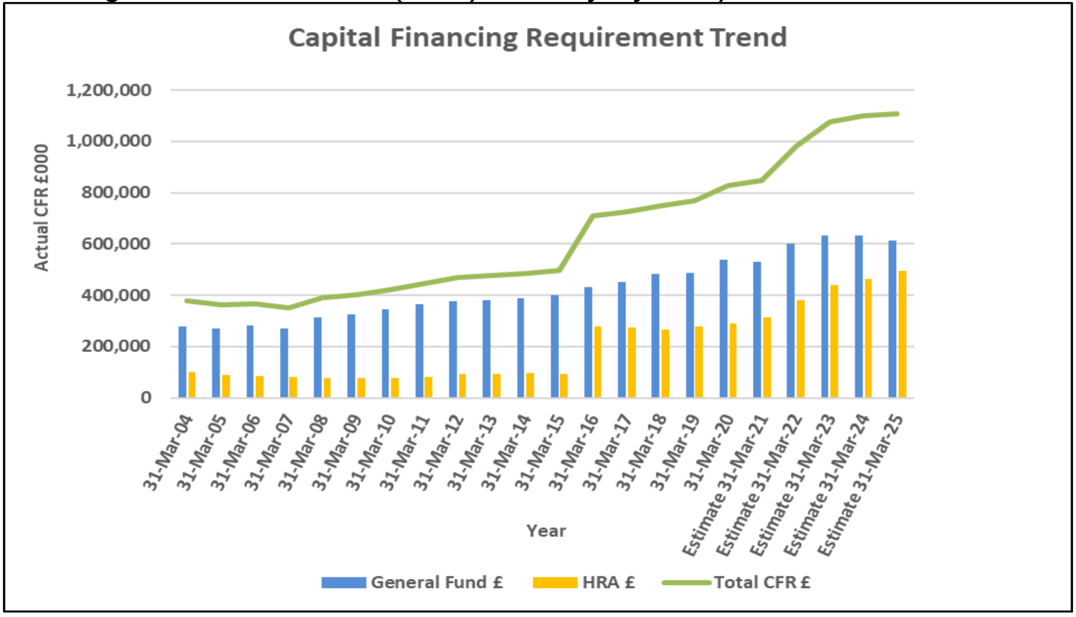
    - Highways infrastructure and repairs backlogs
    - Vehicle procurement options

- Property maintenance backlog and surveys
- Investment to improve services
- Demand for affordable housing
- Economic Development and regeneration aspirations
- Transport White Paper
- 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
- Creating city resilience for future ways of working and service delivery resulting from the impact of Covid-19.

57. The Council continues to be successful in bidding for and receiving grant for specific capital schemes from Welsh Government. However, the demand and need for investment in our critical infrastructure and to improve service delivery and outcomes for the City has a significant impact on affordability, requiring prioritisation and consideration of alternative ways of achieving the same outcome. 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

58. 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).



59. 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.

60. The MRP policy was reviewed as part of the February 2020 budget with the revised approach implemented from the financial year 2019/20 onwards. The reduction in revenue resources required in 2019/20 and 2020/21 will be made available to strengthen the Local Authority's financial resilience in respect of capital and treasury, through the development of a Treasury Management Reserve.

61. 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). This excludes any additional operating costs. In considering whether to increase the amount of borrowing, it is therefore important to take into account the affordability implications for the revenue budget, not only now but in future, particularly in the context of the level of savings to be found.

62. 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 gross capital financing has increased over recent years, with forecasts shown below:

Capital Financing Costs expressed as percentage of Controllable Budget			
	2011/12 Actual %	**2024/25 Estimate %**	**Diff 2011/12 – 2024/25 (%)**
Net capital financing budget	13.47	12.49	(7.28)
Gross capital financing budget	15.17	18.82	24.06

63. The above ratio was first calculated in 2011/12, and this year has been used as a baseline since. Estimates for future years' ratios reflect the positive 2020/21 revenue funding settlement, and more optimistic assumptions regarding future Aggregate External Financing and rent policy. The latter are clearly assumptions, any adverse change in which may have a significant impact on the outlook for this indicator when updating the MTFP. Opportunities to develop local affordability indicators will be considered as part of the MTFP.

64. 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. .

65. The ratios above were based on a positive 2020/21 revenue funding settlement, and more optimistic assumptions regarding future Aggregate External Financing and rent policy. The latter are clearly assumptions, any adverse change in which may have a significant impact on the outlook for this indicator when updating the Medium Term Financial Plan.

Capital Receipts

66. 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.

67. The 2018/19 Capital Programme set a £40 million target for non-earmarked receipts (net of fees) for the period 2018/19 - 2022/23, and a further £1 million was added to the target in the 2019/20 programme. Receipts towards this target of £5.5 million were generated in 2018/19 and £1.4 million in 2019/20. This leaves a balance of £34.1 million to be found between 2020/21 and 2024/25.

68. The Council's approach to the delivery of the capital receipts target will be updated in the Annual Property Plan due to be considered by Cabinet in November. 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.

69. The Council's proposed approach to utilisation of capital receipts, as set out in the 2020/21 Budget Report, is summarised below:
- Prioritise receipts required to meet the balance of the target for General Fund Capital Receipts (net of fees), assumed in the 2018/19 – 2022/23 Capital Programme and any additional targets set in subsequent years.
- Use of receipts in excess of this 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 utilised to reduce expenditure not yet paid for.
- To limit the earmarking of capital receipts only for capital expenditure essential to secure a disposal, to meet the terms and conditions of a grant, where approved by Cabinet as ring-fenced for specific projects or strategies, or where required to be ring-fenced by legislation.

Developing the Capital Programme 2021/22 to 2025/26

70. In the context of the challenges outlined above, the Capital Strategy 2020/21 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 significantly 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 ongoing affordability.
Strategic & Major Development Projects	To create an affordable revenue budget envelope to cover capital costs arising from approved business cases.

71. In line with this approach, in updating and formulating the five-year Capital Programme for 2021/22 to 2025/26, 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 and include and justification for increased contract costs resulting from social distancing requirements.
- Consider ongoing affordability of the programme in the context of progress updates toward capital receipts targets as well as any other income assumptions previously assumed.
- Any other expenditure requests to be considered in the context of external funding or robust ITS / ITE business cases.
- For 2025/26, the new year covered by the 2021/22 – 2025/26 programme, funding requests to undertake additional borrowing will only be considered where they relate to Asset Renewal for existing assets.
- HRA investment to consider long term business plan affordability modelling, with new build schemes subject to individual viability assessments. Key to affordability will be approach to rent-setting within Welsh Government policy framework.
- 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.

72. There are a number of key strategic projects, which the Council is considering in line with Capital Ambition. Due diligence and further business cases in respect of these projects are being developed for Cabinet consideration during 2020/21 and future years. These projects include the development of an Indoor Arena in Cardiff Bay, Core Office Accommodation and the International Sports Village (ISV) and the Councils approach to participating in the Mutual Investment Model for new schools.

73. The Indoor Arena could be delivered by using a number of different delivery strategies and/or funding options. As per the detail set out in detail in the 2019/20 Budget Report, an affordability envelope has been established to facilitate the delivery the Indoor Arena which provides the flexibility required for the project to explore these various delivery and funding options, but all within the constraints of the budgetary framework. This enables decisions to be taken that would commit future revenue budgets and affect the borrowing requirement. Progress and impact of these strategic projects will be an important consideration in the development of the 2021/22 Capital and Treasury Management Strategies and consequential impact on the Medium Term Financial Plan.

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 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

75. Given the challenges identified, it is important to undertake regular review of the Council's financial standing and resilience. The snapshot included at Appendix 3 provides a high-level overview of the financial health of the Council at the time of setting the Budget Strategy for 2021/22. It reflects key past, present and future information, summarising key points from the draft Statement of Accounts 2019/20, the 2019/20 Outturn Report, the Month 4 monitoring report 2020/21, the financial impact of Covid-19 in the current year, and the Budget Strategy reflected within this report.

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

- **Savings -** the significant cumulative savings over recent years. This makes continued delivery of savings much more challenging, especially as income generation is likely to play a much lesser role than in previous years, at least for 2021/22.
- **Funding Sources** - until the current year, lack of real term AEF increases mean that council tax is accounting for a slightly 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 (after accounting for CTRS)
- **Reserves** – reserves are an important part of financial resilience. They provide a financial cushion and support a healthy cash

position, critical factors, particularly in current uncertain circumstances. The level of useable reserves has increased slightly in 2019/20, both in absolute terms and as a percentage of the Council's net budget. However, in comparative terms, Cardiff's levels of reserves are still relatively small for an Authority of this size. For this reason, the Budget Strategy assumes a conservative annual use of reserves as general budget funding in 2021/22 (£0.75m.) 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** – it's important to note that these indicators are measured at one point in time. This means they can be affected by particular circumstances at the point the snapshot in time is taken. In 2019/20, there have been slight increases to the Council's Long Term Borrowing Ratios. These ratios are affected by cycles for the valuation of assets as well as the timing borrowing (both new borrowing and maturity) to pay for capital expenditure. As highlighted in the Outturn Report for 2019/20, the Council increased the level of borrowing during the year. This was to pay for capital expenditure in the year, and to reduce the level of temporary internal borrowing. There is also a slight increase in the Council's working capital ratio in 2019/20. This is a basic measure of liquidity, which compares current assets with current liabilities. The reasons contributing to the change in 2019/20 are an increase in debtor and cash balances compared with 2018/19. The cash balance is associated with the timing of borrowing, and clearly does not present a concern from a liquidity point of view, which is one of the measurement aims of the ratio. Whilst, an increase in debtor balances can sometimes signal that an organisation may wish to ensure that it is collecting debt as efficiently as possible, it is important to note that 2019/20 increase is partly attributable to the fact that the approach to debt recovery during the spring, took account of the exceptional impact of Covid-19. The need for ongoing review of debt collection levels and adequacy of bad debt provisions, has already been flagged up earlier in the Report as a Covid-19 related risk that will need close monitoring.

77. The middle column of the snapshot reflects the current year, capturing the 2019/20 outturn position, an indication of the projected 2020/21 outturn at month 4, as well as a summary of the in-year impact of Covid-19. The position at month 4 shows a projected overspend of £1.982 million. This comprises a £5.082 million directorate overspend, offset by the £3.000 million corporate contingency and a small underspend on the summary revenue account. The ongoing risk associated with issues inherent in the directorate overspend have been reflected in the 2021/22 budget gap outlined above. The Month 4 monitoring Report also sets out Covid-19 related risks of up to £34 million in relation to the remainder of 2020/21. In light of Welsh Government's recent announcement of £264 million additional funding at an All Wales level to support Local Government with Covid-19 related pressure during the remainder of the year, it is anticipated that a level of Welsh Government support will be available in this regard. As noted in the Month 4 Report, projections regarding the precise level of

support will be reflected in future monitoring reports. Additional costs and lost income may not be 100% reimbursed, and this risk will require close ongoing scrutiny.

78. 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.

Scrutiny Consideration

79. The Policy Review and Performance Scrutiny Committee is due to consider this issue on 15 September 2020. Any comments will be circulated at the Cabinet meeting.

Reasons for Recommendations

80. To seek Cabinet approval for the Budget Strategy in respect of 2021/22 and the updated MTFP.

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

Legal Implications

82. 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.

83. There are no general legal issues arising from the report. Specific legal issues will be addressed as part of the proposed budget preparation.

84. The report provides that the proposed Budget Timetable framework for 2021/22 will make provision for consultation. In order for there to be robust consultation process it must occur when proposals are at a formative stage; it should give sufficient reasons for any proposal to permit proper consideration; and it should allow adequate time for consideration and response;

85. There must be clear evidence that the decision maker has considered the consultation responses before taking its decision. It is important to note that the consultation raises the legitimate expectation that any feedback received from the consultation will be taken into account in developing the proposals consulted upon.

86. The public sector equality duties under the Equality Act 2010 require the Council to give due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. The protected characteristics are: age, gender reassignment, sex, race – including ethnic or national origin, colour or nationality, disability, pregnancy and maternity,

marriage and civil partnership, sexual orientation, religion or belief – including lack of belief.

87. The Wellbeing of Future Generations (Wales) Act 2015 requires the Council to consider how its proposed decisions will contribute towards meeting the well-being objectives set out in the Corporate Plan. Members must also be satisfied that proposed decisions 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 own needs.

Financial Implications

88. The financial implications are set out in the detail of the report. In summary, the report refreshes the MTFP and sets out the Budget Strategy for 2021/22. It outlines a likely budget reduction requirement of £97.182 million over the period 2021/22 – 2024/25, of which £25.417 million relates to 2021/22. Further detail on the elements of the budget gap is included at Annex 1. The current outline modelled strategy to address the budget gap is a combination of council tax increases (£25.891 million) and savings (£71.504million.) The gap will continue to be reviewed during the current year to reflect most recent information.

HR Implications

89. The report outlines the 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 and the challenges that the COVID pandemic have created. 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.

90. Given the level of savings required in 2021/22 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.

91. 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.

92. The Council's Voluntary Redundancy Scheme is always available however, following this report, if agreed, 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.

93. Initial Trade Union consultation has taken place on this report. The Trade Union Partnership Meeting has been used for consultation and will be utilised to facilitate early discussion with Trade Unions on any 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 2021/22 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.

Property Implications

94. The advent of COVID resulted in both transactional and strategic challenges that have impacted certain property transactions within the Annual Property Plan allocated towards the Capital Receipts Target. Whilst for most affected transactions this means a short term delay in originally anticipated completion, the Strategic Estates Department continues to review the quantum and timeline of all future transactions due to the impact of COVID and will liaise closely on implications for the programme in the medium term.

95. The Strategic Estates Department continues to work closely with the Council's tenant base on delayed rental and service charge during the Covid lockdown. The majority of paused income is being dealt with via deferred payments schedules agreed the tenants and the team is working with the Finance Department to assess the on-going impact on the Council's rental income. All future policies or negotiations in respect of the outstanding rent and service charge should be aligned with the Council's Asset Management processes and in consultation with Strategic Estates and relevant service areas.

96. The Strategic Estates Department has provided support and assistance at an early stage towards Covid-19 response including negotiations for

temporary accommodation, as well as medical and testing facilities, within the Council estate. In the event of any further requirements in respect of the Covid-19 response, they should be done so in accordance with the Council's Asset Management process and in consultation with Strategic Estates and relevant service areas.

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 2021/22 and across the period of the Medium Term Financial Plan within the context of 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 £25.4 million for 2021/22 and £97.2 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 2021/22 where no policy recommendation is required or where a policy decision has already been taken.

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

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

(6) Agree that consultation on 2021/22 budget proposals will take place in order to inform the preparation of the draft 2021/22 Budget.

SENIOR RESPONSIBLE OFFICER	**CHRISTOPHER LEE** Corporate Director Resources
	11 September 2020

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: Finance Resilience Snapshot

The following Background Documents have been taken into account

2020/21 Budget Report – February 2020
Capital Strategy 2020/21
Budget Monitoring – Month 4 Report 2020/21