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.

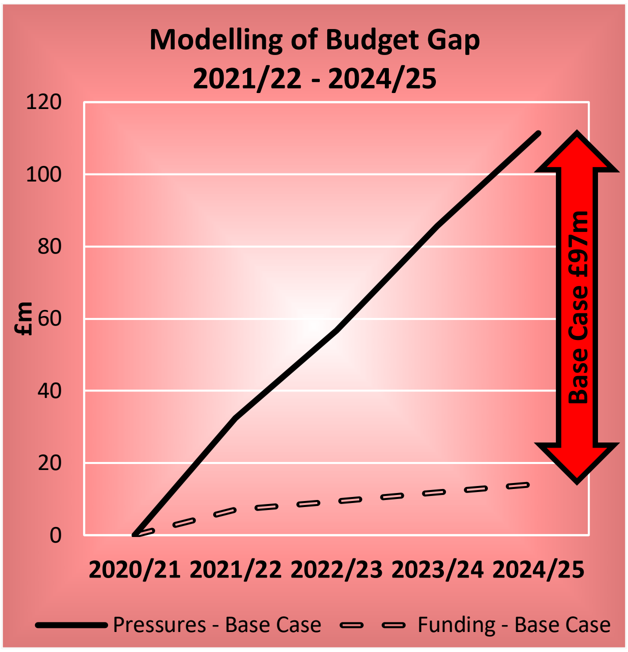
Development of the MTFP is an iterative process. Regular review is required to ensure it reflects most recent information and captures emerging issues. Elected Members and Senior Management are engaged in the process through a series of regular briefings, to scope, inform and scrutinise the plan.

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 an update is included with the Budget Strategy Report. This is usually each July, but is later this year due to the Covid-19 pandemic.

1.3 MTFP Overview

In February 2020, the positive 2020/21 Local Government Financial Settlement, led to the MTFP reflecting more optimistic funding assumptions than in previous years. However, the impact of Covid-19 on the national economic picture has tempered this optimism. The knock-on impact on the MTFP position is decidedly uncertain and will need to be kept under close review. The MTFP currently estimates a budget gap of £97 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

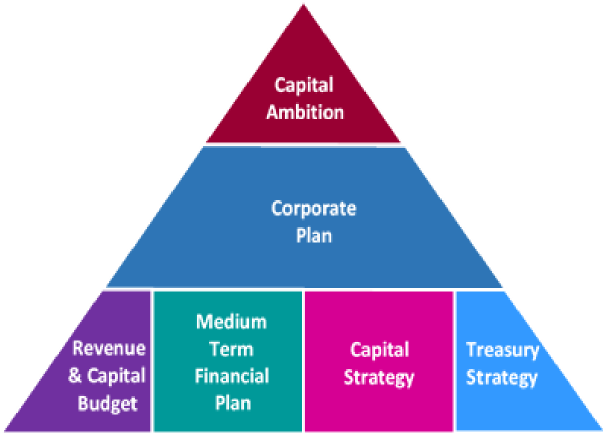
2.1 Council Priorities

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

Previous iterations of the MTFP have included significant detail around Cardiff's demographics, including population, education, housing, employment and deprivation. The pandemic has had an unprecedented impact on all of these areas, such that previous expectations around demographics are not necessarily still relevant to today's MTFP. The lasting impact and effect on people's day-to-day lives, are still uncertain, but are likely to include those set out below.

Section 2. Key Considerations

Population

As of 2018, Cardiff had a population of 364,000. Between 2008 and 2018, its population grew by 9.5%. The expectation was previously that the city would continue to grow, albeit at a slower rate. There will be a need to consider whether this will continue to be the case once the lasting impact of the pandemic on working practices, birth rates and housing begin to become clearer, all of which will can impact on the overall population of the city.

Education

Investment in the building of new schools, and the refurbishment and improvement of existing accommodation 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). The timing of previously assumed revenue pressures in this regard will require review. In future, there will also be a need to consider lasting effects of the pandemic such as any potential increase in use of blended learning practices and factors that may affect levels of support required by pupils.

Housing

Cardiff's LDP is a 20 year Plan from 2006 - 2026. It set a target for 41,000 additional homes by 2026. The LDP is subject to statutory periodic review, and this will take place over the next two to three years. The Council also has an ambitious Housing Strategy to build affordable, high quality, energy sustainable homes. It is unclear at present how the pandemic might impact the level of new homes required, and, as such, the planned infrastructure and income expected from, for example, planning and building control fees and commuted sums.

Employment

Working from home has become a necessity during periods of lockdown, and many employers have indicated that a move to more agile working will become a permanent feature of their future plans. In addition, whilst the current Job Retention Scheme is running, the true impact on unemployment levels continues to be an unknown factor. It is likely that once financial support ends, more companies will become financially unviable, and further job losses will be inevitable. This will in turn impact on levels of deprivation, the housing market, benefit claims and Council Tax. The loss of companies, or the move away from office working will also inevitably impact Non-Domestic Rates yield, which in turn could affect funding levels.

There are already large disparities in unemployment levels across the city and there is in-work poverty. Just over a fifth of people in employment earn 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 6,000 UK employers. Cardiff Council is a RLW employer and an advocate of the RLW in the city.

Deprivation

The 2018/19 National Survey for Wales indicated 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 disparity across the city. The full and lasting impact of the pandemic on these figures will only become known once there is a greater understanding of the impact on each of those areas above.

2.3 Economic and Financial Outlook

Local financial planning is linked to the context. At present, economic, demographic, social and global considerations, (all key external factors that influence budget-setting), are fraught with uncertainty due to the global pandemic.

UK Context

The Office for Budget Responsibility (OBR) produce medium term forecasts for key economic indicators. Latest published forecasts (March 2020) were undertaken at a time when the pandemic appeared to be limited to China as recognised by the OBR in the report. Until such time as the longer-term impacts on both the global and UK economy are understood, therefore, any forecasts from that time around Gross Domestic Product (GDP), Inflation (CPI), and Average Earnings, are to some extent meaningless.

However, what is clear, is that the UK is currently in recession, 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. At July 2020, inflation (CPI) stood at 1.0% compared to 2.1% as at July 2019.

Implications for Financial Planning

Looking forward, economic recovery is extremely uncertain. The longer-term impact on businesses of national lockdown, and of 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.

Brexit is an added uncertainty on the horizon.

Britain leaving the European Union

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, potentially increasing the chance of a no-deal Brexit.

Public Sector Net Borrowing

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. There will be a need to restore debt to more sustainable levels over time, and this has the potential to affect spending on public services. The UK Autumn Budget, expected in October, may give further indications in this regard.

Implications for Financial Planning

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

Both the UK Budget and Comprehensive Spending Review to be announced in Autumn 2020 should provide further clarity to the UK Government's fiscal policy and its potential implications for the Welsh Block Grant.

Welsh Context

The WG Budget covers one year only which means the Council has no indicative funding figures for 2021 or beyond. Estimating funding is extremely difficult; national economic uncertainty may affect public spending generally, and 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, which undertakes independent research into the public finances, tax and expenditure of Wales. Previously, WFA 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. However, this modelling was set in the context of significant uncertainty even prior to the pandemic and will need to be reviewed following the UK Budget in the autumn.

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.

2.4 Council Financial Context

Historic Context

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

This period coincides with a marked deterioration in general grant levels. 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.

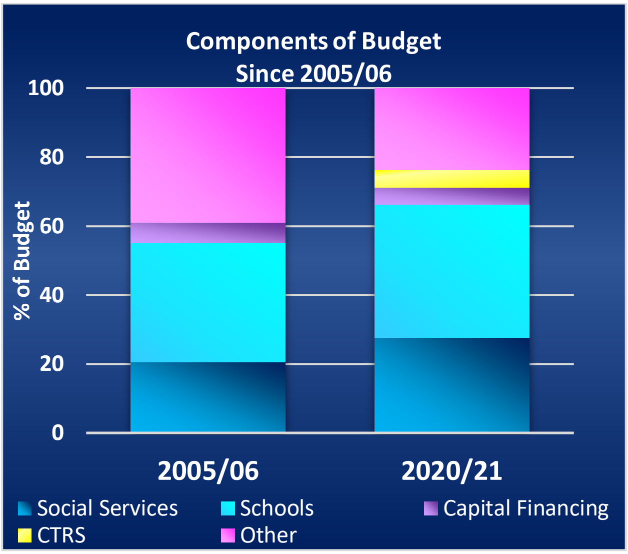
Impact on the Council's Budget

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 Social Services and Schools. Between 2016/17 – 2020/21, these budgets 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**

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 except 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

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.

Section 3. Medium Term Financial Plan

3.1 Forecast Financial Position

The Council's forecast financial pressures, funding and resultant £97 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**	**665,602**	**667,994**
Schools	Pay Costs	7,013	6,546	6,596	6,628
	Price Inflation	75	75	75	75
	Pupil Numbers (Primary and Secondary)	748	(738)	(561)	1,095
	Special School Places / Resource Bases	928	756	929	919
	Complex Needs Enhancement	750	750	750	750
	Local Development Plan – Starter Schools	0	716	797	859
	Contribution to Band B & Asset Renewal	(1,090)	(1,090)	(1,090)	(1,090)
	Total Schools Pressures	**8,424**	**7,015**	**7,496**	**9,236**
Social Services	Pay Costs	1,339	1,225	1,257	1,287
	Price Inflation	4,161	2,873	2,974	3,076
	Commitments	6,396	(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	**15,476**	**7,568**	**7,802**	**8,009**
Other Services	Pay Costs	3,168	2,856	2,935	2,997
	Price Inflation	730	600	480	730
	Commitments	1,338	1,486	538	788
	Demographic Growth	100	100	100	100
	Total Other Services Pressures	**5,336**	**5,042**	**4,053**	**4,615**
	Capital Financing	**1,717**	**1,660**	**6,603**	**842**
	Emerging Financial Pressures	**1,500**	**3,000**	**3,000**	**3,000**
	Resources Required	**688,639**	**687,507**	**694,556**	**693,696**
	Resources Available:				
	Aggregate External Finance	(476,083)	(478,463)	(480,855)	(483,259)
	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)**	**(665,602)**	**(667,994)**	**(670,398)**
	BUDGET REDUCTION REQUIREMENT	**25,417**	**21,905**	**26,562**	**23,298**

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 – 2.5% per annum

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 later years of the MTFP. At this stage, no further change in contribution rate is assumed but this will be kept under close review.

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 another area that will require careful consideration as the next actuarial review nears.

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.

2021/22	2022/23	2023/24	2024/25
1.90%	2.10%	2.00%	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 almost £18 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 Centre consistent with the timescales in the capital programme.
- The potential for market supplement arrangements for Children's Social Workers to be extended.

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

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

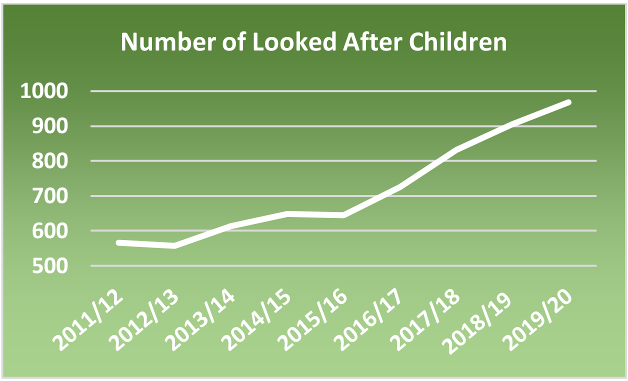
Demographic Increases	**£m**
Adults Social Services	5.8
Children's Social Services	8.7
Pupil Numbers	0.5
Additional Needs of Pupils	6.5
Local Development Plan - Schools	2.4
Other	0.4
TOTAL	**24.3**

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 with pre-pandemic levels. Further careful modelling will be required in coming months, in order to determine the lasting impact of the pandemic on placement numbers and market sustainability.

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 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. Further modelling will be required in relation to the potential future mix of placements (fostering and residential), to determine whether the significant shift of recent years will even out.

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. Forecast figures have been amended to reflect schools beginning to open in LDP areas from the September 2022, a year later than previously assumed. 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

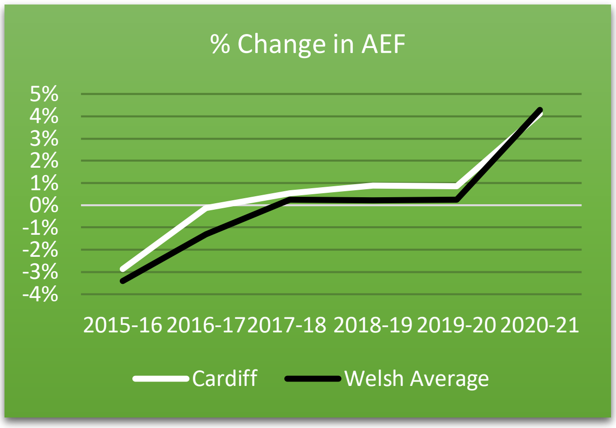
Forecasts include £3 million per annum (£1.5 million in 2021/22) to address emerging financial pressures, which equates to approximately 0.5% of the Council's net budget. This reflects the fact that it is impossible to foresee all issues and that additional burdens may arise over the next five years, through new legislation, unforeseen demand, policy change, and grant fall out.

The inclusion of a figure against emerging issues provides a margin of headroom, avoiding the need to identify additional savings proposals at short notice. Sums included for emerging pressures are kept under regular review and are removed from plans if 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 new responsibilities.

In February 2020, in the context of the 2020/21 settlement, it appeared overly prudent to plan for negative settlements in the MTFP but equally inappropriate to assume that future settlements would be as positive as 2020/21 given the Ministerial letter accompanying the settlement warned the positive 2020/21 position did not mean "austerity is over." On balance, funding assumptions of +1.5% were assumed across the MTFP.

Weighing up the considerations in the economic outlook, in particular the potential for public spending to be tightened as a means of addressing unprecedented levels of UK debt, these assumptions have been dampened to +1.5% in 2021/22, followed by 0.5% each year thereafter. This assumes that public sector funding may well be affected in future years, but this may not be whilst public bodies are still coping with the pandemic.

It should also be noted that 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. This means a total of £3 million will be used from reserves to support the budget over the four years.

The Council has a Strategic Budget Reserve to support the medium term and any opportunities to increase that reserve at year-end are taken. In addition, there is an annual review of reserves, with amounts 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
25.4	21.9	26.6	23.3	97.2

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 over 4% (after accounting for Council Tax Reduction Scheme (CTRS)). 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, 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 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	25.9

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

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
19.3	15.6	20.0	16.4	71.3

Section 4. Addressing the Gap

In addressing this gap there will be a need to:

- Capture the full financial benefit of the 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 review income streams, whilst recognising that in the short to medium term, core income budgets are in jeopardy and therefore opportunities to generate additional income will be more limited than in previous years.
- Continue to target efficiencies, including baseline efficiencies for *all* services including schools.
- Continue to undertake service reviews
- 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 in order to inform the 2021/22 Budget Report which will be considered by Cabinet and Council in February 2021.

Section 5. Risk and Uncertainty

5.1 Sensitivity Analysis

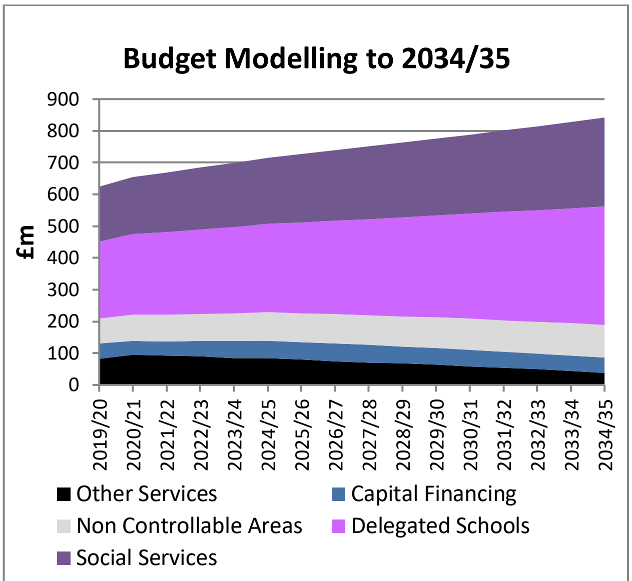
Current MTFP assumptions are based on best available information. However, there is always a risk of change. The table below sets out areas of non Covid-19 related sensitivity and their potential annual impact.

Assumption	£m
AEF 1% worse than anticipated	4.7
Teachers Pay Award 1% higher (from Sept)	0.7
NJC Award 1% higher	2.3
CPI 1% higher (on permitted heads)	1.4
Total Annual Impact	**9.1**

If ***all*** these variables changed unfavourably, they could have a £9.1m adverse impact in any individual year. The cumulative impact across the MTFP would be £36 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.

5.2 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 slightly 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.

5.3 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	• The difficulty of modelling complexity of demand, including in Adult and 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 the uncertainty around any trade deal • The Autumn 2020 UK Budget and the subsequent outlook for public spending. • The potential for key assumptions in the MTFP to fluctuate. • **The ongoing financial impacts of the Covid-19 pandemic, which are separately recorded below.**
Financial Resilience	• The medium term savings requirement, 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.

5.4 Covid-19 related risks

In 2020/21, 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. 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. Support is being received from the Welsh Government's Covid-19 Hardship Fund, which totals just under £0.5 billion in 2020/21.

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.

Review of current year issues associated with the pandemic, is a starting point in identifying future considerations. However, much of the current year to date has been spent in a lockdown situation. 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.

The adjacent paragraphs identify some of the key overarching issues arising from the current pandemic and considers their potential implications for Cardiff Council next financial year and beyond. These issues are not reflected as figures in the MTFP at present, but they will be kept under close review and brought in incrementally as required.

Business Failure / Unemployment increases

Financial risks include:

- Potential increase in CTRS Demand
- Potential need to increase bad debt provisions
- Vacancies in investment estate
- Free School Meals – any eligibility increase
- Potential reduction in council tax collection rates
- Business rates yield – funding implications
- Extra demand on advice / into work services
- Economic Development – regeneration pressure
- Any increase in empty buildings – vandalism / anti-social behaviour
- Impact on council tax base if development dries up

Ongoing public health measures

Financial risks include:

- Potential need for annual PPE budget
- Potential for learning needs catch up
- Provider / Supplier viability
- Longer-term loss of income – venues etc.
- Cleansing – schools, offices and school transport
- School catering – any change in model?
- Future Health and Safety requirements
- Shared Regulatory Service – pressures of enforcing guidelines
- Test, Trace Protect – currently assumed that funding will be sufficient and ongoing

Behavioural Shift

Financial risks include:

- New transport norms – impact on parking and civil parking enforcement income, as well as Cardiff Bus
- More emphasis on outside space may result in additional maintenance / cleansing costs
- Office and ICT requirements associated with new ways of working
- Financial impact of strategies developed to support the "new normal"
- Welsh Government Grant priorities – potential changes

Demographic Implications

- Changed demographic profile – difficulty predicting demand – especially in Adult Services
- Homelessness – transitional arrangements
- Potential for increase family breakdown