

CABINET MEETING: 13 JANUARY 2021

**2021/22 BUDGET MODELLING UPDATE AND CONSULTATION
REQUIREMENTS**

**FINANCE, MODERNISATION AND PERFORMANCE
(COUNCILLOR CHRIS WEAVER)**

AGENDA ITEM: 1

Reason for this Report

1. To provide an update on budget preparation for 2021/22, including the impact of the Provisional Local Government Financial Settlement (Provisional Settlement).
2. To provide details of the consultation that will take place to inform Cabinet's final Budget Proposal for 2021/22.

Background

3. The 2021/22 Budget Strategy Report was considered by Cabinet in September 2020 as part of an update to the Council's Medium-Term Financial Plan (MTFP). It set out a potential budget reduction requirement ('budget gap') of £25.4M for 2021/22 and £97.2M for the period 2021/22 – 2024/25. The budget gap reflected a combination of financial pressures and anticipated funding reductions.
4. In the absence of indicative Welsh Government funding figures, the September position was based on an assumed level of general grant funding for 2021/22. Since then, the Provisional Settlement for 2021/22 has provided further clarity on the funding position.
5. The MTFP presented in September 2020 was set against the backdrop of an unprecedented period, specifically in relation to the COVID-19 pandemic and the uncertainty resulting from BREXIT arrangements in the final months of 2020. As such, it has remained critical that budget modelling, including the impact of all external factors have been kept under continuous review, and updated as appropriate.
6. In light of the issues set out above, and in order to ensure that consultation is based on the most up to date information available, this report updates the budget reduction requirement for 2021/22 in order to reflect the

Provisional Settlement, other emerging issues and most recent data modelling.

Issues

7. Cabinet Members have a collective duty prior to the 11th March 2021 to place before the Council, proposals, which if approved, would result in the adoption of a balanced budget for 2021/22. The public consultation proposed by this report will inform the preparation of Cabinet's final draft budget for consideration by Council in early March 2021.

Timescales

8. Due to the timing of the UK Spending Round, which took place in late November, the Provisional Settlement was delayed until the 22nd December 2020. This is more than two months later than the usual October publication date. The Provisional Settlement is a critical factor in drafting the budget strategy and can significantly affect the overall position.
9. Subject to Cabinet approval, consultation on the 2021/22 Budget will commence in January 2021. This is later than usual to ensure that the draft budget that underpins the consultation position fully reflects the Provisional Settlement and that the position being consulted upon is as accurate as possible.

COVID-19 Pandemic

10. The ongoing COVID-19 pandemic continues to have a significant financial impact on the Council. In responding to the unprecedented challenge of the pandemic the Council has worked with our partners to adapt our public services, support local businesses and workers, and to keep all our citizens, particularly our city's most vulnerable citizens, our staff, and our communities safe. The pandemic has resulted in both additional expenditure pressures and reduced income generation across services. To date, the Welsh Government has committed £557M as part of a COVID Hardship Fund in 2020/21 and as at the end of November 2020, this Council had submitted expenditure claims to Welsh Government of over £38M and lost income claims (covering Quarters 1 and 2) of over £22M.
11. In the context of the 2021/22 Budget Strategy, the COVID-19 pandemic will still need to be a major consideration in the Council's financial planning assumptions. Within its draft budget, the Welsh Government has to date identified £766M of COVID-19 related consequential for 2021/22 (compared to over £5Bn in 2020/21) and have so far nominally allocated £77M to key areas including contract tracing, support to the Bus industry and Free School Meals (for holiday provision in 2021/22).
12. The Budget assumptions for this Council at Provisional Settlement assume no direct base impact of COVID-19 in 2021/22 but this will be kept

under constant review as more clarity on impact and funding availability is understood.

BREXIT Arrangements

13. A second specific risk factor to draw out as context for the 2021/22 Budget Strategy work at this time is BREXIT and the impact of the recently agreed Trade Deal with the European Union.
14. No specific allocations/risks have been included in respect of arrangements post January 1st 2021 but this will be kept under close scrutiny as more detail on the deal emerges and the practical implications of this across service delivery are understood.

Provisional Local Government Settlement

15. On the 22nd December 2020, the Minister for Housing and Local Government announced the Provisional Settlement for 2021/22. The Minister's statement and key data table is attached at **Appendix 1**.
16. The headlines of the settlement are included below:
 - On average, Welsh Local Authorities will receive a +3.8% increase in general revenue funding next financial year.
 - Individual Authority Settlements range from +2% to +5.6%.
 - Grants totalling £5.127M at an All Wales level will transfer into Revenue Support Grant (RSG) in 2021/22 (£3.98M Teachers Pay Grant and £1.1M for the Coastal Risk Management Programme).
 - There will be no 'floor' protection in 2021/22.
 - Settlement information is for one year only, which continues to make medium term planning extremely challenging.
17. Cardiff will receive a +3.8% increase in Aggregate External Finance (AEF) in 2021/22 (£18M in cash terms after adjusting for transfers). Cardiff's settlement is at the level of the Welsh average, having been impacted by the transitional arrangements to move to use of the mid-year population estimates, where growth assumptions for the City have been reduced.
18. In addition to AEF, the Provisional Settlement does provide some details on specific revenue grant streams, with the majority continuing at existing (or increased) levels, although information on specific individual local authority allocations is still awaited. Notable increases in specific grants (at an all Wales level) include:
 - Social Care Workforce and Sustainability Grant increased from £40m to £50m
 - Support for Minority Ethnic and Gypsy, Roma, Traveller learners rises from £10m to £11m
 - Bus Revenue Support (Traws Cymru) rises from £3.2m to £4.4m
 - Road Safety Grant rises from £0.95m to £2m

19. Cardiff's capital settlement is a 1.62% increase in General Capital Funding (GCF) for 2021/22, which is £0.282M in cash terms. In addition, some details on an all Wales basis are included in respect of specific capital grants, such as £20M for the continuation of the public highways refurbishment grant, but as per revenue specific grants, further detail is awaited.
20. The level of revenue funding announced in the Provisional Settlement is better than the planning assumption reflected in the Council's September MTFP. The MTFP, which pre-dated the Spending Round, had assumed a potential +1.5% funding increase for 2021/22.
21. Whilst the improved funding position for 2021/22 is welcome, it should be noted that the position for 2022/23 and beyond is much less certain. The UK economy will be transitioning to new arrangements post BREXIT and the 'long tail' impact of COVID-19 is still likely to be felt during 2021/22. These factors will no doubt have a significant impact on the next Central Government spending review planned during 2021 which will be a key determinant of medium term resource availability.

Budget Modelling Update

22. The Council's MTFP undergoes regular review to ensure it reflects the most up to date and robust information. Updates since the last MTFP Report in September include the impact of:
 - The Provisional Settlement, announced on 22nd December 2020.
 - The Voluntary Living Wage rate announced in November 2020.
 - Announcements and updates associated with the November 2020 UK Spending Review, including NLW rates for 2021/22 and updated inflation forecasts.
 - Most recent pricing information in relation to key commissioned services.
 - Pupil numbers on role in September 2020
 - The need to address base pressures, evident through in year monitoring in some areas including:
 - Children's Services
 - Adult Services
 - Legal Services
 - Out of County Education Provision
 - School Transport
 - Budgetary adjustments to strengthen financial resilience and manage risk
 - Budgetary adjustments to support key corporate priorities and ensure continued modernisation of service delivery.
23. Taking account of the above updates, the current resource requirements modelled for 2021/22 are set out in the table below:

| Resources Required | £000 | £000 |
|--|---------------|----------------|
| Base Budget Brought Forward | | 656,186 |
| Pay Award | 4,507 | |
| Price Inflation (i) | 4,000 | |
| Financial Pressures (ii) | 1,551 | |
| Commitments, Realignment & Capital Financing (iii) | 11,072 | |
| Demographic Pressures (iv) | 5,615 | |
| Schools Growth (v) | 9,135 | |
| | 35,880 | |
| Resources Required | | 692,066 |

24. A further breakdown of key resource requirements is provided below:

- i. **Price Inflation** – this includes key specific inflationary increases, the most significant of which is £3.275M for Adults Commissioned Services in Social Services.
- ii. **Financial Pressures** – this includes increased costs in relation to the growth of Council Tax Reduction Scheme caseloads, the impact of changing household waste streams experienced during COVID-19 and a reduction in the core Sustainable Waste Grant for 2021/22.
- iii. **Commitments, Realignments & Capital Financing** – this includes budget realignments totalling £5.314M, the most significant of which are £1.704M for Children’s Services, £1.082M for Education Out Of County Services and £1.033M for School Transport costs. It also includes £2.911M of additional commitments, including the Fire Service Levy at £0.389M and £2.847M of Capital Financing Commitments.
- iv. **Demographic Pressures** – this includes £1.605M for Adult Social Services, £3.150M for Children’s Social Services, £0.760M for Out of County Education Provision and £0.100M for Recycling and Neighbourhood Services.
- v. **Schools Growth** – This includes the full costs of teachers’ and non- teachers’ pay and pupil number growth.

25. At Provisional Settlement, and assuming the same use of reserves as modelled in the MTFP, resources available (excluding any 2021/22 potential increase in Council Tax levels) are as shown in the table below:

| | £000 |
|--|----------------|
| Aggregate External Finance | 487,913 |
| Council Tax (2021/22 tax-base at 2020/21 prices) | 187,044 |
| Use of Reserves | 750 |
| Resources Available | 675,707 |

26. Taking account of Resources Available above against calculated Resources Required gives **a budget gap at Provisional Settlement of £16.359M** compared to £25.4M as per the MTFP published in September 2020.

Use of Reserves

27. The draft budget modelling includes the use of £0.750M from reserves. Over-reliance on reserves as budget funding should be avoided, as they are a finite resource, but the sum proposed for 2021/22 is considered to strike an appropriate balance between supporting services next financial year, and the continued ability to set balanced budgets in the longer term.

Council Tax

28. The Council will have due regard to the level of the increase in council tax in 2021/22 but must balance this against the need to fund key services. The modelled increase assumed within the MTFP at September 2020 for 2021/22 was 4%.
29. A 4% increase would generate net additional income of £6.115M after associated increases in the Council Tax Reduction Scheme (CTRS). As council tax represents just over a quarter of the Council's overall funding, an increase of 4% is approximately equivalent to a 1% increase in the Council's overall budget.
30. The CTRS will continue to be funded on all Wales basis at the same level provided within the Revenue Support Grant in 2014/15 (£244M nationally). This means that costs associated with Council Tax uplifts and changing caseloads must be funded by the Council. Whilst a 1% council tax increase generates additional income of £1.870M for the Council, it also costs £342,000 in additional CTRS requirements, thus reducing net additional income to £1.528M. In other words, 18% of any Council Tax increase is required to support costs associated with the CTRS.
31. In overall terms, if the modelled Council Tax increase is factored into available resources at this stage, this would leave a savings requirement of £10.244M. The final level of Council Tax agreed by Council will mean this requirement could increase or decrease as part of finalising the budget strategy for 2021/22.

Financial Planning and Strategic Context

Budget Savings

32. The Council has identified over £220M in savings over the past decade.
33. In the context of a more positive funding settlement, target savings for 2021/22 have been reviewed in order to ensure that they minimise impact on service delivery, especially given the pressures from external factors such as COVID-19 and Brexit, and that they are deliverable and

appropriate in the context of the Council's financial resilience, both next year and over the medium term.

34. The savings target at Provisional Settlement is currently estimated to be £10.244M (after allowing for a modelled Council Tax increase¹). This target will be met by efficiency savings across both Schools' and other Council services' budget heads.
35. Efficiency savings are defined as achieving the same output (or more) for less resource, with no significant impact on the resident / customer. Significant work has already progressed to identify efficiency savings across Services that can deliver against target requirements.
36. In line with the Council's September 2020 Budget Strategy Report, in order to improve the deliverability of savings and maximise the chances of securing full year savings in 2021/22, efficiency proposals that do not require a policy decision will be implemented in the current year wherever possible.
37. In terms of the split between Individual School Budgets (ISB) and other Council services, it is proposed at this stage to restrict the schools efficiency target to 1%. This would contribute £2.590M to the overall target.
38. The remaining £7.654M would then be targeted at other Council services and would include actions such as:
 - Review of staffing arrangements
 - Reductions in premises costs
 - Reductions in external spend
 - Use of new technology
 - Budget review / alignment
 - Income opportunities
 - Re-design and changes in the operating model for services
39. As noted above, there has been a continued focus on exploring income opportunities however, given the impact of the COVID-19 pandemic, such opportunities are clearly more limited than in previous years.
40. Delivery of savings targets identified will result in a balanced budget, although clearly this is based on current modelling assumptions. The draft nature of the budget modelling needs to be emphasised and the expenditure and income assumptions underlying the budget position are continually being reviewed as part of normal budget preparation work. Examples of this include confirmation required in relation to specific grant arrangements in certain areas, confirmation of the NJC and Teachers pay awards, which are yet to be finalised for 2021/22 and consideration of feedback received in respect of consultation.

¹ As per Paragraph 31 the final agreed level of Council Tax could increase / decrease the level of savings required

Allocation of Resources

41. It is important to allocate scarce resources in line with strategic priorities, having regard to their impact on future generations. Any proposals for investment and / or savings are framed by the priorities and objectives set out in Capital Ambition and the Council's Corporate Plan. The Corporate Plan is being developed alongside the budget in the context of meeting the immediate and medium term challenges presented by Covid-19, as well as the role of the Council in leading a city-wide programme of post-pandemic recovery and renewal. This will include a focus on:
- i. Leading the city's economic recovery, doing all we can to support businesses and workers and delivering the Council's capital investment programme in major projects, housing, transport and schools.
 - ii. Supporting the people who have been hit hardest by the pandemic – particularly our most vulnerable citizens and those in our most deprived communities – and the services upon which they rely.
 - iii. Rebuilding the services that have been closed or severely restricted by the pandemic, including the city's major events programme, cultural and tourist venues, leisure centres, and public transport.
 - iv. Delivering the One Planet Cardiff programme, including investments in cycling, walking and public transport; renewable energy generation; increased tree planting; and flood risk management.
 - v. Continuing to modernise our services, building on the service innovations and increased use of technology introduced as part of the Council's pandemic operating model.

Medium Term Planning Implications

42. Whilst the position for 2021/22 is more positive than initially assumed, the Council must continue to strengthen financial resilience and build a robust position from which to move forward. This must include ensuring that all savings newly proposed for 2021/22 are at a realistic and manageable level and that base budgets adequately reflect rising demand and inescapable pressure. There will also be a need to adequately resource service growth and modernisation, in order to help the Council approach the uncertainties of the medium term.
43. Whilst the focus of this report is the annual budget proposals for 2021/22, work is ongoing to revisit the assumptions within the MTFP and the detail of this will be reported along with the Council's other financial strategy documents, as part of the final 2021/22 Budget Report.

Consultation and Engagement

44. Budget consultation is an opportunity to understand what is important to our stakeholders and to encourage their involvement in shaping Council services. Consultation in respect of the 2021/22 Budget, subject to Cabinet approval will begin immediately following Cabinet consideration on the 13th January 2021 and run until 10th February 2021. The results of the consultation will be key in supporting Cabinet as they prepare their final 2021/22 Budget Proposal for consideration by Council in March 2021.
45. The 2021/22 Budget Consultation period will take place when the whole of Wales is at its highest alert level for the Coronavirus Pandemic, meaning that people are only able to meet with members of their household or support bubble. As such, no face-to-face engagement can take place, and the focus of promoting the consultation has to be done electronically. Key points to note for this year's consultation are:
- The consultation document will be available for online completion on the Council's website.
 - A co-ordinated social media and press campaign, and partner involvement will seek to ensure citywide engagement:
 - Links to the consultation will be made available on the Council's corporate social media accounts, with posts targeting localised community groups across the city, and targeted advertising aimed at groups with a typically lower response rates.
 - Links to the survey will also be shared with community groups, such as faith groups, community councils and the Cardiff Youth Council, and partners, including members of the PSB, to be shared with their contacts.
 - The consultation will also be promoted to Council staff via the intranet and Staff Information alerts via email and on DigiGov.
 - The Council will also work with the Access Forum, and relevant groups including the Deaf Hub and RNIB to make the survey available to those who may have difficulty accessing or completing the online link.
 - Findings from the most recent Ask Cardiff survey, conducted in October & November 2020 with 4,715 responses, will also be used to inform the Council's corporate plan and budget
46. Further opportunities for engagement, including with the Schools Budget Forum and Scrutiny Committees will also take place during the coming months. The need to engage effectively with the Council's own staff, both directly and through their trade unions will remain a high priority throughout the budget setting process. Stakeholder engagement opportunities are a valuable way of informing the budget process and Cabinet's final budget proposal.
47. The Budget consultation details are attached at **Appendix 2**.

48. In addition to public consultation where there are ongoing requirements for internal staff and trade union consultation, specifically in relation to ongoing delivery of efficiency savings, these will continue to be included as part of the ongoing employee engagement process.

Employee Engagement

49. Through the Council's Trade Union Pre Cabinet meeting, trade unions have been consulted in advance on this report and the likely impact on employees, particularly where posts are at risk of redundancy. Under the law relating to unfair dismissal, all proposals to make redundancies must involve reasonable consultation with the affected employees and their trade unions. It remains likely that there will be redundancies within the Council's workforce during the financial year commencing April 2021, notwithstanding every effort being made to avoid them.
50. During the period of the consultation, trade unions and employees will have the opportunity to comment on proposals that may affect them. Once the final budget is approved by Council, any employees affected will be supported. At that point, eligible employees will be given the opportunity to take voluntary redundancy or to access the redeployment process, which provide employees with a period of twelve weeks to look for alternative employment.
51. Whilst the exact number of proposed redundancies is not known at this stage, some are likely to occur. This will mean that following Cabinet on 13 January 2021 and in accordance with the Trade Union and Labour Relations (Consolidation) Act 1992, a Section 188 Notice will be formally issued to the trade unions, related to the budget and potential redundancies. The proposed redundancies and the issue of the Section 188 notice is related to the overall reduction in staff numbers required.
52. Formal consultation with employees and trade unions will take place as part of the budget preparation work and views and comments about ways of avoiding, reducing and mitigating the consequences of the numbers of staff being made redundant e.g. by redeployment, will be considered.

Reason for Recommendations

53. To issue the 2021/22 Budget Consultation and to provide stakeholders with the opportunity, through a range of mechanisms, to provide feedback to Cabinet. In addition, to note that the consultation will commence on the 13th January 2021 and run until the 10th February 2021.

Financial Implications

54. The financial implications are as described in the detail of the Report.

Legal Implications

55. Specific legal obligations relating to the setting of the budget and consultation are set out within the body of this report.
56. The obligation to consult can arise in some cases from express statutory provisions and in other cases from common law. In all cases, the consultation must be undertaken in such a way as to be meaningful and genuine. The results of the consultation must feed into the process for consideration and finalisation of budget decisions.
57. The Council has public sector duties under the Equality Act 2010 which require it, in exercising its functions, to have due regard to the need to (1) eliminate unlawful discrimination (2) advance equality of opportunity and (3) foster good relations between persons with and without protected characteristics. For example, protected characteristics include race, sex, gender, age, religion. In order to be sure that the Council complies with its public sector equality duties, it is essential that Equality Impact Assessments are undertaken where appropriate in relation to specific budget proposals, that these are informed by the results of the consultation, and that any impact is taken into account in the decision-making on the budget.
58. The Well-being of Future Generations (Wales) Act 2015 requires the Council to consider how the proposals will contribute towards meeting its well-being objectives (set out in the Corporate Plan). Members must also be satisfied that the proposals comply with the sustainable development principle, which requires that the needs of the present are met without compromising the ability of future generations to meet their own needs.

HR Implications

59. The Human Resource implications are as described in the detail of the Report.

Property Implications

60. There are no property implications arising directly from this report.

RECOMMENDATIONS

Cabinet is recommended to

- (1) Note the updated Budget Position for 2021/22 at Provisional Settlement Stage.
- (2) Agree the proposed approach to Budget Consultation for 2021/22 and subject to that agreement note that the formal budget consultation will commence on the 13th January 2021 and run until 10th February 2021. The results of the consultation process will then be considered by Cabinet in preparing their final 2021/22 budget proposal.

- (3) Note that the Chief Executive as Head of Paid Service will be issuing all necessary statutory and non-statutory employment consultation in respect of the staffing implications of the proposals.

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|-----------------------------------|---|
| SENIOR RESPONSIBLE OFFICER | Chris Lee Corporate Director Resources & Section 151 Officer |
| | 7 January 2021 |

The following appendices are attached:

Appendix 1 – Provisional Local Government Financial Settlement 2021/22 –
Statement and Key Data Table
Appendix 2 – Budget Consultation 2021/22 Details

The following background papers have been taken into account

- Budget Strategy Report 2021/22 and the Medium Term
- Equality Impact Assessments (EIAs) of Cardiff Councils 2021/22 Budget Savings Proposals
- WG Provisional Local Government Financial Settlement 2021/22