

Budget Strategy 2022/23 and Updated Medium Term Financial Plan

Reason for this Report

1. To provide an opportunity for the Committee to consider the Council's Budget Strategy for 2022/23, updated Medium Term Financial Plan and financial resilience.

Background

2. Scrutiny of the Council's financial planning, policy and control falls within this Committee's Terms of Reference. The Committee also routinely scrutinises budget proposals and monitors financial performance throughout the year.
3. The Budget Strategy Cabinet report attached at **Appendix A** will be considered by Cabinet at its meeting on 15 July 2021. The report sets out the Council's financial strategy and timetable for developing the 2022/23 capital and revenue budget proposals and provides an updated Medium Term Financial Plan (MTFP).
4. The report outlines the external environment within which the Council is operating, including the economic context, the organisation context, the impact of the Covid-19 virus; and BREXIT. It clarifies the Medium Term Budget Reduction Requirement, and the Budget Strategy approach required to achieve them; indicates consultation and engagement plans for budget proposals, and outlines the five year Capital Investment Programme with a view to developing the Council's Investment Plan for 2022/23 to 2026/27.

Structure of the Papers

5. To facilitate the scrutiny the following appendices are attached to this report:

Appendix A – Cabinet report – Budget Strategy Report 2022/23 & Updated Medium Term Financial Plan.

Appended to this report are:

Annex 1: Medium Term Financial Plan

Appendix 1: Budget Strategy Overview - Questions & Answers

Appendix 2: Proposed Budget Timetable Framework 2022/23

Appendix 3: Finance Resilience Snapshot

Context

6. In terms of financial resilience planning, the budget strategy report highlights the following key factors:

- Economic Context – unprecedented falls in national income; potential for further restrictions; 8.7% fall in UK GDP; Government’s Job Retention Scheme ending 30 September 2021; pandemic impact on public sector borrowing.
- Organisation Context – strategic framework for the Budget Strategy is Capital Ambition and the Corporate Plan. This year financial planning will need to factor in the Council’s four strategic renewal and recovery plans addressing the post –COVID operating environment for services, a child friendly recovery supporting the city’s economy and progressing the One Planet Cardiff strategy.
- Covid-19 pandemic – additional costs and loss of income to the Council, changes to service delivery and impact on public sector finances.
- The need to continue to deliver significant levels of savings to meet financial pressures in Social Services and Schools, with consequent impact on the budgets of other directorates and overall budget on ability to identify material levels of savings.

Medium Term Financial Plan

7. The estimated budget gap for 2022/23 is **£21.310 million** and **£80.853 million** over the next three years.

8. **Points 28-36** of the report to Cabinet detail key areas of sensitivities that affect the MTFP forecast, including: funding changes; pay changes; impact of actuarial reviews of pension schemes; NDR revaluation of Council properties ; transfer of post 16 Additional Learning Needs to Local Government; impact of the Local Development Plan; demographic changes ; Welsh Government’s Programme for Government (including council tax reform) and, critically, the key “known unknown” remains the extent to which the Coronavirus pandemic will continue to have implications over the medium term.

Covid-19 Pandemic

9. **Points 37–39** detail the risk assessment undertaken on the impact of the Covid-19 pandemic, which identifies some of the key overarching issues and their potential implications in future years. These include: failure of businesses; unemployment; public health measures; behavioural shifts; and demographics. A table at **Point 38** shows the risk ratings for these.

Budget Strategy 2022/23

10. **Points 40 – 49** outline the proposed Budget Strategy, which is framed around two assumptions;

- a Council Tax Increase of 4% generating **£6.3m**; and
- Directorate savings required of **£15.010m**.

11. The Council Tax income is based on net income and reflects the current year’s tax base; it will be updated for the 2022/23 tax base once this is approved by Cabinet in December 2021, after the provisional settlement has been received.

12. Savings form the largest element of the strategy with a requirement of **£54.101 million** over the four-year period, and **£15.010 million** next financial year. Directorate efficiency savings form the largest component of the overall savings requirement. The report to Cabinet states that ‘*The quantum is based on*

directorates covering the cost of their estimated 2022/23 pay awards, as well as contributing additional efficiency savings of up to 2.5%. Percentages vary by directorate, with back office functions attracting higher targets.'

13. The report also stresses that, at a time when core income budgets are still trying to recover as a result of the pandemic, the scope for income generation to form part of the 2022/23 Budget Strategy is limited and any proposed income generation increases will need to evidence a robust achievability assessment.
14. The strategy recognises that there will be a requirement for policy-led and transformational savings with work on identifying ideas and critically reviewing options being accelerated in coming months.
15. Expressions of interest in voluntary redundancy will be sought, requiring a business case resulting in a cost saving and taking account of future business need.
16. For quick reference, appended to the Cabinet report at **Appendix 2** is an outline budget timetable, during which time *consultation and engagement* on the budget will also take place with the third sector, Scrutiny Committees, Audit Committee, Schools, Trade Unions and employees and at **Appendix 1** a useful question and answer summary.

Capital Programme

17. **Points 53-82** detail matters relating to updating the Capital Programme, a strategy aiming to meet the long-term challenges facing the city. The Capital Programme comprises the General Fund, Housing Revenue Account and Strategic & Major Development Projects, such as the development of an Indoor Arena in Cardiff Bay, Core Office Accommodation, the International Sports Village (ISV) and the Councils approach to participating in the Mutual Investment Model for new schools.
18. The report explains the importance of option appraisal, business cases, and due diligence, capital programme affordability, borrowing and capital receipts, stating

that ‘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’.

19. The updated Capital Programme for 2022/23 to 2026/27 should, wherever possible, manage and prioritise emerging pressures within the resources allocated in the current Capital Programme. The approach to be taken in formulating investment priorities will be as follows:

- review schemes already included in the programme;
- manage emerging pressures and increased costs;
- consider new expenditure requests in the context of external funding or robust invest to save business cases;
- for the HRA model long term business plan affordability;
- support directorate asset management plans,
- support the Capital Ambition delivery programme,
- be evidence based and risk prioritised,
- considered all alternative funding possibilities; and
- demonstrate value for money.

Financial Resilience

20. **Point 83** sets out key points relating the financial resilience of the Council, with further details provided in **Appendix 3**. This shows that the challenge facing the Council is significant.

Scope of the Scrutiny

21. This item will give Members the opportunity to consider the Council's strategy for developing the 2022/23 budget proposals, and specifically a fuller understanding of the financial resilience work underway to tackle the challenges posed by the Covid-19 pandemic.

22. To facilitate the scrutiny, the following witnesses have been invited to attend Committee to answer Members questions:

- Councillor Chris Weaver, Cabinet Member for Finance, Modernisation & Performance
- Christopher Lee, Corporate Director – Resources, and
- Ian Allwood, Head of Financial Services.
- Anil Hirani, Operational Manager, Capital, Corporate & Treasury
- Julie Richards, Operational Manager - Budget Strategy & Financial Planning

Legal Implications

23. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct legal implications. However, legal implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision that goes to Cabinet/Council will set out any legal implications arising from those recommendations. All decisions taken by or on behalf of the Council must (a) be within the legal powers of the Council; (b) comply with any procedural requirement imposed by law; (c) be within the powers of the body or person exercising powers on behalf of the Council; (d) be undertaken in accordance with the procedural requirements imposed by the Council e.g. Scrutiny Procedure Rules; (e) be fully and properly informed; (f) be properly motivated; (g) be taken having regard to the Council's fiduciary duty to its taxpayers; and (h) be reasonable and proper in all the circumstances.

Financial Implications

24. The Scrutiny Committee is empowered to enquire, consider, review and recommend but not to make policy decisions. As the recommendations in this report are to consider and review matters there are no direct financial implications at this stage in relation to any of the work programme. However, financial implications may arise if and when the matters under review are implemented with or without any modifications. Any report with recommendations for decision

that goes to Cabinet/Council will set out any financial implications arising from those recommendations.

RECOMMENDATIONS

25. The Committee is recommended to:

- i. note the Budget Strategy for 2022/23;
- ii. consider the ongoing financial challenges caused by the Covid 19 pandemic;
- iii. consider whether it wishes to relay any comments or observations for consideration by the Cabinet Member for Finance, Modernisation & Performance.

DAVINA FIORE

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8 July 2021