

CABINET MEETING

**BUDGET STRATEGY REPORT 2022/23 AND THE UPDATED
MEDIUM TERM FINANCIAL PLAN**

**PORTFOLIO: FINANCE, MODERNISATION & PERFORMANCE
(COUNCILLOR CHRISTOPHER WEAVER)**

AGENDA ITEM:

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 2022/23 revenue and capital budgets.
3. To outline the timetable that the budget process will follow in order to present the 2022/23 Budget to Council in Spring 2022.
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 2021/22 Budget Report identified a potential budget gap of £84.9 million over the period 2022/23 – 2025/26. This Report updates the MTFP for more recent information. It outlines the 2022/23 Budget Strategy and associated timetable, and sets out the approach to rolling forward the Capital Programme. It highlights considerations directly associated with the Coronavirus Pandemic and their implications from a financial planning perspective. Finally, it includes an assessment of the Council's financial resilience in the face of continued financial challenges and the unprecedented circumstances of the past 16 months. (Annex 1 contains the Council's updated MTFP whilst Appendix 1 provides an overview of the Budget Strategy (2022/23) in a question and answer format.)

Issues

6. Before the 11th March 2022, 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 2022/23. This Report sets out a strategy and timetable in order to arrive at that position.

Context

7. The environment in which an organisation operates has a key impact on financial planning. The following paragraphs outline the context to the 2022/23 Budget Strategy.

Economic Context

8. The pandemic has had a significant impact on the economy, both globally and at a UK level. Restrictions on economic and social life have resulted in unprecedented falls in national income, and at the same time have fuelled increases in deficits and debt. There is hope that the vaccine-roll out will boost recovery; however, there is still considerable uncertainty and the potential for a return to further restrictions.
9. UK Gross Domestic Product (GDP) is currently 8.7% below pre-pandemic levels. Latest published forecasts (March 2021) from the Office for Budget Responsibility (OBR), predicted that GDP would recover to its pre-pandemic levels by mid-2022. However, these forecasts were based on the UK Government's February 2021 roadmap, which envisaged removal of restrictions in England by 21st June 2021. This has since been extended until at least the 19th July, reinforcing the potential for change.
10. The Government's Job Retention Scheme (JRS), which has mitigated the impact of the pandemic on job losses, is due to end on 30th September 2021. Current OBR projections suggest unemployment will peak at 6.5% at the end of 2021, following the ending of JRS. From a financial planning perspective, the cost of any increase in demand associated with the ending of JRS will need to be kept under close review. Potential areas that may be affected include council tax support and free school meals.
11. The pandemic has had a significant impact on public sector borrowing. UK Public Sector Net Borrowing (PSNB) for the 2020/21 financial year was £291.5Bn, a six-fold increase on the previous year. The need to restore debt to more sustainable levels over time has the potential to affect future spending on public services. UK spending plans were revised downwards in both November 2020 and March 2021 compared with pre-pandemic plans.

Organisation Context

12. Capital Ambition and the Council's Corporate Plan provide the strategic framework for the Budget Strategy. This ensures that scarce resources are allocated in a way that maximises support for the Council's priorities. Given the Corporate Plan's alignment with wider national goals to create a more sustainable Wales, this also helps to ensure that the financial strategy supports the Council's duties under the Well-being of Future Generations (Wales) Act 2015. Financial planning will also need to take account of the Council's aims for post-pandemic renewal and recovery, as encapsulated in four strategic recovery plans approved by Cabinet in May 2021. As well as setting out how public services will need to change in a

post-COVID operating environment, these provide a framework for a recovery that is child-friendly, supports the city's economy, and progresses the One Planet Cardiff strategy.

13. The Council has identified over £200 million in savings over the past ten years and has seen a reduction of over 1,600 full time equivalent (FTE) posts (in services other than schools). For a number of years during the 2010's, no funding increases were available to meet increasing demand and price pressures. These pressures, which were material in Social Services and Schools, were predominantly met by savings in other directorates. Over time, this has had a significant impact on the shape of the Council's budget. In 2021/22, capital financing, Schools and Social Services 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 should not be understated.

COVID-19

14. 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. In 2020/21, the Welsh Government put in place a COVID-19 Hardship Fund to support Local Authorities in managing additional costs, or income loss, as a direct result of the pandemic. In addition to this, hypothecated grants were available to fund specific WG policies, including the provision of free school meals during holidays, the provision of support to businesses, and bonus payments to care-workers.
15. During 2020/21, additional costs that the Council incurred as a direct result of the pandemic included the procurement of protective equipment, the 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, and to pupils self-isolating. Costs also included provision of financial support to care providers, and operational changes required to ensure the safe delivery of services.
16. Income loss directly associated with the pandemic reflected the closure of the Council's cultural and sporting venues, including theatres, Cardiff Castle and Cardiff International White Water. There was also a reduction in activity in other income generating areas including planning, parking, moving traffic offences, trade waste and school catering.
17. The Council took action to mitigate income losses including the furlough of up to 677 individuals. The Council has only placed staff on furlough, and claimed against the Job Retention Scheme where individuals' posts are funded by income that could not be generated due to the pandemic.
18. The COVID-19 Hardship Fund assisted the Authority in managing the exceptional elements of expenditure and lost income outlined in the preceding paragraphs. Claims to the fund were submitted on a monthly basis for expenditure, and quarterly for income. All were subject to assessment by a Welsh Government panel, in order to ensure they met claim criteria.

19. For the financial year 2020/21, the Council's accepted and pending hardship fund claims total £47.7 million in respect of expenditure, and £38.2 million in respect of income. It is anticipated that Hardship Fund support will continue to be available for the first six months of 2021/22. However, the position beyond that is currently uncertain. To date during 2021/22, the Council's submitted expenditure claims total £4.031 million, with the first claim for income loss due at the end of July.
20. The level of financial support received by the Council during 2020/21 emphasises the extent of the pandemic on Local Authority finances. Whilst vaccine roll-out offers hope for recovery, the situation remains challenging and there are a number of key risks that it will be critical to monitor closely during 2021/22 and as we move into 2022/23. These are set out in the MTFP, and in the sensitivity analysis section within this report.

BREXIT

21. Another factor, which forms part of the background to the 2022/23 Budget Strategy is the impact of BREXIT and the agreed Trade Deal with the European Union. Potential risks in this regards are captured as part of the Council's Corporate Risk Register. Implications across a range of services continue to be monitored, and will be factored into the MTFP at appropriate refresh points if required.

The Medium Term Budget Reduction Requirement

22. The MTFP was last reported in March 2021, alongside the 2021/22 Budget Report. The MTFP undergoes regular review to ensure it reflects the most up to date information. Updates made to the 2022/23 budget gap are summarised in the table below and explained in paragraph 23.

Elements of 2022/23 Budget Gap	Feb 2021 £000	Updates £000	Revised £000
Employee Costs	7,832	(1,030)	6,802
Price Inflation	4,425	(200)	4,225
Capital Financing & Commitments	3,014	0	3,014
Demographic Pressures	7,918	944	8,862
Emerging Financial Pressures	3,000	286	3,286
AEF* - assumes +1%	(4,879)	0	(4,879)
TOTAL	21,310	0	21,310

**AEF or Aggregate External Finance, refers to the Council's general funding – Revenue Support Grant and Redistributed Non-Domestic Rates*

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

Area	Summary of Changes
Employee Costs	<ul style="list-style-type: none"> • Update to teachers' pay assumptions to reflect a proposed 1.75% Teachers Pay Award from 1st Sept 2021. • This is the level recommended by the Independent Welsh Pay Review Body (IWPRB) currently out for consultation
Price Inflation	<ul style="list-style-type: none"> • Update to reflect most recent pricing information
Demographic Pressures	<ul style="list-style-type: none"> • Children's Services – recognition of further potential post-COVID pressure on placements • Schools - reduction to estimated primary pupil numbers based on most recent pupil number projections
Financial Pressures	<ul style="list-style-type: none"> • Sum for emerging pressures marginally increased as a result of the net impact of the above adjustments. This is to reflect the risks and uncertainties summarised below.

24. The 2022/23 Budget Gap will be kept under close review as the year progresses, to reflect emerging issues, and to ensure that assumptions reflect the most up to date information. Key areas to monitor with regards the 2022/23 funding position include:

- AEF assumptions - to be reassessed following the announcement of the Provisional Local Government Finance Settlement. At present, it appears likely that the timescale for the Provisional Settlement may follow that of recent years – i.e. December as opposed to the more traditional October timeframe.
- The Council Tax Base for 2022/23 – pending approval in December 2021, as well as any related AEF redistribution at final settlement.
- Specific grant streams – in particular ICF / Transformation grant funding, over which there is uncertainty beyond the current year (i.e. from April 2022).
- Directorate recovery plans for income-funded areas affected by the pandemic.

25. Areas of potential additional cost pressures that will require ongoing review include:

- Potential increases in demand for services once the JRS ends on 30 September 2021.
- The impact of the removal of the JRS on the Council's ability to mitigate future income losses.
- Announcements regarding National Living Wage rates for 2022/23 and beyond, and their potential impact on the cost of commissioned services.
- The 2021/22 monitoring position as the year progresses.
- The impact on capital financing estimates of rolling forward the capital programme.
- Further announcements in relation to pay awards for 2021/22 and any knock-on implications in terms of part-year effects in 2022/23 or review of future pay assumptions

26. The revised MTFP is summarised below. The estimated budget gap for 2022/23 is £21.310 million and £80.853 million over the period 2022/23 – 2025/26. Further detail on each component of the gap, along with information on key assumptions is included in the MTFP at Annex 1.

	Medium Term Budget Gap				
	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL £000
Employee Related	6,802	7,563	7,619	7,695	29,679
Prices	4,225	4,050	3,405	3,450	15,130
Commitments	42	762	(190)	445	1,059
Capital Financing	2,972	6,081	3,304	1,798	14,155
Demographic Pressures	8,862	7,034	5,939	6,520	28,355
Financial Pressures	3,286	3,000	3,000	3,000	12,286
Funding	(4,879)	(4,928)	(4,977)	(5,027)	(19,811)
Total	21,310	23,562	18,100	17,881	80,853

27. Paragraphs 24 and 25 outlined some key issues that will require close consideration in respect of the 2022/23 Budget Gap. There are also a number of issues that will need to be kept under review over the medium term, i.e. the later years of the MTFP. These, along with key areas of sensitivity within the MTFP are set out in paragraphs 28 to 41 below.

Key Areas of Sensitivity

28. 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.

Funding

29. It is difficult to judge how the wider UK economic position may affect Local Government funding levels next year. As already noted, the unprecedented level of UK debt could mean further tightening on public spending. In addition, potential business failures may affect NDR yield, which could have knock-on implications for the Local Government Financial Settlement in Wales.
30. The Council has no indicative AEF figures for 2022/23, and estimating the likely level is difficult. Current assumptions reflect a 1% increase in 2022/23. This level of increase is lower than in recent years in recognition of the factors raised in the preceding paragraph. However, it is more optimistic than the level of settlements received over a number of years prior to that.
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 £2.439 million in cash terms. Consequently, in the event that

the 2022/23 AEF was cash flat (i.e. at the same level as in 2021/22), this would add £4.879 million to the budget gap in 2022/23.

32. In order to protect the Council from the risk associated with funding assumptions, the Council has a 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, in the event that the funding settlement is worse than anticipated.

Pay

33. As noted above, there is a risk for the economic position to affect future public spending. Previous periods of austerity were accompanied by pay freezes / pay restraint within the public sector. It is difficult to judge whether a potential tightening on public spending will see a return to lower awards.
34. The current MTFP assumes that future pay awards will be 1.5% per annum for NJC staff and 2% for Teachers. This aims to balance the potential for pay restraint with preparedness from a budget perspective. Minor fluctuations in these assumptions could have a significant impact on the MTFP. Each 0.25% fluctuation in Teachers' Pay equates to £0.205 million (taking effect from September) and each 0.25% fluctuation in NJC pay has a £0.641 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 potential to have a significant impact in terms of quantum. These include:
- The outcome of actuarial reviews (Local Government Pension Scheme and Teachers Pension Scheme) during the timeframe of the MTFP.
 - The outcome of NDR revaluation for Council owned properties, due to take effect from 1 April 2023.
 - Arrangements for Post 16 Additional Learning Needs, responsibility for which is due to transfer to Local Government.
 - The impact of the Local Development Plan, particularly in the latter years of the MTFP and beyond.
 - Population figures, other demographic changes, and the effect of the pandemic on previous trends.
 - Welsh Government's Programme for Government – including the intention to press for council tax reform.
36. At present, the key "known unknown" remains 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. Predicting the future financial impact of COVID-19 is difficult for all of the uncertainties already outlined. It is not known whether there may be any further WG funding beyond the current financial year, should Local Authorities continue to experience pandemic-related financial pressure.
38. The table below identifies some of the overarching issues arising from the pandemic and considers their future potential implications for Cardiff Council. Risk ratings take account of likelihood and financial materiality, and have been updated (since the 2021/22 Budget Report) to reflect the most current assessment of risk. Revised ratings take into account:
- The most significant areas of ongoing claim to the Hardship Fund
 - Areas anticipated to be affected by the ending of the JRS
 - Specific Grant funding streams supporting certain areas
 - Income-funded areas likely to be impacted by ongoing social-distancing requirements

Wider Issue	Potential Implications for Cardiff Council	Risk
Failure of businesses / Unemployment	• Free School Meals - any eligibility increase	R
	• Potential increase in Council Tax Reduction Scheme Demand	RA
	• Potential need to increase Bad Debt Provisions	RA
	• Vacancies in investment estate	RA
	• 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
	• Impact on council tax base if development dries up	A
Public Health Measures	• Longer term loss of income - venues etc.	R
	• School catering	R
	• Provider and Supplier viability / support	R
	• Any learning needs catch up (post schools closure)	R
	• The need for PPE requirements will be reviewed	RA
	• Cleansing - schools and offices	RA
	• School transport	A
	• Further Health & Safety requirements	A
	• Shared Regulatory Service - pressure re: enforcing guidelines	A
• Test Track Protect - assume funding ongoing and sufficient	G	
Behavioural Shift	• New ways of working / transport - impact on Cardiff Bus	R
	• New ways of working / transport - impact on Parking & CPE income	A
	• New ways of working - Office and ICT requirements	A
	• Financial impact of any strategies developed for new normal	A
	• Any changes to Welsh Government priorities?	A
	• More emphasis on outside space - maintenance / cleansing	A
	• Waste - recycling habits / fine risk / impact of increased domestic tonnages compared to other streams.	A
Demographics	• Potential for increased family breakdown / number of Looked After Children Placements	R
	• Changed demographic profile - difficulty predicting demand – particularly in Adult Social Care	RA
	• Homelessness	A

39. With the exception of areas where the pandemic appears to have had a significant impact on demography, the issues above are not currently reflected as figures, within the MTFP. They will need to be kept under close review in coming months, both in the context of how the pandemic continues to unfold, and also taking into account directorate recovery plans. As noted in the 2021/22 Budget Report there will be a need to determine at the earliest opportunity, any areas where Government support or directorate recovery plans are considered insufficient or unable to address ongoing financial pressure in these areas. At the first signs of this, it will be crucial to put in place remedial action in order to protect the Council's financial outlook.

Approach to 2022/23 Budget Strategy

40. The high-level strategy to address the budget gap is set out below. These assumptions will be reviewed as the budget process progresses, not least because the budget gap itself may change.

	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	TOTAL £000
Modelled Council Tax (+4.0%)*	6,300	6,552	6,814	7,086	26,752
Savings Required	15,010	17,010	11,286	10,795	54,101
Total	21,310	23,562	18,100	17,881	80,853

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

41. 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 2022/23 tax base (due to be approved by Cabinet in December 2021), after the provisional settlement has been received.
42. 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. Work on identifying savings proposals for 2022/23 has commenced, and the proposed strategy is summarised in the table below:

Savings	£000
Directorate Efficiency Savings	5,606
Schools Efficiency Savings (1%)	2,566
Policy / Transformation Savings	2,788
Corporate Savings and Strategies	4,050
TOTAL	15,010

Directorate Efficiency Savings

43. Directorate efficiency savings form the largest component of the overall savings requirement. 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.

44. Efficiency savings are defined as achieving the same output (or more) for less resource, with no significant impact on the resident / customer. As efficiency proposals do not involve a policy decision, they will be implemented during the current financial year wherever feasible, in order to maximise the possibility of securing full year savings in 2022/23.
45. In previous years, income generation proposals have contributed to the Council's strategy to addressing the budget gap. 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. Any proposed increases to income for 2022/23 will need to evidence a robust achievability assessment.

Schools Efficiency Savings

46. After contributing a modelled 1% efficiency requirement, and taking into account school's contribution to funding the 21st Century Schools Band B Programme, the modelling indicates that schools would receive a net additional cash of £2.814 million (1.1%) in 2022/23 as set out in the table below:

Financial Pressure	£000
Pay	4,973
Price Inflation	75
Pupil Number Growth (Secondary)	1,574
Pupil Number Reductions (Primary)	(1,543)
Estimated cost of LDP Schools	466
Associated Pupil Needs	925
Total (Gross)	6,470
Schools' contribution to Band B & Asset Renewal	(1,090)
Application of 1% Efficiency Target	(2,566)
Net Additional Cash at 1.1%	2,814

Corporate Savings and Strategies

47. This relates to proposals in relation to corporately held budgets and resources. The £4.050 million target will include review of opportunities in the areas listed below.
- Cross directorate savings associated with changes in working practices.
 - A possible reduction in the Council's general contingency or financial resilience mechanism budgets - at a level that recognises the importance of ongoing financial resilience, given the uncertainties set out in this report.

- An increase in the planned use of earmarked reserves to fund the 2022/23 budget – i.e. over and above the £750,000 draw down assumed in previous planning assumptions, but also continuing to recognise that reserves are a finite funding resource. Proposals will be set at a level that can be accommodated from the Strategic Budget Reserve over the period of the MTFP. This reserve was increased at 2020/21 Outturn for this purpose.
- A review of capital financing budgets to identify opportunities to smooth revenue implications of the current programme.

Policy / Transformation Savings

48. The quantum of savings required is such that there will be a requirement for policy-led and transformational savings. These are proposals that could involve changes to services. Work on identifying ideas and critically reviewing options will be accelerated in coming months. Progress in this regard, together with an update on 2022/23 funding, will be reported later in the year, in order to inform consultation.
49. As part of work to support the 2022/23 savings process, as in previous years, expressions of interest in voluntary redundancy will be sought. In line with business case requirements, any release of staff through voluntary redundancy will need to result in a cost saving and take account of future business need.

Consultation and Engagement

50. In order to provide an opportunity for people to have their say on what is important to them and their communities, consultation on the 2022/23 will take place. This will commence with the inclusion of budget themes within the annual Ask Cardiff Survey, paving the way for more detailed consultation later in the year.
51. The proposed Budget Timetable Framework for 2022/23 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.
52. The Council has various mechanisms in place to engage directly with employees including staff information emails, team briefings 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

53. The Council sets a five-year rolling capital investment programme, which is updated annually. The current five-year programme was approved by Council in March 2021 and is summarised below. The 2022/23 Budget Strategy will roll the programme forward a year, to cover 2026/27.

Indicator						
Capital Programme Expenditure						
	2021/22*	2022/23 Indicative	2023/24 Indicative	2024/25 Indicative	2025/26 Indicative	Total
	£000	£000	£000	£000	£000	£000
Annual Sums Expenditure	26,121	21,282	18,940	17,515	17,815	101,673
Ongoing Schemes	36,199	59,211	27,059	1,899	225	124,593
New Capital Schemes (exc. ITS)	3,035	7,625	11,700	6,650	5,650	34,660
Schemes Funded by External Grants and Contributions	56,627	24,278	42,464	77,231	33,479	234,079
Invest to Save (ITS) / Earn Schemes	35,631	138,936	170,874	17,250	11,776	374,467
Total General Fund	157,613	251,332	271,037	120,545	68,945	869,472
Total Public Housing (HRA)	86,740	117,685	91,350	70,350	51,240	417,365
Total Capital Programme	244,353	369,017	362,387	190,895	120,185	1,286,837

* The final slippage figure will be reflected in the Month 4 2021/22 budget monitoring report.

54. 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. It must also approve a Treasury Management Strategy that includes the approach to managing the borrowing implications arising. [The Council's Capital Strategy](#) approved in March 2021 will be updated as part of the 2022/23 budget process and includes the approach to:

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

55. The resulting investment programme maintains momentum in city regeneration and economic development, tackling inequality and inclusive growth, modernising school buildings, delivering a significant house building programme and responding to the climate emergency and public service reform. It is also a key response to the public health crisis and its consequent economic impact, by including a programme of work to lead recovery and successfully reposition Cardiff as a successful global city over the longer term.

56. The impact of the COVID-19 pandemic on the programme to date has been dependent on the nature of the works being undertaken. Construction prices have historically outpaced the general increase in prices, however as the UK emerges from the pandemic, materials supply, increases in construction costs and supplier availability are significant factors that will need to be considered and managed in the update of the programme. This is in addition to the Council's own capacity and skills available to deliver the investment programme, which is a key driver to supporting the city's recovery.

Major projects

57. The Budget Report for 2021/22 provided an update on the Indoor Arena, prior to a Final Business Case in summer 2021. The Capital Programme includes enabling costs and subject to due diligence, direct funding of the arena construction by the Council as an alternative for third party funding. This will be fully funded by annual lease income from the Arena Operator.
58. There are a number of other key strategic projects, which the Council is considering in line with Capital Ambition. These include major projects covering schools, transport, housing and economic development initiatives that may have short, medium and long-term financial implications, as well as consideration of alternative funding approaches. Due diligence and further business cases in respect of these projects are being developed for Cabinet consideration during 2021/22 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.
59. As options, business cases, risks and financial implications are determined; these will need to be considered as part of annual updates to the Capital Strategy, the detailed Capital Programme and the Medium Term Financial Plan in future years.

Importance of Option Appraisal, Business Cases and Due Diligence

60. Implementation of capital schemes approved as part of the budget framework will need to be subject to the governance, financial, procurement and contract procedure rules set out in the constitution, as well as required Cabinet or Officer decision approval of business cases as relevant.
61. Capital Projects have financial implications for the long term, and are the subject of additional financial and non-financial risks. In some areas of expenditure, not undertaking essential expenditure also represents a risk e.g. in maintaining essential city infrastructure. Capital expenditure is a key driver of economic stimulus, which is needed to support a post COVID-19 recovery, however as well as affordability, a key consideration

in setting the Capital Investment Programme is capacity to deliver projects.

62. The size and complexity of Capital Projects including unanticipated taxation, wider financial and operating risks makes it essential that due diligence is undertaken on business cases for capital 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 as part of thorough options appraisal exercises.
63. Such best practice approaches are a key requirement of the Prudential and Financial Management Code and should be in place for all projects including those predicated on undertaking borrowing to be repaid over a period of time from future income or savings. CIPFA is reviewing its Prudential and Treasury Management Code Guidance in December 2021, in response particularly to investment by some authorities primarily in the search for income or yield.
64. The Capital Strategy for 2021/22 indicated that during 2021/22, the Council will review its approach and guidance in respect of business cases.

Capital Programme Affordability

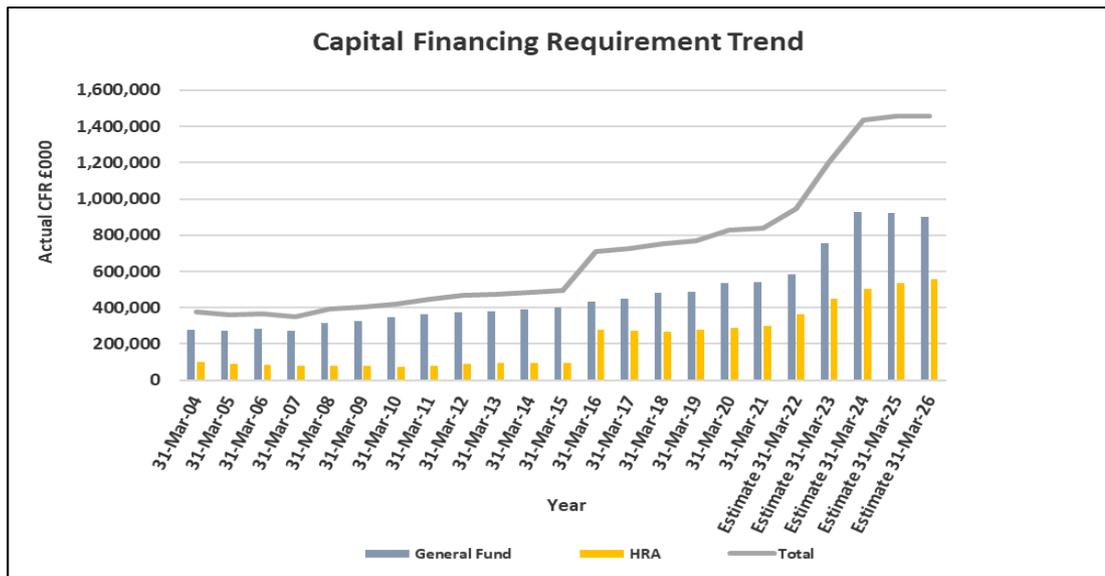
65. The existing capital programme has been set based on a long-term view of the Councils investment requirements consistent with Capital Ambition. The affordability of the programme is reviewed annually taking into account the impacts of the issues highlighted above, with the revenue budget impact of borrowing and operating costs, where significant, included in the Medium Term Financial Plan.
66. The Council continues to be successful in bidding for external grants for specific capital schemes from Welsh Government and other external bodies. This external funding is essential to support affordability of meeting policy objectives set by National Government, but is often only available on a bid basis and has short term timescales.
67. 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

68. 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, revenue 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.

69. The Council's CFR has increased since the measure was introduced in 2004. There are two stepped increases. One in 2015/16 which reflects payments to HM Treasury to exit the Housing Revenue Account (HRA) Subsidy System. The other, starting in 2022/23 reflecting the approach to funding the Indoor Arena.



70. 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.
71. 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.
72. Any increase in the amount of borrowing must 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, financial resilience risks, and the Section 151 Officer view on the deliverability, affordability and risk associated with the Capital Strategy.
73. Based on the existing programme, the medium term financial plans for the General Fund and Housing Revenue Account shows the capital financing budgets increasing into the long term. This assumes no further increases in unsupported borrowing beyond that to which there is already commitment. In addition it assumes capital receipts targets will be met

and all projects approved on an invest to save basis continue to do so and represent no risk to the revenue budget. The increase in the levels of borrowing predicated on such projects makes the preparation, approval and monitoring of robust business cases an important tool in mitigating financial resilience risk.

74. As can be seen throughout the Capital Strategy, Treasury Management Strategy and Housing Medium Term Financial Plan produced as part of the Budget proposals in 2021, a number of indicators are prepared to support the assessment of affordability, prudence and sustainability of borrowing. These will be updated in the Budget Proposals for 2022/23, including any amendments recommended by CIPFA as part of its update of guidance. One of the suite of indicators highlighting the Ratio of Financing Costs to Net Revenue Stream is shown below for the General Fund and Housing Revenue Account. For the General Fund, the net revenue stream is the amount to be met from non-specific WG grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers and service charges. These are clearly based on future assumptions in respect to AEF, council tax income and housing rent policy. Any adverse change in these variables may have a significant impact on the outlook for this indicator.

Indicator							
Ratio of Financing Costs to Net Revenue Budget Stream							
	2019/20 Actual %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
General Fund Net CF Budget	4.77	4.73	4.68	4.81	5.19	5.40	5.34
General Fund Gross CF Budget	7.05	6.77	7.27	7.42	8.82	9.76	9.56
HRA Gross CF Budget	32.97	32.94	33.93	34.09	36.70	38.00	38.53

CF = Capital Financing

75. Additional ratios included in the Capital Strategy also highlight the ratio of Capital Financing costs as a percentage of controllable budget (excludes expenditure on levies, Council Tax support and delegated schools budgets) and also the Capital Financing Requirement (Debt) as a ratio of the Net Revenue Stream. The ratios indicate that a greater proportion of the estimated future revenue budget is required for capital financing costs over the planned Capital Programme period.
76. 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.

Capital Receipts

77. 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 where this can support savings requirements.
78. The 2018/19 Capital Programme set a £40 million target for non-earmarked receipts (net of fees) for the period 2018/19 - 2022/23, with a subsequent increase of £1 million to this target in 2019/20, after making a deduction for eligible revenue costs of disposal. Receipts of £7.861 million have been generated in the three years to 31 March 2021 towards this target, leaving a balance of £33.139 million to be found.
79. The Council's approach to the delivery of the capital receipts target and those deemed to be earmarked where approved by Cabinet as ring-fenced for specific projects or strategies, or ring-fenced by legislation, will be updated in the Annual Property Plan which is proposed to be considered in September 2021.
80. It is recognised that realisation and timing of receipts will vary but where these are included as receivable in the budget without a clear timescale, without specific sites and certainty there is a significant risk to the Council's borrowing requirement and future revenue budget. The assumptions in respect to receipts will be reviewed as part of the budget, adopting a prudent approach in the medium term, with any receipts towards the agreed target which are subsequently received being used for repayment of borrowing.

Developing the Capital Programme 2022/23 to 2026/27

81. As mentioned above the capital investment programme is a strategy, aiming to meet the long-term challenges facing the city. As such the programme should not change significantly as a result of short term disruptors. However, the update of the investment programme will have regard to the challenges outlined above namely, longer term affordability in the context of the overall Medium Term Financial Plans; Materials and supply cost pressures; proportionate business cases in place prior to inclusion of schemes in the programme and review of resources available to pay for capital commitments. Accordingly the approach in the medium term is set out below:

Area	Approach
General Fund	No new schemes or additional investment in asset renewal funded by borrowing over the medium term unless: <ul style="list-style-type: none">• re-prioritised from existing programme• is on an invest to save / invest to earn basis following a business case approved by Cabinet or• where significant external match funding is confirmed.
Housing Revenue Account	Focus on delivery of existing sites in the pipeline to meet target of new affordable housing. Additional sites subject to affordability and medium term rent policy agreed by Cabinet.

Area	Approach
Strategic & Major Development Projects	To create an affordable revenue budget envelope to cover capital costs arising from approved business cases.

82. In updating and formulating the five-year Capital Programme for 2022/23 to 2026/27, the approach to formulating investment priorities will be as follows:

- Schemes already included in the indicative programme to be reviewed for increased cost pressures, mitigation options and timing having regard also to capacity to deliver.
- Emerging pressures and increased costs to be managed and prioritised within existing resources allocated in the current capital programme.
- Any new expenditure requests will only be considered in the context of external funding or robust Invest to Save / Invest to Earn business cases, approved by Cabinet.
- Housing Revenue Account investment to consider long term business plan affordability modelling, with new build schemes approved subject to individual viability assessments. Key to affordability will be approach to rent-setting and demonstrating value for money within the 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 requesting council funding
 - demonstrate value for money in expenditure and approach to delivering outcomes.

Financial Resilience

83. Given the identified challenges, 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 2022/23. It reflects key past, present and future information, summarising key points from the draft Statement of Accounts 2020/21, the 2020/21 Outturn Report, the financial impact of COVID-19, and the Budget Strategy reflected within this report.

Historic Information and Trends

- **Earmarked Reserves** – the Council's earmarked reserves have historically been low for an authority of its size, and previous assessments of financial resilience have noted the need to increase reserves where possible and appropriate. Reserves increased at the end of 2020/21. This was attributable to a number of factors including planned increases, grant

awards made late in the financial year, and less use of reserves during 2020/21 due to the pandemic.

- **Savings** – as noted previously, the Council has identified over £200 million in savings since 2012/13. This is a challenging position from which to continue to identify significant levels of savings.
- **Funding** - the level of specific grant income the Council receives has increased over time. Whilst any increase in funding is welcome, this also poses a risk, because many of the costs funded by these grants are integral to the operation of core services, leaving the Council exposed to potential grant fall-out.
- **Financial Ratios** – the illustrated ratios present no cause for concern.

Recent / Current Information

- **Projected Outturn** – the outturn for the financial year 2020/21 was balanced overall, although the position included some unachieved savings as noted below.
- **Unachieved Savings 2020/21** – the snapshot indicates that £4.477 million of 2020/21 savings were unachieved. This included £2.330 million in relation to Social Services proposals. These were written out in setting the 2021/22 Budget, and pose no ongoing risk. The remaining £2.147 million unachieved proposals were largely undelivered due to the Coronavirus pandemic. They will continue to be closely monitored during 2021/22. Almost 75% of the £2.147 million related to income. The Report has already outlined the expectation that income proposals will offer limited capacity to address the 2022/23 budget gap, given that existing income budgets are in a period of recovery.
- **COVID-19** – the snapshot summarises the significant level of funding the Council received in year from the WG Local Authority Hardship Fund. The ongoing risks in relation to COVID-19 are set out in detail earlier in the report. From a financial resilience perspective, there will be a need to act quickly in order to put appropriate remedial action in place in the event that Government funding or directorate recovery plans are considered unlikely to meet ongoing pressure.
- **Capital Programme Outturn** - whilst the unprecedented circumstances of 2020/21 played a role in the level of slippage in 2020/21, the Council's success in attracting significant external funding and the need to utilise such funding by the end of the year also meant that the Council's own resources were required to be displaced and carried forward. Slippage has been an issue for several years. Accordingly the Capital Strategy also outlines the need for discipline from directorates to ensure resources, skills and capacity are available to deliver the investment programme on time.

Future Forecasts

- **MTFP** – the financial outlook remains challenging, with significant additional savings requirements over the medium term.
- **Capital Financing Requirement (CFR)** – based on the current capital programme, CFR projections show a significant increase over the medium term. This reflects commitments such as 21st Century Schools and the new

house-build programme. The cost of servicing the resultant borrowing requirement will need to be managed as part of the Council's MTFP, and over the longer-term.

- **Local Affordability Indicator** – this local indicator shows capital financing costs as a ratio of controllable budget. The gross indicator reflects total capital financing requirement, whilst the net indicator recognises that some of these costs are due to be met from Invest to Save (ITS) income, or specific directorate budgets. The indicator is influenced by funding assumptions for future years, including changes in RSG. At present, both indicators show an increase, however the increase in the gross indicator is much steeper. This emphasises the importance of robust business cases, where capital investment is undertaken on the basis that it will be paid for from future income or revenue savings. In the event that these are not delivered, associated capital financing costs will fall to the Council's revenue budget.

Scrutiny Consideration

84. The Policy Review and Performance Scrutiny Committee is due to consider this issue on 14th July 2021. Any comments will be circulated at the Cabinet meeting.

Reasons for Recommendations

85. To seek Cabinet approval for the Budget Strategy in respect of 2022/23 and the updated MTFP.
86. To note the Budget Timetable Framework and forward this to Council for approval.

Legal Implications

87. 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. Any specific legal issues arising will be addressed as part of the proposed budget preparation. These implications do not contain legal advice on the individual projects referred to in the report, which will be provided on the respective projects as and when considered.
88. The report provides that the proposed Budget Timetable framework for 2022/23 will make provision for consultation. In order for there to be robust consultation, the process 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. 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.

General legal requirements

Equality Requirements

89. In considering this matter the decision maker must have regard to the Council's duties under the Equality Act 2010. Pursuant to these legal duties Councils must, in making decisions, have 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. Protected characteristics are: (a). Age, (b) Gender reassignment (c) Sex (d) Race – including ethnic or national origin, colour or nationality, (e) Disability, (f) Pregnancy and maternity, (g) Marriage and civil partnership, (h) Sexual orientation (i) Religion or belief – including lack of belief.
90. When taking strategic decisions, the Council also has a statutory duty to have due regard to the need to reduce inequalities of outcome resulting from socio-economic disadvantage ('the Socio-Economic Duty' imposed under section 1 of the Equality Act 2010). In considering this, the Council must take into account the statutory guidance issued by the Welsh Ministers (WG42004 A More Equal Wales The Socio-economic Duty Equality Act 2010 (gov.wales) and must be able to demonstrate how it has discharged its duty.

Well Being of Future Generations (Wales) Act 2015

91. The Well-Being of Future Generations (Wales) Act 2015 ('the Act') places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.
92. In discharging its duties under the Act, the Council has set and published well being objectives designed to maximise its contribution to achieving the national well being goals. The well being objectives are set out in Cardiff's Corporate Plan 2021-24. When exercising its functions, the Council is required to take all reasonable steps to meet its well being objectives. This means that the decision makers should consider how the proposed decision will contribute towards meeting the well being objectives and must be satisfied that all reasonable steps have been taken to meet those objectives.
93. The well being duty also requires the Council to act in accordance with a 'sustainable development principle'. This principle requires the Council to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:
- Look to the long term
 - Focus on prevention by understanding the root causes of problems

- Deliver an integrated approach to achieving the 7 national well-being goals
- Work in collaboration with others to find shared sustainable solutions
- Involve people from all sections of the community in the decisions which affect them

94. The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below:

<http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

Welsh Language.

95. The decision maker should also have regard, when making its decision, to the Council's wider obligations under the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.

Financial Implications

96. 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 2022/23. It outlines a likely budget reduction requirement of £80.853 million over the period 2022/23 – 2025/26, of which £21.310 million relates to 2022/23. 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 (£26.752 million) and savings (£54.101 million.) The gap will continue to be reviewed during the current year to reflect most recent information.

HR Implications

97. 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 has 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.

98. Given the level of savings required in 2022/23 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 that 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 sustained changes will be key.

99. 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.
100. 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. The Council's Voluntary Redundancy Scheme is always available, however, 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.
101. Initial Trade Union consultation has taken place on this report. The Trade Union Partnership Meeting 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 2022-/23 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

102. There are no direct property decisions or recommendations contained within this report however property is intrinsic to the delivery of the budget strategy. The Council's land and property estate generates capital receipts from the disposal of assets and income in the form of rent from leased premises. Furthermore the acquisition, construction and refurbishment of property to meet the council's evolving service requirements is a significant component of the capital and revenue corporate budget objectives.
103. Strategic Estates work closely with finance on all property transactions with the governance surrounding this to be further strengthened as part of the 2021/26 Corporate Property Strategy. All capital receipts and revenue income transactions will be reviewed with finance to align with

the agreed objectives of the budget strategy. In addition, reporting will be expanded to include acquisition and disposal of all property within the Annual Property Plan (APP) from all property portfolios and projects.

104. The corporate property strategy 2021/26 will once again include a 5 year capital receipt target to support the Council's capital programme. It is also intended to introduce a new target relating to rental income to be achieved over the 5 years. Progress will be reported on an annual Basis through the APP.
105. New corporate objectives relating to carbon reduction within the One Planet Cardiff strategy are anticipated to have a significant impact on property decision making and capital / revenue investment requirements. This is referred to as "the built environment in the OPC strategy and is relevant to new builds, refurbishments, asset renewal and also proposed and potential carbon offsetting projects. To meet carbon reduction targets, capital and revenue requirement is anticipated to increase considerably as more energy efficient components, designs and also management arrangements are implemented. The details of proposals will be developed in collaboration with finance with budget implications communicated and reviewed through established governance.
106. Strategic Estates will continue to work closely with finance via a regular scheduled meetings, to ensure property decision making in the various estate portfolios is aligned with the objectives of the budget strategy.

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 2022/23 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 £21.310 million for 2022/23 and £80.853 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 2022/23 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 2022/23 budget proposals will take place in order to inform the preparation of the draft 2022/23 Budget.

CHRIS LEE
Corporate Director Resources
2 July 2021

The following Annexes are attached:

Annex 1: Medium Term Financial Plan

The following Appendices are attached:

Appendix 1: Budget Strategy Overview - Questions & Answers

Appendix 2: Proposed Budget Timetable Framework 2022/23

Appendix 3: Finance Resilience Snapshot

Background Documents

2021/22 Budget Report – February 2021

Capital Strategy 2021/22