Annex 1

Cardiff Council

Medium Term Financial Plan

2022/23 – 2025/26

UCHELGAIS PRIFDDINAS CAPITAL AMBITION

CARDIFF CAERDYDD

Contents

1.1 Aims and Purpose of MTFP

The Medium Term Financial Plan (MTFP) forecasts the Council's future financial position. Preparation of an MTFP is good financial practice. In particular:

- It helps ensure that the Council understands, and can prepare for, the challenges in setting a balanced budget.
- It encourages discussion about the allocation of resources, helping to ensure they are directed towards delivering core responsibilities and policy objectives.
- It is an important part of understanding the Council's financial resilience, helping to protect the Council's long term financial health and viability.

1.2 Governance

The MTFP process is an integral part of the Council's financial planning framework. It closely aligns with other key aspects of the financial planning process, including the Council's Capital Strategy.

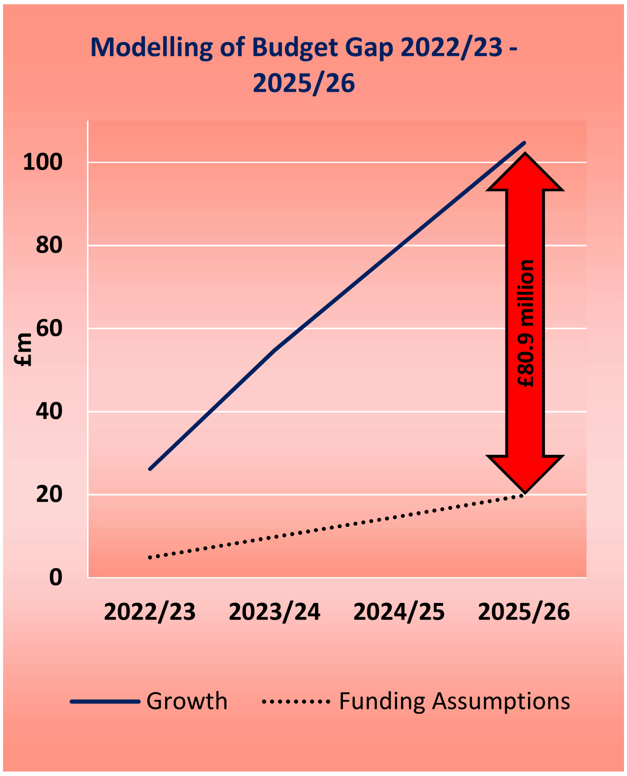
Development of the MTFP is an iterative process. Regular review is required to ensure it reflects most recent information and captures emerging issues. Elected Members and Senior Management are engaged in the process through a series of regular briefings, to scope, inform and review the plan.

The transition from high-level planning principles, to detailed budgets that align with the Council's priorities, is shaped by Elected Members with support and advice from senior management. As proposals develop, engagement is extended to a wider range of partners including citizens, Scrutiny, staff, School Budget Forum and Trade Unions. Consultation feedback is considered as part of the finalisation of annual budget proposals.

The MTFP is formally reported as part of the Council's Budget Report and an update is included with the Budget Strategy Report.

1.3 MTFP Overview

The Council has faced an extended period of financial challenge. Whilst Local Government Financial Settlements have been more positive in 2020/21 and 2021/22, the impact of COVID-19 on the national economic picture means future funding is volatile, and will need to be kept under close review. The MTFP currently estimates a budget gap of £81 million over the period 2022/23 – 2025/26.



"Budget Gap" is the term used to describe the difference between the funding the Council expects to receive, and the estimated cost of continuing to deliver services at the current level. Put simply, the budget gap is a result of funding failing to keep pace with demand, inflation and other financial pressures.

Section 2. Key Considerations

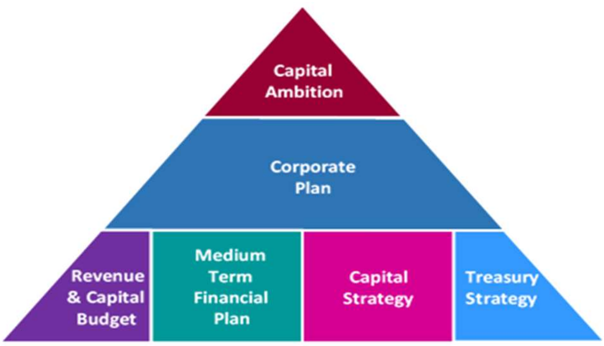
2.1 Council Priorities

Capital Ambition, sets out the Administration's policy agenda. The Corporate Plan, "Delivering Capital Ambition", sets out how the Administration's priorities for Cardiff will be achieved. Key priorities are summarised below.

Capital Ambition	Corporate Plan
Working for Cardiff	• Cardiff is a great place to grow up • Cardiff is great place to grow older • Supporting people out of poverty • Safe, confident and empowered communities
Working for Wales	• A Capital City that works for Wales
Working for the Future	• Cardiff Grows in a resilient Way
Working for Public Services	• Modernising and Integrating our Public Services

The Corporate Plan is consistent with wider local and national goals that support long-term sustainability. It aligns with the Cardiff Well-being Plan, which contains the shared well-being objectives of Cardiff Public Services Board. These complement Wales' National Well-being Goals, which focus on creating a more sustainable Wales.

The Council's financial strategy documents, including the Budget, MTFP, Capital and Treasury Strategies, are framed by the above priorities.



This ensures that resources are spent in line with priorities and that financial strategy supports long-term sustainability, in line with the Council's duties under the Well-being of Future Generations (Wales) Act 2015.

The Council's vision for post-pandemic recovery and renewal will also need to be factored into future financial strategy. This is 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-frindly, supports the city's economy and progresses the One Planet Cardiff strategy.

Implications for Financial Planning

The MTFP needs to reflect the revenue funding requirements of Capital Ambition, and the Council's aims for post pandemic recovery and renewal aspiration. This will include where applicable, the financing requirements of the capital investment needed to deliver the Administration's priorities.

In addressing the medium term budget gap, savings will be required. There will be a need to continue to ensure that scarce resources are allocated in a way that support identified priorities.

2.2 City Overview

Previous iterations of the MTFP have included detail around Cardiff's demographics, including population, education, housing, employment and deprivation. The pandemic has had an unprecedented impact on all of these areas, and previous expectations around some demographic variables are not necessarily still relevant to today's MTFP. The lasting impact and effect on people's day-to-day lives, are still uncertain, but are likely to include those set out in the following paragraphs. Given the level of uncertainty posed, the risk section of the MTFP, considers pandemic-related uncertainty in more detail.

Section 2. Key Considerations

Population

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

Implications for Financial Planning

Generally, a growing city places greater demand on Council services, including housing, education, environment and social care. Steeper growth in the over-65 age brackets will mean continued demand on social services.

Implications for Financial Planning

The financing costs of the Council's house building programme are reflected in the Housing Revenue Account (HRA) business plan (as the HRA is a ring-fenced account.) From a General Fund perspective, planned housing growth will mean that new communities will need the support of Council services such as waste and schools.

Demand for these services will require careful modelling, including the extent to which additional Council Tax from more dwellings may offset cost. There is a need to gage how demand for services in new communities, including school places, might affect demand in other parts of the city.

Education

Investment in the building of new schools, and the refurbishment and improvement of existing accommodation is being progressed via the 21st Century Schools Band B Programme, along with programmed asset renewal works. New schools will also be developed in connection with the Local Development Plan (LDP). The timing of previously assumed revenue pressures in this regard will require review. There will be a need to consider lasting effects of the pandemic and consider the use of blended learning practices and factors that may affect levels of support required by pupils.

Implications for Financial Planning

Capital financing and future operating costs will need to be reflected in forecasts.

Housing

Cardiff's Local Development Plan (LDP) is a 20 year Plan from 2006 - 2026. It set a target for 41,000 additional homes by 2026. Statutory periodic review of the LDP will take place over the next few years. The Council also has an ambitious Housing Strategy to build affordable, high quality, energy sustainable homes.

Employment

Where possible, working from home has become a necessity during periods of lockdown, and many employers are indicating that a move to more agile working is likely to become a permanent feature.

Whilst the Job Retention Scheme is running, the true impact on unemployment levels is unknown. Once financial support ends, more companies may be unviable with further job losses likely. This may affect levels of deprivation, benefit claims and Council Tax receivable. The loss of companies and more agile working will also affect Non-Domestic Rates yield, which in turn could affect funding levels if there is an impact on the All Wales Pool.

There are large disparities in unemployment levels across the city, and there is in-work poverty. Just over a fifth of people in employment earn less than the Real Living Wage. The Real Living Wage is an independently calculated hourly rate of pay, set to cover the basic cost of living, which is paid voluntarily by more than 6,000 UK employers. Cardiff Council is a Real Living Wage Employer and an advocate of Real Living Wage in the city.

Deprivation

The 2018/19 National Survey for Wales indicated that 16% of people aged 16 or over in Cardiff live in households in material deprivation, which is slightly above the Welsh average of 14%. However, there is disparity across the city. The full and lasting impact of the pandemic on these figures will depend on the areas outlined above.

Implications for Financial Planning

Policies to tackle poverty will need consideration in financial planning. These include the capital financing implications of the provision of affordable housing (HRA), making Cardiff a Living Wage City, together with a continued focus on education. Pressures on the homelessness service will be kept under review in terms of potential cost pressures.

One Planet Cardiff

One Planet Cardiff sets out the Council's strategic response to the climate change emergency. It contains a wide range of ambitious actions aligned with the vision of achieving carbon neutrality by 2030. These include building sustainable homes, green energy generation, facilitating active travel and enhancing biodiversity.

Implications for Financial Planning

The capital financing of larger schemes associated with One Planet Cardiff will need to be reflected in the MTFP. There will also be a need to consider any potential revenue costs, including those required to deliver schemes, as well as those associated with their ongoing operation. There will also be a need to capture any revenue savings associated with One Planet Schemes.

2.3 Economic and Financial Outlook

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

UK Context

The Office for Budget Responsibility (OBR) produce medium term forecasts for key economic indicators. Latest published forecasts (March 2021) underlined the global economic impact of the Coronavirus Pandemic. Restrictions on economic and social life have resulted in unprecedented falls in national income, and fuelled rises in public deficits and debt. There is hope that vaccine roll-out may boost recovery, but there is still considerable uncertainty.

UK Gross Domestic Product (GDP) is currently 8.7% below pre-pandemic levels. The latest published OBR forecasts predict that GDP will recover to 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.

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.

The pandemic has had a significant impact on public sector borrowing. UK Public Sector Net Borrowing (PNSB) for the 2020/21 financial year was £291.5Bn, a sixfold 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.

Section 2. Key Considerations

Implications for Financial Planning

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

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.

BREXIT

The Council's Corporate Risk Register captures potential risks in relation to BREXIT and the agreed Trade Deal with the European Union. Implications across a range of services continue to be monitored, and will be factored into the MTFP at appropriate refresh points if required.

Welsh Context

The WG Budget covers one year only which means the Council has no indicative funding figures for 2022 or beyond. Estimating funding is extremely difficult; national economic uncertainty may affect public spending generally, and distribution decisions must be made by both Westminster and Welsh Government before funding reaches individual Welsh Authorities.

A number of taxes are devolved to WG control including landfill disposal tax, Non-Domestic Rates (NDR), land transaction tax and Welsh Income Tax. Whilst WG has the power to vary taxes, the current administration have pledged not to change income tax rates prior to the 2021 election. Beyond that, the position is currently uncertain.

2.4 Council Financial Context

Historic Context

Over the 10 year period 2012/13 – 2021/22, the Council has identified over £200 million in savings and lost over 1,600 FTE posts in services other than schools.

This period coincides with a marked deterioration in general grant levels. Whilst Cardiff has not seen a ***cash*** reduction in AEF since 2015/16, until 2020/21 there were annual real term reductions. AEF has not kept pace with the inflationary and demand pressure that the Council has experienced.

Implications for Financial Planning

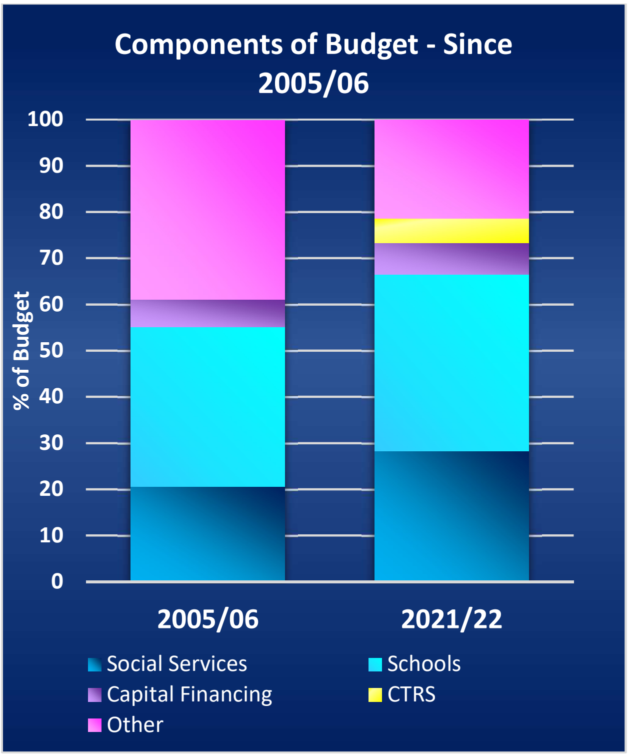
This context makes it more challenging to continue to deliver material levels of savings over the medium term. The Council's financial resilience will continue to be kept under close review.

Impact on the Council's Budget

The extended period of financial challenge has had a significant impact on the *shape* of the Council's budget. Some directorate budgets have contracted significantly and others have grown. Demand and price pressure has been acute in Social Services and Schools. Between 2017/18 – 2021/22, these budgets increased by £84 million.

Year	Schools £m	Social Services £m	Total £m
2017/18	7.2	9.2	16.4
2018/19	7.4	8.4	15.8
2019/20	10.4	4.1	14.5
2020/21	10.4	10.6	21.0
2021/22	6.2	10.4	16.6
TOTAL	**41.6**	**42.7**	**84.3**

Until 2020/21, with no real term AEF increases to help meet this demand, it was primarily financed from savings in other directorates, causing those budgets to contract significantly over time.



The “Other Services” budget includes all Council Services except Schools and Social Services. For example, it includes highway maintenance, waste collection, parks and homelessness. It contains areas of statutory duty.

Section 3. Medium Term Financial Plan

3.1 Forecast Financial Position

The Council's forecast financial pressures, funding and resultant £81 million budget gap are set out below.

		2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
	Base Budget Brought Forward	**682,253**	**687,132**	**692,060**	**697,037**
Schools	Pay Costs	4,343	5,071	5,073	5,133
	Price Inflation	75	75	75	75
	Pupil Numbers	1,412	1,484	339	1,470
	Contribution to Band B & Asset Renewal	(1,090)	(1,090)	(1,090)	(1,090)
	Total Schools Pressures	**4,740**	**5,540**	**4,397**	**5,588**
Social Services	Pay Costs	733	744	756	765
	Price Inflation	3,500	3,395	2,500	2,545
	Demographic - Adult Social Services	1,650	1,750	1,800	1,850
	Demographic - Children's Social Services	5,000	3,000	3,000	3,000
	Total Social Services Pressures	**10,883**	**8,889**	**8,056**	**8,160**
Other Services	Pay Costs	1,726	1,748	1,790	1,797
	Price Inflation	650	580	830	830
	Commitments	1,132	1,852	900	1,535
	Demographic Growth	800	800	800	200
	Total Other Services Pressures	**4,308**	**4,980**	**4,320**	**4,362**
	Capital Financing	**2,972**	**6,081**	**3,304**	**1,798**
	Emerging Financial Pressures	**3,286**	**3,000**	**3,000**	**3,000**
	Resources Required	**708,442**	**715,622**	**715,137**	**719,945**
	Resources Available:				
	Aggregate External Finance	492,792	497,720	502,697	507,724
	Council Tax before any future increases	193,590	193,590	193,590	193,590
	Earmarked Reserves	750	750	750	750
	Total Resources Available	**687,132**	**692,060**	**697,037**	**702,064**
	BUDGET REDUCTION REQUIREMENT	**21,310**	**23,562**	**18,100**	**17,881**

3.2 Pressures Key Assumptions

Employee Costs

Pay Awards

There are no agreed pay awards for the period covered by the MTFP. The plan contains the following assumptions:

- Teachers' Pay Award – 2% per annum (from Sept 2022)
- NJC Pay Award – 1.5% per annum

Whilst there have been messages at a UK level regarding public sector pay restraint, Local Government Pay is a matter for collective bargaining through the National Joint Committee, and Teachers' Pay Awards are set by Welsh Government. In light of this, it is not prudent to assume no pay award at this stage, however, this assumption will undergo regular review.

National Insurance

No significant changes to National Insurance rates or thresholds are anticipated. This position will be kept under review.

Employer's Superannuation Contributions

Actuarial review of the Local Government Pension Scheme took place during 2019/20 and resultant changes in Employers' contributions are reflected in current budgets. The results of the next actuarial review could affect later years of the MTFP. At this stage, no further change in contribution rate is assumed but this will be kept under close review.

The Teachers' Pension Scheme (TPS) is an unfunded public service pension scheme. Employers' contributions to the scheme increased significantly in September 2019 due to an actuarial review and change in the discount rate used to set scheme contributions. At present, the MTFP reflects no further changes, but this is another area that will require careful consideration as the next actuarial review nears.

Incremental Pay Progression

Forecast pay pressures include an allowance for teachers' pay progression. Estimates are reduced year on year, in recognition that over time, budgets should be sufficient to cover the top of each pay grade. No pressures are anticipated in respect of pay progression for non-teaching staff for this reason.

Apprenticeship Levy

Forecast pay pressures allow for the Council's Apprenticeship Levy to increase in line with general pay uplifts. The Apprenticeship Levy is a Government levy payable by larger employers at 0.5% of annual pay bill.

Redundancy Costs

In times of financial challenge, savings requirements mean that redundancy costs are an important consideration in financial planning. The Council has a base budget and earmarked reserve set aside to meet these costs. Financial forecasts include potential redundancy costs over and above existing provision.

Price Inflation

The Council's budgetary policy is that directorates manage price inflation within existing resources, except in exceptional circumstances. These may relate to the scale of the increase, or the quantum of the budget to which the increase applies. Areas deemed exceptional and included as forecast price pressures include out of county placement costs, NDR, Social Services commissioned care costs and energy.

At April 2021, inflation (CPI) stood at 1.5%, up from 0.7% in March 2021. The table below sets out OBR forecasts for CPI. Where appropriate, these inform inflationary costs over the medium term. However, consideration is also given to other key cost drivers in the services being commissioned, including for example wages.

2022	2023	2024	2025
1.8	1.9	1.9	2.0

Commitments

Forecast financial commitments include capital-financing costs, increases to levies the Council is committed to paying and the future implications of previous Cabinet or Council decisions. Further detail on each area is set out below.

Capital Financing Costs

Forecast capital-financing costs reflect the 2021/22 – 2025/26 Capital Programme and the cost of commitments made in previous years. They reflect the following key assumptions:

- No new commitments funded by additional borrowing unless on an invest to save/earn basis.
- Borrowing predicated on income or savings achieve the outcomes expected in order to pay for themselves in the intended timescales.
- The timing and delivery of expenditure will be as profiled in the capital programme.
- The assumed interest rate for new borrowing is circa 2%.
- Capital receipt targets will be met
- The timing and method of managing borrowing repayments will be determined in accordance with the Treasury Management Strategy
- There remains one pool of debt for the General Fund and HRA.

The Capital Programme includes a number of major projects including the development of a new Indoor Arena. Whilst it is anticipated that capital-financing costs will be recovered through new income streams over the life of the project, the MTFP reflects an element of interim support between 2024/25 and 2025/26.

Levies

Forecast financial commitments include estimated increases to levies and contributions. The most significant of these is the South Wales Fire Services (SWFS), with a current Council contribution level of approximately £18 million. The budget for the SWFS is levied across constituent local authorities on a population basis. Estimates reflect potential future levy increases as a result of both population increases as well as potential increases to the SWFS' overall budget.

Other Commitments

These include:

- Additional base budget funding for the Council's Corporate Apprentice Scheme in 2022/23, which is when remaining reserve funding will be almost fully depleted.
- Revenue funding associated with the procurement of a new refuse vehicle fleet.
- The operating costs of a Household Waste Recycling Centre consistent with the timescales in the capital programme.
- Additional maintenance costs associated with the future upkeep of capital programme investment in the public realm.
- Revenue funding to operate a youth zone, consistent with capital programme timescales.

Demographic Pressures

The key areas of forecast demographic growth, and the associated financial impact over the period 2022/23 – 2025/26 are summarised below:

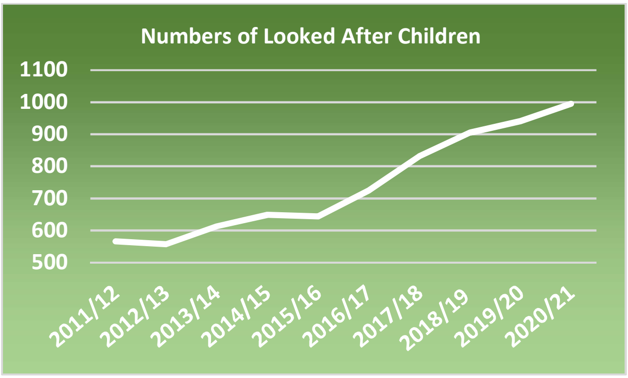
Demographic Increases	£m
Adults Social Services	7.0
Children's Social Services	14.0
Pupil Numbers	4.7
Out of County Education Placements	1.8
Other	0.8
TOTAL	**28.3**

Adults Social Services

Estimated growth in Adult Social Services is particularly difficult to predict at present, as sadly, the pandemic has had a particular impact on this demographic. The MTFP includes an annual allowance for demographic growth in this area, but this will need to be closely reviewed in coming months as the immediate impacts of the pandemic begin to subside, and its lasting impact on placement numbers and market sustainability becomes clearer.

Children's Social Services

Estimated growth in Children's Services is also difficult to predict. The graph below sets out annual increases since 2011/12.



At present, there is uncertainty regarding what long tail impact the COVID 19 pandemic may have on family breakdown. There is a concern that there may be a significant increase in the number of Looked After Children and associated placements. Financial forecasts will need to be kept under close review in this regard. Further modelling will be required to understand the extent to which preventative measures being implemented by the directorate will take effect, and to gage the potential future mix of placements (fostering and residential), to determine whether the significant increase in residential placements in recent years will even out.

Pupil Numbers & Associated Learning Needs

Pupil number projections reflect the existing pupil population moving up a year group each year. They are adjusted to take account of historic retention rates. New pupils starting nursery each year are modelled using published birth rate data.

Up until September 2024, projections show a continued reduction in primary pupil numbers and an increase in secondary pupils. Following this, the recent fall off in primary numbers begins to feed through into secondary schools.

Costs associated with the Associated Learning Needs (ALN) of pupils are more difficult to model. As well as estimating future predicted demand, there is also a need to consider complexity of need as different types of support have different costs. ALN forecasts are based on estimates by the Education directorate and take into account historic and projected pupil population information. They will be regularly reviewed to take account of most recent information. There will also be a need to keep potential increases in eligibility for Free School Meals under close review.

Future operating cost of schools in LDP areas are difficult to predict and subject to change. Forecast figures have been amended to reflect schools beginning to open in LDP areas from the September 2022. Each new school may take a different form, with some being starter schools, which refer to schools that begin with reception and year one groups only and then grow year on year, and others offering places in all year groups from the outset. Assumptions are high level and will need refinement as development within the city progresses and demand for school places becomes clearer. There will also be a need to gage whether the take up of school places in LDP areas affects demand in other areas of the city.

Forecasts for 2025/26 include a significant increase in the number of special school pupil numbers. This increase reflects the anticipated completion of SOP expansion works at three special school sites in that year. Figures currently assume that those places would become available in September.

During the interceding years, there will be a need to model to what extent the costs associated with the availability of additional special school places could be offset by savings in other areas, in particular Out of County placement budgets.

Forecasts currently allow for consistent annual growth in the number of Out of County Placements between 2022/23 and 2024/25. No further growth is assumed for 2025/26, on the basis that the availability of additional capacity within Cardiff may avoid the need to place Out of County. As noted in the preceding paragraph, as well as limiting future demographic growth, there will be a need to consider whether the additional capacity may enable savings on existing Out of County budgets.

Emerging Financial Pressures

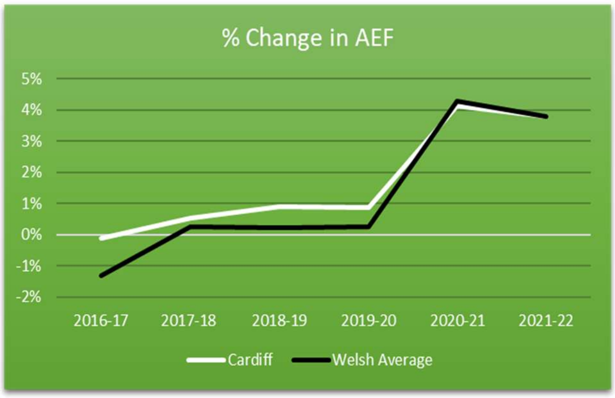
Forecasts include £3 million per annum to address emerging financial pressures, which equates to just under 0.5% of the Council's net budget. This reflects the fact that it is impossible to foresee all issues and that additional burdens may arise over the next five years, through new legislation, unforeseen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

The inclusion of a figure against emerging issues provides a margin of headroom, avoiding the need to identify additional savings proposals at short notice. Sums included for emerging pressures are kept under regular review and are removed from plans if they are no longer considered necessary.

3.3 Funding Key Assumptions

Aggregate External Finance (AEF)

The 2021/22 Local Government Finance Settlement was for one year only. The settlement was significantly more positive than expected with a real term increase in funding for Local Government. At +3.8% Cardiff's increase was at the level of the Welsh average. The chart below models recent settlements (in cash terms).



Whilst settlements were more positive in both 2020/21 and 2021/22, it would not be prudent to assume this will continue. Weighing up the considerations in the economic outlook, in particular, the potential for public spending to be tightened as a means of addressing unprecedented levels of UK debt, funding assumptions are currently based on annual increases of 1%.

If indicative funding is worse than these planning assumptions, there may be a need to identify significant additional savings at short notice. This could pose a material risk to the Council's financial resilience, as the achievability risk associated with such savings is likely to be high.

In order to address this risk, the Council has a £3.8 million base budget called a Financial Resilience Mechanism (FRM.) It is used to invest in priority areas, but that investment must be one-off and decided afresh each year. This means that the budget is used proactively, but could be deleted without affecting day-to-day services if required.

Reserves

In the interests of financial resilience, reserves should not be heavily relied upon to fund the budget. This is because:

- Reserves are cash sums and their use to fund the budget creates a gap in the finances of the following year.
- Earmarked reserves are set aside for a particular purpose.
- Reserves are an important part of financial resilience, providing a cash buffer.
- Cash in reserves is not idle; it generates investment income in line with the Treasury Management Strategy and avoids the need for short-term borrowing.
- The level of reserves held by Cardiff Council may be considered to be just at an adequate level for an Authority of this size. As a percentage of gross revenue expenditure, Cardiff has one of the lowest levels of reserves compared to other Welsh Authorities.

Funding forecasts currently assume that £0.75 million will be used from reserves to support the budget each year between 2022/23 and 2025/26. This means a total of £3 million will be used from reserves to support the budget over the four years.

The Council has a Strategic Budget Reserve to support the medium term and any opportunities to increase that reserve at year-end are taken. In addition, there is an annual review of reserves, with amounts released where they are no longer required for the purpose originally intended.

The proposed use of reserves is considered to strike an appropriate balance between the points set out at the start of this section, with the need to support services in times of financial pressure. These assumptions will be kept under review.

Grant Funding

Specific grants must be used for a particular purpose, which is defined by the grant provider. The funding may only be used for that purpose, and the Council is audited to ensure compliance. The Council receives a significant amount of specific grant funding, notably from WG.

Over an extended period, Welsh Local Government have pressed WG for "funding flexibility." This means that wherever possible, funding should be directed through AEF. As well as providing more flexibility for Local Authorities, this would also reduce administrative burdens.

There has been a tendency in recent years, for WG to direct additional funding for Local Government through specific grants. Examples of this have included Teachers' Pay and support for Social Services pressures. These grants support day-to-day operational pressures, as opposed to WG policy initiatives.

From a financial planning perspective, there is a risk that specific grants may reduce in cash or real terms, or be discontinued altogether. This risk increases where grants are supporting core activity. Whilst still a challenge where grants support specific initiatives, there is at least an opportunity to review whether those initiatives should continue.

The Council has a budget of £125,000 to deal with in-year specific grant funding issues. In addition, the MTFP reflects anticipated reductions to specific grant streams, where failure to do so could ultimately result in a larger cost, such as a fine. Beyond this, the MTFP is based on the assumption that any future specific grant reductions would be dealt with by:-

- Reviewing the grant funded activity
- Providing transitional funding through the FRM, (if it is still available)
- Providing funding through the sum included within the MTFP to meet emerging financial pressures.

A key area to keep under review in this regard are Integrated Care Fund (ICF) and Transformation Grants in Communities and Social Care. There is currently a lack of certainty regarding these streams beyond 31st March 2021.

Section 4. Addressing the Gap

4.1 Budget Gap

The estimated budget gap for the period 2022/23 – 2025/26 is set out below:

2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
21.3	23.6	18.1	17.9	80.9

This will need to be addressed through a combination of savings, income generation and Council Tax increases.

4.2 Council Tax

Council Tax accounts for 28% of the Council's general funding. This means that in order to generate a 1% increase in overall funding, Council Tax would have to increase by over 4% (after accounting for Council Tax Reduction Scheme (CTRS)). This is called the gearing of the tax. The Council has little control over the majority of its funding, which is through Welsh Government Grant.

Technical variables that must be considered when setting the Council Tax include:

- The Council Tax Base of the Authority
- Council Tax Support Budgets
- The level of the Council Tax

Council Tax Base

The Council Tax Base is the number of Band D equivalent properties in the city. In simple terms, it reflects the number and type of dwellings in the city, and takes into account if they may be eligible for Council Tax discounts or exemptions. Local Authorities use the Council Tax Base to calculate how much Council Tax they expect to generate.

Whilst other factors affect the Council Tax Base, broadly speaking, property development in an area usually means that the Council Tax Base will increase, generating more Council Tax income. Whilst there is the potential for the Council Tax Base to increase over the medium term, the budget strategy does not pre-empt these increases within MTFP. This is because an increase in Council Tax Base often results in a reduction in AEF.

Council Tax Support Budgets

The Council pays Council Tax support to eligible recipients under the CTRS. The current annual budget is over £35 million.

The CTRS Budget must be considered when projecting future Council Tax income. If eligibility for Council Tax Support remains consistent; an increase in the rate of the Council Tax will place additional pressure on the CTRS Budget. This is because support must be paid at the new, higher rate. Figures quoted in the next section are net, in that they take into account the associated impact on the CTRS Budget.

The level of the Council Tax

In addressing the budget gap, it is assumed that Council Tax will increase by 4.0% per annum. An annual 4.0% increase would contribute the following amounts to addressing the budget gap:

2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
6.3	6.6	6.8	7.1	**26.8**

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

4.3 Savings Requirement

The residual budget gap to be met from savings after taking into account assumed Council Tax increases is:

2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
15.0	17.0	11.3	10.8	**54.1**

Section 4. Addressing the Gap

In addressing this gap there will be a need to:

- Continue to target efficiencies, including baseline efficiencies for *all* services including schools.
- Continue to review income streams, whilst recognising that in the short to medium term, core income budgets are at risk due to the pandemic and therefore opportunities to generate additional income will be more limited than in previous years.
- Consider the level at which it is affordable to continue to subsidise services of a more discretionary nature.
- Capture the full financial benefit of the early intervention and preventative work ongoing across the Authority, in order to manage the pattern of future demand for Council services.
- Continue to undertake service reviews
- Identify opportunities to work across directorates and in partnership with other organisations.
- Target productivity savings to ensure that optimum value for money is achieved within scarce resources, including making best use of digital technology.
- Consider how targeted capital investment may deliver revenue savings.

In developing detailed savings proposals for the medium term, there will be a need to work across directorate boundaries to review all elements of expenditure that the Council is able to influence. This will include working with delegated schools to identify efficiency opportunities in relation to the £254 million Schools' budget.

Section 5. Risk and Uncertainty

5.1 Sensitivity Analysis

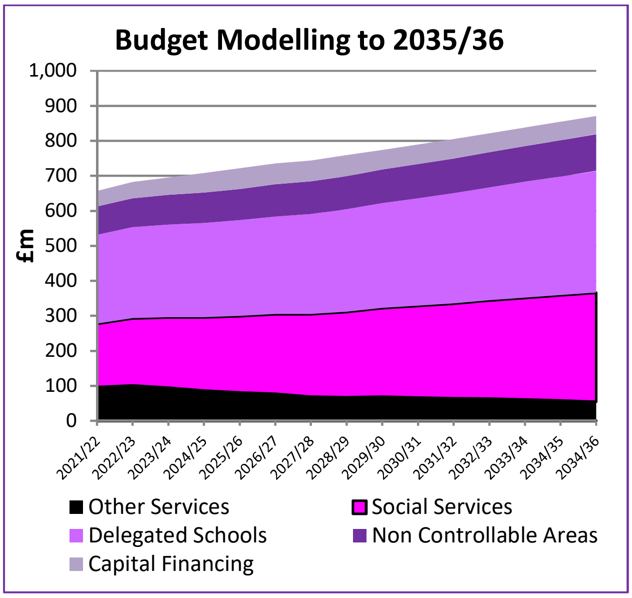
Current MTFP assumptions are based on best available information. However, there is always a risk of change. The table below sets out areas of non Covid-19 related sensitivity and their potential annual impact.

Assumption	£m
AEF 1% worse than anticipated	4.9
Teachers Pay Award 1% higher (from Sept)	0.8
NJC Award 1% higher	2.6
CPI 1% higher (on permitted heads)	1.4
Total Annual Impact	**9.7**

If ***all*** these variables changed, they could have a £9.7m impact in any individual year. The cumulative impact across the MTFP would be £39 million. It is unlikely that ***all*** variables would shift unfavourably, but the scale of the impact if they did, highlights the importance of regularly reviewing assumptions.

5.2 Longer Term Outlook

This graph models a potential long-term outlook for the Council's budget. It is difficult to model beyond the MTFP due to unknown factors, but the chart is an indication of how things may look in future if historic trends are extrapolated.



The graph shows the continued contraction of "Other Services" over the medium term albeit not as quickly as in previous iterations of the MTFP due to slightly more favourable funding assumptions. As this contains areas of statutory duty, the strategy to address the gap will need to reshape this profile as far as possible.

5.3 Key Risks

The key risks associated with the MTFP are recapped below:

Funding	• Worse than predicted LG financial settlements. • The potential fall out of specific grants – especially where they support core activity. • Challenges in relation to capital funding and the associated implications for revenue budgets. These include the impact of additional borrowing beyond that reflected in the current programme.
Demand	• The difficulty of modelling complexity of demand, including in Adult and Children's Services and Additional Learning Needs. • The difficulty in modelling increased demand for services resulting from the LDP. • Homelessness
Uncertainty	• BREXIT and any impacts of the trade deal • The outlook for public spending. • The potential for key assumptions in the MTFP to fluctuate. • **The ongoing financial impacts of the Covid-19 pandemic, which are separately recorded below.**
Financial Resilience	• The medium term savings requirement, particularly when viewed in the context of historic savings levels. • The shape of the Council's budget – with over 70% now accounted for by capital financing, Social Services and Schools. • Planned use of reserves to support the budget, which will need to be kept under review. • The difficulties associated with predicting the cash impact of preventative strategies.

5.4 Covid-19 related risks

In 2020/21, the Covid-19 virus and associated public health measures have had significant financial implications for the Council, both in terms of additional costs and loss of income. During the year the Council incurred additional costs of over £47 million in responding to the crisis and experienced income losses of over £38 million due to lockdown measures. Support was received from the Welsh Government's Covid-19 Hardship Fund.

Throughout the pandemic, the financial implications of the Council's actions to support the city through the crisis and to deliver services safely have been closely monitored. This has included the impact of adapting to an essential service model at the height of the crisis, through to the proactive measures the Council has taken to restart services and support city recovery as lock down measures have eased. Over the course of coming months, and throughout the period covered by the MTFP, it will be key to ensure close links between financial planning and strategies to assist Cardiff's post-crisis renewal.

Review of current year issues associated with the pandemic, is a starting point in identifying future considerations. However, as restrictions continue to ease, there will be a shift in the key issues that need to be addressed, and this will continue to be the case over the medium term.

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

Business Failure / Unemployment increases

Financial risks include:

- Free School Meals – potential eligibility increase
- Potential increase in CTRS Demand
- Potential need to increase bad debt provisions
- Vacancies in investment estate
- Any long term effect on council tax collection rates
- Business rates yield – funding implications
- Extra demand on advice / into work services
- Economic Development – regeneration pressure
- Impact on council tax base if development dries up

Ongoing public health measures

Financial risks include:

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

Behavioural Shift

Financial risks include:

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

Demographic Implications

- Potential for increase family breakdown and increased numbers of Looked After Children
- Changed demographic profile – difficulty predicting demand – especially in Adult Services
- Homelessness – transitional arrangements