Budget Strategy Report 2022/23 - Question and Answers

What does this cover?

- This is a brief overview of the Council's 2022/23 Budget Strategy Report, which you can view in full online. The Budget Strategy sets out the Council's approach to:
    - setting next year's Revenue Budget
    - rolling forward the Capital Programme

What is the starting point for the Budget Strategy?

- There are many factors to take into account in setting the Budget Strategy.
- These differ depending on whether we are looking at capital or revenue. The key starting points that are common to both are:
    - The need to link closely with the Council's key priorities and plans
    - Affordability

The Revenue Budget

What is the Revenue Budget?

- The revenue budget is the amount of money the Council has to spend on day-to-day services
- These services include running schools, caring for vulnerable people, collecting waste, maintaining highways and parks, and operating libraries and cultural venues.

How do you decide the Budget Strategy for Revenue?

- We start by:
    - Estimating the cost of delivering services next year
    - Comparing this to the funding we expect to receive next year
    - If estimated costs are more than estimated funding, there is a "Budget Gap"
- The Council has a statutory duty to produce a balanced budget - if there is a budget gap, the Council must bring expenditure and funding back into balance.
- The plan to achieve this is the Budget Strategy. It can involve:
    - Reducing Spend (making savings)
    - Increasing income (for specific services)
    - Reviewing the level of the Council Tax
    - Considering using earmarked reserves – although this is not a long term solution

Is there a Budget Gap for 2022/23?

- Yes, there is an estimated Budget Gap for 2022/23 of £21.3 million.
- The gap is because we do not expect additional funding to keep pace with likely cost pressures.
- Cost pressures include price inflation, pay inflation and capital-financing commitments. We are also expecting an increase in demand for services, including in relation to Children's Social Care. Overall, we estimate cost pressures will total £26.2 million in 2022/23.
- We currently estimate that we may receive a 1% increase in general funding (called Aggregate External Finance or AEF) in 2022/23. This would give us £4.9 million to help meet the £26.2 million additional costs but it still leaves a £21.3 million budget gap.

Is there a similar situation in later years?

- Yes, the budget gap is estimated to be £80.9 million over the next four years.
- This is set out in the Council's Medium Term Financial Plan (MTFP) and is summarised in the table below:

2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
21.310	23.562	18.100	17.881	**80.853**

What is the Strategy to bridge the gap?

- The current high level strategy to bridge the gap is set out below
- At £54.1 million over the four-year period, savings form the largest part of the strategy. This will be a challenge in view of the levels of savings previously found by the Council (over £200m in ten years)
- The Council tax is a modelling assumption that will be kept under review

To be kept under review

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Modelled Council Tax at +4.0%	6.300	6.552	6.814	7.086	26.752
Savings	15.010	17.010	11.286	10.795	54.101
Total	**21.310**	**23.562**	**18.100**	**17.881**	**80.853**

How will you find the savings for 2022/23?

- The table below summarises the approach to the 2022/23 savings - further explanation on each area is set out below the table.

Savings	£m
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 –** as well as covering their own pay awards, services are being asked to find efficiency savings of up to 2.5%. Levels vary by directorate with back office functions finding more. Efficiency savings involve delivering the same (or more) for less cost, and so should have no visible impact for citizens.
- **Schools efficiency savings -** modelling indicates that after a 1% efficiency saving, schools would receive net additional cash of £2.8 million (1.1%) in 2022/23.
- **Policy / Transformation Savings** – these proposals may involve changes to services. Work on identifying ideas and reviewing options is ongoing. We will report progress later in the year.
- **Corporate Savings and Strategies** – this will include savings associated with changes in working practices, as well as a review of capital financing and other corporate budgets. It will also consider whether to increase the planned use of reserves to fund the budget, (over and above the £750,000 already planned).

Why is there no target for additional income?

- Whilst income generation proposals have helped to address previous years' Budget Gaps, at present income budgets are still getting back onto an even keel after the pandemic.
- It is therefore unlikely that income proposals will contribute significantly to meeting the 2022/23 Budget Gap.

Is there anything else I need to know?
- A wide range of external factors impact on an organisation's financial plans.
- More so than usual, there is a lot of uncertainty that could affect our planning assumptions.

What are the key uncertainties?
- The Report includes more detail. However two key uncertainties are:
  - **The ongoing impact of COVID-19 –** the pandemic has had a significant impact for Local Authorities. To date, Welsh Government's COVID-19 Hardship Fund has largely reimbursed additional expenditure and lost income, but we do not know whether there will be any WG funding beyond the current financial year if pressures continue. Key areas to keep a close watch on include: infection control (PPE and cleaning), the potential for increased family breakdown, supplier viability, ongoing income loss at cultural venues, school catering, free school meals and learning needs catch up. We will also need to be mindful of the ending of the Job Retention Scheme (also known as furlough) on 30th September 2021. If this sees unemployment levels increase, there may be extra demand e.g. for council tax support / free school meals, that we will need to factor into our spending plans.
  - **Funding levels** – at present, future funding levels are just estimates. We know that coping with the pandemic has significantly increased UK Government debt. In time, this will need to be repaid, and this could mean a reduction in public spending. If that happens, our funding may be lower than we have currently estimated, increasing the budget gap.

How can I have my say?
- The Annual 'Ask Cardiff' Survey will include budget themes, paving the way for a more detailed consultation later in the year.
- This is likely to take place in December, once the Council has an indication of 2022/23 funding.

What next?
- We will continue to keep the budget gap under close review – things can change quickly and regular review is an important part of being prepared.
- Directorates will refine their work on savings proposals over the coming months.
- There will be early implementation of efficiency proposals where possible and appropriate.
- There will be further focus on transformation / policy change proposals.
- Progress, along with any further clarity on funding issues, will be reported in December in order to inform consultation.

The Capital Programme

What is capital expenditure?
- Capital expenditure refers to acquiring or improving assets - it has a longer-term focus than revenue expenditure.
- Examples of capital expenditure include building a new school or highway resurfacing

How is capital expenditure paid for?
- Councils receive general and specific grant funding to support capital expenditure. This is similar to Revenue, but there are also some very important differences.

- One of these is that rules permit Councils to borrow in order to fund capital expenditure - **as long as that borrowing is considered affordable, prudent and sustainable.** Borrowing has to be repaid with interest.
- Councils can also fund capital expenditure from selling assets and using the proceeds – called capital receipts.

What is the Capital Programme?

- The capital programme sets out our expenditure plans and how we will pay for them over a five-year period.
- Council approved the current five-year capital programme in March 2021. This set the programme for 2021/22 and the indicative programme until 2025/26.
- The 2022/23 Budget Strategy must set the approach to updating the indicative programme and rolling it forward one year to cover 2026/27.

What are the key considerations in updating the programme?

- Investment pressures
- Affordability

What are the investment pressures on the Programme?

- Broadly speaking, these relate to investment in existing assets, or to investment in development projects to meet the Council's strategic aims. Some examples include:
  - Maintaining our Highways infrastructure and assets used in providing services
  - Demand for affordable housing
  - 21st Century Schools Programme
  - Economic development and regeneration aspirations
  - Mandatory investment – e.g. disabled adaptations
  - Creating city resilience for future ways of working, and service delivery resulting from the impact of COVID-19.

What are the key considerations in terms of affordability?

- General Capital Funding provided by WG has reduced significantly over the past decade
- This places pressure on the Council to fund necessary investment.
- It means that in order to fund new capital spend, we must either borrow more, or sell existing assets (to generate a capital receipt). There are important considerations around both – see more below.

What is the position on capital receipts?

- In times of pressure, reducing assets can have a dual benefit in terms of financial planning.
  - Firstly, it provides funds to support the capital programme.
  - Secondly, it reduces the costs associated with maintaining and operating assets.
- The current capital programme already includes challenging targets in respect of capital receipts - £33 million by the end of 2022/23. Realisation of these is a risk.
- It is important to ensure that there is a clear, approved strategy to realise them and that we review progress closely.
- The Council's approach to the delivery of the capital receipts target will be updated in the Annual Property Plan - due to be considered by Cabinet in September 2021.

What is the position in terms of borrowing?

- Borrowing places pressures on the revenue budget. This is because the Council must repay debt with interest.
- Broadly speaking, each £1 million of capital expenditure places additional pressure of £65,000 on the revenue budget. This assumes a long asset life of 25 years - the impact on revenue is higher when asset lives are shorter.
- Capital financing already accounts for a significant proportion of the revenue budget. Even with no further borrowing, this budget will increase over the medium term.
- Given the challenges on the revenue budget, the MTFP assumes there will be no further borrowing beyond that already included in the current capital programme.

Is there opportunity for some investment to pay for itself through savings or new income streams?

- Yes, these are called invest to save (ITS) or invest to earn (ITE) schemes.
- These are schemes where capital investment results in savings or income that help to meet the borrowing costs.
- A robust business case is key to ensure that the income / savings will actually materialise and that they will be sufficient to meet the borrowing costs. If they do not, there is a risk that the revenue budget will end up picking up those costs for many years into the future.

In light of the above, what is the planned approach to updating the capital programme?

- Firstly, directorates will confirm if commitments in the current programme remain essential, or whether there is any scope to reduce or delay them. This should include a realistic appraisal of the capacity to deliver these schemes.
- For existing assets, any new pressures or cost increases will need to be managed and prioritised from resources already in the programme.
- New capital expenditure pressures will only be considered for inclusion in the programme if they can be funded externally, or if there is sound evidence of an invest to save / earn business case.
- It will be essential to keep progress towards capital receipts under review. This is a key factor in overall programme affordability.
- All proposed investment should be in line with the Capital Ambition delivery programme, and all alternative solutions for funding and achieving the same outcome, should be explored before additional Council funding is considered.

What next?

- Directorates will be asked to commence with the approach outlined above, starting with a robust review of the current programme.