Annex 1

Cardiff Council

Medium Term Financial Plan

2023/24 – 2026/27

UCHELGAIS PRIFDDINAS CAPITAL AMBITION

CARDIFF CAERDYDD

Contents

Section 1. Introduction

1.1 Aims and Purpose of MTFP

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

- 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.

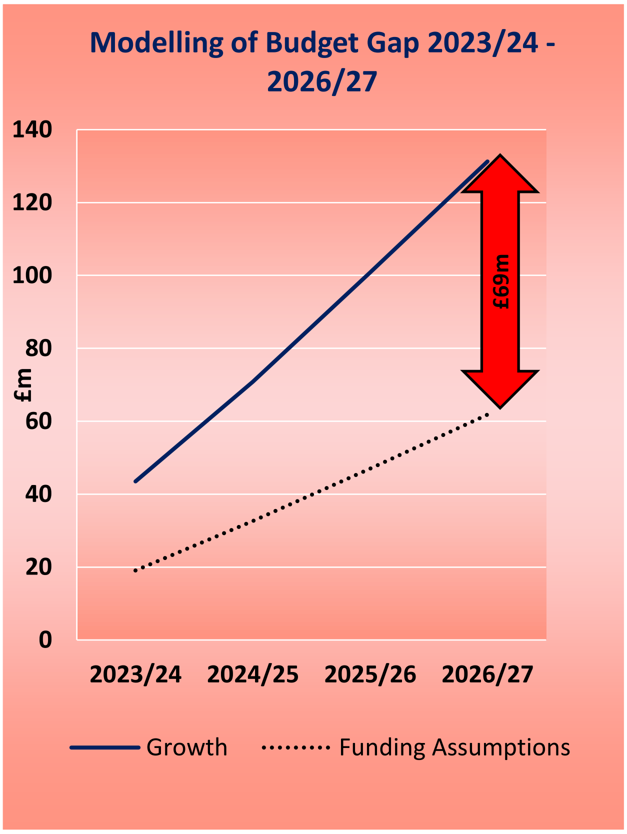
Development of the MTFP is an iterative process. Regular review is required to ensure it reflects most recent information and captures emerging issues. Elected Members and Senior Management are engaged in the process through a series of regular briefings, to scope, inform and review the plan.

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 MTFP currently estimates a budget gap of £69 million over the period 2023/24 – 2026/27.



"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. The Council needs to develop a strategy to address the gap to deliver a balanced budget each year. Despite more positive future funding projections than previously assumed, there is still a budget gap to be addressed over the medium term.

Section 2. Key Considerations

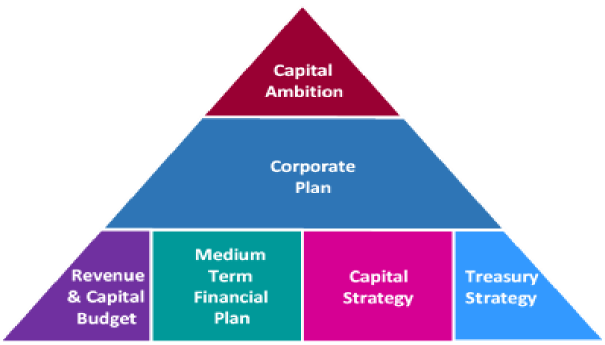
2.1 Council Priorities

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 MTFP is set against plans for a post pandemic recovery that supports the city's economy, is child-friendly and progresses the One Planet Cardiff Strategy.

Implications for Financial Planning

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

Funding solutions will not always mean a revenue budget allocation, or the inclusion of a sum in the capital programme. In developing a financial strategy to support policy delivery there will be a need to draw on earmarked reserves set aside to support change, to proactively seek external funding, and to work with partners.

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 impact on 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.

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 is likely to mean continued demand on social services.

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 revenue pressures in this regard will be kept under review.

There also be a need to consider the implications of policy commitments at an All Wales level, including plans for all primary school children to receive a free school meal within the next three years. Whilst the expectation is that this initiative will be fully funded by WG, there will be a need to review the detail as it is announced.

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.

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 gauge how demand for services in new communities, including school places, might affect demand in other parts of the city.

Employment

There is a disparity in unemployment levels across the city and not all those in employment currently earn 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. In December 2021, the Deputy Minister for Social Services announced that WG would provide financial support for Local Authorities, via the Revenue Support Grant, to support the payment of the Real Living Wage in the Care Sector.

Despite economic growth during the last 30 years, there is still poverty within the city. The Council is committed to supporting people out of poverty by building a strong economy to create jobs that pay the Real Living Wage, supporting people into work, and supporting those most vulnerable including those facing homelessness.

Implications for Financial Planning

Pay modelling will need to reflect the costs of continuing to pay Council staff RLW.

Price inflation assumptions will need to take account of estimated annual increases to the RLW and factor these into pricing assumptions for commissioned care costs to maintain support for payment of the RLW in the care sector in the future.

Financial plans will reflect the continued operation of the Council's corporate apprentice scheme.

For services that are heavily funded by specific grant, including homelessness and Into Work, grant levels will be kept under close review.

Organisational Change

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. With regards the Council's own workforce there will be a need to consider the financial implications of its own organisational recovery and post-pandemic renewal, including the switch to a hybrid working model.

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 still uncertain due to the global pandemic.

UK Context

During 2021 the UK economy grew by 7.5% following a contraction of 9.4% in 2020. At the start of 2022, the economy continues to experience high inflation, with a January CPI inflation rate of 5.5%. This is linked to the position in the final quarter of 2021, when energy prices and supply shortages drove up prices.

Alongside the UK Autumn Budget and Spending Review 2021, the Office for Budget Responsibility (OBR) in its Fiscal and Economic Outlook report, projected continuing economic growth of 6% of GDP in 2022 with lower growth in subsequent years. It predicted the UK Government will meet its fiscal targets with increased departmental resource spending being offset by higher public sector receipts. The report warned that the economy is very volatile with uncertainties including public health measures, Brexit and the cost of governmental debt, among factors that could materially impact projections.

The recent increase in CPI, which is now running above forecasts, has demonstrated this volatility, and the need to continue to monitor the external economic environment for its impact on planning assumptions.

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

For the first time in a number of years, the Settlement includes an indicative funding allocation for the following two years (at an All-Wales level) post 2022/23. Whilst welcome from a planning perspective, it is important to emphasise the indicative nature of figures and the potential for change. In the past, changing circumstances have resulted in funding allocations ultimately being less favourable than indicative amounts. Plans reflect indicative allocations, however, the risk that these may change is a real one in the context of current uncertainties.

The Welsh Government and Plaid Cymru December 2021 Co-operation agreement pledges to review Council Tax reform in Wales during the next three years. Clearly, from a financial planning perspective, this is an area that will need to be kept under close review.

2.4 Council Financial Context

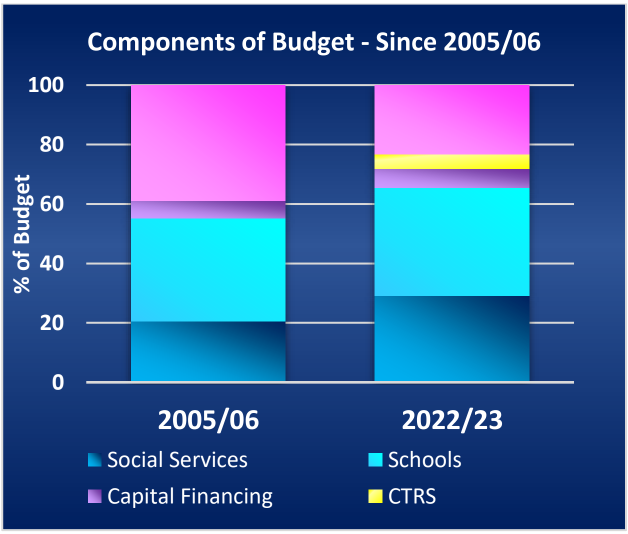
Historic Context

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 coincided with a period of challenging financial settlements, including negative (i.e. cash reduction) settlements in the early 2010's.

Whilst financial settlements have been more positive in recent years, the impact of a decade of a financial challenge has had a lasting impact. It means it is more challenging to continue to deliver savings over the medium term, even though savings requirements are estimated to be lower than in the past. This is partly linked to the change in shape of the Council's budget over time. Some directorate budgets have contracted significantly and others have grown. Demand and price pressure has been acute in Social Services and Schools. In the last five years alone, these budgets increased by £101 million.

Year	Schools £m	Social Services £m	Total £m
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
2022/23	9.3	24.2	33.5
TOTAL	**43.7**	**57.7**	**101.4**

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 £69 million budget gap are set out below.

		2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
	Base Budget Brought Forward	**743,735**	**763,300**	**776,831**	**791,264**
Schools	Pay Costs	16,025	7,320	7,120	7,205
	Price Inflation	1,035	120	125	105
	Pupil Numbers	1,843	449	2,515	1,864
	Contribution to Band B & Asset Renewal	(1,090)	(1,090)	(1,090)	(1,090)
	Total Schools Pressures	**17,813**	**6,799**	**8,670**	**8,084**
Social Services	Pay Costs	1,750	1,525	1,555	1,440
	Price Inflation	4,890	3,525	3,927	3,270
	Demographic - Adult Social Services	2,000	2,000	2,000	2,000
	Demographic - Children's Social Services	730	770	2,420	2,600
	Total Social Services Pressures	**9,370**	**7,820**	**9,902**	**9,310**
Other Services	Pay Costs	3,600	3,110	3,205	3,205
	Price Inflation	1,650	1,640	1,425	1,240
	Commitments	1,810	1,344	2,042	1,636
	Demographic Growth	950	950	200	200
	Total Other Services Pressures	**8,010**	**7,044**	**6,827**	**6,281**
	Capital Financing	**4,803**	**2,168**	**1,361**	**3,259**
	Emerging Financial Pressures	**3,500**	**3,500**	**3,500**	**3,500**
	Resources Required	**787,231**	**790,631**	**807,091**	**821,698**
	Resources Available:				
	Aggregate External Finance	563,780	577,311	591,744	606,538
	Council Tax before any future increases	199,020	199,020	199,020	199,020
	Earmarked Reserves at £0.5m per annum	500	500	500	500
	Total Resources Available	**763,300**	**776,831**	**791,264**	**806,058**
	BUDGET REDUCTION REQUIREMENT	**23,931**	**13,800**	**15,827**	**15,640**

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 – 3% per annum (from Sept 2022)
- NJC Pay Award – 3% per annum

Local Government Pay is a matter for collective bargaining through the National Joint Committee, and Teachers' Pay Awards are set by Welsh Government. It is not possible to pre-empt the outcome of these processes and assumptions will undergo regular review.

National Insurance

The impact of the Health and Social Care Levy is factored into the Council's 2022/23 Budget. No further significant changes to National Insurance rates or thresholds are anticipated over the period to 2026/27. This position will be kept under review.

Employer's Superannuation Contributions

Actuarial review of the Local Government Pension Scheme will take place as at March 2022, with any resultant changes in Employers' contributions taking effect from April 2023. 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. The implications of the next actuarial review of the fund are expected to take effect from April 2023. At present, contribution rates are not known, but there is a risk of a significant increase. This is reflected in 2023/24 within the plan, but will be kept under review in coming months, both to understand what mitigating actions may be taken at a UK level, as well as the potential for any specific funding to assist with this issue.

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

The Council has a base budget and earmarked reserve set aside to meet these costs. Current modelling indicates that this model is adequate over the medium term.

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 January 2022, inflation (CPI) stood at 5.5% - a slight increase from December, and a thirty year high. Inflation has been running consistently higher than the last published OBR forecasts in October 2022. In light of this it is not considered prudent to rely on those as planning assumptions at this point. It is however recognised that the high levels currently being experienced are considered to be nearing their peak with falls expected during the second half of 2022. The CPI assumptions reflected in this MTFP are summarised below:

2023/24	2024/25	2025/26	2026/27
3.5	3.0	3.0	2.5

In modelling financial pressures, consideration is also given to other key cost drivers in the services being commissioned, in particular, the Real Living Wage.

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 2022/23 – 2026/27 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 basis.
- Borrowing predicated on incidental revenue income or savings achieve the outcomes expected in order to pay for themselves in the intended timescales.
- Operating models such as for 21st century schools and Arena remain in surplus
- The timing and delivery of expenditure will be as profiled in the capital programme.
- The assumed interest rate for new borrowing is circa 2.5% by the end of the MTFP period.
- Capital receipt targets will be met
- The timing and value of capital receipts will be in line with assumptions
- 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, with the consideration of a separate pool for the arena.

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 in line with the previously determined affordability envelope.

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 just under £19 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.
- 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

Key areas of forecast demographic growth, and the associated financial impact are summarised below:

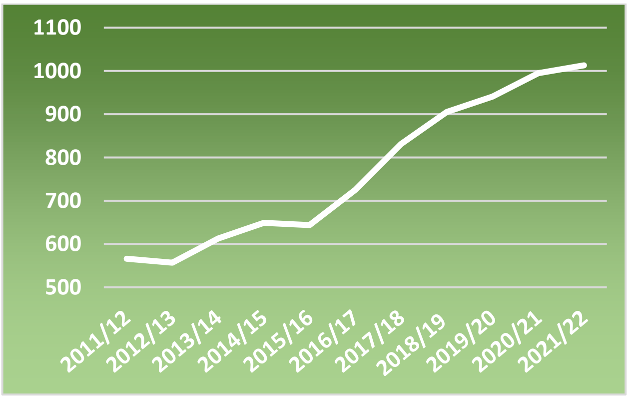
Demographic Increases	£m
Adults Social Services	8.0
Children's Social Services	6.5
Pupil Numbers & New School Costs	6.6
Out of County Education Placements	1.5
Other	0.8
TOTAL	**23.4**

Adults Social Services

Estimated growth in Adult Social Services is particularly difficult to predict at present. 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 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 in the number of Looked After Children since 2011/12.



During the course of the Covid pandemic significant additional pressure has been placed on Children's Services, with demand for services projected to continue to rise. Whilst it is difficult to predict numbers of placements required over the Medium Term, forecasts take account of both the impact of the pandemic, and preventative strategies introduced in 2021/22 as well as those funded to be implemented in 2022/23. Financial forecasts will continue to be kept under regular close review.

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. Pupil intake in nursery and reception is modelled using Schools Organisation Plan data, which includes published birth rates.

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 predicted demand, there is also a need to consider complexity of need, as different types of support have different costs. It is also necessary to consider movement of pupils within the school system. Estimates will be regularly reviewed to take account of most recent information.

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 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 gauge whether the take up of school places in LDP areas affects demand in other areas of the city.

Forecasts for 2025/26 reflect an increase in the number of special school pupil numbers. This reflects the anticipated completion of SOP expansion works. 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 £3.5 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)

As arleady noted, the 2022/23 Local Government Finance Settlement was the first in a number of years that covered more than one financial year. Indicative figures were provided at an All-Wales level for 2023/24 and 2024/25, and these are reflected in planning assumptions. Beyond that, planning asusmptions reflect annual AEF increases of 2.5%, which is broadly comparable with the indicative figure for 2024/25. Assumptions are summarised in the table below.

2023/24	2024/25	2025/26	2026/27
3.5% *	2.4%*	2.5%	2.5%

** Indicative per 2022/23 Local Government Settlement*

In the past, changing circumstances have resulted in funding allocations ultimately being less favourable than indicative amounts. In the event that happens, 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 £0.5 million use of reserves annually between 2023/24 and 2026/27. 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. Sums can be accommodated from the Council's Strategic Budget Reserve, the purpose of which is to support financial planning and the medium term. 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.

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 £250,000 to deal with in-year specific grant funding issues. 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 continued review in this regard are changes to the former Integrated Care Fund (ICF) and Transformation Grants in Communities and Social Care. These have recently been replaced by the Regional Integration Fund, with planned changes to operations in 2022/23 and over the medium term. Details on the new fund are still emerging, and it may be necessary to reflect updates in later years of the MTFP as further detail is available.

Section 4. Addressing the Gap

4.1 Budget Gap

The estimated budget gap for the period 2023/24 – 2026/27 is set out below:

2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
23.931	13.800	15.827	15.640	69.198

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 27% 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 modelled that Council Tax will increase by 3.0% per annum. An annual 3.0% increase would contribute the following amounts to addressing the budget gap:

2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
4.931	5.079	5.232	5.388	**20.630**

The assumption of annual 3.0% increases is not fixed, 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:

2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
19.000	8.721	10.595	10.252	**48.568**

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 whilst recovering from the pandemic and that opportunities to generate additional income may 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.
- 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.
- Consider the opportunities to reduce reliance on the COVID-19 recovery budget over the medium term.

Section 5. Risk and Uncertainty

5.1 Sensitivity Analysis

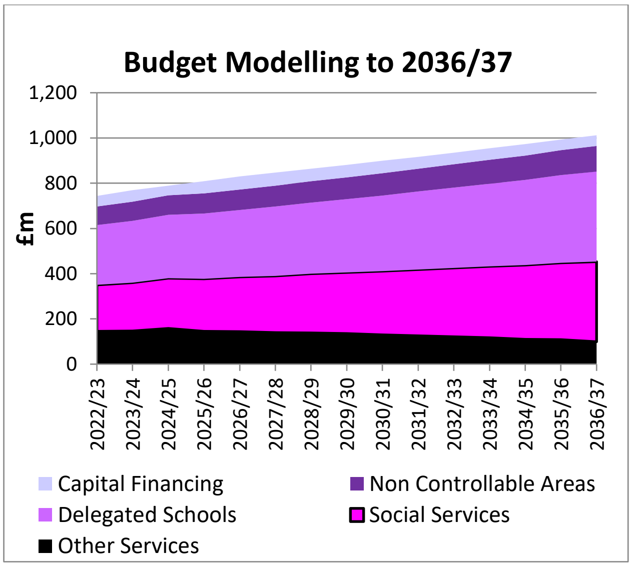
Current MTFP assumptions are based on best available information. However, there is always a risk of change. The table below sets out areas of sensitivity and their potential annual impact.

Assumption	£m
AEF - 1% change	5.5
Teachers Pay Award 1% change (from Sept)	0.9
NJC Award 1% change	2.4
CPI 1% change (on permitted heads)	1.4
Total Annual Impact	**10.2**

If ***all*** these variables changed, they could have a £10.2m impact in any individual year. The cumulative impact across the MTFP would be £40.8 m. It is unlikely that ***all*** variables would shift, but the scale of the impact if they did, highlights the importance of regularly reviewing assumptions in these, and in other key areas.

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

Key MTFP risks are summarised below, and link to wider assessment of financial risk.

Funding	• LG settlements - worse than predicted. • Risk of specific grant fall-out, especially where grants support core activity. • Capital funding and associated implications for revenue budgets, including the impact of additional borrowing beyond that reflected in the current programme.
Demand	• Difficulty in modelling complexity of demand, including in Adult and Children's Services and Additional Learning Needs.
Variables	• The potential for key assumptions in the MTFP to fluctuate – e.g. pay, CPI, RLW.
Financial Resilience	• Medium term savings requirements. • 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 be kept under review.
Ongoing COVID-19 Risk	• Longer-term loss of income – venues etc. • Provider / Supplier viability • Staff cover for sickness / self-isolation • Ongoing PPE /cleaning requirements • Test, Trace Protect – currently assumed that funding will be sufficient and ongoing • Office/ ICT requirements associated with new ways of working • Financial impact of strategies developed to support the "new normal" • Switch in waste streams - more at home • Long tail demand