

Budget Strategy 2023/24 and Updated Medium Term Financial Plan

Reason for this Report

1. To provide an opportunity for the Committee to consider the Council's Budget Strategy for 2023/24 and timetable for delivering the budget. In addition to consider an update on the Medium-Term Financial Plan and the Council's financial resilience.

Structure of the Papers

2. To facilitate the scrutiny the following appendices are attached to this report:
 - Appendix A** – Cabinet report – Budget 2023/24 and the Medium-Term Financial Plan: Update Report

Appended to the Cabinet report are:

 - Annex 1:** Medium Term Financial Plan
 - Appendix 1:** Budget Strategy Overview - Questions & Answers
 - Appendix 2:** Outline Budget Timetable
 - Appendix 3:** Finance Resilience Snapshot

Background

3. Scrutiny of the Council's financial planning, policy and control falls within this Committee's Terms of Reference. The Committee also scrutinises budget proposals annually and monitors financial performance throughout the year.
4. The Budget Strategy Cabinet report attached at **Appendix A** will be considered by Cabinet at its meeting on 14 July 2022. The report sets out the Council's financial strategy and timetable for developing the 2023/24 capital and revenue budget proposals and provides an updated Medium Term Financial Plan (MTFP).

5. The report outlines the external environment within which the Council is operating, including the economic context, the impact of the Covid-19 virus; future funding indications, the organisation context and BREXIT. It models the Medium-Term savings requirements to secure the required Budget Reduction, indicates consultation and engagement plans for budget proposals, and outlines the five-year Capital Investment Programme with a view to developing the Council's Investment Plan from 2022/23 to 2026/27.

Context

6. In terms of financial resilience planning, Members will note the budget strategy report highlights the following key factors:
 - **Economic Context** – A challenging current economic context, inflation at a forty-year high and forecast to continue rising, due to high energy prices and disruption to supply chains linked to geopolitical issues including Russia's invasion of Ukraine, and COVID-19 lockdowns in China. A cost-of-living crisis has led to increasing requests for government support and significant pressure for wage increases that keep pace with inflation. A general expectation of further interest rate increases as the year progresses. Falling unemployment, a shrinking workforce where there are currently more job vacancies than unemployed. All of which have significant implications for the Council's financial planning.
 - **Covid-19 pandemic** – An ongoing financial impact of COVID-19 in 2022/23 and beyond is anticipated. The 2022/23 Budget Strategy included a £10 million COVID-19 recovery budget, it is too early to assess whether this may be reduced for 2023/24. The important message is that presently there is a real risk that the cost-of-living crisis will slow any progress towards recovery that would otherwise have resulted from the lifting of COVID-19 restrictions.
 - **Future funding** – The indicative funding allocations from Welsh Government beyond the current financial year are +3.5% for 2023/24 and +2.4% for 2024/25. A key date in the budget-setting process will be the

announcement of the Provisional Local Government Settlement, traditionally in October but in recent years in December.

- **Organisation Context** – the financial strategy approach seeks alignment with the Corporate Plan to ensure resources are spent in a way that maximises support for priorities. The 2023/24 Budget will be developed alongside the updated Corporate Plan, in readiness for approval of both in February / March 2023.

Medium Term Financial Plan

7. The estimated budget gap for 2023/24 is **£29,080 million** and **£90,602 million** over the next three years. (See **table at point 26 of Appendix A**).
8. This gap assumes:
 - a 3% pay award for both teaching and NJC staff.
 - increasing inflationary pressure, including projections for energy, fuel, school transport, and commissioned care costs. Details of the analysis undertaken on price inflation projections can be found at **points 31-35 of Appendix A**.
9. Members are referred to the table at **point 40 of Appendix A** for details of factors that will be closely monitored for their impact on the 2023/24 Budget going forward.
10. In addition, the MTFP will need to keep the following under review:
 - The ongoing economic outlook.
 - Ongoing financial recovery from the COVID-19 pandemic, particularly in income funded areas.
 - The impact of the Local Development Plan on school places.
 - Population figures, demographic changes, and emerging post-pandemic trends.
 - Welsh Government's Programme for Government, including the intention to instigate council tax reform, the potential for a tourism tax and plans for music services.
 - Free School Meals - roll out beyond the cohorts of pupils planned in 2023/24, together with implications for infrastructure and staffing
 - Annual refresh of the Corporate Plan.

11. **Points 44 – 47** set out the proposed model to achieve the savings required to close the budget gap. The model is framed around two assumptions;

- a Council Tax Increase of 3% generating **£4.931m**; and
- Directorate savings required of **£24,149m**.

Over the summer Directorates will be asked to identify options for savings.

12. The approach to closing the gap by generating income through fees and charges will be used cautiously for 2023/24, focussing on income maintenance as markets and income levels continue to recover from the pandemic.

13. As in previous years it is the Council's intention to consult with residents on what is important to them and their communities for the 2023/24 Budget, following the receipt of the Provisional Local Government Settlement. Prior to this, the report states that consultation and engagement across all aspects of the Council's business will inform budget planning.

14. For quick reference, appended to the Cabinet report at **Appendix 2** is the proposed Budget Timetable Framework for 2023/24, and at **Appendix 1** a particularly useful question and answer summary.

Capital Investment Programme

15. **Points 53-79** detail matters relating to updating the Council's five-year rolling Capital Investment Programme, a strategy aiming to meet the long-term challenges facing the city. The Capital Programme comprises the General Fund, Housing Revenue Account, and major strategic projects, such as the Atlantic Wharf Master Plan including development of an Indoor Arena in Cardiff Bay, projects arising from the Transport White Paper including the Metro; International Sports Village; Core Office Strategy; 21st Century Schools and responding to the climate emergency. Members are advised that an allowance is made in the revenue budget for feasibility and options appraisal for several potential future projects. This includes projects such as alternative locations for the dogs' home; review of the Materials Recycling Facility; ensuring sustainable burial space in the city; working with partners to secure funding to create a Youth Zone; options in respect to assets with significant backlogs of maintenance such as St David's Hall

and City Hall as considered by Cabinet in the Corporate Property Strategy in December 2021; and renewable energy projects following a post project appraisal of existing schemes.

16. The report explains the importance of option appraisal, business cases, and due diligence, capital programme affordability, borrowing and capital receipts (**points 60-76**)

17. The approach to be taken in formulating Capital Programme investment priorities for 2023/24 to 2027/28 will be as follows:

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

Financial Resilience

18. **Points 80 - 90** analyse key points relating the financial resilience of the Council, with further details provided in **Appendix 3**. The report analyses performance against budget trends at the outturn of 2021/22, external income streams since 2017/18, and Net Revenue Funding and Budget Strategy. Over the past five years, savings have consistently bridged the budget gap with around £75 million made over five years. The report highlights that finding such significant levels of savings year on year becomes increasingly challenging.

19. In 2020/21 unachieved savings were largely associated with the pandemic. The Council's general contingency fund supports, the non-achievement of savings and has been reduced over time from £4million to £2million. This report states that further reductions should be approached with caution given inflationary uncertainty and estimated savings requirements over the medium term.

Scope of the Scrutiny

20. This item will give Members the opportunity to consider the Council's strategy and approach to developing the 2023/24 budget proposals, and specifically a fuller understanding of the financial resilience work underway to tackle the challenges posed by inflation, the energy crisis, interest rates, the labour market and weak economic growth that may curtail public sector funding.

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

- Councillor Chris Weaver, Cabinet Member for Finance, Modernisation & Performance
- Christopher Lee, Corporate Director – Resources, and
- Ian Allwood, Head of Financial Services.

Legal Implications

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

Financial Implications

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

RECOMMENDATIONS

24. The Committee is recommended to:

- i. note the Budget Strategy for 2023/24;
- ii. consider whether it wishes to relay any comments or observations for consideration by the Cabinet Member for Finance, Modernisation & Performance.

DAVINA FIORE

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7 July 2022