Annex 1

Cardiff Council

Medium Term Financial Plan

2023/24 – 2026/27

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 to:

- Help ensure that the Council understands, and can prepare for, the challenges in setting a balanced budget.
- Encourage discussion about the allocation of resources, so that they are directed towards delivering core responsibilities and policy objectives.
- Inform 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. It is formally reported twice a year, with the Council's Budget Report and Budget Update Report.

Regular review of the MTFP is required to ensure it is responsive to changing circumstances, including in relation to the economy, local priorities, legislative change, as well as other emerging pressures, risks, and opportunities. Elected Members and Senior Management are engaged in the process through a series of regular briefings, to scope, inform and review the plan.

The MTFP does not constitute a formal budget. In accordance with legislation, the Council's annual budget must be approved by full Council each year before the 11th March. The MTFP supports the arrival at that position, setting out the parameters within which more detailed planning takes place.

The transition from high-level planning principles, to detailed budgets that are aligned to 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.

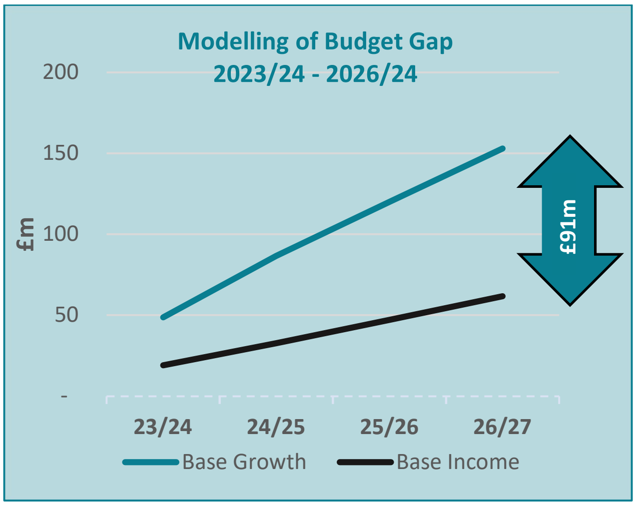
1.3 CIPFA FM Code

The CIPFA Financial Management Code is intended to support good practice in financial management and assist Local Authorities in demonstrating their financial sustainability. The Code translates principles of good financial management into a series of standards against which Local Authorities should measure themselves.

One of the key areas covered by the Code is medium to longer term financial management, with the MTFP being an important factor in this regard. Code standards emphasise that a robust MTFP should have clear links to Service Plans and Capital Strategy. It should also contain a sound assessment of drivers of cost and demand, with associated sensitivity analysis. The MTFP is developed with this in mind.

1.3 MTFP Overview

The MTFP currently estimates a budget gap of £91 million over the period 2023/24 – 2026/27. This is a base case scenario, with sensitivity considered in a later section.



"Budget Gap" describes 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 results from funding failing to keep pace with demand, inflation, and other financial pressures. The Council must develop a strategy to address the gap to deliver a balanced budget each year.

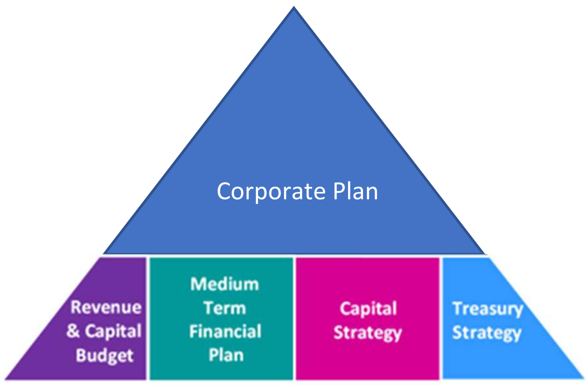
Section 2. Key Considerations

2.1 Council Priorities

The Corporate Plan sets out how the Council will respond to the challenges facing the city and shape its future in line with the following objectives:

- Cardiff is a great place to grow up
- Cardiff is a great place to grow older
- Supporting people out of poverty
- Safe confident, and empowered communities
- A capital city that works for Wales
- Cardiff grows in a resilient way
- Modernising and integrating our public services

The Corporate Plan set out plans to invest in schools, protect the city's most vulnerable, respond to the climate emergency and create opportunity and equality for the citizens of Cardiff. It provides the framework for the Council's financial strategy documents. This ensures limited resources are spent in a way that maximises support for priorities. Given the Corporate Plan's alignment with wider national goals to create a more sustainable Wales, it also helps ensure that the financial strategy supports the Council's duties under the Well-being of Future Generations (Wales) Act 2015.



The MTFP looks beyond a one year horizon. Medium to long term financial planning will continue to evolve and will be informed by business case work on strategies, plans and initiatives linked with the shaping the city's future as these are developed.

The transition from high level planning to short-term detail takes place in the annual Budget and Corporate Plan. These are developed in tandem to ensure that financial resources are available as and when required, to deliver objectives.

Given the challenging financial outlook, a funding strategy may not always mean a revenue budget or capital programme allocation. In developing a financial strategy that supports policy delivery, there will be a need to draw on earmarked reserves set aside to support change, and to continue to proactively seek external funding and work with partners.

Much of the investment required to support the city's future has a longer term focus and is capital in nature. The Capital Strategy sets out how the capital investment programme supports these aims. It also provides a framework that the Council can rely on to develop a clear, consistent, and informed process to make investment decisions. The MTFP is closely linked to the Capital Strategy and reflects the capital financing requirements of approved schemes. This and the MTFP's wider support for priorities is summarised on the next page.

Section 2. Key Considerations

Cardiff is a great place to grow up

Education & Children's Services represent 52% of the Council's budget. Unlike most directorates, they have consistently seen net budgetary increases over the last decade and current figures indicate that is likely to continue over the medium term.

In the current year, additional funding was provided for Cardiff Commitment, the Youth Service, Youth Justice and Child Friendly Cities, and funding is included in the MTFP to consolidate arrangements for Child Friendly Cities.

The MTFP includes ongoing revenue support for the capital financing of the Band B programme and improvements to the school estate.

In developing the 2023/24 and future Budgets, effort will be made to improve the engagement of children and young people in the Budget consultation to inform the organisation's financial plans.

Supporting People out of Poverty

Key to this aim is supporting people into work. The MTFP contains sums to provide core funding to continue the Council's apprenticeship scheme once the earmarked reserve supporting the scheme is fully depleted.

Opportunities for the Shared Prosperity Fund to support advice services formerly funded by ESF grant will be explored.

As a RLW employer, the MTFP reflects sums to continue to pay the RLW to staff, and within the care sector.

Cardiff is a great place to grow older

18% of the Council's budget is spent on Adult Services. Like Education & Children's Services, this area has also seen consistent net budgetary increases over the last decade, with a similar picture over the medium term.

In 2022/23 additional funding was received from WG to support the implementation of the RLW in the care sector. The MTFP factors in the likely cost of RLW increases in future to support continued recognition of the value of the workforce supporting vulnerable older people.

The MTFP also factors in demographic growth, recognising potential increases in demand for services for older people and pressure on over-18s Learning Disabilities budgets.

Safe Confident & Empowered Communities

The current year's budget included additional funding for youth sport, community engagement and safety in parks as well as wider community safety and violence prevention.

The MTFP reflects sums to operate a youth zone aligned with capital programme timings.

Modernising & integrating our public services

The MTFP indicates significant savings requirements over the medium term. As well as improving services for our customers, ongoing modernisation will be an important part of continuing to drive efficiencies.

A Capital City that works for Wales

Investment associated with developing the city in a way that works for Wales is primarily capital in nature. The MTFP factors in capital financing requirements of approved schemes and includes funding to support financing of the Arena, in line with the previously agreed affordability envelope. It includes additional sums for revenue maintenance of the city centre public realm to enable its ongoing upkeep following investment.

Schemes of a scale required to take forward city-change require appropriate due diligence. In recognition of this, earmarked reserve funding has been set aside to support feasibility studies of new schemes in the medium term.

Additional funding was provided in the current year to enhance future capacity to support city recovery and progress key schemes, including in planning, transport and business & investment.

Population Growth is managed in a resilient way

The current year's budget included additional funding for posts to support the delivery of One Planet Cardiff, as well as significant additional funding for cleaner streets.

The MTFP contains funding for the operating costs of a recycling centre, consistent with capital programme timescales for its delivery.

Over the MTFP, contributions to earmarked reserve are planned to assist with volatility in recycling pricing and waste tonnages.

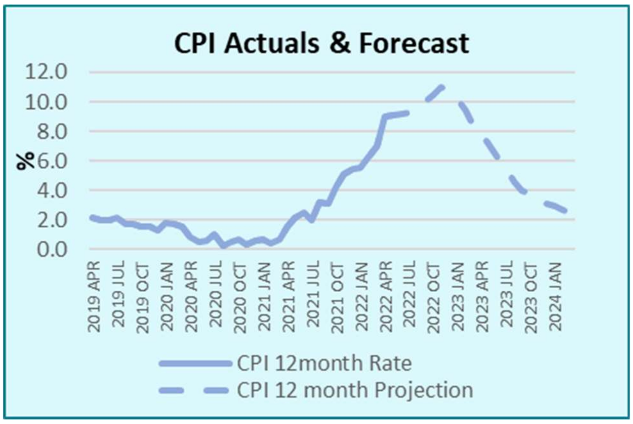
2.2 Economic and Financial Outlook

Local financial planning is linked to the economic context. As the UK emerges from the pandemic and with ongoing geopolitical issues, there is currently significant uncertainty.

UK Context

The current economic context is challenging. Latest GDP figures indicate that the UK economy contracted for the second month in a row during April 2022, and inflation is at a forty year high. Economic forecasts for the remainder of the year have been dampened, and there is speculation that the UK may be heading for a recession.

Inflation has increased incrementally since April 2021. The 12 month CPI rate stood at 9.1% in May, an increase from 9% in April. Contributory factors include high energy prices and disruption to supply chains linked to geopolitical issues including Russia's invasion of Ukraine, and COVID-19 lockdowns in China. In May, the Bank of England (BoE) forecast that CPI would reach a peak of 10% by the end of the calendar year, following the next energy price cap increase in the autumn. However, by mid-June the Bank had updated its forecasts to reflect rates potentially surpassing 11%.



Specific elements of the basket of goods upon which CPI is based are exceptionally high. These include food (6.7%), household costs including energy (19%) and transport costs including fuel (13%). The situation where prices for everyday necessities are increasing faster than peoples' incomes - the cost of living crisis - has led to government support, and the Council is currently administering the Welsh Government's cost of living support scheme to citizens, alongside the locally determined scheme.

Following the anticipated CPI peak in the final quarter of 2022, the BoE predicts that upward inflationary pressure will subside rapidly with CPI expected to normalise to much nearer its 2% target in two years' time. However, this assumes no further rises in global commodity prices, the easing of global bottlenecks and weakening demand.

One of the tools available to the BoE to try to stabilise inflation is to increase interest rates. In June 2022, rates increase from 1% to 1.25%, their fifth consecutive rise and the highest rate in 13 years. The Bank has indicated that it will react "forcefully" to any signs that inflation is becoming persistent, and there is a general expectation of further interest rate increases as the year progresses. Interest rate increases will be kept under close review in terms of their potential impact on the cost of borrowing and future capital financing budgets.

There is uncertainty regarding future UK economic performance. Alongside the UK Spring Statement 2022, the Office for Budget Responsibility (OBR) in its Fiscal and Economic Outlook report, projected continuing economic growth of 3.8% of GDP in 2022 with lower growth in subsequent years. It predicted the UK Government would meet its fiscal targets, with increased departmental resource spending being offset by higher public sector receipts due to increased GDP, but stressed this was a volatile position. Subsequent projections from the Bank of England in the Monetary Policy report (May 2022), suggest a deteriorating economic position with forecasts of a 0.25% contraction in 2023. The situation will be kept under close review, as from a financial planning perspective, weak economic growth could mean a less favourable outlook for public sector spending.

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. An emerging area to factor into planning assumptions will be any funding opportunities via the recently launched Shared Prosperity Fund.

2.3 City Growth

Population

Recently released 2021 census information indicates Cardiff's population as 362,000. Whilst this is a continued increase (the second highest in Wales), it is not as high as previously estimated. The picture across Wales is mixed. Many Authorities are seeing population growth albeit at very different rates, whilst others have seen a decline in population.

Population data is a key factor in the Local Government funding formula. It therefore has the potential to affect future funding allocations. It will be important to unpack the recently released data to understand what future impacts it may have. Cardiff's position relative to the rest of Wales does not immediately suggest the potential for an adverse funding impact. However, there is a lot to consider, including the position for specific age groups, and the potential for any stabilisation mechanisms to support those Authorities with declining populations.

Housing

Cardiff's Local Development Plan (LDP) is a 20 year Plan from 2006 – 2026 which set a target for 41,000 additional homes. 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. The financing costs of the Council's house building programme are reflected in the Housing Revenue Account (HRA) business plan (as the HRA as a ring-fenced account).

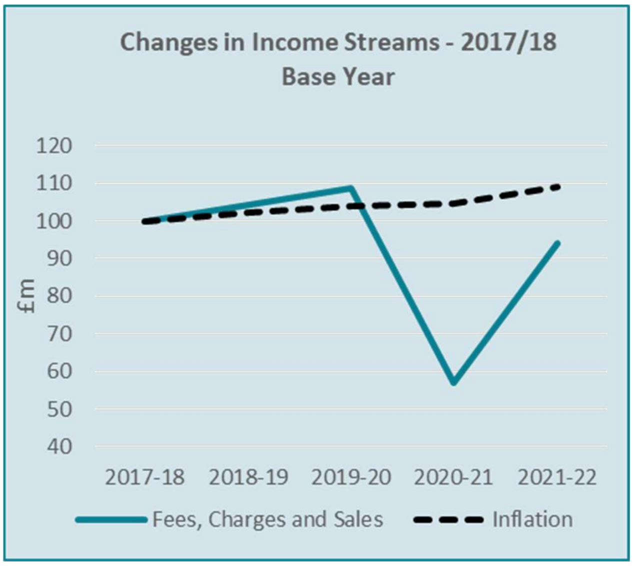
From a general fund perspective, planned housing growth will mean that new communities will need the support of Council services such as waste and schools. Demand for these services will require careful modelling, including the extent to which additional Council Tax from more dwellings may offset cost. There is a need to gage how demand for services in new communities, including schools' places, might affect demand in other parts of the city.

2.4 COVID-19 and Ongoing Recovery

The COVID-19 virus and associated public health measures had significant financial implications for the Council. Over 2020/21 and 2021/22, the Council received £134 million support from the Welsh Government's COVID-19 Hardship Fund for additional costs and income loss. The Hardship Fund ended on 31st March 2022.

At the end of 2021/22, the amount claimed for areas supporting the Council's *own* additional costs and income loss was £2.8 million (i.e. excluding sums claimed to support providers or to administer WG schemes). In recognition of ongoing risk in this area, the 2022/23, Budget included a £10 million COVID recovery budget, with the potential for this to be supplemented from earmarked reserves if required. As recovery continues, it may be possible to reduce this budget. However, at present, it is too early to judge when, and at what level would be a prudent reduction.

A key area to monitor will be the recovery of income funded areas. The graph below shows a significant increase is required to reach pre-pandemic income levels in 2022/23. It is also of note that the inflationary line will tick upwards sharply in 2022/23, reflecting the added challenge of the increase in cost base associated with the income generated.



Section 3. Medium Term Financial Plan

3.1 Forecast Financial Position

The Council's forecast financial pressures, funding and resultant £91 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	8,160	15,780	7,650	7,760
Schools	Price Inflation	3,214	120	125	105
Schools	Pupil Numbers & Commitments	2,451	991	3,348	3,397
Schools	Contribution to Band B & Asset Renewal	(1,090)	(1,090)	(1,090)	(1,090)
Schools	Total Schools Pressures	12,735	15,801	10,033	10,172
Social Services	Pay Costs	1,775	1,545	1,585	1,465
Social Services	Price Inflation	9,400	4,717	4,426	3,551
Social Services	Demographic - Adult Social Services	2,200	2,000	2,000	2,000
Social Services	Demographic - Children's Social Services	2,500	770	2,420	2,600
Social Services	Total Social Services Pressures	15,875	9,032	10,431	9,616
Other Services	Pay Costs	3,615	3,290	3,360	3,405
Other Services	Price Inflation	4,782	1,640	1,425	1,240
Other Services	Commitments	1,910	1,594	2,292	1,636
Other Services	Demographic Growth	2,100	950	200	200
Other Services	Total Other Services Pressures	12,407	7,474	7,277	6,481
	Capital Financing	4,128	2,168	2,036	3,259
	Emerging Financial Pressures	3,500	3,500	3,500	3,500
	Resources Required	792,380	801,275	810,108	824,292
	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	29,080	24,444	18,844	18,234

3.2 Key Assumptions – Expenditure & Income

Employee Costs

The Council is a service based organisation, and employee costs account for around 40% of gross costs. They are therefore a key cost consideration in Medium Term Financial Planning.

Key factors to consider in planning for future employee costs include annual pay awards, incremental pay progressions, Employer's oncosts (Superannuation and National Insurance) and the Apprenticeship Levy.

Pay awards

There are no agreed pay awards for the period covered by the MTFP. The figures in the table below indicate our planning assumptions for the period. At the time of writing, the NJC award for 2022/23 and the Teachers Award for September 2023 are also yet to be confirmed. There is a risk these may add to future budget gaps should they come in higher than budgeted.

Award	2023/24	2024/25	2025/26	2026/27
NJC	3%	2.5%	2.5%	2.5%
Teachers	3%	2.5%	2.5%	2.5%

At present, across the UK there is pressure for pay awards that align with inflation. The Treasury has warned this could intensify inflationary pressure, and has made specific reference to the public sector in not expecting "unrealistic awards." Ultimately however, 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 so assumptions will undergo regular review.

Real Living Wage

The Council is a Real Living Wage (RLW) Employer. Staff at the bottom of the Council's pay spine receive a Living Wage supplement to ensure they are paid the RLW. Cost projections over the medium term reflect the RLW increasing higher than NJC pay awards. This means that over time, incrementally more staff will be brought within the remit of the RLW. Current modelling suggests this having a more significant impact from 2024/25 onwards.

National Insurance

The Employers' National Insurance changes associated with the move to the Health Social Care Levy are factored into the Council's 2022/23 Budget. No further significant changes to National Insurance rates or thresholds are currently anticipated over the period to 2026/27 but this position will be kept under review.

Employer's Superannuation Contributions

Actuarial review of the Local Government Pension Scheme took place as at 31st March 2022 and any resultant changes in Employers' contributions would be due to take effect from April 2023. Current Employer's contributions are 20.7% having decreased from 23.5% at the last actuarial review. At this stage, it is considered prudent to assume 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 were previously anticipated to take effect from April 2023, but recent indications from the Local Government Association are that this is now likely to be 2024/25. At present, contribution rates are not known, but early indications are that there is a risk of a significant increase. This is reflected in 2024/25 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, except in exceptional circumstances.

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.

NJC Pay Spine

The impact of potential pay awards, including RLW increases, has the potential to impact on the Council's pay spine in terms of erosion of pay differential, particularly at the lower end of the spine. This is an area that will need to be closely monitored.

Price Inflation

The Council's budgetary approach is that directorates must 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 energy, out of county placement costs, NDR and Social Services commissioned care costs.

Consumer Price Index (CPI) Assumptions

The economic context section has already outlined the significant volatility with regards inflation. CPI assumptions reflected in the MTFP period are captured in the table below.

2023/24	2024/25	2025/26	2026/27
4.0	2.5	2.0	2.0

The MTFP also takes account of the extremely high inflation rates anticipated for the latter part of the 2022 calendar year, and reflects the impact on pricing where anniversary dates for large contracts specifying a CPI uplift fall into that period.

Energy

Energy prices will be a key area to keep under review, particularly during the early years of the MTFP. Currently the gas wholesale commodity market is experiencing unprecedented increase in prices due to shifts in global demand, uncertainty surrounding future supply to Europe (partly due to the war in Ukraine), and poor electricity production from renewables. Energy prices are generally expected to come under further pressure in the Autumn following the next increase to the energy price cap.

The Council's energy is procured via the National Procurement Service and Crown Commercial Services. At the start of 2022, indicative energy increases for 2023/24 were in the region of 30%-40%. In the interceding 6 months, indicatives have increased to circa 90% for electricity and to over 150% for gas.

These increases will have a material cost impact for the Council, currently estimated at over £6 million in 2023/24. Whilst gas increases are more material in percentage terms, the cost impact for the Council is higher for electricity, because this accounts for a much greater proportion of the Council's overall energy usage. Street lighting and Schools are key electricity users.

At present, the Council's energy prices are projected to fall back slightly in 2024/25. Consequently, the strategy for managing increased energy costs reflects part of the 2023/24 pressure being met through earmarked reserves. As prices remain volatile and susceptible to further change, they will be kept under close review. Work will also take place during 2022/23 to identify any mitigating actions. As it is not possible to influence the price of energy, this will involve a review of usage.

In other years, the expectation has been that schools will manage price inflation within existing resources, supported by energy efficiency schemes across the school estate. However, in recognition that energy costs in 2023/24 will be exceptional, the MTFP assumes that budgetary provision will be allocated to schools.

Commissioned Care Costs

The 2022/23 Local Government Settlement included funding to support the payment of the RLW to registered workers in the care sector. In support of the continuation of this position, the MTFP takes into account potential RLW increases when estimating the future annual cost of commissioned care.

The RLW is usually announced in November, to be implemented by RLW employers before the following May. In setting RLW rates, the RLW Foundation take account of inflation the preceding spring (on a more specific basket of goods than CPI), along with other information such as level of benefits and council tax.

In view of actual inflation levels this spring, assumptions for RLW in 2023/24, RLW assumptions, and therefore estimated care costs over the medium term, have been increased. Small percentage changes in this area can have a significant impact on costs as the Council's commissioned care budget is over £120 million. Current assumptions are set out in the table below, the current RLW rate is £9.90.

	Rate	% Increase
2023/24	£10.80	9
2024/25	£11.34	5
2025/26	£11.74	3.5
2026/27	£12.09	3

The RLW Foundation have brought forward the timing of the RLW announcement in 2022, to September. This will assist with financial planning, as it removes the uncertainty around one of the key variables affecting the 2023/24 Budget.

Recyclate Income

Prices received by the Council for recyclate material have historically been extremely volatile. At present, there are world-wide shortages for these materials due to the loss of processing plants for aluminium and plastics in Ukraine. This has significantly increased the prices received, and surpluses in this budget are modelled in the short term. Over a few years, assuming the stabilisation of global issues, prices are expected to return to nearer their pre-war levels resulting in a pressure on this budget. The MTFP assumes that the strategy for recyclate income will be to transfer surpluses to an earmarked reserve to help assist with future volatility on this budget.

Fees and Charges (Income)

The Council's budget setting policy is not to assume a blanket uplift across all fees and charges. This is in recognition that the position for income is more nuanced and requires consideration of a wide range of factors. In determining the future level for fees and charges directorates are advised to consider:

- Current progress to attaining pre-pandemic levels of income.
- Any applicable statutory frameworks.
- Whether existing income budgets are being met.
- Any specific inflationary cost pressures that will need to be met.
- The adequacy of charges relative to cost of provision.
- Any potential impact on demand for services.
- Appropriate benchmarking of both cost and fee levels.

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.

Interest rates on borrowing are currently the subject of increases from the historic lows seen over the last few years. There is the potential for these to increase given inflation expectations, national debt levels and international uncertainties. However, rates rise and fall, and remain unpredictable. Whilst any sustained increase is not anticipated to have a significant impact in 2023/24, it may affect the capital financing budget in later years of the MTFP. This will be an important consideration in updating and prioritising new investment commitments and affordability considerations, including for the Housing Revenue Account, and business cases for projects assumed to pay for themselves.

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 commencing in 2024/25 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 due to population fluctuations as well as potential increases to the SWFS' overall budget. Assumptions take into account the SWFS most recent MTFP.

Other Commitments

These include:

- Additional base budget funding for the Council's Corporate Apprentice Scheme in 2025/26, 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:

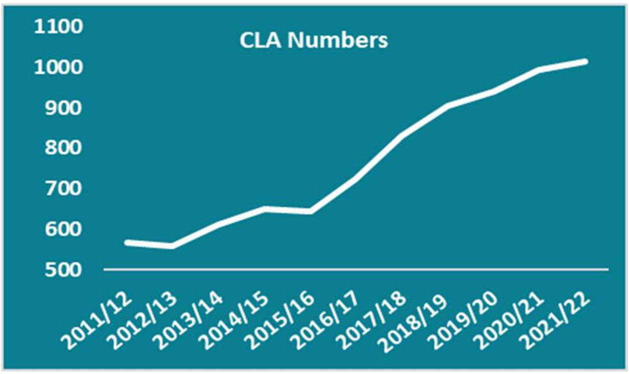
Demographic Increases	£m
Adults Social Services	8.2
Children's Social Services	8.3
Pupil Numbers & New School Costs	9.8
Out of County Education Placements	1.5
Other	2.0
TOTAL	29.8

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. 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. Historically, most significant growth has been in relation to the Older Persons budget. However, at present, there are also emerging pressures in relation to Adults Learning Disability budget that will need to be kept under close review.

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 Children Looked After 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 2027, 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 2023. 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.

Council Tax Reduction Scheme

This budget reflects the payment of Council Tax Support to eligible recipients. At over £35 million, future demand on this budget is a key consideration in medium term planning. During the pandemic, there were concerns that the ending of the Job Retention Scheme (JRS or furlough) may increase unemployment. In recognition this would be likely to increase demand on CTRS, the Council set aside funding to support the CTRS budget. However, the ending of the JRS did not have as significant an impact as originally feared. Although some sums have since been released as part of the 2022/23 Budget, a degree of protection was retained, and this is considered to provide an adequate level of resilience to any shifts in demand on this budget over the medium term.

Any changes to Council Tax levels impact on this budget. In recognition of this, within the MTFP, modelled council tax increases are shown net of their impact on CTRS.

Homelessness

Homelessness is another area that will require close review over the medium term. This area has been supported by additional grant funding in recent years, now confirmed for the next few years. There are however emerging pressures on this budget that will need to be monitored, balanced by consideration of the extent to which they may receive Government support. There is also earmarked reserve funding in place with regards homelessness that may assist in smoothing any fluctuations in demand.

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 through new legislation, unforeseen demand, policy change, and grant fall out. Equally, and as noted throughout the MTFP, the current economic climate has the potential to impact key MTFP variables.

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 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 current economic climate, this is clearly a risk. If this 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 help 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 as general budget funding. This is because:

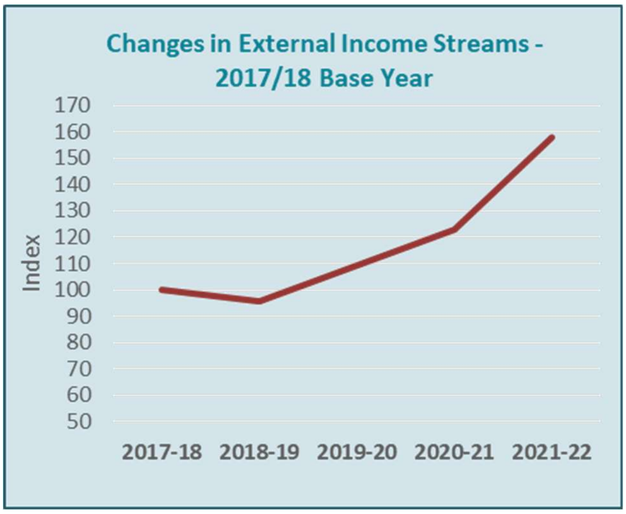
- It creates a gap in the finances of the following year as reserves are cash sums.
- Earmarked reserves are set aside for a particular purpose.
- Reserves are an important part of financial resilience, providing a cash buffer.
- Cash in reserves is not idle; it generates investment income in line with 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. This can be accommodated from the Strategic Budget Reserve in line with its intended purpose. 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. Assumptions will be kept under review. Further information on reserves is considered in the later section on uncertainty and risk.

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. The increasing exposure over recent years is set out in the graph below:

Section 3. Medium Term Financial Plan



Excludes grants primarily related to third party spend - i.e. HB, 30 hour childcare.

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. Historically, there are incidences where this has happened at short notice. This is a risk, particularly because where grants have been in place for a number of years, areas they support may have become core activity.

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)

As the year progresses, there will also be a need to consider the adequacy of the new specific grant arrangements. This will include the grant to support the transition to Universal Free School Meals as the detail of the associated roll out is still being finalised.

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
29.1	24.4	18.8	18.2	90.6

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
4.9	5.1	5.2	5.4	20.6

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 is:

2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
24.1	19.4	13.6	12.86	69.9

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, as evidenced by the volatile economic environment of the last 12 months. Further analysis on plausible future economic scenarios is required, given their potential to impact pay, price, and AEF assumptions in the base case MTFP. The other-overarching core driver of cost for the Council to factor into scenarios is demand for services.

Scenarios Considered

In testing the MTFP for plausible alternative scenarios, a total of 15 were modelled, capturing the following:

		Demand Scenarios		
Economic Scenarios	Recession & High Inflation	Low	Base	High
	Recession & Low Inflation	Low	Base	High
	BASE CASE	Low	Base	High
	Econ Growth & High Inflation	Low	Base	High
	Econ Growth & Low Inflation	Low	Base	High

The 15 scenarios reflect each of the five economic scenarios being coupled with 3 different demand scenarios – low demand, demand in line with the base case, or high demand. This recognises that whilst economic circumstances may influence demand, there is also the real possibility for demand to fluctuate independently of the economic context.

Recession coupled with high inflation is the least favourable of the economic scenarios. This reflects more prolonged inflationary pressure combined with a recession (or weak economic growth) potentially having an adverse impact on funding levels.

By comparison, the "economic growth/high inflation" scenario assumes that whilst inflation remains high, a stronger economic position may allow future funding settlements to support cost pressures. As identified later in this section, AEF is the individual factor with the biggest impact on base case assumptions.

Variables Flexed

The next table summarises how variables were flexed in key areas of demand.

	Low	Base Case	High
Social Services	Demand is lower as increased cost mitigation is achieved	Increased demand but with mitigating service strategy	Higher demand and lower cost mitigation due to overall service pressure.
Homelessnes	Same as Base	Increasing levels of demand but fully offset by grant.	Increasing demand partially offset by grant.
Pupil Nos	New intake is 10% lower than anticipated – census sees drop in 0-4's.	Projected modelled student numbers.	New intake is 5% higher than projected student numbers

Flexing of other demand pressures such as waste tonnages and CTRS was not considered necessary. This is because they are currently less volatile, and arrangements already in place are considered adequate to manage any fluctuations at this stage.

The table below summarises how variables were flexed under the different economic scenarios considered:

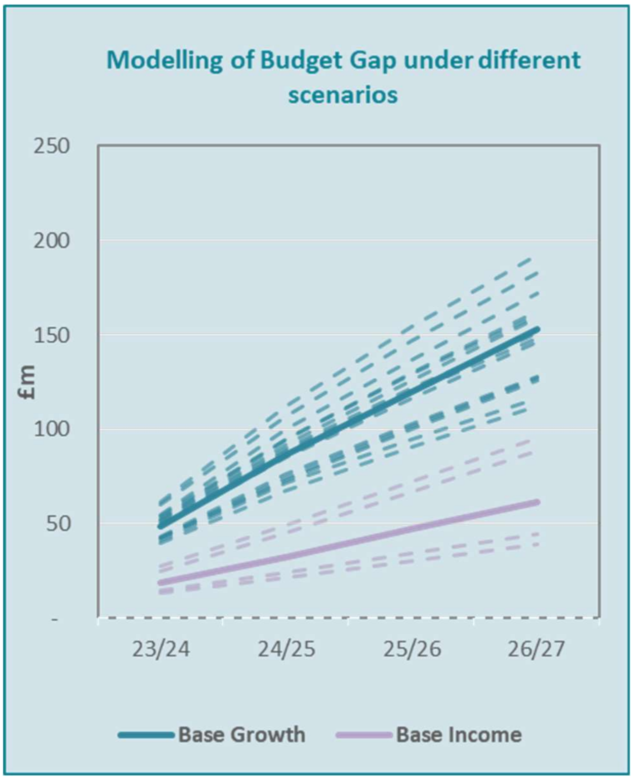
	Inflation		
	Low	Base Case	High
Pay	3%: 2023/24 2.25%: onwards	3%: 2023/24 2.5%: onwards	4.5%: 2023/24 3.5%: onwards
RLW	8%: 2023/24 2% by 2026	9%: 2023/24 3% by 2026	11%: 2023/24 5% by 2026
CPI	3%: 2023/24 2%: thereafter	4%: 2023/24 2.5%: 2024/25 2% onwards	6%: 2023/24 3%: by 2026/27

	Economic Growth		
	Growth	Base Case	Recession
AEF	4.5%: 2023/24 3.75% onward	3.5%: 2023/24 2.4% 2024/25 2.5% onward	2.5%: 2023/24 1.5% onward

The £3.5 million per annum that is allowed for emerging pressures in the base case MTFP is removed in all other scenarios. This is because it is a) assumed not to be required in more favourable scenarios, and b) the factors it is there to help address will already have materialised in less favourable scenarios.

Favourable scenarios also factor in release of the COVID-19 budget over the medium term. This is because it is assumed that conditions would result in service specific income largely recovering to its pre-pandemic position.

The resultant scenarios are summarised on the chart below:



Some note on scenarios:

- The average budget gap across all scenarios was £83m - comparable to the £91m base case.
- Maximum was £153m and minimum was £24m.
- A third of alternative additional pressure scenarios were within 5% of the base case, suggesting it is a prudent position from which to plan at present.

The £153 million and £24 million are extremes, albeit not completely implausible. The £153 million scenario reflects a combination of high inflation & low economic growth (stagflation) coupled with higher demand. This sees higher costs across the board coupled with less favourable AEF. The £24 million scenario reflects high economic growth and low inflation. It sees reduced cost pressures and higher AEF settlements. It also assumes more favourable conditions would reduce reliance on the COVID-19 budget, and facilitate work on preventative measures to further reduce demand.

The CIPFA FM code suggests avoiding 'best' and 'worst' case as the only considered options. The table below provides a summary of all modelled scenarios relative to the base scenario which is highlighted in the centre of the table.

		Demand Scenarios		
		High £m	Base £m	Low £m
Economic Scenarios	Recession & High Inflation	+62	+42	+31
	Recession & Low Inflation	+12	-8	-19
	BASE CASE	+6	91	-25
	Econ Growth & High Inflation	-4	-24	-35
	Econ Growth & Low Inflation	-33	-53	-67

Sensitivities

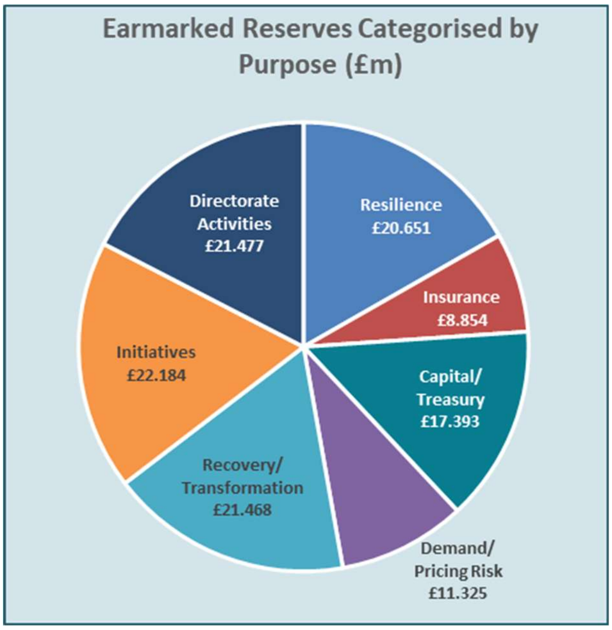
Scenarios examined the relationship between key variables. The table below summarises the impact of a 1% change in key areas. It shows that the key area of sensitivity for the Council is funding settlements, with each 1% of AEF equivalent to £5.4 million. This is evident in the economic growth scenarios above being a lot more favourable – because they assume a greater level of funding support to help cope with pressures.

Assumption	£m
AEF - 1% change	5.4
Teachers Pay Award 1% change	1.6
NJC Award 1% change	2.5
CPI 1% change (on permitted heads)	1.4
RLW	1.3
Total Annual Impact	12.2

Scenario planning is aimed at identifying plausible alternatives, to inform the scope of financial pressures that the council could face, and the likelihood of an alternative budget strategy being required. This is considered further below.

Responding to less favourable Scenarios

The Council has in place earmarked reserves to address some of the key risks that have been flexed in the scenario analysis. This is summarised in the graph below which categorises the Council's reserves (Council Fund and earmarked reserves).



Whilst use of reserves is clearly not a long term solution to addressing increasing costs, reserves are an important means of managing demand and price risk in the short term. They can also smooth the period over which base-funding may be required to address additional pressure. In a worse-case scenario, reserves would help provide a lead in time to more swingeing savings requirements.

In addition, to earmarked reserves the Council also has in place a budgeted £2 million general contingency, a £3.8 million Financial Resilience Mechanism, and contingencies for specific demand issues such as Social Services.

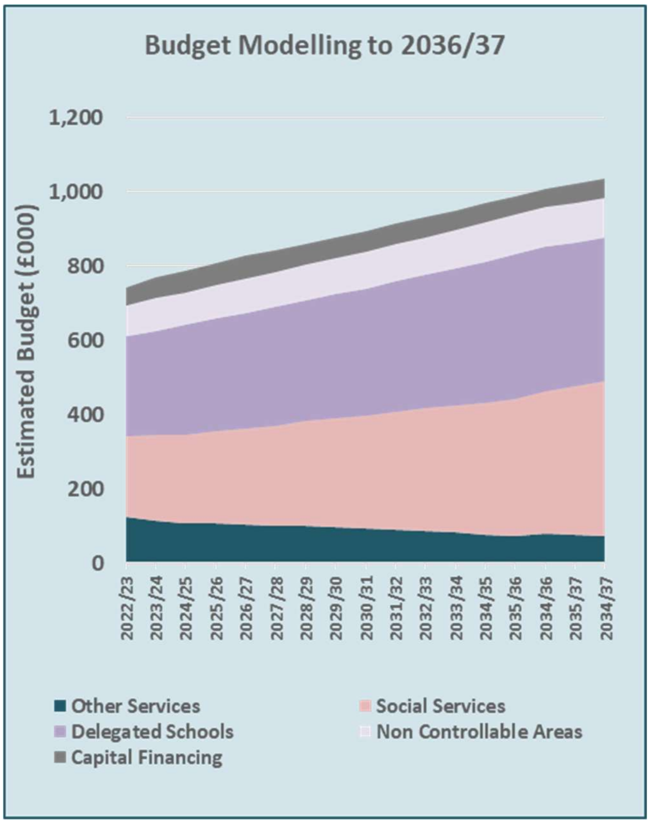
In a worse-case scenario, additional savings measures would inevitably be required. The situation outlined above would provide a lead-in time to enable those to be delivered.

It is unlikely that the worst of all modelled outcomes will come to fruition and there are several scenarios that are a marked improvement on the base case.

The base case MTFP is aimed at striking an appropriate balance between too optimistic and too pessimistic, but with an understanding of other possibilities.

5.2 Longer Term Outlook

The graph below 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 the Council's wider assessment of financial risk as encapsulated in the Corporate Risk Register.

Section 5. Risk and Uncertainty

Funding	• LG settlements - worse than predicted. • Risk of specific grant fall-out, especially where grants support core activity. • Adequacy of specific grant funding over the medium term where the detail of associated initiatives is still emerging – e.g. Universal Free School Meals. • The WG and Plaid Cymru December 2021 Co-operation agreement pledges to review Council Tax reform in Wales during the next three years. This will need to be kept under review in terms of its impact.
Economic Linked Variables	• Inflation – increasing costs and pressure for increased pay awards • Interest Rates - increases resulting from tackling inflation could impact cost of borrowing and impact affordability of capital programme • Economic Growth – weak growth / recession may mean slower post COVID recovery and lower government receipts leading to reduced Local Government Settlements.
COVID Recovery	• Longer-term lost of service specific income • Provider / supplier viability • Long-tail demand • Office/ICT requirements associated with new ways of working
Demand	• Difficulty in modelling complexity of demand, including in Adult and Children's Services and Additional Learning Needs.
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.