

**COUNCIL: 21 JULY 2022**

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## **CABINET PROPOSAL**

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### **BUDGET 2023/24 AND THE MEDIUM TERM FINANCIAL PLAN: UPDATE REPORT**

#### **Reason for this Report**

1. To provide an update in relation to the 2023/24 Budget Gap, Medium Term Financial Plan and Capital Programme.
2. To outline the budget timetable that will be followed in order to present the 2023/24 Budget to Council in February/March 2023.
3. To provide an update in relation to the Council's financial resilience.

#### **General Background**

4. The Medium Term Financial Plan (MTFP) included within the Council's 2022/23 Budget Report, presented in March, identified a potential budget gap of £69 million over the period 2023/24 – 2026/27. This Report updates the MTFP for more recent information, outlines the timetable associated with the 2023/24 Budget Strategy and sets out the approach to rolling forward the Capital Programme. Finally, it includes an assessment of the Council's financial resilience. Annex 1 contains the Council's updated MTFP whilst Appendix 1 provides an overview of the Budget Update in a summarised question and answer format.

#### **Issues**

5. Before the 11<sup>th</sup> March 2023, Cabinet Members have a collective duty to place before the Council proposals which, if approved, would result in a balanced budget for 2023/24. As part of planning for that position, this Report provides an update on the key factors likely to affect the 2023/24 Budget.

#### **Context**

6. The following paragraphs outline key contextual considerations in planning an approach for the preparation of the 2023/24 Budget.

## Economic Context

7. The current economic context is challenging. Latest Gross Domestic Product (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.
8. The May 2022 CPI inflation rate is 9.1%, 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% in the final quarter of 2022, 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%.
9. 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 increasing requests for government support.
10. It is difficult to predict what current inflation levels and the cost of living crisis may mean for pay awards. There is significant pressure for wage increases that keep pace with inflation. However, the Treasury has issued repeated warnings that wage increases aligned to inflation, may risk intensifying the crisis, referencing the potential for a wage-price spiral.
11. 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. This assumes no further rises in global commodity prices, the easing of global bottlenecks and weakening demand.
12. One of the tools available to the BoE to try to stabilise inflation is to increase interest rates. In June 2022, rates increased from 1% to 1.25%, their fifth consecutive monthly 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.
13. Unemployment has been falling in the UK with recent rates at 3.8% (Feb-Apr 2022). Since the start of the pandemic, the UK workforce has shrunk, leading to a tight labour market in which there are currently more job vacancies than unemployed. This is having a contributory effect to price increases in some areas, requiring higher wages being paid to attract staff. In the near term, the BoE expects unemployment rates to continue to fall slightly, before increasing to 5.5% over the medium term.

14. The economic context outlined above has significant implications for the Council's financial planning. These are summarised below and are key factors in framing assumptions and cost drivers in 2023/24 and over the medium term. Each is considered in further detail later in the report.

| Factor          | Planning Implications   |
|-----------------|---|
| Inflation       | <ul style="list-style-type: none"> <li>Impact of specific elements of the CPI basket of goods on Council supplies and services</li> <li>Pay awards - the impact of high inflation on potential pay awards will need to be considered. This relates to the Council's own pay awards (Teachers, NJC etc.) as well as awards in sectors where the Council commissions services - notably the impact of Real Living Wage increases in the Care Sector.</li> </ul> |
| Energy crisis   | <ul style="list-style-type: none"> <li>Expected to have significant cost implications for the Council across schools, street lighting, and wider estate.</li> <li>Prices remain volatile and will require close review.</li> </ul>  |
| Interest Rates  | <ul style="list-style-type: none"> <li>Rising interest rates will affect the cost of borrowing &amp; capital programme affordability – both existing programme and new schemes.</li> </ul>  |
| Labour market   | <ul style="list-style-type: none"> <li>May increase the cost of commissioning services in areas particularly affected by labour shortages.</li> </ul>   |
| Economic Growth | <ul style="list-style-type: none"> <li>Weak economic growth may curtail public sector funding.</li> </ul>   |

## COVID-19

15. The COVID-19 virus and associated public health measures have resulted in significant financial implications for the Council. The Welsh Government put in place a COVID-19 Hardship Fund to support Local Authorities with additional costs and income loss directly resulting from the pandemic. During the financial years 2020/21 and 2021/22, Cardiff Council received £134 million support from the fund, as summarised in the table below.

|                    | 2020/21       | 2021/22       |               |               |               |               |
|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|
|                    | Total<br>£000 | Q1<br>£000    | Q2<br>£000    | Q3<br>£000    | Q4<br>£000    | Total<br>£000 |
| Homelessness       | 3,713         | 184           | 228           | 566           | 1,164         | 2,142         |
| Free School Meals  | 7,842         | 529           | 1,996         | 942           | 342           | 3,809         |
| Adult Social Care  | 13,963        | 3,493         | 3,088         | 1,847         | 1,324         | 9,752         |
| Self-Isolation     | 823           | 192           | 865           | 2,120         | 3,897         | 7,074         |
| Winter Fuel        | 0             | 0             | 0             | 0             | 4,606         | 4,606         |
| Other Expenditure* | 21,363        | 1,591         | 1,616         | 1,995         | 1,804         | 7,006         |
| Income Loss*       | 38,155        | 4,805         | 4,928         | 3,223         | 1,055         | 14,011        |
| <b>Total</b>       | <b>85,859</b> | <b>10,794</b> | <b>12,721</b> | <b>10,693</b> | <b>14,192</b> | <b>48,400</b> |

- *These lines represent the greatest ongoing risk to the Council, as other lines include support administered on behalf of WG, or initiatives where other funding is now in place.*

16. The COVID-19 Hardship Fund ended on 31<sup>st</sup> March 2022. Despite a declining level of reliance on the Fund over the two year period, the Council was still in

receipt of a significant level of support at the end of 2021/22. A longer tail financial impact of COVID-19 in 2022/23 and beyond is anticipated. In recognition of this, the 2022/23 Budget Strategy included a £10 million COVID-19 recovery budget with the potential for this to be supplemented from earmarked reserves if required.

17. In time, as recovery continues, there may be potential to reduce the £10 million budget. However, at present, it is too early to assess what, if any, may be an appropriate reduction for 2023/24. This will need to be informed by the current financial year as it progresses. The Month 4 monitoring position due to be reported to Cabinet in September 2022 will provide an early indication, but close monitoring will be required throughout the year.
18. One key factor in assessing the ongoing need for the recovery budget, will be the extent to which income-funded areas approach pre-pandemic levels of income during 2022/23. At present, 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

19. For the first time in a number of years, the Council has indicative funding allocations beyond the current financial year. These are at an All-Wales level of +3.5% for 2023/24 and +2.4% in 2024/25. Whilst welcome from a planning perspective, it is important to emphasise the indicative nature of these figures and their potential to change. In the past, changing circumstances have resulted in final funding allocations being significantly less favourable than indicative amounts. In the context of 2023/24 Budget setting, this must be viewed as a real risk given the degree of economic uncertainty outlined earlier in the Report.
20. A key date in the budget-setting process will be Provisional Local Government Settlement (Provisional Settlement.) At present, it is uncertain whether Provisional Settlement will follow the later timescales of recent years (i.e. December), or revert back to its more traditional October timeframe. Settlement dates are likely to be influenced by the timing of the confirmation of the Welsh block grant for 2023/24. This is because prior to that, any Local Government funding announcements would be liable to change. This may suggest a continuation with later timescales in the interest of certainty.

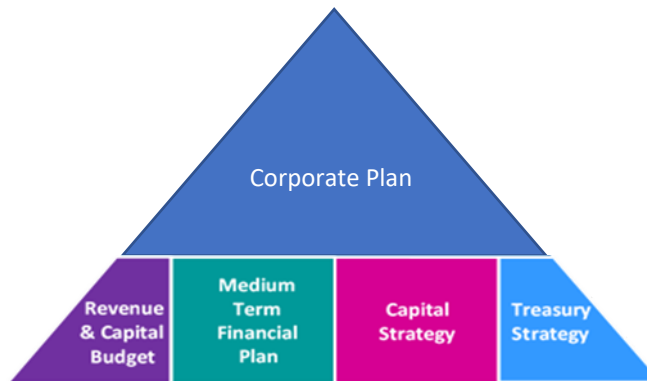
#### **CIPFA FM CODE**

21. The CIPFA Financial Management (FM) 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. Standards emphasise that financial planning over the medium term should contain a robust assessment of drivers of cost and

demand, with associated sensitivity analysis. The requirements of the FM Code and the need for evidence has been a major consideration in the development of the Council's key financial strategies such as the Medium Term Financial Plan, Capital Strategy and the Treasury Management Strategy.

## Organisation Context

22. The Corporate Plan provides the framework for the Council's core financial strategy documents. This ensures that 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, this also helps to ensure that the financial strategy supports the Council's duties under the Well-being of Future Generations (Wales) Act 2015.
23. The Council's financial strategies need to provide a financial foundation to progress the organisation's goals as illustrated below.



24. The 2023/24 Budget will be developed alongside the updated Corporate Plan, in readiness for approval of both next February / March. Continued work will be required to ensure that financial resources are available as and when required, to deliver Plan objectives. Given the challenging financial outlook, this will include seeking to maximise external support in the form of grant funding opportunities and working with partners. Financial planning will continue to evolve alongside business case work on strategies, plans and initiatives linked with delivery.

## BREXIT

25. Another factor, which forms part of the background to the 2023/24 Budget Strategy is the impact of BREXIT and the agreed Trade Deal with the European Union. Potential risks in this regard are captured as part of the Council's Corporate Risk Register. 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.

## The Medium Term Budget Reduction Requirement

26. The MTFP undergoes regular review to ensure it reflects the most up to date information. It was last reported in March 2022, alongside the 2022/23 Budget Report. Updates made to the 2023/24 budget gap are summarised in the table below and explained in paragraphs 28-43.

|                              | <b>Mar 2022<br/>£000</b> | <b>Updates<br/>£000</b> | <b>Revised<br/>£000</b> |
|------------------------------|--------------------------|-------------------------|-------------------------|
| Employee Costs               | 21,375                   | (7,825)                 | 13,550                  |
| Price Inflation              | 7,175                    | 10,221                  | 17,396                  |
| Capital Financing            | 4,803                    | (675)                   | 4,128                   |
| Commitments & Realignments   | 1,120                    | 100                     | 1,220                   |
| Demographic Pressures        | 5,523                    | 3,328                   | 8,851                   |
| Emerging Financial Pressures | 3,500                    | 0                       | 3,500                   |
| AEF* - assumes +1%           | (19,065)                 | 0                       | (19,065)                |
| Earmarked Reserves           | (500)                    | 0                       | (500)                   |
| <b>TOTAL</b>                 | <b>23,931</b>            | <b>5,149</b>            | <b>29,080</b>           |

*\*AEF or Aggregate External Finance, refers to the Council's general funding – Revenue Support Grant and Redistributed Non-Domestic Rates*

27. The changes outlined in the preceding table reflect the following assumptions and updates:

### Employee Costs

28. Budget planning reflects the assumption of a 3% pay award for both teaching and NJC staff. Whilst there is significant pressure for pay awards that match 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, the NJC award will be decided by a collective bargaining process, and the Teachers’ award by the Welsh Government. At this stage, the assumption of 3% awards has been retained. Should pay awards in 2022/23 or 2023/24 be higher than budgeted for, this will be a call on the sum included within the budget gap for emerging pressures.
29. The table at paragraph 26 indicates a reduction in anticipated employee costs since the March 2022 iteration of the 2023/24 Budget Gap. This reflects a timing update with regards the actuarial review of the Teachers’ Pensions Scheme. Latest information from the Local Government Association is that any increase in Employers superannuation contributions linked to the review are now likely to take effect in 2024/25. Current suggestions are that increases could be at least as much as those experienced following the last actuarial review and will therefore require close ongoing monitoring.

30. Updates to the 2023/24 Budget Gap also reflect the impact of updated Real Living Wage (RLW) assumptions on the bottom of the Council's pay spine. These are relatively minor for 2023/24 but have a greater effect in later years of the MTFP as incrementally more staff are brought within the remit of the RLW. This is based on assumptions that RLW rates will increase by more than NJC pay awards over the medium term.

#### Price Inflation

31. There has been an increase in anticipated inflationary pressure since the March 2022 iteration of the Budget Gap. This reflects the situation outlined in the economic context section of the report. Key elements of change to the budget gap include projections for energy, fuel, school transport, and commissioned care costs.
32. The 2022/23 Local Government Settlement included funding to support the payment of the RLW to registered workers in the care sector. In future, annual fee uplifts for commissioned care will need to consider RLW increases. 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.
33. At the time of setting the Budget Report, CPI was around 6%, and whilst it was expected to rise during the year, at that point it was not anticipated to reach 9% by April 2022. In view of actual inflation levels this spring, assumptions for RLW in 2023/24, and therefore estimated care costs, 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. 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.
34. The Council purchases its energy via Crown Commercial Services (CCS). Energy commodity markets have experienced unprecedented price increases for both electricity and gas. Whilst pressures commenced last Autumn, they have been exacerbated by the impact of Russia's invasion of Ukraine. This has resulted in a worsening of energy price projections via CCS in recent months. Gas prices have increased by a further 45% on February 2022 projections, with overall projections now standing above 150%. There is a similar position on electricity and whilst increases are not quite as high (c78% overall), this is having an even bigger impact as the Council's energy usage is weighted towards electricity. Energy costs are expected to increase by more than £6.5 million in 2023/24 across schools, street lighting and the Council's other estate. The situation will require careful monitoring as prices are susceptible to further change, and there will be a need to proactively plan for mitigating actions, including review of energy usage.

35. Estimates for 2023/24 fuel costs have also been revised upwards since March, based on most recent information. As well as implications for the cost of the Council's own vehicle fleet, the cost of fuel is also causing upward price pressure in commissioned school transport costs, and these have also been factored into the budget update.

### Capital Financing

36. The £0.675m reduction in capital financing figures since March 2022 relates to a two-year limited pressure in relation to Schools Asset Renewal. At outturn 2021/22, a earmarked reserve was created to fund this pressure, negating the need to identify base budget funding.
37. The capital financing figure will be updated as the year progresses, following updates on the timing and cost of approved projects in the existing programme, as well as the timing of any new borrowing required in line with the Treasury Management Strategy. Interest rates on borrowing are currently the subject of increases from historic lows seen over the last few years. Increases are a result of inflation expectations, national debt levels and international uncertainties. However, rates do rise and fall and remain unpredictable. Whilst any sustained increase is not anticipated to have a significant impact in 2023/24, it would affect this budget in the medium to long term. Accordingly, 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.

### Commitments and Realignments

38. Commitments and realignments include anticipated increases to levies (such as the Fire Service levy), increases to revenue maintenance budgets linked with the capital programme, and a marker for Non-Domestic Rates revaluation, although this is difficult to predict until the Valuation Office concludes its review later this year. Minor updates have been made to earlier assumptions around some of these issues.

### Demographic Pressures

39. Demographic pressures reflect fluctuations in demand. These include changes in pupil numbers, the cost of running Local Development Plan schools as they open, and increasing demand in Social Services. Updates made to this line since March reflect most recent pupil number projections, pressure on the school transport budget in terms of additional routes, together with early indications of pressure on Children's Services placements in the current year. These issues will need to be kept under close review.

### Ongoing Review

40. Regular review of budget planning is a key part of financial resilience. It ensures assumptions reflect most up to date information and that emerging



issues are captured at the earliest opportunity. Given the uncertain and volatile contextual backdrop outlined earlier in the report, regular review will be a critical part of planning for the 2023/24 Budget. The absence of agreed pay awards, the energy crisis, wider inflationary challenges, and their impact on partners and suppliers as well as on the Council itself, are all key factors. The table below summarises areas that will require ongoing review:

| <b>Factors to be closely monitored for their impact on the 2023/24 Budget</b> |   |
|---|---|
| <b>Employee Costs</b>   | <ul style="list-style-type: none"> <li>• <b>2022/23 pay award:</b> announcements in relation to current year pay awards and their ongoing implications if they are higher than budgeted.</li> <li>• <b>2023/24 pay award:</b> indications regarding 2023/24 awards which are currently based on a 3% assumption for both NJC and teaching staff.</li> <li>• <b>LGPS Superannuation</b> - conclusion of the actuarial review of the LGPS Pension Fund and its implications for Employer's Pensions Contributions from 1<sup>st</sup> April 2023 onwards. It is considered prudent to assume no increase in contributions, but this will be confirmed during 2022/23.</li> <li>• <b>Employer's NI Contributions</b> - Any announcements regarding changes to rates and thresholds applicable to Employers National Insurance Contributions. No significant changes are anticipated for 2023/24.</li> <li>• <b>Real Living Wage</b> - the September 2022 announcement on the RLW rate and its impact on the Council's pay spine in 2023/24.</li> </ul>   |
| <b>Commissioned Costs</b>   | <ul style="list-style-type: none"> <li>• <b>Real Living Wage</b> - the September 2022 announcement on the RLW rate and its impact on commissioned Social Care costs in 2023/24.</li> <li>• <b>CPI</b> - forecasts for 2023/24 and their impact in applicable areas.</li> <li>• <b>Energy</b> - removal of the energy price cap in the autumn and any further fluctuations in energy pricing generally.</li> <li>• <b>Fuel costs</b> - fluctuations in petrol and diesel prices.</li> <li>• <b>Cost of Care</b> - the outcome of the exercise due to be undertaken in 2022/23 on the future cost of Older People Residential and Nursing placements.</li> </ul>  |
| <b>Other</b>  | <ul style="list-style-type: none"> <li>• <b>Capital Financing</b> - the impact of rolling forward the capital programme including the Housing development programme, the timing of any new borrowing required and any changes in interest rates assumptions.</li> <li>• <b>In year issues</b> - the 2022/23 monitoring position as the year progresses, including post-pandemic recovery of income-funded areas and the extent of reliance on the Council's £10 million COVID recovery budget.</li> <li>• <b>NDR Revaluation</b> - the outcome of the revaluation due to take place during 2022/23 and its impact on NDR payable on Council premises from 1<sup>st</sup> April 2023.</li> <li>• <b>Universal Free School Meals</b> - any implications of the roll-out due to commence with elements of the primary sector in September 2022. Further clarity is required around scheme operation to fully assess potential implications for infrastructure, staffing etc - assumed will be met by grant.</li> <li>• <b>Demand</b> - updates to demand forecasts, taking into account the emerging in-year position in areas including Social Care and homelessness.</li> <li>• <b>Additional Learning Needs</b> - funding responsibility for post-16 ALN is due to transfer to Local Government. There will be a need to assess the implications of this are further clarity is provided.</li> <li>• <b>School Transport / Taxis</b> - the impact of additional demand for routes, the condition of the market and underlying price pressures.</li> <li>• <b>School Funding Formula</b> - ensuring that it remains fit for purpose and reflects the cost priorities for schools.</li> </ul> |

|                |   |
|----------------|---|
| <b>Funding</b> | <ul style="list-style-type: none"> <li>• <b>AEF</b> - Provisional Local Government Financial Settlement and the extent to which this differs from indicative funding allocations.</li> <li>• <b>Council Tax Base</b> - the tax base for 2023/24 due for Cabinet consideration in December 2022, and any related AEF redistribution.</li> <li>• <b>Specific grant streams</b> - including any potential risks from grant reductions or fall-out, but also considering any grant-funding opportunities including the Shared Prosperity Fund.</li> </ul> |
|----------------|---|

41. The preceding paragraphs covered the forthcoming financial year in more detail. The table below sets out the revised position over the medium term, and indicates an estimated budget gap of £29 million for 2023/24 and £91 million over the period 2023/24 – 2026/27. Further detail on each component of the gap, along with information on key assumptions is included in the MTFP at Annex 1.

|                       | <b>Medium Term Budget Gap</b> |                         |                         |                         |                       |
|-----------------------|-------------------------------|-------------------------|-------------------------|-------------------------|-----------------------|
|                       | <b>2023/24<br/>£000</b>       | <b>2024/25<br/>£000</b> | <b>2025/26<br/>£000</b> | <b>2026/27<br/>£000</b> | <b>TOTAL<br/>£000</b> |
| Employee Related      | 13,550                        | 20,615                  | 12,595                  | 12,630                  | <b>59,390</b>         |
| Prices                | 17,396                        | 6,477                   | 5,976                   | 4,896                   | <b>34,745</b>         |
| Commitments           | 4,128                         | 504                     | 1,202                   | 546                     | <b>6,380</b>          |
| Capital Financing     | 1,220                         | 2,168                   | 2,036                   | 3,259                   | <b>8,683</b>          |
| Demographic Pressures | 8,851                         | 4,711                   | 7,968                   | 8,197                   | <b>29,727</b>         |
| Financial Pressures   | 3,500                         | 3,500                   | 3,500                   | 3,500                   | <b>14,000</b>         |
| Funding               | (19,565)                      | (13,531)                | (14,433)                | (14,794)                | <b>(62,323)</b>       |
| <b>Total</b>          | <b>29,080</b>                 | <b>24,444</b>           | <b>18,844</b>           | <b>18,234</b>           | <b>90,602</b>         |

42. Paragraph 40 outlined some key issues that will require close consideration in respect of the 2023/24 Budget Gap. There are also issues that will need to be kept under review over the later years of the MTFP and these are summarised below.

- 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 across the city.
- Population figures, other demographic changes, and any 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.

43. Current assumptions within the MTFP are prudent and based on best available information. However, there is always a risk of change. If certain assumptions

within the MTFP fluctuate by small margins, they have the potential to affect the forecast significantly. The MTFP at annex 1 considers a range of scenarios around the medium term.

## Modelling Savings Requirements

44. The table below models the potential savings requirement over the medium term. These assumptions will be reviewed as the budget process progresses, not least because the budget gap itself may change. Council tax levels included are purely for modelling purposes at this stage, and have been maintained at levels modelled previously notwithstanding that the gap has increased.

|                             | 2023/24<br>£000 | 2024/25<br>£000 | 2025/26<br>£000 | 2026/27<br>£000 | TOTAL<br>£000   |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Modelled Council Tax (+3%)* | (4,931)         | (5,079)         | (5,232)         | (5,388)         | (20,630)        |
| Savings Required            | (24,149)        | (19,365)        | (13,612)        | (12,846)        | (69,972)        |
| <b>Total</b>                | <b>(29,080)</b> | <b>(24,444)</b> | <b>(18,844)</b> | <b>(18,234)</b> | <b>(90,602)</b> |

*\*Levels are for modelling purposes and are subject to ongoing review and Member approval*

45. Over the summer, directorates will be asked to identify options for savings. For efficiency savings where no policy decision is required, (defined as achieving the same output (or more) for less resource, with no significant impact on the resident / customer), they will be implemented during the current financial year wherever feasible, in order to maximise the possibility of securing full year savings in 2022/23.

## Fees and Charges

46. In previous years, income generation proposals have formed part of the Council's strategy to address the budget gap. This will require a very cautious approach for 2023/24, as it is highly likely that the focus will need to be maintained on achieving pre-pandemic levels of income. Any further increase in income targets would need to be based on significant improvements to income achievement during 2022/23, and a robust assessment of future risk, in terms of both market and cost-base.
47. The inflationary factors outlined earlier in the report will impact Council services that are funded by income. Where this is the case, as part of 2023/24 Budget development, a clear strategy will need to be developed for each of these areas, setting out the approach to managing cost-base pressures. Factors to be considered in setting fees and charges for 2023/24 include:
- Any applicable statutory frameworks
  - Whether existing income budgets are being met
  - Any specific inflationary cost pressures that will need to be met
  - Adequacy of charges relative to cost of provision
  - Any potential impact on demand for services.
  - Appropriate benchmarking of both cost and fee levels

## **Consultation and Engagement**

48. In order to provide an opportunity for people to have their say on what is important to them and their communities, consultation on the 2023/24 Budget will take place. Given the significant impact that funding has for budget plans, this will take place following the receipt of the Provisional Local Government Settlement. As outlined earlier in the report, it is yet to be confirmed whether the Provisional Settlement will be during December, or if it will revert to October timescales. Prior to this, consultation and engagement across all aspects of the Council's business will inform budget planning.
49. The proposed Budget Timetable Framework for 2023/24 is included at Appendix 2. Over this period, consultation and engagement will also take place with the third sector, Scrutiny Committees, Governance and Audit Committee, Schools (via the School Budget Forum) and Trade Unions. In addition, employee engagement at all levels within the organisation continues to be given high priority.
50. The Council has various mechanisms in place to engage directly with employees including staff information emails, team briefings and the staff app. Employees will continue to receive briefings on the overall position through these channels at all key stages of the budget process. In addition, managers will ensure that there is appropriate engagement and consultation with employees who may be affected by any proposals.

## **Housing Revenue Account**

51. The Council sets a five-year budget for the Housing Revenue Account (HRA). This aligns to a 30-year business plan which is updated annually and submitted to the WG for approval. The current five-year budget inclusive of the rent uplift for 2022/23 was approved by Council in February 2022. The current business plan was approved in March 2022.
52. Key risks and uncertainties in the medium term include but are not limited to the following:
  - The potential for a restricted rent uplift in future years due to any changes to the WG rent policy beyond 2024/25 and/or the impact of CPI levels.
  - Cost inflation increases above rent uplifts impacting on net resources available.
  - Interest rate rises resulting in increased costs of borrowing undertaken for capital expenditure proposed including the significant borrowing for the new build housing programme.
  - A reduction in the WG Major Repairs Allowance grant which could impact the achievability of the planned Capital Programme.
  - The ongoing impact of Welfare Reform and universal Credit which could affect tenants' ability to pay rent along with increased costs of collection and

recovery and an increased requirement for tenant support and advice services.

- The challenge of decarbonisation targets without additional funding and the ongoing impact on energy costs for tenants.

## Capital Investment Programme

53. The Council sets a five-year rolling capital investment programme, which is updated annually. The current five-year programme was approved by Council in March 2022 and is summarised below. The 2022/23 Budget Strategy will roll the programme forward a year, to cover 2027/28.

| Capital Programme Expenditure                       |                |                    |                    |                    |                    |                  |
|---|----------------|--------------------|--------------------|--------------------|--------------------|------------------|
|   | 2022/23*       | 2023/24            | 2024/25            | 2025/26            | 2026/27            | Total            |
|   | £000           | Indicative<br>£000 | Indicative<br>£000 | Indicative<br>£000 | Indicative<br>£000 | £000             |
| Annual Sums Expenditure                             | 24,275         | 26,500             | 23,515             | 22,915             | 19,715             | 116,920          |
| Ongoing Schemes                                     | 45,216         | 32,712             | 20,981             | 20,050             | 6,336              | 125,295          |
| New Capital Schemes (exc. ITS)                      | 125            | 175                | 100                | 250                | 225                | 875              |
| Schemes Funded by External Grants and Contributions | 55,554         | 43,916             | 77,590             | 34,701             | 664                | 212,425          |
| Invest to Save (ITS) / Earn Schemes                 | 63,601         | 158,922            | 90,270             | 10,500             | 12,240             | 335,533          |
| <b>Total General Fund</b>                           | <b>188,771</b> | <b>262,225</b>     | <b>212,456</b>     | <b>88,416</b>      | <b>39,180</b>      | <b>791,048</b>   |
| <b>Total Public Housing (HRA)</b>                   | <b>74,610</b>  | <b>111,250</b>     | <b>106,135</b>     | <b>69,605</b>      | <b>53,700</b>      | <b>415,300</b>   |
|   |                |                    |                    |                    |                    |                  |
| <b>Total Capital Programme</b>                      | <b>263,381</b> | <b>373,475</b>     | <b>318,591</b>     | <b>158,021</b>     | <b>92,880</b>      | <b>1,206,348</b> |

\* The final slippage figure will be reflected in the Month 4 2022/23 budget monitoring report.

54. Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council must approve a Capital Strategy that sets out the long-term context in which capital investment decisions are made. It must also approve a Treasury Management Strategy that includes the approach to managing the borrowing implications arising. The Council's Capital Budget Strategy approved in March 2022 will be updated as part of the 2023/24 budget process and includes the approach to:

- Working with partners
- Asset Management Planning
- Risk Appetite
- Governance and decision-making
- Capital Investment Programme
- Funding the strategy
- Managing the borrowing requirement
- Prudent Minimum Revenue Provision (MRP) Policy Statement
- Affordability of the investment plan

55. The resulting investment programme maintains momentum in city regeneration and economic development, tackling inequality and inclusive growth, modernising school buildings, delivering a significant house building programme and responding to the climate emergency and public service reform. It is also a key response to the public health crisis and its consequent economic impact, by including a programme of work to lead recovery and successfully reposition Cardiff as a successful global city over the longer term.
56. Construction prices have historically outpaced the general increase in prices, however as the UK emerges from the pandemic and because of wider geopolitical factors, materials supply, increases in construction costs, interest rates for borrowing and supplier availability are significant factors to consider in the update of the programme. This is in addition to the Council's own capacity and skills available to deliver the investment programme.

## **Major Projects**

57. The Budget Report for 2022/23 provided an update on the Indoor Arena, following approval of the Final Business Case in September 2021. The proposed programme includes enabling costs and an approach to direct funding of the arena construction by the Council as an alternative for third party funding. This will be fully funded by annual lease income from the Arena Operator. The Arena is a key component of several projects forming the wider Atlantic Wharf Master Plan, with the arena business case predicated on an affordability envelope assumed to pay for itself over the medium term. The budget report for 2023/24 will include the short, medium, and long-term impacts arising following the entering into a financial agreement with the developer.
58. The Council is also continuing to develop several other strategic projects, which, subject to approval of business cases, due diligence and affordability may be considered for approval as part of future iterations of the detailed investment programme. These include projects arising from the Transport White Paper including Metro; International Sports Village; Core Office Strategy; 21st Century Schools and responding to the climate emergency. To support a robust business case approach and inform the next iteration of the capital programme, allowance is made in the revenue budget for feasibility and options appraisal for several potential future projects. This includes:
  - Enhanced service delivery options from 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.

59. As options, business cases, risks and financial implications are determined; these will be able to be considered as part of annual updates to the Capital Strategy, the detailed Capital Programme and the Medium-Term Financial Plan in future years.

### **Importance of Option Appraisal, Business Cases and Due Diligence**

60. Implementation of capital schemes approved as part of the budget framework will need to be subject to the governance, financial, procurement and contract procedure rules set out in the constitution, as well as required Cabinet or Officer decision approval of business cases as relevant.
61. The size and complexity of Capital Projects including unanticipated taxation, wider financial and operating risks makes it essential that due diligence is undertaken on business cases and viability assessments for capital projects, with sourcing of external expertise where relevant, to support decision-making and to understand key risks and financial liabilities that could arise from such investment. There must also be consideration of whether investment could be better made by, or together with, others as part of thorough options appraisal exercises. It is essential that such best practice is embedded in Council processes, an area of improvement identified as part of the CIPFA Financial Management Code requirements. *“The approach of Cabinet approval of proportionate business cases for significant projects funded by the Council, prior to full inclusion in the capital programme is an essential tool to ensure financial resilience and understanding of affordability and risk.”*
62. Such practices are a key requirement of the Prudential Code and should be in place for all projects including those predicated on undertaking borrowing to be repaid over a period from future income or savings. It should be noted that recent updates to the professional codes and regulatory changes set out clear guidelines geared to constraining investment in physical or financial assets primarily for yield.

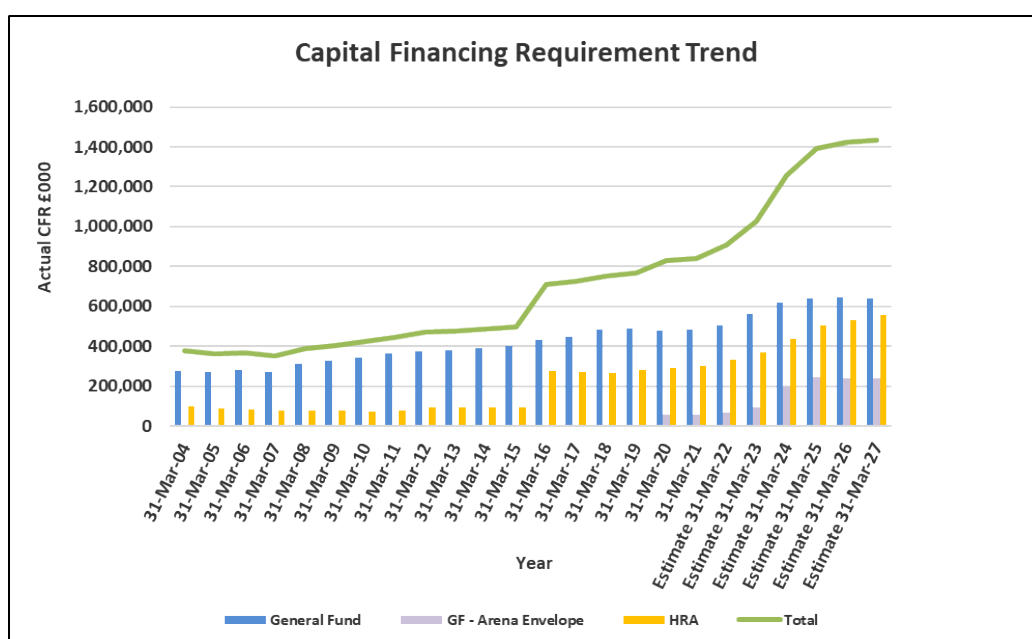
### **Capital Programme Affordability**

63. The existing capital programme has been set based on a long-term view of the Council’s investment requirements. The affordability of the programme is reviewed annually considering the impacts of the issues highlighted above, with the revenue budget impact of borrowing and operating costs, where significant, included in the MTFP and to be considered along with other financial pressures. The programme is currently being delivered within the parameters of key Prudential Indicators, agreed by Council as part of the annual budget setting process.
64. The Council continues to be successful in bidding for external grants for specific capital schemes from Welsh Government and other external bodies. This external funding is essential to support affordability of meeting policy objectives set by National Government but is often only available on a bid basis and has short term timescales. This makes long-term planning difficult.

65. However, the demand and need for investment in our critical infrastructure and to improve service delivery and outcomes for the City has a significant impact on affordability, requiring prioritisation and consideration of alternative ways of achieving the same outcome. The Council has two main resources that it can directly influence to fund investment - capital receipts and borrowing. Both are considered in further detail below.

### Borrowing

66. Borrowing has long-term financial consequences, and costs span generations. When the Council incurs capital expenditure without an immediate resource to pay for it (e.g., grant, revenue or capital receipt), it results in a need to borrow. While it may not be necessary to take additional external borrowing immediately, the Council's underlying need to borrow, called its Capital Financing Requirement (CFR), increases. In other words, there will ultimately be a requirement to borrow money, which will need to be repaid.
67. The Council's CFR highlights two stepped increases since the measure was introduced in 2004. One in 2015/16 which reflects payments to HM Treasury to exit the Housing Revenue Account (HRA) Subsidy System. The other, starting in 2022/23 reflecting the approach to funding the Indoor Arena.



68. To reduce the CFR, the Council has a statutory duty to make “prudent provision” for the repayment of debt. This takes the form of a charge to the revenue account, called the Minimum Revenue Provision (MRP.) The MRP spreads the costs of borrowing, helping to ensure that the Council can service the debt associated with the current and historic capital programmes.
69. Generally, assuming a 25-year asset life, every £1 million of capital expenditure funded by borrowing places an additional pressure of £75,000 on the revenue budget in the initial years (assets with a shorter life result in a higher charge).



This excludes any additional operating costs.

70. Any increase in the amount of borrowing must consider the affordability implications for the revenue budget, not only now but in future, particularly in the context of the level of savings to be found, financial resilience risks, and the Section 151 Officer view on the deliverability, affordability and risk associated with the Capital Strategy.
71. Based on the existing programme, the medium-term financial plans for the General Fund and Housing Revenue Account shows the capital financing budgets increasing into the long term. This assumes no further increases in unsupported borrowing beyond that to which there is already commitment. In addition, it assumes capital receipts targets will be met and all projects approved on an invest to save basis continue to do so and represent no risk to the revenue budget. The increase in the levels of borrowing predicated on such projects makes the preparation, approval and monitoring of robust business cases an important tool in mitigating financial resilience risk.
72. As can be seen throughout the Capital Strategy, Treasury Management Strategy and Housing Medium Term Financial Plan produced as part of the Budget proposals in 2022, a number of indicators are prepared to support the assessment of affordability, prudence and sustainability of borrowing. These will be updated in the Budget Proposals for 2023/24, including any amendments recommended by CIPFA as part of its update of guidance. One of the suite of indicators highlighting the Ratio of Financing Costs to Net Revenue Stream is shown below for the General Fund and Housing Revenue Account. For the General Fund, the net revenue stream is the amount to be met from non-specific WG grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers and service charges. These are clearly based on future assumptions in respect to AEF, council tax income and housing rent policy. Any adverse change in these variables may have a significant impact on the outlook for this indicator.

| Indicator   |                        |                        |                          |                          |                          |                          |                          |
|---|------------------------|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Ratio of Financing Costs to Net Revenue Budget Stream |                        |                        |                          |                          |                          |                          |                          |
|   | 2020/21<br>Actual<br>% | 2021/22<br>Actual<br>% | 2022/23<br>Estimate<br>% | 2023/24<br>Estimate<br>% | 2024/25<br>Estimate<br>% | 2025/26<br>Estimate<br>% | 2026/27<br>Estimate<br>% |
| <b>General Fund</b><br>Net CF Budget                  | 4.73                   | 4.77                   | 4.58                     | 4.69                     | 4.71                     | 4.70                     | 4.90                     |
| <b>General Fund</b><br>Gross CF Budget                | 6.99                   | 7.18                   | 6.90                     | 7.50                     | 8.22                     | 8.39                     | 8.44                     |
| <b>HRA</b><br>Gross CF Budget                         | 32.72                  | 32.24                  | 32.16                    | 33.36                    | 36.23                    | 38.49                    | 37.72                    |

CF – Capital Financing

73. The net capital financing percentages shown above assume that income or savings associated with Invest to Save (ITS) or Invest to Earn (ITE) Schemes will all be fully realised. The difference between the gross and net indicators highlights that there would be significant revenue implications if the level of income, savings or capital receipts associated with ITS/ITE schemes does not

ultimately materialise. This additional risk to borrowing levels and affordability requires robust due diligence and risk assessment of business cases before approval, as well as ensuring that schemes are essential to meet strategic objectives.

### Capital Receipts

74. Capital receipts are an important means of increasing the affordability of the Capital Programme. The generation of capital receipts is also consistent with the need to accelerate a reduction in the Council's asset base where this can support savings requirements.
75. The Capital Programme approved by Council in February 2018 set a target for non-earmarked General Fund Capital receipts of £40 million, with a subsequent increase of £1 million to this target in 2019/20, after making a deduction for eligible revenue costs of disposal. Total receipts against the target up to 31 March 2022 are £10.060 million. Updates to the receipts target are included in the Annual Property Plan.
76. The Council's Capital investment plans also includes several major development projects which assume that future capital receipts will be received to pay towards expenditure incurred on those projects such as land acquisition at the International Sports Village. Expenditure incurred in advance of realisation of receipts represents a risk of both abortive costs and to the level of borrowing and should be reviewed regularly as part of the overall annual property plan and relevant project governance processes.

### **Developing the Capital Programme 2023/24 to 2027/28**

77. As mentioned above the capital investment programme is a strategy, aiming to meet the long-term challenges facing the city. As such the programme should not change significantly because of short-term disruptors. However, the update of the investment programme will have regard to the challenges outlined above namely, longer term affordability in the context of the overall Medium Term Financial Plans; Materials and supply cost pressures; proportionate business cases in place prior to inclusion of schemes in the programme and review of resources available to pay for capital commitments.
78. For General Fund, no new schemes nor additional investment in asset renewal funded by borrowing over the medium term unless: reprioritised from existing programme, is accompanied by significant confirmed external match funding or is on an invest to save basis following a business case approved by Cabinet
79. In updating and formulating the five-year Capital Programme for 2023/24 to 2027/28, the approach to formulating investment priorities will be as follows:
  - Schemes already included in the indicative programme to be reviewed for increased cost pressures, mitigation options and timing having regard also to capacity to deliver.
  - Emerging pressures and increased costs to be managed and prioritised

within existing resources allocated in the current capital programme.

- Any new expenditure requests will only be considered in the context of external funding or robust Invest to Save / Invest to Earn business cases, approved by Cabinet.
- Housing Revenue Account investment to consider long term business plan affordability modelling, with new build schemes approved subject to individual viability assessments. Key to affordability will be approach to rent-setting and demonstrating value for money within the Welsh Government policy framework.
- All investment to be in accordance with Directorate Asset Management Plans, Corporate Plan and:
  - be evidence based
  - be risk prioritised
  - have considered all alternative solutions for funding and achieving the same outcome before requesting council funding
  - demonstrate value for money in expenditure and approach to delivering outcomes.

## **Financial Resilience**

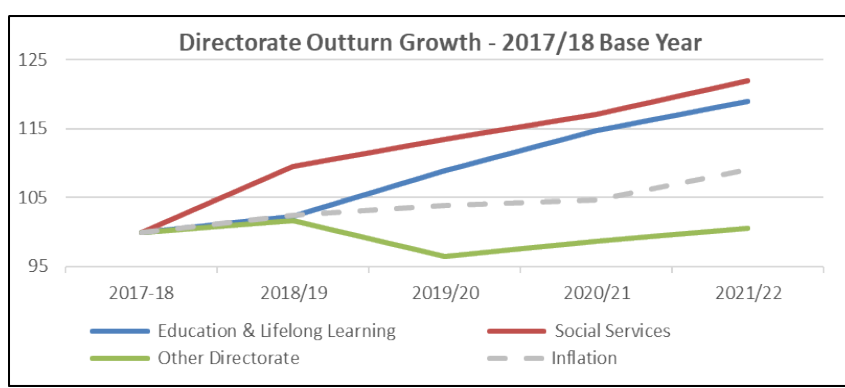
80. Given the challenges identified, it is important to undertake regular review of the Council's financial standing and resilience. The snapshot included at Appendix 3 provides a high-level overview of the financial health of the Council. The snapshot has been regularly produced and reported for a number of years. However, for this and future iterations, its content has been extended, and its format revised, to capture most current issues. Additional content includes new areas, as well as further trend analysis over time in relation to areas previously included. Given the new details included, and the importance of considering resilience in the context of budget setting, the following paragraphs provide some further explanatory narrative.

### Performance against budget - trends

81. Whilst the outturn position has been balanced in each of the past five years, the snapshot highlights that at a directorate level (before contingencies and other measures) there were increasing levels of overspend between 2017/18 and 2019/20. The underlying reasons for this vary over time and corrective action is taken where appropriate to mitigate ongoing impact in future years. From 2020/21 onwards the position has improved significantly.
82. With regards the most recent year's outturn (2021/22), the revenue position indicated that except for Governance and Legal Services, and Education, all directorates were either balanced or underspent. Contributory factors to overspends included external legal costs and school transport, both of which received additional funding in the 2022/23 Budget. The capital outturn for 2021/22 indicated significant slippage, some of which is attributable to the receipt of grant support late in the financial year. However, slippage also emphasises the need for robust assessment of the timing of capital schemes and capacity for their delivery. In further iterations of the snapshot when the

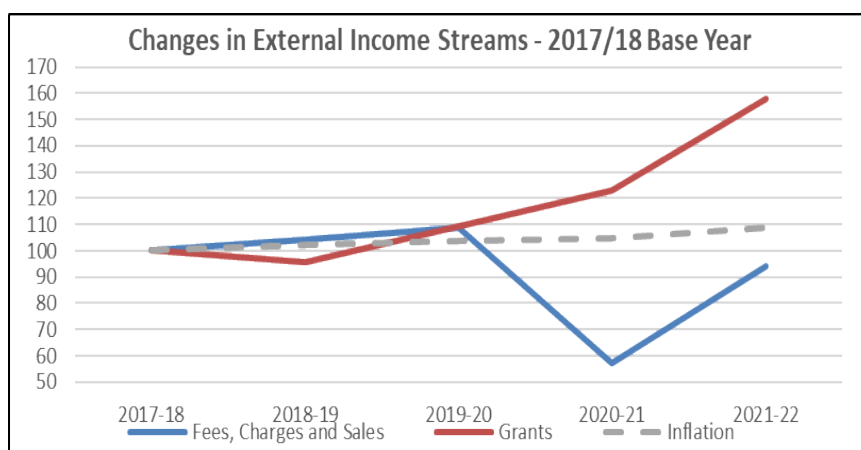
year is more advanced, in-year monitoring information will also be reflected in this section.

83. The graph replicated below indicates the actual expenditure on relevant services over a five year period, relative to inflation. This shows that Education and Social Services have increased by approximately 20% (in cash terms) over this period. This has been a product of both inflationary and demand pressure in these services. By comparison, there was a sharp fall in other services initially, followed by an uptick from 2020/21 onwards, which aligns with more favourable funding settlements and hence lower savings requirements. Notwithstanding this recent increase, other services were still not at their 2017/18 baseline in cash terms at the end of 2021/22. This margin widens in real terms (i.e. once inflation is taken into account, as depicted by the difference between the green and dotted lines).



### External Income

84. The graph replicated below sets out the impact that the pandemic has had on the Council’s fees and charges. Whilst recovery commenced in 2021/22, there is still a long way to go to reach pre-pandemic levels of income. It should also be noted that the dotted inflation line will see a sharp uptick in 2022/23 because inflation is so high. This means that achieving pre-pandemic income levels (a significant challenge in itself) will not be sufficient to cover cost-base pressures that are likely to increase in coming months.



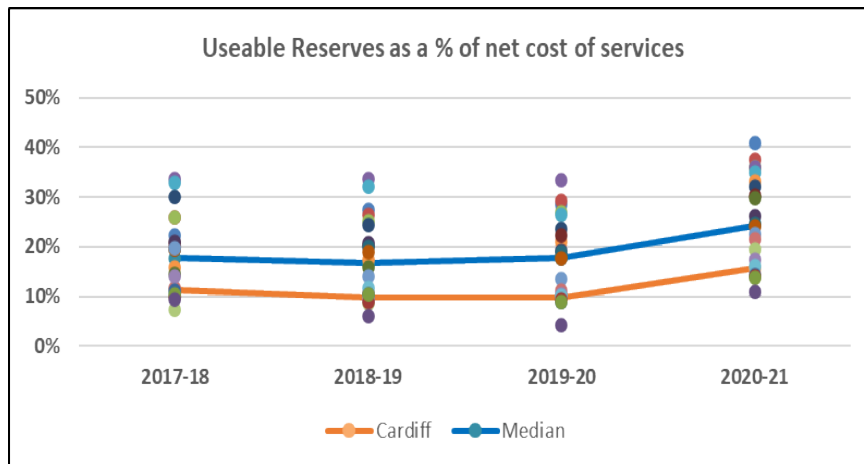
85. The graph also depicts the Council's increasing reliance on hypothecated funding (specific grants.) Specific grants must be used for a particular purpose which is defined by the funding provider and the Council is audited to ensure appropriate use. Whilst any increase in funding streams is welcome, 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. There is a need to be alert to, and plan for this risk over the medium term. In instances where it is already known that grant levels are expected to taper (e.g. Regional Integration Fund), it will be important to fully develop a strategy for managing the reduction in funding.

### Net Revenue Funding and Budget Strategy

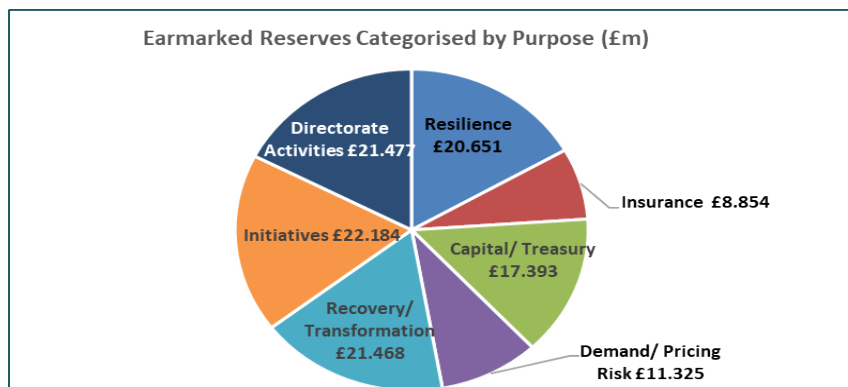
86. In balancing the budget over the past five past five years, savings have consistently been the largest contributory factor to bridging the gap with c£75 million over five years. Were this graph to be extended it would show £210 million savings over ten years. The need to find such significant levels of savings year on year, becomes increasingly challenging and savings requirements over the medium term will require early planning.
87. The financial resilience snapshot indicates performance on achievement of savings over the same period. Unachieved savings in 2020/21 were largely associated with the pandemic. The Council has a general contingency to support amongst other issues, the non-achievement of savings. The contingency, (originally £4 million) has been reduced over time to £2 million. Further reductions should be approached with caution given inflationary uncertainty and estimated savings requirements over the medium term.

### Ratios and Reserves

88. The financial ratios included in the financial resilience snapshot are consistent with ratios reviewed by Audit Wales in their annual review of financial sustainability across the 22 Welsh Authorities. Whilst this can facilitate benchmarking, specific features of individual authorities need to be borne in mind – e.g. whether or not an Authority has a Housing Revenue Account and associated single pool of debt. The ratios present no cause for concern.
89. Whilst the Council has increased its levels of earmarked reserves over recent years, and levels are considered adequate, they are still comparably low for an Authority of its size. This is illustrated in the graph below which summarises Cardiff's position relative to the other 21 Welsh Authorities.



90. The graph below categorises reserves by their intended purpose. The resilience segment captures the Council’s General balance together with the Strategic Budget Reserve, the purpose of which is to support budgetary planning and interim support from reserves linked to the Budget Strategy. The graph also highlights that coverage in reserves exists in relation to some of the key risk factors outlined in earlier sections of the report, including demand and pricing risk.



**Scrutiny Consideration**

91. The Policy Review and Performance Scrutiny Committee is due to consider this issue on 13<sup>th</sup> July 2022. The letter from the Chair of the Committee is attached as Appendix 4.

**Reasons for Recommendations**

92. To note the 2023/24 Budget and MTFP Update and to approve the next steps

93. To note the Budget Timetable Framework

**Legal Implications**

94. It is the responsibility of the Cabinet to receive financial forecasts and develop a medium term financial strategy with a view to proposing a Budget for the

Council to approve. Any specific legal issues arising will be addressed as part of the proposed budget preparation. These implications do not contain legal advice on the individual projects referred to in the report, which will be provided on the respective projects as and when considered.

95. The report provides that the proposed Budget Timetable framework for 2023/24 will make provision for consultation. In order for there to be robust consultation, the process must occur when proposals are at a formative stage; it should give sufficient reasons for any proposal to permit proper consideration; and it should allow adequate time for consideration and response. There must be clear evidence that the decision maker has considered the consultation responses before taking its decision. It is important to note that the consultation raises the legitimate expectation that any feedback received from the consultation will be taken into account in developing the proposals consulted upon.

### **General legal requirements**

#### Equality Requirements

96. In considering this matter the decision maker must have regard to the Council's duties under the Equality Act 2010. Pursuant to these legal duties Councils must, in making decisions, have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of protected characteristics. Protected characteristics are: (a) Age, (b) Gender reassignment (c) Sex (d) Race – including ethnic or national origin, colour or nationality, (e) Disability, (f) Pregnancy and maternity, (g) Marriage and civil partnership, (h) Sexual orientation (i) Religion or belief – including lack of belief.
97. When taking strategic decisions, the Council also has a statutory duty to have due regard to the need to reduce inequalities of outcome resulting from socio-economic disadvantage ('the Socio-Economic Duty' imposed under section 1 of the Equality Act 2010). In considering this, the Council must take into account the statutory guidance issued by the Welsh Ministers (WG42004 A More Equal Wales The Socio-economic Duty Equality Act 2010 (gov.wales) and must be able to demonstrate how it has discharged its duty.

#### Well Being of Future Generations (Wales) Act 2015

98. The Well-Being of Future Generations (Wales) Act 2015 ('the Act') places a 'well-being duty' on public bodies aimed at achieving 7 national well-being goals for Wales - a Wales that is prosperous, resilient, healthier, more equal, has cohesive communities, a vibrant culture and thriving Welsh language, and is globally responsible.
99. In discharging its duties under the Act, the Council has set and published well being objectives designed to maximise its contribution to achieving the national well being goals. The well being objectives are set out in Cardiff's Corporate Plan 2022-25 . When exercising its functions, the Council is required to take all reasonable steps to meet its well being objectives. This means that the decision

makers should consider how the proposed decision will contribute towards meeting the well being objectives and must be satisfied that all reasonable steps have been taken to meet those objectives.

100. The well being duty also requires the Council to act in accordance with a 'sustainable development principle'. This principle requires the Council to act in a way which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. Put simply, this means that Council decision makers must take account of the impact of their decisions on people living their lives in Wales in the future. In doing so, the Council must:
- Look to the long term
  - Focus on prevention by understanding the root causes of problems
  - Deliver an integrated approach to achieving the 7 national well-being goals
  - Work in collaboration with others to find shared sustainable solutions
  - Involve people from all sections of the community in the decisions which affect them
101. The decision maker must be satisfied that the proposed decision accords with the principles above; and due regard must be given to the Statutory Guidance issued by the Welsh Ministers, which is accessible using the link below:  
<http://gov.wales/topics/people-and-communities/people/future-generations-act/statutory-guidance/?lang=en>

#### Welsh Language.

102. The decision maker should also have regard, when making its decision, to the Council's wider obligations under the Welsh Language (Wales) Measure 2011 and the Welsh Language Standards.

#### **Financial Implications**

103. The financial implications are set out in the detail of the report. In summary, the report refreshes the MTFP and sets out the Budget Strategy for 2023/24. It outlines a likely budget reduction requirement of £90.6 million over the period 2023/24 – 2026/27, of which £29.1 million relates to 2023/24. Further detail on the elements of the budget gap is included at Annex 1. The current outline modelled strategy to address the budget gap is a combination of council tax increases (£20.6 million) and savings (£70.0 million.) The gap will continue to be reviewed during the current year to reflect most recent information.

#### **HR Implications**

104. The report outlines the contexts under which the budget is being set together with the continued financial challenges faced by the Council in balancing reducing finances with increasing demands, the challenges that the COVID pandemic has created and the current cost of living crisis and its effects on the Council's finances. The Council will continue to review the shape and scope of the organisation and the way in which services are delivered and efficiencies achieved. New service delivery models will need to meet demand pressures



and reflect budgetary realities alongside securing further efficiency savings through better collaboration and partnerships, integration of service delivery and reducing duplication of effort and resources.

105. Given the level of savings required in 2023/24 and beyond, it will be key that the savings proposals identified are robust and deliverable. The extent of financial challenge in a continued period of restraint will result in savings targets for controllable budgets that will be considerably challenging and will result in significant changes to how local government services are delivered. The availability of resources to support the delivery of these sustained changes will be key.
106. Whilst it is not possible to provide specific HR implications on any changes at this time, it is clear that the ongoing budget difficulties will continue to have significant people implications associated with actions necessary to manage the financial pressures facing the Council. As service delivery proposals are brought forward, there will be consultation with employees (those directly and indirectly impacted) and the Trade Unions so that they are fully aware of the proposals, have the opportunity to respond to them and understand the impact that the new model of service will have on them. Further and specific HR implications will be provided when relevant models are proposed.
107. Any proposed reductions in resource levels will be managed in accordance with the Council's recognised policies for restructuring which include, where appropriate, redeployment and voluntary redundancy. The Council's Voluntary Redundancy Scheme is always available, however, whilst those interested in leaving on this basis (with a post subsequently deleted) should express an interest to do so, a business case to support the exit will still need to be made and signed off. Flexible retirement continues to be another option available and a Sabbatical policy is in place as well as ability to request voluntary reductions in working hours. Training and development to support new skill requirements will remain available in order to place employees in the best possible position for potential redeployment.
108. Initial Trade Union consultation has taken place on this report. The Trade Union Partnership Meeting will be utilised to facilitate early discussion with Trade Unions on any key organisational proposals, with more detailed discussion continuing with employees and trade unions at local directorate level. It is essential that there continues to be appropriate consultation on proposals that are taken forward, as and when they are developed. This could include early proposals which are required to be implemented in preparation for the 2023/24 financial year. Many of these will have people implications that will need to be considered at an early stage in consultation with the Trade Unions and employees affected.

### **Property Implications**

109. There are no further specific property implications in respect of the Budget Update Report. The Corporate Property Strategy 2021-26 approved at Cabinet in December 2021 set out in detail progress against Capital Programme

receipts targets and certain anticipated disposals and capital investments, with an update of in year progress to be provided to Cabinet in the early Autumn via the Annual Property Plan for 2022/23.

110. More generally, the Covid Pandemic had an impact on property income and certain transactions and the Strategic Estates team continues to work closely with Finance, as well as the Council's tenant base, to mitigate and recover from the impact of these effects on the Budget position. It is also noted from the Budget that inflation has picked up significantly this year and the Estates department will endeavour to monitor and consider the impact of this on the performance of the Council's property portfolio, particularly where any leases have an index linked component.
111. The Strategic Estates Department will continue to assist where necessary in supporting delivery in relevant areas such as the Capital Programme and Major Projects. Where there are property transactions or valuations required to deliver any proposals, they should be done so in accordance with the Council's Asset Management process and in consultation with Strategic Estates and relevant service areas.

## **CABINET CONSIDERATION**

112. On 14 July 2022, the Cabinet considered this report and resolved that:
  1. agreement be given to the budget principles on which the Budget Strategy Report will be based and the approach to meeting the Budget Reduction Requirement both in 2023/24 and across the period of the Medium Term Financial Plan.
  2. directorates work with the relevant Portfolio Cabinet Member(s), in consultation with the Corporate Director Resources and Cabinet Member for Finance, Modernisation and Performance to identify potential savings to assist in addressing the indicative budget gap of £29 million for 2023/24 and £91 million across the period of the Medium Term Financial Plan.
  3. the Chief Executive, in consultation with the Leader and Cabinet Member for Finance, Modernisation and Performance, be delegated the authority to implement any saving proposal in advance of 2023/24 where no policy recommendation is required or where a policy decision has already been taken.
  4. it be noted that work will continue to update and refresh the MTFP and that this will be reported to Members as appropriate.
  5. it be proposed that Council agree that the Budget Timetable Framework set out in Appendix 2 be adopted, and that the work outlined is progressed with a view to informing budget preparation.

6. consultation on the 2023/24 budget proposals take place when the detail of options is available in order to inform the preparation of the draft 2023/24 Budget.

## **CABINET PROPOSAL**

Council is recommended to agree that the Budget Timetable Framework set out in Appendix 2 be adopted, and that the work outlined is progressed with a view to informing budget preparation.

### **THE CABINET 14 July 2022**

*The following Annex is attached:*

Annex 1: Medium Term Financial Plan

*The following Appendices are attached:*

Appendix 1: Budget Strategy Overview - Questions & Answers

Appendix 2: Proposed Budget Timetable Framework 2023/24

Appendix 3: Finance Resilience Snapshot

Appendix 4: Letter from the Chair of the Policy Review and Performance Scrutiny Committee

## **Background Documents**

2022/23 Budget Report – March 2022

Capital Strategy 2022/23