

CABINET MEETING: 20 OCTOBER 2022

BUDGET 2023/24: UPDATE REPORT

**FINANCE, MODERNISATION & PERFORMANCE (COUNCILLOR
CHRISTOPHER WEAVER)**

AGENDA ITEM: 5

Reason for this Report

1. To provide an update on budget preparation for 2023/24, including the most recent estimate of the 2023/24 budget gap.

General Background

2. In July 2022, Cabinet received an Update Report on the 2023/24 Budget and the Medium Term Financial Plan which indicated an estimated 2023/24 budget gap of £29.080 million. The Report highlighted the volatility of the position and noted the absence of agreed pay awards, the energy crisis, and wider inflationary challenges as among factors requiring ongoing review. In order to inform work on budget-setting and to highlight the scale of the financial challenge the organisation is now facing, this report provides an update based on most recent information.

Issues

3. Before the 11th 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.

Inflation

4. Inflationary pressures are affecting costs across a range of services. The latest published CPI rate, (August 2022), was 9.9%. Inflation was expected to increase to over 13% in coming months, although the peak may now be dampened by recent announcements regarding the energy cap. Whilst headline inflation rates are an important consideration, the impact of inflation on individual services varies according to the key cost drivers in different areas. The following paragraphs consider the specific inflationary pressures affecting the Council under the headings of:

- Goods and Commodities
- Workforce Costs
- Commissioned Services

Goods and Commodities

5. With regards goods and commodities, key areas of concern are energy, food and fuel, with energy by far the most significant.
6. In addition to Council offices and venues, the Council's energy costs also encompass street lighting and the school estate. Purchasing arrangements for energy have largely shielded the Council from the impact of energy price increases in the current financial year. However, indicative increases for 2023/24 are substantial - over 350% for gas and 150% for electricity. Prices are comparable to neighbouring Local Authorities, who are part of the same purchasing arrangement. The position remains volatile and subject to further change, but based on current indicatives, there will be an estimated cost increase of £15 million in 2023/24. The Council will not benefit from the cap on energy prices announced as part of the UK Government's recent mini-budget. This is because rates in the current year are below the levels eligible for support, and the cap does not extend beyond 31 March 2023 for public sector organisations, which is when the Council will experience significant price increases.
7. Food inflation is being experienced across all catering-based settings. Most of these are income-funded areas, and this had a dual financial impact. For example, food prices are affecting the cost of school meals and at the same time the cost of living crisis has reduced income for paid school meals, resulting in a total pressure of £1.4 million. Fuel inflation is affecting the cost of operating the Council's vehicle fleet, most notably in Waste Management. Whilst prices have reduced from their summer peak, the position is volatile and remains sensitive to exchange rates, as well as decisions made by OPEC.

Workforce Costs

8. As a service-driven organisation, workforce costs are a key cost driver of internally provided services. Across the UK, sustained levels of high inflation have placed upward pressure on pay awards and this has resulted in pay offers in the current financial year that exceed the budgeted level of 3%. The difference between the actual awards and the amount budgeted will need to be addressed in 2023/24.
9. Recommendations from the Independent Welsh Pay Review Body (IWRPB) are for a teachers' pay award of 5% in September 2022 and 3.5% in September 2023. In a full year, the additional cost of this compared to the 3% that was budgeted, is £2.9 million. For 2022/23, the National Joint Committee (NJC) pay offer (which encompasses most Council staff), is an uplift of £1,925 across all pay scales, although this is yet to be agreed. In percentage terms, this is a 10.5% at the bottom of the Council's pay spine, 4.3% at the top, and between 1.02% and 3.97% for senior officers. The additional cost of the potential NJC award

compared to the 3% budgeted in 2022/23 is £9.6 million. This will need to be factored into the base for the 2023/24 budget, and an appropriate allowance made for that year.

10. In September 2022, the new Real Living Wage (RLW) Rate was announced at £10.90, which is a 10.1% increase on the former £9.90 rate. RLW employers have until May 2023 to implement these rates. The Council implements RLW uplifts annually each April following the announcement of the new rate. For April 2023, there will not be a significant cost impact attached to this because at the bottom of the pay spine, the 2022/23 pay award is comparable in percentage terms. However, the RLW announcement is likely to have implications for the cost of commissioned services next financial year.
11. The only indicative pay award for 2023/24 at the present time, is the IWRPB recommendation of a 3.5% award for teachers in September 2023. Previous planning assumptions reflected a pay award of 3% for all staff in 2023/24. However, given sustained levels of inflation, it is proposed that this is increased to 4% for NJC pay, and to reflect the IWRPB's 3.5% recommendation for teachers' pay.

Commissioned Services

12. Providers are facing the same cost pressures as those the Council is experiencing, and it is reasonable to assume that they will seek to pass these on in their pricing. This is already happening in areas such as School Transport with Providers seeking to pass on fuel increases and the costs associated with driver shortages.
13. Commissioned care costs are another area in which price inflation is expected to have a significant cost impact in 2023/24. This is because an annual fee uplift that addresses rising costs and seeks to maintain the RLW commitment for care workers (as announced by Welsh Government in December 2021), will be significant on a care budget of over £100 million.

Interest Rates

14. One of the tools available to the Bank of England (BoE) to try to stabilise inflation is to increase interest rates. There have been a number of successive increases this year. The latest of these was in September, when the BoE increased the interest rate by 0.5 percentage points to 2.25%, its highest level for 14 years. The Bank has indicated that it will not hesitate to increase rates further if necessary in order to bring down the level of inflation. The result of the on-going uncertainty on UK public finances has led to a Gilt market sell off and as the price of UK Gilts has fallen (more sellers than buyers) the yields have risen which will lead to increased cost of borrowing. The cost of borrowing is based off UK Gilts and will determine the Public Works Loan Board Borrowing Rates for Local Authorities. Whilst these fluctuate with economic cycles, there has been an increase in borrowing rates from recent historic lows, to rates of circa 5%. This may not impact on the Council and its Treasury Management Strategy in the very short term as most borrowing is at fixed rates. However,

this will impact on the future borrowing requirement and timing of such borrowing if rates remain elevated. Whilst a view is that rates may fall back, it is unclear whether this will be to levels previously seen.

15. In accordance with the Capital Strategy, the position outlined above will continue to require a focus on ensuring that expenditure to be paid for by borrowing is limited to key city and service delivery transformation priorities. There remains a continued push for external funding to meet outcomes and business cases that are robust and approved. Schemes already included in the investment programme are reviewed annually. This will form part of the development of the 2023/24 budget, along with indicators highlighting the prudence, sustainability and affordability of the investment plans. Whilst it is recognised that there are investment pressures as a result of increasing costs, increasing the level of borrowing without external funding support, (whether that be grant or a confirmed income stream), represents a risk to future budgets and will need to be part of the prioritisation and decision making process.

UK Mini-Budget

16. On the 23 September 2022, the UK Chancellor's mini-budget announced a number of measures together with a range of tax cuts. From the Council's perspective, the only announcement that has an immediate financial impact is the cancellation, from 6th November 2022, of the National Insurance (NI) increase that was introduced last April. In a full year, this will remove the need for the £2.5 million that the Council put into the 2022/23 budget to fund the former increase in Employer's NI contributions. However, at present, it is unclear whether the reduction in employer's contributions will have an impact on departmental spending levels. Given this risk, it is proposed to maintain a net neutral position within financial planning for 2023/24 until this is clarified.
17. Whilst the mini-budget has few immediate financial implications for the Council, there is a medium-term risk to consider. This results from a loss of revenue linked to tax cuts, at the same time as a need for additional borrowing to fund the recently announced energy cap. Whilst the Government has stated that the tax cuts are intended to stimulate economic growth, this will not happen immediately. Consequently, in the short to medium term, there is a risk of further cuts to public sector funding at a time, when as already outlined above, cost pressures are at unprecedented levels. Further information in this regard will be available on 31 October 2022 when the Chancellor publishes the Government's Medium Term Fiscal Plan.

Demand

18. Alongside inflationary pressures, the Council is experiencing exceptional levels of demand in some areas. The most significant of these is in Children's Services where unprecedented cost pressures are currently being experienced, linked to the number and complexity of in-year placements for children looked-after. Demand pressure will need to be closely monitored across a range of services including homelessness and adult social care. There will also be a need to

identify the potential impact of the cost of living crisis across a wider range of services than those more traditionally affected by sensitivity of demand.

Income Loss

19. The Council raises income from fees and charges to support the cost of some services, and this reduced significantly during the pandemic. It was anticipated that recovery to pre-pandemic levels of income would be unlikely to happen during 2022/23, and so the Council set aside a £10 million Covid-Recovery budget to support a period of post-pandemic recovery. In 2022/23, recovery has been slow as the cost of living crisis continues to impact peoples' ability to attend venues and events.

Funding

20. The Council has an indicative funding allocation for 2023/24 of +3.5%. In cash terms this is a £19.065 million increase, and this is reflected in planning assumptions. Whilst indicative allocations are welcome from a planning perspective, there is a risk they could change. A key date in the budget-setting process is Provisional Local Government Settlement (Provisional Settlement.) At present, Provisional Settlement is expected to be received in mid-December, and this will provide further surety over the £19.065 million funding increase currently assumed within 2023/24 financial forecasts.

Month 4 Monitoring

21. In September 2022, Cabinet received a report on Budget Monitoring - Month 4 2022/23. This indicated a potential overspend of £7.4 million by the end of the year (excluding the impact of any agreed pay award), without immediate remedial action. The cause of this was the in-year impact of many of the issues already outlined in this report – namely, inflationary pressure, slow income recovery and a particularly challenging position on Children's Services. Work is underway to address this position and a further update will be presented to Cabinet in November. The position is after a £6.5 million reliance on the Covid 19 budget.

Budget Gap 2023/24

22. The table below outlines the indicative budget gap for 2023/24, which is now estimated at £53 million. It includes the following changes since the last Budget Update Report in July 2022:
 - Reflection of the potential 2022/23 NJC pay offer and the IWRPB Recommendation for Teachers Pay.
 - Revision of the assumption for the 2023/24 pay award assumption for NJC to 4% (from 3%) in light of sustained levels of inflation.
 - Revision of the assumption of the 2023/24 pay award assumption for Teachers to 3.5% (from 3%) to reflect IWRPB recommendations.
 - Reversal of the April 2022 National Insurance increase, as announced in the September mini-budget. This is accompanied by a compensating

adjustment to AEF, that recognises the potential risk of an associated funding reduction (i.e. adjustment is net nil pending clarification of risk).

- An increase in energy pressures reflecting latest indicative pricing for 2023/24.
- An increase in the emerging pressures line to recognise the volatility inherent in many areas and the 2022/23 monitoring position.

	Mar 2022 £000	Updates £000	Revised £000
Employee Costs	13,550	9,810	23,360
Price Inflation	17,396	7,769	25,165
Capital Financing	4,128	0	4,128
Commitments & Realignments	1,220	0	1,220
Demographic Pressures	8,851	0	8,851
Emerging Financial Pressures	3,500	4,000	7,500
AEF* - assumes +3.5%	(19,065)	2,500	(16,565)
Earmarked Reserves	(500)	0	(500)
TOTAL	29,080	24,079	53,159

Emerging pressures figure relies on 65% of the £10 million Covid 19 budget

Emerging Pressures and Ongoing Risk

23. The position remains volatile and will continue to be kept under close review. The sum allowed within the gap for emerging pressures has been increased in light of this uncertainty. However, it is important to note that despite inclusion of this sum, there is a real risk the gap could increase due to further demand or price fluctuations, of if directorates are unable to successfully tackle some of the key causes of cost pressure inherent in the month 4 position.

Capital Financing and Capital Programme Affordability

24. The sums included in the budget gap for capital financing are based on the current capital programme. There are several limiting factors that will be pivotal in rolling forward the capital programme for 2023/24 – 2027/28. These centre around affordability and deliverability including:
- a. Interest Rate Risk
 - b. Capital Receipt Risk
 - c. Inflationary pressure (as sums already included in the programme may no longer cover what was once planned)
 - d. The potential that capitalisation directions may be required to support the transformational change that will be necessary to deliver revenue budget savings on the scale required.

25. There will be a need for a stringent prioritisation of schemes if capital financing costs are to be kept within the current (or a reduced) revenue envelope over the medium term.

Savings Requirements

26. There will be a need to consider all potential aspects of budget strategy in addressing the budget gap of £53 million. This will include review of the levels of fees and charges in income funded areas, council tax levels, schools' contribution towards savings requirements, and scope for the use of earmarked reserves. Ultimately however, most of the budget gap will need to be identified through budget savings. As always, every effort will be made to continue to identify efficiency savings (defined as achieving the same output (or more) for less cost). However, building on the levels of savings found over the past decade, it will not be possible to balance the 2023/24 budget through efficiencies alone, and there will inevitably be a need for savings that impact on service delivery. Directorates are currently drawing up service change options for review, and a reminder of the voluntary redundancy scheme has recently been circulated to all staff, to enable managers to consider expressions of interest alongside work on savings proposals.

Consultation

27. Budgetary pressure is a key driver of difficult choices. The Council is committed to engaging with citizens and communities to understand what is important to them. The Ask Cardiff survey has initiated budget consultation, with the inclusion of questions around budgetary priorities. At the earliest opportunity, the Council will consult on service change proposals linked to the 2023/24 Budget. Further information on consultation dates and how citizens can have their say will be available in due course.
28. Further opportunities for engagement, including with Schools Budget Forum will also take place during coming months to help inform the budget process. In addition, the need to engage effectively with the Council's own staff, both directly and through their trade unions will remain a high priority throughout the budget setting process.

Employee Consultation

29. The scale of the financial challenge facing the Council is considerable. Whilst the Council will do all that it can to protect jobs, as almost 40% of the Council's gross expenditure is on employee costs, the need to reduce costs on such a significant scale will inevitably affect employee budgets and the shape of the workforce.
30. Through the Council's Trade Union Partnership meetings, trade unions have been briefed on the scale of the 2023/24 budget gap and will continue to be consulted in advance of wider public consultation on any budget proposals and their likely impact on employees, particularly where posts are at risk of redundancy. Under the law relating to unfair dismissal, all proposals to make

redundancies must involve reasonable consultation with the affected employees and their trade unions. Given the size of the budget gap, it is likely that there will be redundancies within the Council's workforce in the lead up to, and during the financial year commencing 1 April 2023, notwithstanding every effort being made to avoid them.

31. Where the number of employees likely to be made redundant exceeds certain thresholds, the law specifically sets out a minimum length of time and minimum content for the consultation with the trade unions, including ways of avoiding, reducing or mitigating the consequences of the numbers of employees being made redundant. As the Head of Paid Service, the Chief Executive is responsible for all staffing matters and has the authority to implement all necessary consultation in relation to proposed redundancies (statutory or otherwise), and make associated staffing decisions.
32. Whilst the exact number of proposed redundancies is not known at this stage, these are likely to be in excess of 20. This will mean that following Cabinet on 20 October 2022 and in accordance with the Trade Union and Labour Relations (Consolidation) Act 1992, a Section 188 Notice will be formally issued to the trade unions, related to the budget and potential redundancies. The proposed redundancies and the issue of the Section 188 notice is related to the overall reduction in staff numbers required.
33. This will mean that from 20 October 2022, formal consultation with employees and trade unions will commence, seeking views and comments about ways of avoiding, reducing and mitigating the consequences of the numbers of staff being made redundant e.g. by redeployment.

Housing Revenue Account

34. The Housing Revenue Account (HRA) is primarily funded through rental and service charge income. A WG decision on the annual rent uplift is not anticipated until later in the year but will determine the resources available in 2023/24. The WG has recently consulted in this regard against the backdrop of the cost of living crisis and considerations of rent affordability.
35. Budgetary pressures and the need to manage tenant expectations will lead to difficult service choices to ensure plans are within available resources. Pay awards above earlier forecasts are likely to result in the requirement to identify service efficiencies and cost reductions. Similarly, increased energy prices and the impact on running costs within community hubs, hostels and other accommodation will reduce flexibility within other revenue budgets.
36. Increased inflationary cost pressures are evidenced particularly within repairs and maintenance with materials and construction price inflation impacting significantly across revenue spend and the HRA Capital Programme.
37. Interest rate risk and future borrowing requirements will be a significant factor in the 2023/24 and medium-term budget setting for the HRA and will require a detailed review of plans and affordability.

Scrutiny Consideration

38. The Policy Review and Performance Scrutiny Committee is due to consider this issue on 18 October 2022. Any comments will be circulated at the Cabinet meeting.

Reasons for Recommendations

39. To note the update budget reduction requirement of £53 million for 2023/24

Legal Implications

40. 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.
41. 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

42. 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.
43. 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

44. 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.
45. 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.
46. 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
47. 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.

48. 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

49. The financial implications are as described in the body of the report.

HR Implications

50. The HR implications are as described in the body of the report specifically paragraphs 9-12 and 30-34.

Property Implications

51. There are no further specific property implications in respect of the Budget 2023/24: Update Report. The Annual Property Plan for 2022/23 was approved by Cabinet in September and provides a more detailed update on in year progress against relevant property targets.
52. More generally, 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 the Covid Pandemic 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.
53. 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.

RECOMMENDATIONS

The Cabinet is recommended to:

1. Note the update budget reduction requirement of £53 million for 2023/24.
2. Agree that directorates continue to 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 £53 million for 2023/24.
3. Note that the Chief Executive as Head of Paid Service will be issuing all necessary statutory and non-statutory employment consultation in respect of the staffing implications of budget preparation.
4. Note that work will continue to update and refresh the budget gap and that this will be reported to Members as appropriate.
5. Agree that consultation on the 2023/24 budget proposals will take place when the detail of options is available in order to inform the preparation of the draft 2023/24 Budget.

SENIOR RESPONSIBLE OFFICER	Chris Lee Corporate Director Resources
	14 October 2022

The following background papers have been taken into account

- 2022/23 Budget Report – March 2022
- Capital Strategy 2022/23
- Budget 2023/24 and the Medium Term Financial Plan: Update Report – July 2022
- Budget Monitoring Report – Month 4 2022/23 – September 2022