

CABINET MEETING: 22 DECEMBER 2022

**2023/24 BUDGET MODELLING UPDATE AND CONSULTATION
REQUIREMENTS**

**FINANCE, MODERNISATION AND PERFORMANCE
(COUNCILLOR CHRIS WEAVER)**

AGENDA ITEM: 1

Reason for this Report

1. To provide an update on budget preparation for 2023/24, including the impact of the Provisional Local Government Financial Settlement (Provisional Settlement).
2. To provide details of the consultation that will take place to inform Cabinet's final Budget Proposal for 2023/24.

Background

3. 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.
4. In October 2022, a further Budget Update Report was presented to Cabinet that updated the indicative budget gap for 2023/24 to £53.159 million. The increase reflected changes in the interceding period including the receipt of pay offers, indicative energy pricing and unprecedented demand pressure in Children's Services. This report provides a further update on the budget gap for 2023/24 and incorporates the impact of Provisional Settlement, which was received on 14th December 2022.
5. Budget consultation commenced earlier in the year as part of the Ask Cardiff Survey. This requested citizens to prioritise areas in which they would like to see resources directed, both in the short and longer term. This report provides an update on Ask Cardiff findings and sets out the arrangements for a more detailed consultation in relation to 2023/24 Budget Proposals.

Issues

6. Cabinet is required, prior to the 11th March 2023 to place before the Council, proposals, which if approved, would result in the adoption of a balanced budget for 2023/24. The public consultation proposed by this report will inform the preparation of Cabinet's final draft budget for consideration by Council in early March 2023.

Timescales

7. Due to the timing of the UK Autumn Statement, which took place in late October, the Provisional Settlement was not received until the 14th December 2022. The Provisional Settlement is a critical factor in drafting the budget strategy and can significantly affect the overall position.
8. The timing of the proposed consultation ensures that the draft budget that underpins the consultation fully reflects the Provisional Settlement, so that the position being consulted upon is as accurate as possible. Subject to Cabinet approval, consultation on the 2023/24 Budget will commence on 23rd December 2022 and run until 29th January 2023.

Provisional Local Government Settlement

9. On the 14th December 2022, the Minister for Finance and Local Government announced the Provisional Settlement for 2023/24. The Minister's statement and key data table is attached at **Appendix 1**.
10. The headlines of the settlement are that:
 - On average, Welsh Local Authorities will receive a 7.9% increase in general revenue funding next financial year.
 - Individual Authority Settlements range from +6.5% to +9.3%.
 - There will be no 'floor' protection in 2023/24.
11. Cardiff will receive a 9.0% increase in Aggregate External Finance (AEF) in 2023/24. In cash terms this equates to £48.165 million. The above average settlement for Cardiff is largely linked to data underpinning the settlement including, population changes and numbers of children in receipt of free school meals.
12. In addition to AEF, the Provisional Settlement provides some details on specific revenue grants at an All Wales level. At summary level specific grants appear to have increased by £63.466 million. However, after taking into account increases of £132.6 million for rate relief for Retail, Leisure and Hospitality Businesses and an already notified increase of £30 million related to Universal Primary Free School Meals, there is an underlying reduction of £99.134 million across other grant streams. The table below summarises key changes in revenue specific grants:

Change		Change £m
Ceasing	FSM Holiday Provision NQT Grant Reducing Infant Class Sizes Grant Summer of Fun Family Intervention Fund	(23.765) (3.813) (2.500) (5.500) (3.200)
Reducing	Childcare Offer (then ceasing 2024/25)	(55.750)
Increasing	ALN Transformation Eliminating Profit from LAC Whole school approach to emotional & mental well being Coastal Risk Management Programme	5.400 7.987 1.225 8.145
TBC	Sustainable Waste Management (£16.4m at 22/23 level) Homelessness – No one Left Out (£10m at 22/23 level) Discretionary Homelessness Prevention (£6m-22/23 level) <i>(WG budget announced on 13th December refers to an increase in support for Discretionary Homelessness Prevention which provides a level of assurance.)</i>	TBC TBC TBC

13. Cardiff's Capital Settlement at Provisional is a £3.055 million increase in General Capital Funding (GCF) for 2023/24. This is £135,000 more than the increase assumed when setting the 2023/24 capital programme, (0.75%) which was based on indicative allocations from Welsh Government in March of this year. This increase is also assumed for 2024/25, but for 2025/26 and beyond that, it is unclear whether this will be sustained in baseline GCF allocations.
14. There is little detail in terms of specific capital grant awards for Cardiff. As in previous years, these would need to be on a bid basis which can make long term financial planning difficult. This also applies to the £20 million decarbonisation sum announced by Welsh Government in the Provisional Settlement at an All-Wales level.
15. Whilst the small additional GCF allocation is welcome, there are significant cost pressures inherent in the existing capital programme due to supply chain cost increases, demand for investment to maintain condition, and capital receipt assumptions. Cabinet's final budget proposal will include an update on the programme and major projects.
16. It should be noted that the funding position outlined above reflects the Provisional Settlement and that the Final Settlement for 2023/24 will not be received until the first week of March 2023. Whilst the Provisional Settlement stated that significant changes are not anticipated to be made at final settlement, there is one expected change. This relates to the transfer in of a grant linked to increased employer costs of Fire and Rescue Authority (FRA) pensions. The potential financial impact of this will depend on the amount of funding that is transferred into the settlement,

and how this compares with Cardiff's associated increase in levy to the South Wales Fire Service. This will be kept under review between now and Final Settlement.

Comparison to Planning Assumptions

17. As part of the 2022/23 Local Government Settlement, an indicative All Wales funding allocation of +3.5% was issued in respect of 2023/24. To date, this indicative allocation has been the basis of the Council's planning assumptions for 2023/24 funding. As noted at each budget update, there is always a risk that indicative allocations may change.
18. The difference between the indicative allocation of 3.5% and the Provisional Settlement of 9% equates to £29.100 million in cash terms, after taking account of tax base changes in the formula. The impact of this on budget modelling, along with other updates is set out in paragraphs 21-26.

Council Tax Base

19. On 15th December 2022, Cabinet approved the tax base for 2023/24. Future tax base increases are not reflected in financial planning assumptions until after receipt of Provisional Settlement. This is because they can have a negative distributional impact through the AEF funding formula. For 2023/24, for Cardiff, this impact was £0.9m, and its impact is reflected in the AEF figures outlined above.
20. Setting aside the impact on AEF, which has now been captured, the net increase in Council Tax linked to the new 2023/24 tax base is £1.436 million. This is the additional amount that will be generated before any increase in the rate of council tax. It is a net increase, which takes into account costs associated with Council Tax premia.

Budget Modelling Update

21. The Council's MTFP undergoes regular review to ensure it reflects the most up to date and robust information. Updates since the last budget update report in October include the impact of:
 - The Provisional Settlement, announced on 14th December 2022.
 - The Council Tax Base for 2023/24 approved by Cabinet on 15th December 2022.
 - Announcements and updates associated with the Autumn Statement, including updated inflation forecasts.
 - Review of pay award assumptions.
 - Most recent pricing information.
 - The need to address base pressures, evident through in year monitoring in some areas.

22. Taking account of the above updates, the current resource requirements modelled for 2023/24 are set out in the table below. They show an estimated cost increase of £74.998 million for 2023/24.

Resources Required	£000	Includes
Base Budget B/F	743,746	
Pay Award, NI & LGPS changes	29,677	<ul style="list-style-type: none"> • Shortfall in funding for 2022/23 pay award • Assumed pay award for 2023/24 • Reversal of NI increases & reduced LGPS rate following actuarial review
Price Inflation	27,967	<ul style="list-style-type: none"> • Energy and Fuel • Commissioned Care Costs (inc RLW impact) • Home to School Transport • Levy increase to South Wales Fire Service
Commitments & Realignments	10,653	<ul style="list-style-type: none"> • Risk based realignments linked to Month 6 • Total figure is £16.653m – offset by release of £10m former Covid 19 contingency budget
Demographic Pressures	6,701	<ul style="list-style-type: none"> • Adult Services • Pupil Numbers, Special Schools, LDP places
Resources Required	818,744	

23. At Provisional Settlement, resources available are set out below:

	£000	Reflects:
Aggregate External Finance	592,891	• Per Provisional Settlement
Council Tax	200,856	• 2023/24 tax base at 2022/23 prices
Earmarked Reserves	1,500	<ul style="list-style-type: none"> • Baseline assumption of £1.5m • Including specific use of £1m energy reserve
Resources Available	795,247	

24. The difference between resources available and resources required is £23.497 million. This is the updated budget gap for 2023/24 which must be addressed in finalising the draft budget for 2023/24. Current modelling is predicated on the following:

	£000	Reflects
Budget Gap	23,497	Resources required less resource available
Council Tax increase	(4,975)	Draft only - modelled at 3%
Efficiency Proposals	(8,500)	Current target
Shortfall still to be addressed	10,022	

25. The shortfall still to be addressed will need to be bridged through a combination of factors. Subject to consultation, these will include:
- Agreed service change proposals included post budget consultation
 - Finalisation of the position on schools' budgets for 2023/24 – outlined further at paragraph 33

- Further scope to extend efficiency proposals - including corporate measures, grant maximisation opportunities and expressions of interest in voluntary redundancy
 - Further consideration of the overall level of reserves to be used in support of the budget
26. The position outlined above is a draft position. All assumptions will be kept under close review in finalising the budget for 2023/24 and Cabinet will continue to carefully consider all aspects of the Budget Strategy in finalising their draft budget proposal for Council consideration. As part of this, careful regard will be given to the feedback from consultation.

Aspects of Financial Strategy for Ongoing Review

Use of Reserves

27. The draft budget modelling includes total reserve use of £1.5 million. This reflects £0.5 million use in support of the budget generally, and £1 million specific support from energy reserve. The latter is linked to an anticipated fall back in prices for 2024/25, which makes use of a temporary funding mechanism appropriate in this instance. Over-reliance on reserves as budget funding should be avoided because they are a finite resource. This means that using reserves to fund ongoing cost pressures immediately creates a gap in the finances of the following year. The sum included will continue to be reviewed as the Budget Strategy is developed with the ongoing aim to strike an appropriate balance between use of reserves and protection of front line services.

Council Tax

28. The Council will have due regard to the level of the increase in council tax in 2023/24 but must balance this against the need to fund key services. The increase currently modelled is 3%. This is below inflation, and is consistent with previous modelling assumptions. The final level of Council Tax will only be decided following the consultation process, as part of the final budget proposal.
29. A 3% increase would generate net additional income of £4.975 million after associated increases in the Council Tax Reduction Scheme (CTRS).
30. The CTRS will continue to be funded on all Wales basis at the same level provided within the Revenue Support Grant in 2014/15 (£244 million nationally). This means that costs associated with Council Tax uplifts and changing caseloads must be funded by the Council. Whilst a 1% council tax increase generates additional income of £2.000 million for the Council, it also costs £0.350 million in additional CTRS requirements, thus reducing net additional income to £1.650 million. In other words, almost 18% of any Council Tax increase is required to support costs associated with the CTRS.

Budget Savings

31. The modelled position reflects an efficiency target of £8.500 million. Efficiency savings are defined as achieving the same output (or more) for less resource, with no significant impact on the resident / customer. Significant work has already progressed to identify efficiency savings across services that can deliver against target requirements.
32. In line with the Council's July 2022 Budget Strategy Report, in order to improve the deliverability of savings and maximise the chances of securing full year savings in 2023/24, efficiency proposals that do not require a policy decision will be implemented in the current year wherever possible.

Schools Budgets

33. In light of the better than anticipated settlement, at present, the draft position for consultation as outlined above, does not currently assume any efficiency contribution from schools. This is a change from previous years, and from MTFP planning assumptions. It effectively means that schools would receive their full growth requirement for 2023/24. At present, this is as set out below, and would result in schools receiving growth next year of £24.988 million (9.3%). In percentage terms this is slightly higher than the headline AEF increase for Cardiff of 9%.

	£000
Pay Award and NI changes	16,127
Price Inflation	6,900
Commitments	400
Contribution to Band B and Asset Renewal	(1,090)
Demographic Pressures	2,651
	24,988

Allocation of Resources

34. It is important to allocate scarce resources in line with the Council's priorities and with regard to their impact on future generations. Any proposals for savings or opportunities for investment will continue to be framed by the priorities and objectives set out in Stronger, Fairer, Greener and the Council's Corporate Plan, which is being updated alongside the budget.

Medium Term Planning Implications

35. Whilst the funding position for 2023/24 is more positive than initially assumed, the overall position both next year and beyond is set in the context of ongoing uncertainty. In finalising the 2023/24 Budget proposal, it will therefore be important to conserve financial resilience wherever possible. Whilst the focus of this report is the annual budget proposals subject to consultation for 2023/24, work is ongoing to revisit the

assumptions within the MTFP and the detail of this will be reported along with the Council's other financial strategy documents, as part of the final 2023/24 Budget Report.

Consultation and Engagement

36. Budget consultation is an opportunity to understand what is important to our stakeholders and to encourage their involvement in shaping Council services. Consultation on the 2023/24 budget commenced with the 'Ask Cardiff' survey which asked citizens to indicate their budgetary priorities both in the short and long term. 'Ask Cardiff' generated 3,856 responses across the city. Findings from the budget questions that focussed on the short term are set out below. In terms of top priorities, these did not differ significantly to long term priorities.
1. Schools and Education including Youth Services.
 2. Supporting vulnerable children and families.
 3. Supporting vulnerable adults and older people.
 4. Housing and homelessness services
 5. Recycling and Waste Services including collections, disposal and Recycling Centres
 6. Neighbourhood Services such as street cleansing
 7. Highways and Transport
 8. Libraries and Community Hubs
 9. Parks and Sport
 10. Major projects including infrastructure to support businesses, local economy, city centre and local community centres
 11. Delivery of the One Planet Cardiff Strategy
 12. Culture, Venues and Events
37. Building on the findings from Ask Cardiff, consultation in respect of the 2023/24 Budget, subject to Cabinet approval will begin on the 23rd December 2022 and run until 29th January 2023. The results of the consultation will be a key consideration for Cabinet in preparing their final 2023/24 Budget Proposal for consideration by Council in March 2023.
38. The Budget consultation details are attached at **Appendix 2**, and the proposals being consulted upon will form part of the approach to addressing the residual budget gap outlined in paragraph 24. Key points to note in relation to this year's consultation are:
- The consultation document will be available for online completion on the Council's website.
 - A co-ordinated social media and press campaign, and partner involvement will seek to ensure citywide engagement.
 - Links to the consultation will be made available on the Council's corporate social media accounts, with posts targeting localised community groups across the city, and targeted advertising aimed at groups with a typically lower response rates.

- Links to the survey will also be shared with community groups, such as faith groups and community councils, and partners, including members of the Public Service Board to be shared with their contacts.
 - The consultation will also be promoted to Council staff via the intranet and Staff Information alerts via email and on DigiGov.
 - The Council will also share with the Access Forum, and relevant groups including the Deaf Hub and RNIB to make the survey available to those who may have difficulty accessing or completing the online link.
39. Further opportunities for engagement, including with the Schools Budget Forum and Scrutiny Committees will also take place during the coming months. 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. Stakeholder engagement opportunities are a valuable way of informing the budget process and Cabinet's final budget proposal.
40. In addition to public consultation where there are ongoing requirements for internal staff and trade union consultation, specifically in relation to ongoing delivery of efficiency savings, these will continue to be included as part of the ongoing employee engagement process.

Employee Engagement

41. Through the Council's Trade Union Partnership meeting, trade unions have been consulted in advance, on the budget projections for 2023/24. In addition, they have been consulted on the savings proposals that form part of public consultation, 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. In light of the budget gap outlined, it remains likely that there will be redundancies within the Council's workforce during the financial year commencing April 2023.
42. During the period of the consultation, trade unions and employees will have the opportunity to comment on proposals that may affect them. Once the final budget is approved by Council, any employees affected will be supported. At that point, eligible employees will be given the opportunity to take voluntary redundancy or to access the redeployment process, which provides employees with a period of twelve weeks to look for alternative employment.
43. Whilst the exact number of proposed redundancies is not known at this stage, some as indicated above are likely to occur. In light of this, and following on from the October Budget Update Report, a Section 188 Notice has been formally issued to the trade unions, related to the budget and potential redundancies.

44. Formal consultation with employees and trade unions will take place as part of the budget preparation work and views and comments about ways of avoiding, reducing and mitigating the consequences of the numbers of staff being made redundant e.g. by redeployment, will be considered.

Reason for Recommendations

45. To issue the 2023/24 Budget Consultation and to provide stakeholders with the opportunity, through a range of mechanisms, to provide feedback to Cabinet. In addition, to note that the consultation will commence on the 23rd December 2022 and run until the 29th January 2023.

Financial Implications

46. The financial implications are as described in the detail of the Report.

Legal Implications

47. Specific legal obligations relating to the setting of the budget and consultation are set out within the body of this report.
48. The obligation to consult can arise in some cases from express statutory provisions and in other cases from common law. In all cases, the consultation must be undertaken in such a way as to be meaningful and genuine. The results of the consultation must feed into the process for consideration and finalisation of budget decisions.
49. The Council has public sector duties under the Equality Act 2010 which require it, in exercising its functions, to have due regard to the need to (1) eliminate unlawful discrimination (2) advance equality of opportunity and (3) foster good relations between persons with and without protected characteristics. For example, protected characteristics include race, sex, gender, age, religion.
50. 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).
51. In order to be sure that the Council complies with its public sector equality duties, it is essential that Equality Impact Assessments are undertaken where appropriate in relation to specific budget proposals, that these are informed by the results of the consultation, and that any impact is taken into account in the decision-making on the budget.
52. The Well-being of Future Generations (Wales) Act 2015 requires the Council to consider how the proposals will contribute towards meeting its well-being objectives (set out in the Corporate Plan). Members must also be satisfied that the proposals comply with the sustainable development principle, which requires that the needs of the present are met without compromising the ability of future generations to meet their own needs.

HR Implications

53. The Human Resource implications are as described in the detail of the Report.

Property Implications

54. There are no direct property implications arising from this report. Full implications will need to form part of any decisions taken following consultation.

RECOMMENDATIONS

Cabinet is recommended to

- (1) Note the updated Budget Position for 2023/24 at Provisional Settlement Stage.
- (2) Agree the proposed approach to Budget Consultation for 2023/24 and subject to that agreement note that the formal budget consultation will commence on the 23rd December 2022 and run until 29th January 2023. The results of the consultation process will then be considered by Cabinet in preparing their final 2023/24 budget proposal.

SENIOR RESPONSIBLE OFFICER	Chris Lee Corporate Director Resources
	16 December 2022

The following appendices are attached:

Appendix 1 – Provisional Local Government Financial Settlement 2023/24 Statement and Key Data Table

Appendix 2 – Budget Consultation 2023/24 Details

The following background papers have been taken into account

- Budget Update Report 2023/24 and the Medium Term
- Budget Update Report 2023/24 (October 2022)
- Equality Impact Assessments (EIAs) of Cardiff Councils 2023/24 Budget Savings Proposals
- WG Provisional Local Government Financial Settlement 2023/24