

Cardiff Council

Annex 1

Medium Term Financial Plan

2024/25 – 2027/28



**STRONGER
FAIRER
GREENER**



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Section 1. Introduction

1.1 Aims and Purpose of MTFP

The Medium Term Financial Plan (MTFP) forecasts the Council's future financial position to:

- Help ensure that the Council understands, and can prepare for, the challenges in setting a balanced budget.
- Encourage discussion about the allocation of resources, so that they are directed towards core responsibilities and policy objectives.
- Inform understanding the Council's financial resilience, helping to protect the Council's long term financial health and viability.

1.2 Governance

The MTFP process is an integral part of the Council's financial planning framework. It closely aligns with other key aspects of the budgetary process, including the Council's Capital Strategy. It is formally reported twice a year, with the Council's Budget Report and Budget Update Report.

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

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

The transition from high-level planning principles, to detailed budgets that are aligned to the Council's priorities, is shaped by Elected Members with support and advice from senior management. As proposals develop, engagement is extended to a wider range of partners including citizens, Scrutiny, staff, School Budget Forum and Trade Unions. Consultation feedback is considered as part of the finalisation of annual budget proposals.

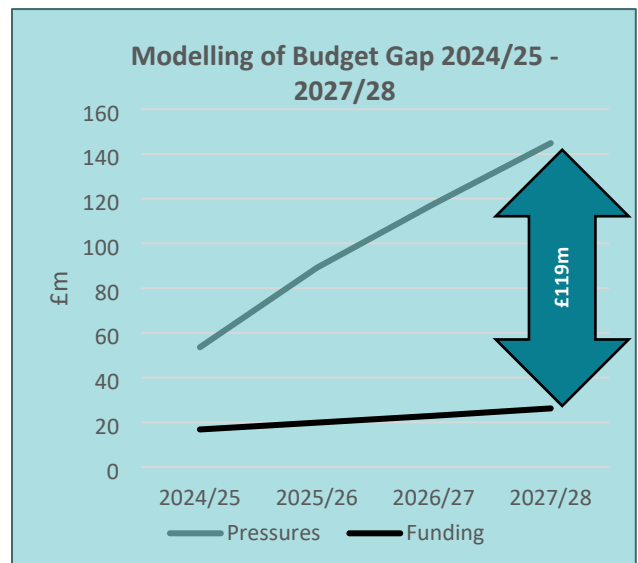
1.3 CIPFA FM Code

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

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

1.3 MTFP Overview

The MTFP currently estimates a budget gap of £119 million over the period 2024/25 – 2027/28. This is a base case scenario, with sensitivity considered in a later section.



“Budget Gap” describes the difference between the funding the Council expects to receive, and the estimated cost of continuing to deliver services at the current level. Put simply, the budget gap results from funding failing to keep pace with demand, inflation, and other financial pressures. The Council must develop a strategy to address the gap to deliver a balanced budget each year.

Section 2. Key Considerations

2.1 Council Priorities

In July 2022, the Cabinet approved a new policy statement for the next five years entitled “Stronger, Fairer, Greener” which sets out the Administration principles, priorities, and ambitions for the city. The Council’s Corporate Plan and Wellbeing Plan are key to translating these policy commitments into organisational objectives. The Council’s Corporate Plan 2023-2026 adopts the following Wellbeing objectives:

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



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

The MTFP looks beyond a one-year horizon. Medium to long term financial planning will continue to evolve

and will be informed by business case work on strategies, plans and initiatives linked with the shaping the city’s future as these are developed.

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

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

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

Cardiff is a great place to grow up

Cardiff is a great place to grow older

A Capital City that works for Wales

Section 2. Key Considerations

Education & Children's Services represent 54% of the Council's budget. Unlike most directorates, they have consistently seen net budgetary increases over the last decade and current figures indicate that is highly likely to continue over the medium term.

The MTFP includes ongoing revenue support for the capital financing of new schools, improvements to the existing school estate and the operation of schools associated with the Schools Organisation Plan and Local Development Plan.

It also includes additional funding in respect of additional learning needs, home to school transport, and school catering.

19% of the Council's budget is spent on Adult Services. Like Education & Children's Services, this area has also seen consistent net budgetary increases over the last decade, with a similar picture over the medium term.

The MTFP factors the estimated impact on commissioned care fees of Providers continuing to pay RLW to registered care workers in future, to support continued recognition of the value of the workforce supporting vulnerable older people.

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

Safe Confident & Empowered Communities

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

The MTFP also includes funding for continuation of the Coed Caerdydd scheme to expand Cardiff's tree canopy, following the potential ending of grant arrangements.

Modernising & integrating our public services

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

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

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

Supporting People out of Poverty

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

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

Opportunities for the Shared Prosperity Fund to support advice services formerly funded by ESF grant are currently factored into Medium Term Plans.

One Planet Cardiff

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

The MTFP includes funding for the Coastal Erosion Infrastructure Maintenance Fund.

Some schemes to support One Planet will require feasibility studies and an earmarked reserve is available for this purpose.

The MTFP also reflects the reinstatement of the Council's Financial Resilience Mechanism (FRM) to the 2022/23 level of £3.8 million, following a temporary reduction to £2.0 million in 2023/24 to manage energy prices. The FRM is used to support one off investment in delivering the above priorities. For example, in 2023/24 it will fund £0.7 million investment in a greener Cardiff, including carbon reduction schemes and support for taxis to transition to cleaner vehicles, £0.4 million for communities (events, support for asset transfer to local sports clubs and Ward-Member led regeneration initiatives), and £0.4 million for younger people including youth festivals and improving access to recreation and leisure across the city, particularly for children looked after.

2.2 Economic and Financial Outlook

In the aftermath of the pandemic and with ongoing geopolitical issues the economic context remains challenging.

Section 2. Key Considerations

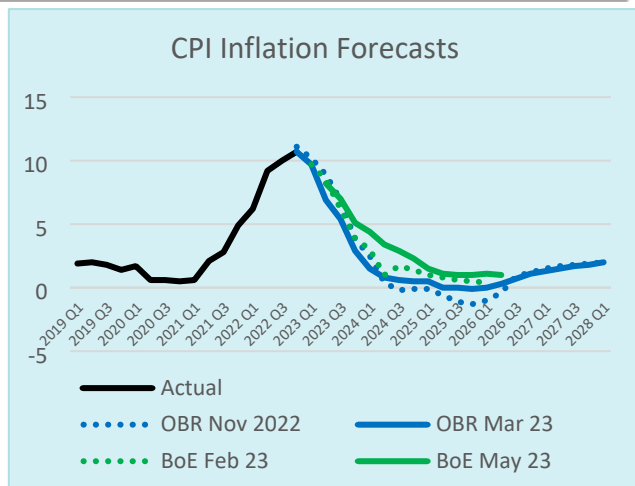
UK Context

The UK's Spring Budget in March 2023 was accompanied by an Office for Budget Responsibility (OBR) Fiscal and Economic Outlook Report. Compared with November 2022 forecasts, the outlook predicted shorter and shallower economic downturn, higher medium-term output, and lower public debt. Despite the more favourable outlook, the OBR noted ongoing structural weaknesses, including weak productivity growth, stagnation in business investment and a significant reduction in labour market participation since the start of the pandemic, particularly amongst older workers.

Inflation

In the UK, CPI inflation peaked at a 40-year high of 11.1 per cent in October 2022; a figure that would have been higher without the energy price guarantee limiting households' annualised energy bills. The Government has set a target to halve the inflation levels seen in the early months of 2023 before the year is out. Whilst CPI outlooks vary by forecaster and over time, there is consensus that CPI is likely to fall over the remainder of 2023, linked to a fall in wholesale gas prices, an anticipated reduction in the cost of imported goods, and Bank of England monetary policy regarding interest rates. In April 2023, CPI fell to 8.7%, (from 10.1% in March), and remained at 8.7% in May 2023.

The next graph sets out OBR and Bank of England forecasts. These suggest that inflation will still fall significantly in coming months, although not as sharply as originally forecast. Most recent Bank of England forecasts (May 2023), indicate CPI falling to 5.1% by the end of 2023 and reaching its 2% target by the end of 2024. Most recent OBR forecasts (Mar 2023) indicate a fall to 2.9% by the end of 2023 and 0.5% by the end of 2024. The Bank of England's Monetary Policy Report from May 2023 indicates that across a range of forecasters, the average CPI forecast for Q2 2024, (the start of the first year of the MTFP), is 2.3%.



With inflation still very high for some elements of the CPI basket of goods, price increases will remain a critical factor to keep under review. Where possible, more specific indicators of price are relied upon for forecasting. Where CPI is directly used in forecasts, the MTFP now reflects the following assumptions:

| 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---------|---------|---------|---------|
| 2% | 1% | 1.5% | 2% |

Interest Rates

One of the tools available to the BoE to try to stabilise inflation is to increase interest rates. In June 2023, the BoE raised interest rates for the 13th time in a row, to 5.0%, the highest rate since the 2008 financial crisis. Wider economic and UK fiscal factors have also had an impact on UK Gilt yields which determine Public Works Loan Board Borrowing rates for Local Authorities. Whilst interest rates fluctuate with economic cycles, there has been an increase from recent, historic lows, to rates now in excess of 5%.

Existing borrowing is at fixed rates and will not be affected by rate increases. However, given the future borrowing requirement linked to planned capital investment, there is a risk of increased costs well into the long term. Whilst rates may fall back when inflation is deemed to be under control, it is unclear whether this will be to levels previously experienced. Interest rate increases will be kept under close review in terms of their potential impact on the cost of borrowing and future capital financing budgets.

3.1 Forecast Financial Position

The Council's forecast financial pressures, funding and resultant £119 million budget gap are set out below.

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| | 2024/25 £000 | 2025/26 £000 | 2026/27 £000 | 2027/28 £000 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Base Budget Brought Forward | 803,894 | 820,702 | 823,759 | 826,831 |

| Schools | Pay Costs | 10,933 | 6,123 | 3,591 | 4,656 |
|---------|--|--------------|--------------|--------------|--------------|
| | Price Inflation | (875) | (325) | 590 | 440 |
| | Pupil Numbers & Commitments | 440 | 3,129 | 2,947 | 1,396 |
| | Contribution to Band B & Asset Renewal | (1,090) | (1,090) | (1,090) | (1,090) |
| | Total Schools Pressures | 9,408 | 7,837 | 6,038 | 5,402 |

| Social Services | Pay Costs | 3,576 | 2,302 | 646 | 646 |
|-----------------|--|---------------|---------------|---------------|---------------|
| | Price Inflation | 9,340 | 5,040 | 5,700 | 5,853 |
| | Demographic | 5,375 | 4,735 | 4,625 | 4,665 |
| | Realignment - Children's Social Services | 4,350 | 0 | 0 | 0 |
| | Total Social Services Pressures | 22,641 | 12,077 | 10,971 | 11,164 |

| Other Services | Pay Costs | 7,020 | 4,206 | 1,423 | 1,423 |
|----------------|---------------------------------------|---------------|--------------|--------------|--------------|
| | Price Inflation | 1,243 | 1,280 | 1,932 | 1,788 |
| | Commitments | 2,915 | 1,715 | 2,287 | 983 |
| | Demographic Growth | 1,750 | 1,350 | 1,100 | 450 |
| | Total Other Services Pressures | 12,928 | 8,551 | 6,742 | 4,644 |

| | | | | |
|--------------------------|--------------|--------------|--------------|--------------|
| Capital Financing | 5,591 | 4,099 | 2,378 | 2,970 |
|--------------------------|--------------|--------------|--------------|--------------|

| | | | | |
|-------------------------------------|--------------|--------------|--------------|--------------|
| Emerging Financial Pressures | 3,000 | 3,000 | 3,000 | 3,000 |
|-------------------------------------|--------------|--------------|--------------|--------------|

| | | | | |
|---------------------------|----------------|----------------|----------------|----------------|
| Resources Required | 857,462 | 856,266 | 852,888 | 854,011 |
|---------------------------|----------------|----------------|----------------|----------------|

| Resources Available: | | | | |
|---|------------------|------------------|------------------|------------------|
| Aggregate External Finance | (611,413) | (614,470) | (617,542) | (620,841) |
| Council Tax before any future increases | (208,789) | (208,789) | (208,789) | (208,789) |
| Earmarked Reserves at £0.5m per annum | (500) | (500) | (500) | (500) |
| Total Resources Available | (820,702) | (823,759) | (826,831) | (830,130) |

| | | | | |
|--|---------------|---------------|---------------|---------------|
| BUDGET REDUCTION REQUIREMENT | 36,760 | 32,507 | 26,057 | 23,881 |
| MEMORANDUM ITEM - TPS (SCHOOLS) | 8,500 | | | |

3.2 Key Assumptions – Expenditure & Income

Employee Costs

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

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

Pay awards and Pay Spine

Local Government Pay is a matter for collective bargaining through the National Joint Committee (NJC), and Teachers' Pay Awards are set by Welsh Government on the recommendations of the Independent Welsh Pay Review Panel (IWPRB). As there are no agreed pay awards for the period covered by the MTFP, the figures in the table below represent planning assumptions. There is a risk these may add to future budget gaps should they come in higher than budgeted.

| Award | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|-----------|---------|---------|---------|---------|
| NJC | 2% | 1% | 1% | 1% |
| NJC Risks | 3% | 2% | 0 | 0 |
| Teachers | 2% | 1% | 1% | 2% |

These assumptions are lower than recent year's pay awards. This is because most recent inflation forecasts suggest a much lower CPI over the medium term.

The Council is a Real Living Wage (RLW) Employer. Staff at the bottom of the Council's pay spine receive a Living Wage supplement to ensure they are paid the RLW. Cost projections over the medium term reflect the RLW increasing higher than NJC pay awards.

The impact of potential pay awards, UK Government targets for NLW, as well as RLW increases have the potential to impact on the Council's pay spine in terms of erosion of pay differential, particularly at the lower end of the spine. Current modelling indicates this having a significant impact over the period covered by the MTFP.

Core NJC pay award assumptions for 2024/25 and 2025/26 are 2% and 1% respectively. Over and above this, the MTFP includes an allowance of up to 3% of NJC pay in 2024/25 and 2% in 2025/26. This reflects the impact of the pay spine risk outlined in the preceding paragraph, together with the potential for

the 2023/24 NJC award being agreed at a level that is higher than budgeted in the current financial year.

These planning assumptions will need to be kept under close review and will be re-evaluated at each MTFP refresh point to reflect most recent information, including updated inflation forecasts.

National Insurance

The reversal of Employers' National Insurance increases implemented in April 2022 were factored into the Council's 2023/24 Budget. No further significant changes to National Insurance rates or thresholds are currently anticipated over the period to 2027/28 but this position will be kept under review.

Employer's Superannuation Contributions

Actuarial review of the Local Government Pension Scheme took place as at 31st March 2022. The resultant reduction in Employers' superannuation contributions (from 20.7% to 19.4%) are reflected in the 2023/24 Budget. The next actuarial review will be as at 31st March 2025, with findings likely to affect the 2026/27 financial year. At this stage, it is considered prudent to assume no further change in contribution rates at that point, but this will continue to be monitored.

The Teachers' Pension Scheme (TPS) is an unfunded public service pension scheme. Employers' contributions to the scheme increased significantly in September 2019 due to an actuarial review and change in the discount rate used to set scheme contributions. The implications of the next actuarial review of the fund were previously anticipated to take effect from April 2023, but indications from the Local Government Association are that this is now likely to be 2024/25. At present, contribution rates are not known, but indications suggest a significant increase.

It is of note that the impact of the last actuarial review was ultimately fully funded. Consequently, at this stage, the MTFP is predicated upon the assumption that any change in Employer's contribution rate to the TPS will be matched via a funding allocation from Welsh Government. The funding of this pressure is estimated to be *over and above* the core AEF assumptions outlined later in this document.

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The TPS pressure is currently shown as a memorandum item to the MTFP, estimated at £8.5 million. This is comparable with the impact of the last actuarial review and is at the lower end of the suggested potential impact of the current review, at circa 5% of pensionable pay (an increase of over 20% on employers' superannuation contributions.)

Incremental Pay Progression

Forecast pay pressures include an allowance for teachers' pay progression. Estimates are reduced year on year, in recognition that over time, budgets should be sufficient to cover the top of each pay grade. No pressures are anticipated in respect of pay progression for non-teaching staff for this reason, except in exceptional circumstances.

Apprenticeship Levy

Forecast pay pressures allow for the Council's Apprenticeship Levy to increase in line with general pay uplifts. The Apprenticeship Levy is a Government levy payable by larger employers at 0.5% of annual pay bill.

Redundancy Costs

The Council has a base budget and earmarked reserve set aside to meet these costs. Current modelling indicates that this model is adequate over the medium term.

Price Inflation

The Council's budgetary approach is that directorates must manage price inflation within existing resources, except in exceptional circumstances. These may relate to the scale of the increase, or the quantum of the budget to which the increase applies. Areas deemed exceptional and included as forecast price pressures include energy, out of county placement costs, NDR and Social Services commissioned care costs.

Inflationary Assumptions

The economic context section has already outlined the significant volatility with regards inflation and set out current planning assumptions for CPI. Where there are other drivers of price increase, including for example, the RLW, these are set out in subsequent paragraphs.

Energy

Energy prices will be a key area to keep under review. The Council's energy is procured via the National Procurement Service and Crown Commercial Services. Forecast energy costs consider indicative pricing forecasts received as part of these arrangements, (to the extent to which they are currently available). At present indicatives only extend to 2024/25, and even those are at high risk of change.

In the 2023/24 Budget, the Council included significant additional budgetary provision for price increases in respect of gas and electricity (almost £12 million). In recognition of a potential fall back in prices over the medium term, the £12 million was partially addressed through temporary funding sources. This included a £1 million contribution from energy reserve and a £1.8 million reduction in the Council's Financial Resilience Mechanism (FRM) Budget. The intention is that the FRM Budget will be reinstated as energy prices subside in future years.

Current indicative pricing for 2024/25 suggests energy prices could fall back by as much as 20%-25% in 2024/25 and this is reflected in the MTFP. The impact of price decreases is managed cautiously with the assumption that the first call on any 2024/25 decrease will be to negate the need to identify an ongoing funding source for the £1 million funded from earmarked reserve in 2023/24. Thereafter, it is assumed that the benefit of price decreases will initially be used to reinstate the £1.8m FRM budget used as interim support in this area, subject to wider review of the financial situation at the time.

Commissioned Care Costs

Following WG's commitment that registered carers in Wales should receive the RLW, the MTFP includes RLW increases as among the factors likely to impact the future annual cost of commissioned care.

The RLW is usually announced in November (although it was earlier in 2022) to be implemented by RLW employers before the following May. In setting RLW rates, the RLW Foundation take account of inflationary factors the preceding spring (on a more specific basket of goods than CPI), along with other information such as level of benefits and council tax.

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This is a difficult area to predict and small percentage changes in this area can have a significant impact on costs as the Council's commissioned care budget is over £150 million across Adults and Children's Services. Current assumptions are based on RLW (which is currently £10.90), increasing by 6.5% in 2024/25 and 3% per annum thereafter. As with pay award assumptions, this takes into consideration lower CPI projections over the medium term.

Recyclate Income

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

Fees and Charges (Income)

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

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

The Council's July 2023 Budget Update Report included an Income Generation Framework which sets key considerations with regards income generation over the medium term.

Commitments

Forecast financial commitments include capital-financing costs, increases to levies the Council is committed to paying and the future implications of previous Cabinet or Council decisions. Further detail on each area is set out below.

Capital Financing Costs

Forecast capital-financing costs reflect the 2023/24 – 2027/28 Capital Programme and the cost of commitments made in previous years. They reflect the following key assumptions:

- No new commitments funded by additional borrowing unless on an invest to save basis.
- Borrowing predicated on incidental revenue income or savings achieve the outcomes expected in order to pay for themselves in the intended timescales.
- Operating models such as for 21st century schools and Arena remain in surplus.
- The timing and delivery of expenditure will be as profiled in the capital programme.
- The assumed interest rate for new borrowing is circa 4.5% over the MTFP period to allow an element of sensitivity to uncertain economic forecasts and timing of borrowing.
- Capital receipt targets will be met.
- No change in the prudent provision for the repayment of debt as agreed by Council.
- There remains one pool of debt for the General Fund and HRA, with ongoing consideration of whether separate pools should be created, including for major projects.

Interest rates on borrowing are currently elevated compared to historic lows seen over the last few years. These will be driven by inflation expectation, national debt levels and international uncertainties and as such remain unpredictable. Future interest cost is a key risk identified in the Treasury Management Strategy. This will be an important consideration in updating and prioritising new investment commitments and affordability considerations, and business cases for projects assumed to pay for themselves.

The Capital Programme includes a number of major projects including the development of a new Indoor Arena. Whilst it is anticipated that capital-financing costs will be recovered through new income streams

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over the life of the project, the MTFP reflects an element of interim support commencing in 2024/25.

Levies

Forecast financial commitments include estimated increases to levies. The most significant of these is the South Wales Fire Services (SWFS), with a current Council contribution level of just over £20 million. The budget for the SWFS is levied across constituent local authorities on a population basis. Estimates reflect potential future levy increases due to population fluctuations as well as potential increases to the SWFS' overall budget. Assumptions take into account the SWFS most recent MTFP.

Other Commitments

These include:

- Additional base budget funding for the Council's Corporate Apprentice Scheme in 2024/25, which is when remaining reserve funding will be fully depleted.
- The operating costs of a Household Waste Recycling Centre, consistent with the timescales in the capital programme.
- Additional maintenance costs associated with the future upkeep of capital programme investment in the public realm.
- An allowance to support delivery of the recycling strategy, to be reviewed as further details become available.
- Revenue funding to operate a youth zone, consistent with capital programme timescales.

Demographic Pressures

Key areas of forecast demographic growth, and the associated financial impact are summarised below:

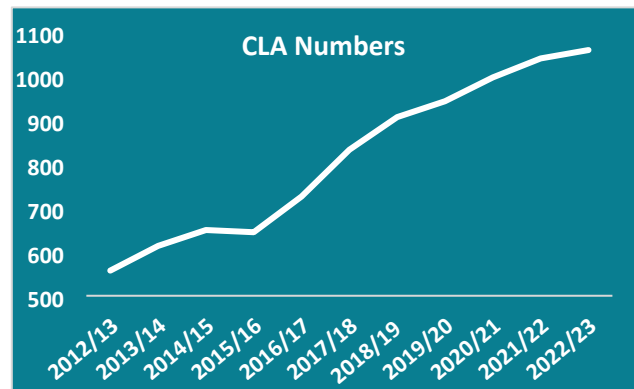
| Demographic Increases | £m |
|------------------------------------|-------------|
| Adults Social Services | 13.6 |
| Children's Social Services | 5.8 |
| Pupil Numbers & New School Costs | 7.9 |
| Out of County Education Placements | 1.5 |
| Other | 3.2 |
| TOTAL | 32.0 |

Adults Social Services

Estimated growth in Adult Social Services is difficult to predict at present. The MTFP includes an annual allowance for demographic growth in this area. For Older People, growth is weighted towards domiciliary care settings, consistent with the Council's strategy to support people in their own homes. This will need to be closely reviewed in coming months, along with wider factors such as hospital discharge pressures. Historically, most significant growth has been in relation to the Older Persons budget. However, at present, there are also emerging pressures in relation to the Adults Learning Disability budget that will need to be kept under close review.

Children's Social Services

Estimated growth in Children's Services is also difficult to predict. The graph below sets out annual increases in the number of Children Looked After



(CLA) since 2012/13.

In 2022/23, the Council experienced unprecedented pressure on Children's services placement budgets linked to complexity and demand. Whilst it is difficult to predict the number and nature of placements required over the Medium Term, forecasts take account current complexity together with preventative strategies. Financial forecasts will continue to be kept under regular review.

Pupil Numbers & Associated Learning Needs

Pupil number projections reflect the existing pupil population moving up a year group each year. They are adjusted to take account of historic retention rates. Pupil intake in nursery and reception is modelled using Schools Organisation Plan data, which includes published birth rates.

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Up until September 2027, projections show a continued reduction in primary pupil numbers and an increase in secondary pupils, although the level of the increases in the secondary sector incrementally reduce over the period.

Costs associated with the Associated Learning Needs (ALN) of pupils are more difficult to model. As well as estimating predicted demand, there is also a need to consider complexity of need, as different types of support have different costs. It is also necessary to consider movement of pupils within the school system. Estimates will be regularly reviewed to take account of most recent information.

Future operating costs of schools in LDP areas are difficult to predict and subject to change. Forecast figures reflect schools opening in LDP areas. Each new school may take a different form, with some being starter schools, (which refers to schools that begin with reception and year one groups only and then grow year on year), and others offering places in all year groups from the outset. Assumptions are high level and will need refinement as development within the city progresses and demand for school places becomes clearer. There will also be a need to gauge whether the take up of school places in LDP areas affects demand in other areas of the city.

Forecasts for 2025/26 reflect an increase in the number of special school pupil numbers. This reflects the anticipated completion of SOP expansion works. Figures currently assume that those places would become available in September. During the interceding years, there will be a need to model the extent to which costs associated with the availability of additional special school places could be offset by savings in other areas, in particular Out of County placement budgets.

Forecasts currently allow for consistent annual growth in the number of Out of County Placements between 2023/24 and 2026/27. No further growth is assumed for 2027/28, on the basis that the availability of additional capacity within Cardiff may avoid the need to place Out of County. As noted in the preceding paragraph, as well as limiting future demographic growth, there will be a need to consider whether the additional capacity may enable savings on existing Out of County budgets.

[Council Tax Reduction Scheme](#)

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

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

[Homelessness](#)

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

[Emerging Financial Pressures](#)

Forecasts include £3.0 million per annum to address emerging financial pressures. This reflects the fact that it is impossible to foresee all issues and that additional burdens may arise through new legislation, unforeseen demand, policy change, and grant fall out. Equally, and as noted throughout the MTFP, the current economic climate has the potential to impact key MTFP variables.

The inclusion of a figure against emerging issues provides a margin of headroom, avoiding the need to identify additional savings proposals at short notice. Sums included for emerging pressures are kept under regular review and are removed from plans if they are no longer considered necessary.

Section 3. Medium Term Financial Plan

3.3 Funding Key Assumptions

Aggregate External Finance (AEF)

The Final 2023/24 Local Government Finance Settlement referenced an indicative All Wales AEF increase for 2024/25 of 3% and this is reflected in the MTFP. Beyond that assumptions are for annual AEF increases of 0.5% as set out in the table below.

| 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---------|---------|---------|---------|
| 2.5% | 0.5% | 0.5% | 0.5% |

Assumed increases for 2025/26 and beyond take into account modelling undertaken by Wales Fiscal Analysis – a research body with Cardiff University's Governance Centre that undertakes independent analysis of Welsh public finances. The position will be kept under close review given multiple uncertainties, including a General Election within the MTFP period.

The fact that funding figures are based, by necessity, on assumptions at this stage represents a material risk to the Council's financial resilience. This is because minor changes in AEF percentages have a significant impact in cash terms – with 1% of AEF equivalent to £5.9 million. In the event of less favourable settlements resulting in increased savings requirements, the achievability risk associated with such savings is likely to be high.

In order to help address this risk, the Council has a £2.0m base budget called a Financial Resilience Mechanism (FRM.) It is used to invest in priority areas, but that investment must be one-off and decided afresh each year. This means that the budget is used proactively but could be deleted without affecting day-to-day services if required.

Reserves

In the interests of financial resilience, reserves should not be heavily relied upon as general budget funding. This is because:

- It creates a gap in the finances of the following year as reserves are cash sums.
- Earmarked reserves are set aside for a particular purpose.

- Reserves are an important part of financial resilience, providing a cash buffer.
- Cash in reserves is not idle; it generates investment income in line with the Treasury Management Strategy and avoids the need for short-term borrowing.
- The level of reserves held by Cardiff Council may be considered to be just at an adequate level for an Authority of this size. As a percentage of gross revenue expenditure, Cardiff has one of the lowest levels of reserves compared to other Welsh Authorities.

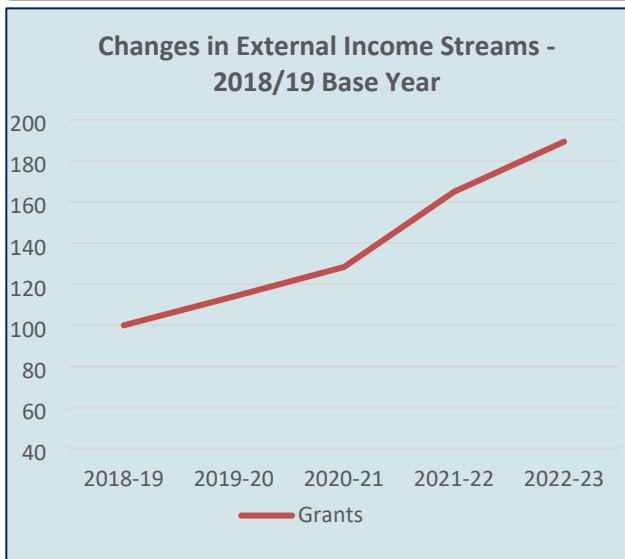
Funding forecasts currently assume £0.5 million use of reserves annually between 2024/25 and 2027/28. This can be accommodated from the Strategic Budget Reserve in line with its intended purpose. The proposed use of reserves is considered to strike an appropriate balance between the risks outlined above and the need to support services. Further information on reserves is considered in the later section on uncertainty and risk.

The above paragraph sets out the position in relation to use of reserves as general budget funding. Over the medium term, there will also be use of earmarked reserves in line with the purpose for which they were set aside – and this will include a range of activities and projects. It will be key that directorates recognise the one-off nature of these resources and carefully prioritise the use of the earmarked reserves to ensure that they are spent on areas of most impact, and within the amount provided.

Grant Funding

Specific grants must be used for a particular purpose, which is defined by the grant provider. The funding may only be used for that purpose, and the Council is audited to ensure compliance. The Council receives a significant amount of specific grant funding, notably from WG. The increasing exposure over recent years is set out in the graph below:

Section 3. Medium Term Financial Plan



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

Over an extended period, Welsh Local Government have pressed WG for “funding flexibility.” This means that wherever possible, funding should be directed through AEF. As well as providing more flexibility for Local Authorities, this would also reduce administrative burdens. The outcomes of a funding flexibility review are anticipated shortly and will need to be factored into the MTFP when information is available.

From a financial planning perspective, there is a risk that specific grants may reduce in cash or real terms, or be discontinued altogether. Real term reductions are a particular risk when inflation and pay awards are higher than usual.

Historically, there are incidences where significant reductions in specific grants have occurred at short notice. This is a risk, particularly because, where grants have been in place for several years, areas they support may have become core activity.

The Council has a budget of £250,000 to deal with in-year specific grant funding issues. Beyond this, the MTFP is based on the assumption that any future specific grant reductions would be dealt with by:-

- Reviewing the grant funded activity
- Potentially providing transitional funding through the FRM, (if it is still available)

Over the medium term, some key areas to keep under review with regards specific grants include:

- The further roll out of the Universal Free School Meals Grant, including the extent to which annual inflationary pressures are reflected in the rate at which support for meals is paid.
- Arrangements for the newly created Shared Prosperity Fund, which is currently expected to run until the end of 2025/26.
- Tapering arrangements with regards the Regional Integration Fund over the medium term.
- Housing Support Grant (£21.9 m) which is a significant grant, currently indicated to remain at its current level until 31st March 2025.

Section 4. Addressing the Gap

4.1 Budget Gap

The estimated budget gap for the period 2024/25 – 2027/28 is set out below:

| 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---------------|---------------|---------------|---------------|--------------|
| 36.8 | 32.5 | 26.1 | 23.8 | 119.2 |

This will need to be addressed through a combination of savings, income generation and Council Tax increases.

4.2 Council Tax

Council Tax accounts for 26% of the Council's general funding. This means that to generate a 1% increase in overall funding, Council Tax would have to increase by over 4% (after accounting for Council Tax Reduction Scheme (CTRS)). This is called the gearing of the tax. The Council has little control over the majority of its funding, which is through Welsh Government Grant.

Technical variables that must be considered when setting the Council Tax include:

- The Council Tax Base of the Authority
- Council Tax Support Budgets
- The level of the Council Tax

Council Tax Base

The Council Tax Base is the number of Band D equivalent properties in the city. In simple terms, it reflects the number and type of dwellings in the city and takes into account if they may be eligible for Council Tax discounts or exemptions. Local Authorities use the Council Tax Base to calculate how much Council Tax they expect to generate.

Whilst other factors affect the Council Tax Base, broadly speaking, property development in an area usually means that the Council Tax Base will increase, generating more Council Tax income. Whilst there is the potential for the Council Tax Base to increase over the medium term, the budget strategy does not preempt these increases within MTFP. This is because an increase in Council Tax Base often results in a reduction in AEF.

Council Tax Support Budgets

The Council pays Council Tax support to eligible recipients under the CTRS. The current annual budget is over £35 million. The CTRS Budget must be considered when projecting future Council Tax income. If eligibility for Council Tax Support remains consistent; an increase in the rate of the Council Tax will place additional pressure on the CTRS Budget. This is because support must be paid at the new, higher rate. Figures quoted in the next section are net, in that they take into account the associated impact on the CTRS Budget.

The level of the Council Tax

In addressing the budget gap, it is modelled that Council Tax will increase by 3.0% per annum. An annual 3.0% increase would contribute the following amounts to addressing the budget gap:

| 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---------------|---------------|---------------|---------------|-------------|
| 5.2 | 5.3 | 5.5 | 5.6 | 21.6 |

The assumption of annual 3.0% increases is not fixed, will be kept under review over the medium term and is subject to Member approval.

4.3 Savings Requirement

The residual budget gap to be met from savings is:

| 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---------------|---------------|---------------|---------------|-------------|
| 31.6 | 27.2 | 20.6 | 18.2 | 97.6 |

In addressing this gap there will be a need to:

- Continue to target efficiencies, including baseline efficiencies for *all* services.
- Continue to review income streams, whilst recognising that in the short to medium term, core income budgets are at risk whilst recovering from the pandemic and that opportunities to generate additional income may be more limited than in previous years.
- Consider the level at which it is affordable to continue to subsidise services of a more discretionary nature.
- Capture the full financial benefit of the early intervention and preventative work ongoing across the Authority, in order to manage the pattern of future demand for Council services.

Section 4. Addressing the Gap

- Identify opportunities to work across directorates and in partnership with other organisations.
- Target productivity savings to ensure that optimum value for money is achieved within scarce resources, including making best use of digital technology.
- Consider how targeted capital investment may deliver revenue savings.

Section 5. Risk and Uncertainty

5.1 Sensitivity Analysis

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

Scenarios Considered

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

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

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

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

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

Variables Flexed

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

| | Low | Base Case | High |
|--|-----|-----------|------|
|--|-----|-----------|------|

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

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

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

| | Inflation | | |
|-----------|---|------------------------------|----------------------------|
| | Low | Base Case | High |
| Pay | 1%: 2024/25 0%: onwards | 2%: 2024/25 1%: onwards | 5%: 2024/25 4%: onwards |
| RLW | 5%: 2024/25 2%: onwards | 6.5%: 2024/25 3%: onwards | 9%: 2024/25 5%: onwards |
| Inflation | Key drivers considered on a case-by-case basis given volatile position in respect of areas such as energy, etc. | | |

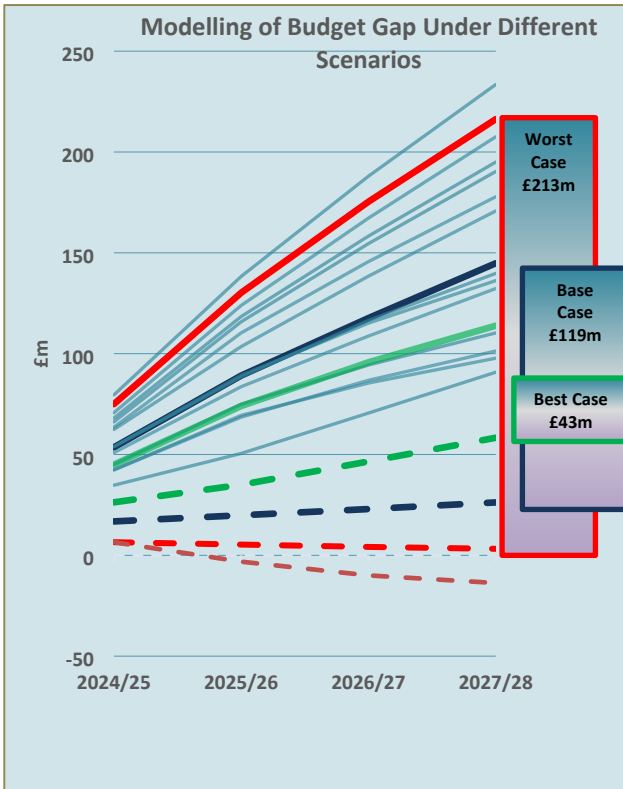
| | Economic Growth | | |
|-----|---|--------------------------------|---|
| | Growth | Base Case | Recession |
| AEF | 5.5%: 2024/25 3%: 2025/26 3.75%: onward | 2.5%: 2024/25 0.75%: onward | 0.5%: 2024/25 -1.5%: 2025/26 -1% then -0.5% |

The £3 million per annum that is allowed for emerging pressures in the base case MTFP is removed in all other scenarios. This is because it is a) assumed not to be required in more favourable scenarios, and b) the factors it is there to help address

Section 5. Risk and Uncertainty

will already have materialised in less favourable scenarios.

The resultant scenarios are summarised on the chart below:



Some note on scenarios:

- The average budget gap across all scenarios was £125m – reasonably comparable to the £119m base case across four years.
- Maximum was £213m and minimum was £43m.

The £213 million and £43 million are extremes, albeit not completely implausible. The £213 million scenario reflects a combination of high inflation & recession coupled with higher demand. This sees higher costs across the board coupled with less favourable AEF. The £43 million scenario reflects high economic growth and low inflation. It sees reduced cost pressures and higher AEF settlements.

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

Demand Scenarios

| | | High £m | Base £m | Low £m |
|--------------------|------------------------------|------------|------------|------------|
| Economic Scenarios | Recession & High Inflation | +94 | +69 | +56 |
| | Recession & Low Inflation | +31 | +5 | -7 |
| | BASE CASE | +26 | 119 | -13 |
| | Econ Growth & High Inflation | +24 | -2 | -14 |
| | Econ Growth & Low Inflation | -37 | -63 | -76 |

Sensitivities

Scenarios examined the relationship between key variables. The table below summarises the impact of a 1% change in key areas. It shows that the key area of sensitivity for the Council is funding settlements, with each 1% of AEF equivalent to £5.9 million. This is evident in the economic growth scenarios above being a lot more favourable – because they assume a greater level of funding support to help cope with pressures.

| Assumption | £m |
|------------------------------|-------------|
| AEF - 1% change | 5.9 |
| Teachers Pay Award 1% change | 1.7 |
| NJC Award 1% change | 2.9 |
| RLW | 1.4 |
| Total Annual Impact | 11.9 |

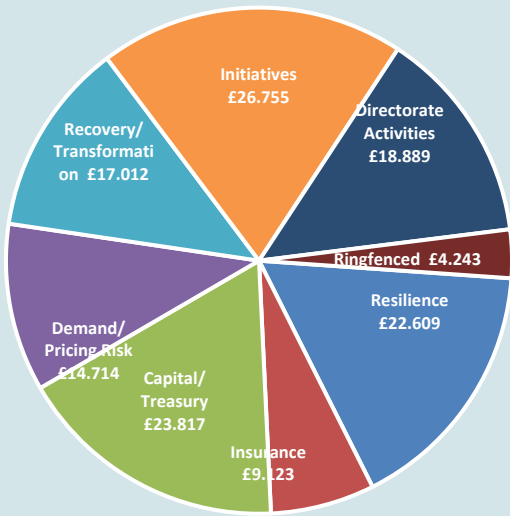
Scenario planning is aimed at identifying plausible alternatives, to inform the scope of financial pressures that the council could face, and the likelihood of an alternative budget strategy being required. This is considered further below.

Responding to less favourable Scenarios

The Council has in place earmarked reserves to address some of the key risks that have been flexed in the scenario analysis. This is summarised in the graph below which categorises the Council’s projected reserves as at 31st March 2023 (Council Fund and earmarked reserves).

Section 5. Risk and Uncertainty

Earmarked Reserves Categorised by Purpose (£m) Balance as at 31st March 2023



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

In addition, to earmarked reserves the Council also has in place a budgeted £1.0 million general contingency, a £2.0 million Financial Resilience Mechanism that is anticipated to increase to its former level of £3.8 million over the medium term, as well as contingencies for specific demand issues such as Social Services.

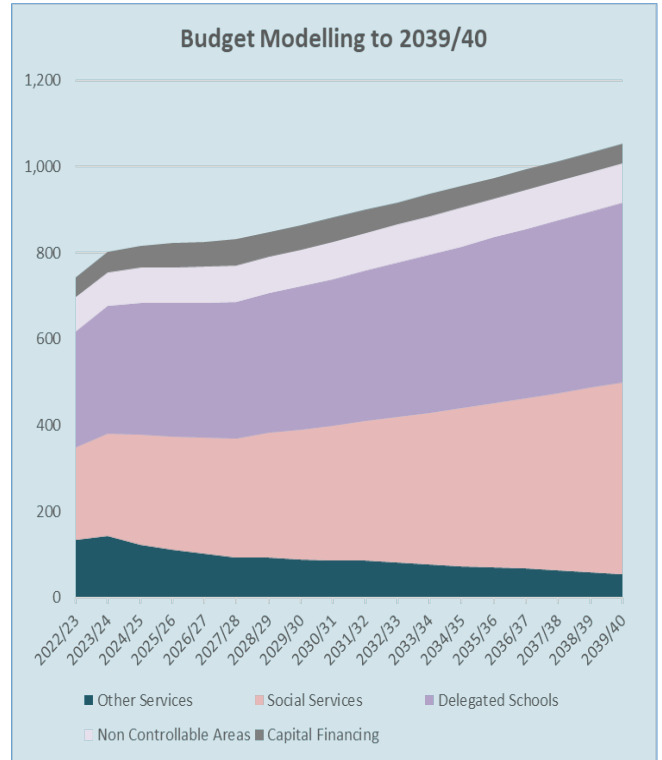
In a worse-case scenario, additional savings measures would inevitably be required. The situation outlined above would provide a lead-in time to enable those to be delivered.

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

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

5.2 Longer Term Outlook

The graph below a potential long-term outlook for the Council’s budget. It is difficult to model beyond the MTFP due to unknown factors, but the chart is an indication of how things may look in future if historic trends are extrapolated.



The graph shows the continued contraction of “Other Services” over the medium term. As this contains areas of statutory duty, the strategy to address the gap will need to reshape this profile as far as possible.

5.3 Key Risks

Key MTFP risks are summarised below, and link to the Council’s wider assessment of financial risk as encapsulated in the Corporate Risk Register.

Section 5. Risk and Uncertainty

| | |
|---------------------------|--|
| Funding | <ul style="list-style-type: none"> • LG settlements - worse than predicted. • Risk of specific grant fall-out, especially where grants support core activity. • Adequacy of specific grant funding over the medium term where the detail of associated initiatives is still emerging – e.g. Universal Free School Meals. • The WG and Plaid Cymru December 2021 Co-operation agreement pledges to review Council Tax reform in Wales during the next three years. This will need to be kept under review in terms of its impact. |
| Economic Linked Variables | <ul style="list-style-type: none"> • Inflation - cost and pay award pressure. • Interest Rates - increases resulting from tackling inflation could impact cost of borrowing and impact affordability of capital programme. • Economic Growth – weak growth / recession may mean lower government receipts leading to reduced Local Government Settlements. |
| Demand | <ul style="list-style-type: none"> • Difficulty in modelling demand & complexity of demand, including in Adult and Children’s Services, Homelessness and Additional Learning Needs. |
| Financial Resilience | <ul style="list-style-type: none"> • Medium term savings requirements at significant levels • The shape of the Council’s budget – with over 70% now accounted for by capital financing, Social Services and Schools. • Planned use of reserves to support the budget, which will be kept under review. |
| Other | <ul style="list-style-type: none"> • Pressure on the Council’s pay spine due to the erosion of pay differential particularly at the bottom end of the spine. |