# Budget Update Report 2024/25 - Question and Answers

### What is the Budget Update Report?

- Local Authorities must set their budget by 11th March each year. This Report is an update on our planning for the 2024/25 Budget (Revenue & Capital).

## The Revenue Budget

### What is the Revenue Budget?

- The revenue budget sets out what the Council plans to spend on day-to-day services.
- These include running schools, caring for vulnerable people, collecting waste, maintaining highways and parks, and operating libraries and cultural venues.
- The revenue budget must also set out how these spending plans will be funded.
- Some services generate income to help cover their cost (like Cardiff Castle), and sometimes we receive grants for specific activities - this is called service specific income.
- After taking service specific income into account, our remaining costs (the Net Revenue Budget) are funded from General Grant (74%) and Council Tax (26%).

### How do you prepare the Revenue Budget?

- In summary we:
  - Estimate the cost of delivering services next year.
  - Compare this to the funding we expect to receive next year.
  - If estimated costs are more than funding, then we have a "Budget Gap."

### What happens if there is a Budget Gap?

- The Council is required by law to produce a balanced budget. This means we must plan to bring net expenditure and funding back in line before the financial year starts - they must match.
- This can be done by:
  - Reducing Spend (making savings)
  - Increasing income (for specific services)
  - Reviewing the level of the Council Tax
  - Considering using earmarked reserves - but this is not a long-term solution.

### Is there a Budget Gap for 2024/25?

- Yes, there is an estimated budget gap of £36.8 million for 2023/24. It reflects:
  - Estimated additional costs of £53.6 million.
  - Less, estimated additional funding of £16.8 million.

### What is the additional £16.8 million funding that are you expecting?

- It is made up of:
  - £17.8 million *more* general grant - this assumes a 3% increase on the current year.
  - £1.0 million *less* use of reserves when compared with 2023/24.
- Decisions about any council tax increase will be considered as part of addressing the gap.

### Why are you using less reserves than last year?

- Reserves are one-off funding source - when you use them to fund ongoing budget pressures, it simply delays the need to find a more permanent solution.

- Use of reserves is more appropriate where budget pressures are *temporary* in nature. This was the case in 2023/24 as some of the energy price increases that we needed to fund are likely to fall slightly in 2024/25.
- We will continue to review opportunities to use reserves to support the budget in a way that doesn't add to the challenges of future years.

How do you know that the Council's general grant will increase by 3%?
- We don't know for certain. The 3% is an "indicative allocation" from Welsh Government (WG).
- There's a risk this could change – we will have a firmer idea when we receive "Provisional Local Government Finance Settlement" (Provisional Settlement) for 2024/25.
- Provisional Settlement may be in October or December - we don't know yet. It's affected by WG receiving their funding notification from UK Government.
- Uncertainty about funding is challenging because small changes can have a big impact - each 1% of general grant funding = £5.9 million.
- The timing of funding announcements adds to the challenge, bearing in mind that we must balance the budget by 11th March.

Are there any other funding risks?
- Yes, in addition to the 3% increase explained above, we are also assuming that WG will fund a potentially significant cost increase in relation to Teachers' Pensions.
- The amount depends on the findings of an actuarial review of the Teachers' Pension Fund – an announcement is expected over the summer.
- The impact of the last review (approx. £8 million for Cardiff) was fully funded by WG. At this stage, we are assuming that funding will be provided again this time, but this is not yet confirmed, so we will need to keep this assumption under close review.
- We are also assuming that WG will continue to fund part of the September 2022 Teachers Pay Award.

Why are costs expected to go up by £53.6 million – what does this include?
- **£9.7 million for estimated price inflation**. Pay awards and inflation continue to affect providers' costs and these are passed on in the prices they charge for services. The £9.7 million includes inflation on the prices we pay for securing care for vulnerable children and adults. It also includes estimated increases to levies we pay to the South Wales Fire Services and the South Wales Coroner, as well as increases to school transport, out of county education placements and ICT prices.
- **£7.6 million for anticipated demand increases**. This reflects an increase in people needing our support in Adult and Children's Social Care. It also includes education-related costs like increasing pupil numbers, the cost of schools in Local Development Plan Areas, and school transport pressures. We know that homelessness will be another key area to keep under review. Demand for services is one of the most difficult areas to predict. It has become more challenging in recent years because the pandemic and cost-of-living crisis have affected any previously identifiable trends. We will keep assumptions under close review - what happens in the current year has a knock-on effect into 2024/25.
- **£21.5 million for estimated pay awards**. As a service driven organisation – workforce costs are a key driver of costs and so when planning, we need to consider the impact of pay awards. Most, although not all, Council staff are covered by two key awards – the teachers' pay award which covers teachers, and the NJC award which covers most other Council workers including

social workers, refuse collectors, teaching assistants, midday supervisors, and office staff. Across the UK, high inflation has led to drawn out pay negotiation processes. Pay awards for the current year are not yet finalised and this adds uncertainty into the planning process because it means we are estimating costs across two years.

- **£14.8 million for other pressures.** This includes the costs associated with financing the capital programme as well as additional funding to maintain assets, support waste strategy and continue the Coed-Caerdydd project. It also factors in the impact of additional demand on Children's Services budgets that became evident in finalising the 2022/23 position. This sum also includes £3.0 million for emerging pressures.

## Is the Budget Gap likely to change?

- Yes, this is a big risk – which is why we have allowed £3.0 million for emerging pressures. There is always uncertainty in trying to predict demand, inflation and pay awards and we will not receive our funding settlement for several months yet.
- At present, most forecasters expect inflation to fall sharply over the course of the year and current planning assumptions reflect this happening. If inflation does not fall as predicted, this will place further pressure on costs for 2024/25.

## Is there a similar situation in later years?

- Yes, the budget gap is estimated to be £119 million in total over the next four years.
- This is set out in the Council's Medium Term Financial Plan (MTFP) and summarised below:

| 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---:|---:|---:|---:|---:|
| 36.8 | 32.5 | 26.0 | 23.9 | **119.2** |

## How will this gap be bridged?

- The table below sets out an outline approach - the gap will need to be largely met from savings - £97.6 million.
- Although the budget gap has increased, Council Tax increases have been kept at levels modelled previously. They remain a modelling assumption and are subject to ongoing review.

| | 2024/25 £m | 2025/26 £m | 2026/27 £m | 2027/28 £m | Total £m |
|---|---:|---:|---:|---:|---:|
| Council Tax – modelling only – 3% | 5.2 | 5.3 | 5.5 | 5.6 | **21.6** |
| Savings | 31.6 | 27.2 | 20.5 | 18.3 | **97.6** |
| **TOTAL** | **36.8** | **32.5** | **26.0** | **23.9** | **119.2** |

## What happens next?

- We will continue to keep the budget gap under close review – things can change quickly.
- We will develop work on savings and income generation proposals over the summer.
- Income Generation – given the scale of the budget gap, it will be important to maximise income where possible and appropriate. Fees and Charges for 2024/25 will be developed in line with the Council's Income Generation Framework.
- Savings - there will be a continued emphasis on efficiency savings - savings which deliver the same services for less cost. Where possible we will implement these as early as possible to

ensure they are in place for 2024/25. However, building on previous levels of savings, it will not be possible to balance the budget through efficiency savings alone and there will be a need for changes that impact on service delivery. These will be consulted on in coming months.
- Progress, and further clarity on funding, will be reported later this year to inform consultation on the 2024/25 Budget.

## The Capital Programme

### What is capital expenditure?

- Capital expenditure refers to acquiring or improving assets. It has a longer-term focus than revenue expenditure.
- Examples of capital expenditure include building a new school or resurfacing the highway.

### What is the Capital Programme?

- The capital programme sets out our expenditure plans and how we will pay for them over a five-year period. It is an investment programme to help meet the Council's key priorities and the long-term challenges facing the city.
- The current programme includes support for city regeneration, modernising school buildings, responding to the climate emergency and delivering a significant house building programme.

### What period does the current programme cover?

- Council approved the current five-year capital programme in March 2023. This set the programme for 2023/24 as well as an indicative programme until 2027/28.
- We now need to plan for setting the 2024/25 programme. We also need to update later years of the indicative programme and roll it forward to cover 2028/29.

### How do you plan for capital projects?

- The size and complexity of capital schemes means there are a wide range of factors to consider - this requires robust business cases and viability assessments.
- It is critical that all key risks are fully understood before embarking on a project
- The Council prepares a capital strategy each year which covers amongst other things, approach to working with partners, risk appetite and includes some indictors of affordability.

### How is capital expenditure paid for?

- Councils receive grant funding (specific and general) to support capital expenditure. This is similar to the way the Revenue Budget is funded, but there are also key differences.
- One difference is that rules permit Councils to borrow to fund capital expenditure - <u>if that borrowing is considered affordable, prudent and sustainable.</u>
- Another difference is that Councils can fund capital expenditure from selling assets and using the proceeds - called capital receipts.

### What happens when the Council borrows to fund capital expenditure?

- The current capital strategy assumes that the requirement to borrow will increase to circa £1.5 billion by 2027/28.
- Borrowing places pressure on the revenue budget. This is because the Council must repay debt with interest. The affected revenue budget is called the "capital financing budget."
- Broadly speaking, each £1 million of capital expenditure places additional pressure of £100,000 on the revenue budget, unless such costs are offset by an additional external income stream.

This assumes the asset will last a long time (25 years). The impact is higher if assets aren't expected to last as long.

- Capital financing already accounts for a significant proportion of the revenue budget. Even with no further borrowing, capital financing costs will increase over the medium term.
- This means that a key consideration when deciding if any further borrowing is affordable if the impact on the revenue budget which is already under significant pressure.

Does the increase in interest rates have an effect?

- Not immediately, because existing borrowing is at fixed rates. However, current commitments and future borrowing requirements mean that there is a risk of increased costs well into the long term.
- Interest rates may fall back once inflation is under control, but it is not clear whether this will be to levels previously experienced - the timing and approach to borrowing will be a key factor in mitigating costs.

What is the position on capital receipts?

- Selling assets can:
    - Provide funds to support the capital programme.
    - Reduce revenue costs linked to maintaining and operating the asset.
- The current capital programme already includes challenging capital receipts targets.
- Updates to the receipts target are included in the annual property plan.
- Capital investment plans include several major development projects that are based on capital receipts contributing to their cost. There is a risk where spending begins before receipts have been realised, and this will need regular review as part of the annual property plan.

What will you consider in updating the capital programme?

- Affordability - with little to no scope for more borrowing or capital receipts, we will need to prioritise.
- Cost & supply chain pressures – there are economic factors that are likely to affect schemes. This will include materials supply issues, increasing construction costs, supplier availability and the potential for increasing interest rates to affect the cost of borrowing.
- External Funding Opportunities - the Council has and continues to be successful in bidding for external grants to support specific schemes. This is a crucial way of supporting affordability - but sometimes bid arrangements for these funding streams make long-term planning difficult.

Can some investment to pay for itself through savings or new income streams?

- Yes, these are called invest to save (ITS) or invest to earn (ITE) schemes.
- With these schemes, capital investment results in savings or income that helps meet borrowing costs. There are restrictions on Councils investing in commercial projects e.g those undertaken primarily for a financial return.
- For ITS/ITE schemes a robust business case is key. This is because if the predicted income / savings levels are not achieved, the revenue budget will end up picking up the borrowing costs they were meant to cover, for many years into the future.

What is the approach to updating the capital programme?

- The broad principles are that:
    - No additional commitments will be entered into that would require further borrowing unless there is a statutory requirement on the Council to undertake the work, or the

work addresses an identified corporate risk. This applies to both the General Fund and the Housing Revenue Account.
  - All new investment should be in accordance with approved Asset Management Plans and the Corporate Plan.
  - All alternative funding solutions / means of achieving the same outcome should be thoroughly considered.
  - Proposed investment must demonstrate value for money in expenditure and approach to delivering outcomes.

## What Next?

- Schemes already included in the indicative programme will be reviewed to identify any cost pressures and opportunities for external funding.
- The timing of schemes already included in the indicative programme will be reviewed. If not time critical, they will be deferred to later in programme. This will focus internal capacity on delivering priority schemes, allow economic uncertainty to become clearer, and spread the timing of borrowing requirements.
- Financial models will be updated to ensure investment remains affordable and to confirm timing. This will include in relation to schemes within the Housing Revenue Account and Capital Investment Plan, as well as to the Arena affordability envelope principles and the Schools Organisation Plan.
- Longer term planning frameworks for capital investment with Welsh Government and other external grant providers will be sought.