Annex 1

Cardiff Council
Medium Term Financial Plan

2025/26 – 2028/29

CRYFACH TECACH GWYRDDACH

STRONGER FAIRER GREENER

CARDIFF CAERDYDD

Contents

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. A separate MTFP is produced for the ringfenced Housing Revenue Account (HRA). It should be noted that any deficit of the HRA must be met by the Council.

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 Managers are engaged in the process through 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.

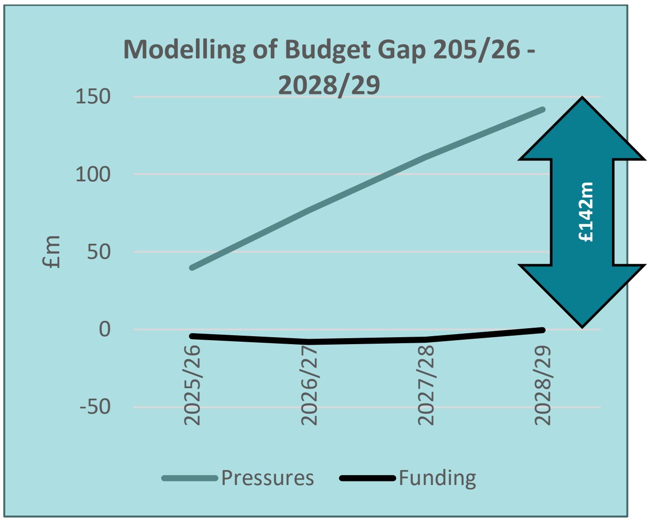
1.3 CIPFA FM Code

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 £142 million over the period 2025/26 – 2028/29. 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 Organisational Context

The Corporate Plan

Stronger, Fairer, Greener sets out the Council administration's policy agenda as agreed by Council in July 2022. The Council's Corporate Plan translates these policy commitments into measurable Well-being objectives. The seven Well-being objectives included in the Corporate Plan 2024 – 2027 are:

- 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.

Within the Corporate Plan, the Wellbeing objectives are broken down into steps that set out what will be done and by when. It sets 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.

Financial Strategy

The Council's key financial strategy documents (as outlined above are developed in tandem with the Corporate Plan and in accordance with the Council's Policy and Delivery Framework. The sustainable development principle is also central to their development. This ensures that limited resources are directed in a way that maximises support for the Council's priorities.

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 consider availability of financial resources 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 that continue to take the city forward, but which are also affordable in the context of the extremely challenging financial position. 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 Well-being objectives is summarised on the next page.

Section 2. Key Considerations

Cardiff is a great place to grow up

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 this is highly likely to continue over the medium term.

The relative protection of these areas in budgetary terms is consistent with consultation feedback, which has consistently seen respondents place Education and Children's Services as their top two funding priorities in both the short and longer 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.

A Capital City that Works for Wales

Investment associated with developing a city that works for Wales is primarily capital in nature. The MTFP factors in capital financing requirements of approved schemes and includes additional sums for revenue highways maintenance to support a steady state.

Schemes of a scale required to take forward city-change require appropriate due diligence and earmarked reserve funding is set aside to support feasibility studies of new schemes in the medium term.

Earmarked reserve funding will also be available to support the delivery of the Euro 2028 football championships in Cardiff.

Cardiff is a great place to grow older

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 in 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.

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.

Support from earmarked reserves to ensure compatibility with Windows 11 by October 2025.

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 corporate 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. The latter results in forecast price increases that exceed the Council's anticipated grant increases over the medium term.

The MTFP also notes significant pressures in homelessness. At present demand is supported by the availability of earmarked reserve funding, the longevity of which will be kept under close review.

One Planet Cardiff

The MTFP contains 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.

There will be considered use of CTS reserve over the medium term to support vehicle replacement, including opportunities to transition to electric fleet.

Section 2. Key Considerations

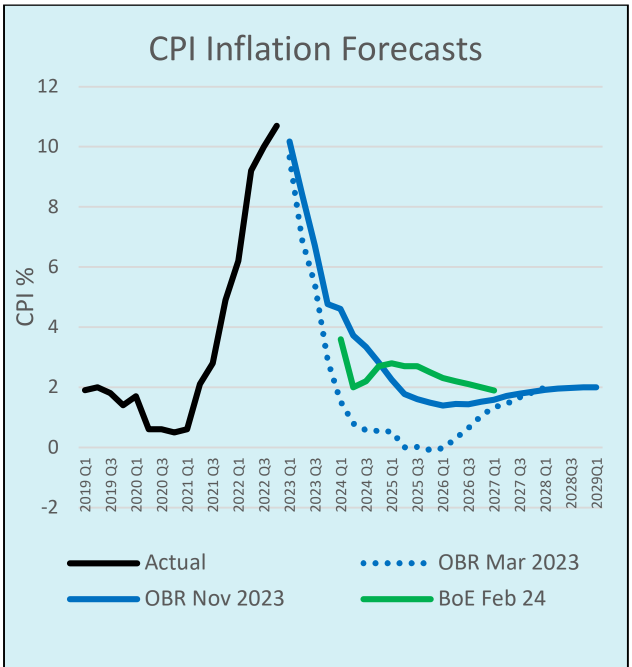
2.2 Economic and Financial Outlook

UK Context

The UK's Autumn Statement in November 2023 was accompanied by an Office for Budget Responsibility (OBR) Economic and Fiscal Outlook Report. Compared with March 2023 forecasts, the report suggests the economy has proved to be more resilient to the shocks of the pandemic and energy crisis than anticipated, with the mid-year level of real GDP above the March forecast. However, the economy is now expected to grow more slowly, with weaker productivity growth and lower forecast average worker hours. Stronger business investment, lower energy prices and policy measures to boost labour supply only partially offset the impact of these downward revisions.

Inflation

In the UK, CPI inflation peaked at a 40-year high of 11.1 per cent in October 2022. Since then, it has declined significantly, albeit not as quickly as initial forecasts suggested. The latest published CPI rate (January 2024) was 4.0%. Whilst CPI outlook varies by forecaster and over time, there is consensus that CPI is likely to remain much nearer to the Bank of England's 2% target over the medium term. This is indicated on the graph below which sets out most recent OBR and Bank of England (BoE) forecasts.



Within the MTFP, more specific indicators of price than CPI are used for forecasting where possible. However, there are areas in which CPI is used to inform forecasts, including for example, as a benchmark for pay award assumptions. The table below summarises currently available OBR and BoE forecasts:

	2025/26	2026/27	2027/28	2028/29
OBR	1.6%	1.5%	1.8%	2.0%
BoE	2.6%	2.1%		

Interest Rates

One of the tools available to the BoE to try to stabilise inflation is to increase interest rates. In August 2023, the BoE raised interest rates for the 14th time in a row, to 5.25%, the highest rate for 16 years. 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 recent rate increases. However, given the significant future borrowing requirement linked to planned capital investment, there is a risk of increased costs well into the long term. Rates are expected to fall back when inflation is deemed to be under control, however this will not be to levels previously experienced. Interest rate changes will need to be kept under close review in terms of their potential impact on the cost of borrowing, consequential impact on future capital financing budgets and refinancing risk where borrowing is undertaken short-term pending rates falling.

Section 3. Medium Term Financial Plan

3.1 Forecast Financial Position

The Council's forecast financial pressures, funding and resultant £142.3 million budget gap are set out below.

		2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £001
	Base Budget Brought Forward	849,284	844,915	841,289	842,546
Schools	Pay Costs	7,182	6,655	7,531	8,200
Schools	Price Inflation	(990)	70	80	90
Schools	Pupil Numbers & Commitments	1,043	4,075	3,063	1,189
Schools	Contribution to Band B & Asset Renewal	(1,090)	(1,090)	(1,090)	0
Schools	Total Schools Pressures	6,145	9,710	9,584	9,479
Social Services	Pay Costs	1,336	1,336	1,781	1,781
Social Services	Price Inflation	7,952	6,791	6,361	6,567
Social Services	Demographic	4,667	4,471	4,161	3,965
Social Services	Total Social Services Pressures	13,955	12,598	12,303	12,313
Other Services	Pay Costs	3,125	3,125	4,160	4,160
Other Services	Price Inflation	1,343	2,076	2,183	2,010
Other Services	Commitments	4,375	1,621	1,233	105
Other Services	Demographic Growth	1,650	1,400	600	0
Other Services	Total Other Services Pressures	10,493	8,222	8,176	6,275
	Capital Financing	5,855	2,747	864	-844
	Emerging Financial Pressures	3,500	3,500	3,500	3,500
	Resources Required	889,232	881,692	875,716	873,269
	Resources Available:				
	Aggregate External Finance	(621,289)	(618,163)	(619,420)	(625,689)
	Council Tax before any future increases	(222,626)	(222,626)	(222,626)	(222,626)
	Earmarked Reserves	(1,000)	(500)	(500)	(500)
	Total Resources Available	(844,915)	(841,289)	(842,546)	(848,815)
	BUDGET REDUCTION REQUIREMENT	44,317	40,402	33,171	24,454

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.

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

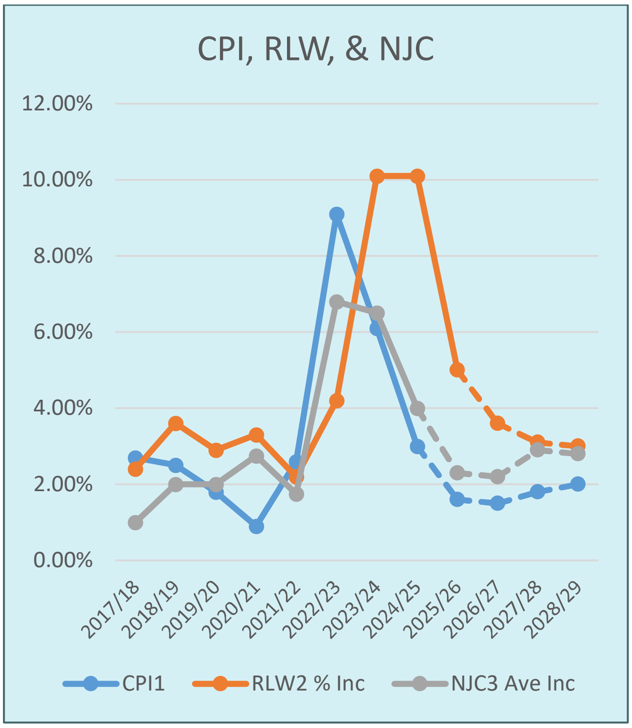
Local Government Pay is a matter for collective bargaining through the National Joint Committee (NJC), and Teachers' Pay Awards are set by Welsh Government on the recommendations of the Independent Welsh Pay Review Panel (IWPRB). As there are no agreed pay awards for the period covered by the MTFP, the 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	2025/26	2026/27	2027/28	2028/29
NJC	£750	£750	£1,000	£1,000
RLW	5%	3.6%	3.1%	3.0%
Teachers	2.0%	2.0%	2.0%	2.5%

Assumptions are lower than recent year's pay awards on the basis that current 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, when necessary, to ensure they are paid the RLW. Cost projections over the medium term reflect the bottom of the NJC pay spine remaining at or above assumed RLW levels.

In recent years, NJC pay award have taken the form of a flat rate award on all spinal points. This has the effect of a higher pay award (in percentage terms) at the bottom of the pay scale. The table below shows how MTFP assumptions compare to past pay awards in terms of average percentage increase and comparison to CPI and RLW. It is important to keep in mind that forecast inflation over the medium term is much lower than the 40-year high experienced in recent years.



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

No significant changes to National Insurance rates or thresholds are currently anticipated over the period to 2028/29 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%) were 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 appropriate to assume no further change in contribution rates at that point, but this will be closely monitored in coming months.

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 (SCAPE rate) used to set scheme contributions. A further material increase is due to take effect from April 2024 linked to the 2020 valuation and further changes to the SCAPE rate.

The financial impact on Employers' Contributions of the first of the reviews referred to above was fully funded by Government, and indications are that the impact of the 2020 review will also be funded..

The next actuarial review of the scheme is due to take place as at 31st March 2024. The implementation date of any findings is less certain, given delays in publishing and implementing the findings of both of the last valuations.

At this stage, the MTFP is predicated upon the assumption that any change in Employer's contribution rate to the TPS linked to future actuarial reviews would be net nil in impact. In other words that any future increases would be matched via a funding allocation from Welsh Government, over and above core AEF assumptions outlined later in this document. This position will be kept under close review.

Incremental Pay Progression

No budgetary allowance is made for incremental pay progression on the basis that historic provision in this area over several years, and a limited number of spinal points means that budgets should be adequate to cover the top of each pay grade.

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 a level of increase in the later years of the MTFP, linked to the significant savings requirements outlined later in this document.

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 anticipated position with regards inflation and set our 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

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 2025/26, although there is always a 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). Indicative pricing suggests that energy prices will fall back by c 12%-17% in 2024/25 and by a further 14% - 16% in 2025/26 and this is reflected in the MTFP. Thereafter, the position is more uncertain, and so assumptions currently reflect no further change in pricing beyond 2025/26 for the time being.

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.

Section 3. Medium Term Financial Plan

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

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 £12.00), increasing by the rates set out below. As with pay award assumptions, this takes into consideration lower CPI projections over the medium term. Projected increases are well above anticipated AEF increases over the medium term, which result in this being a significant unfunded pressure over the medium-term.

	2025/26	2026/27	2027/28	2028/29
RLW	5%	3.6%	3.1%	3.0%

The impact of recommissioning strategies will be a further factor to keep under review in this area.

Fees and Charges (Income)

In recognition that the factors affecting income generation are multi-faceted, the MTFP does not assume a blanket uplift to fees and charges in line with inflation. Instead, fees & charges are developed in line with the Council's Income Generation Framework, which was considered as part of the July 2023 Budget Update to Cabinet. Given the scale of the Budget Gap, there will need to be a continued emphasis on maximising income streams where possible, subject to any identified risks or policy considerations.

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 2024/25 – 2028/29 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 affordable and 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% over the MTFP period.
- 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 for the HRA and 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 expectations, 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. The Arena will result in new income streams over the life of the project to pay for capital financing costs, however 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 & Rescue Service (SWFRS), with a current Council contribution level of over £24 million. The budget for the SWFRS 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 SWFRS' overall budget. Assumptions reflect the SWFRS' most recent MTFP (December 2023), plus 1% in recognition that Cardiff's proportionate share is usually higher linked to population factors. Updates to the SWFRS' MTFP will be kept under close review.

Other Commitments

These include sums to support revenue maintenance, the revenue implication of sums included in the Capital Programme and base budget funding for the Council's Corporate Apprentice Scheme in 2026/27, which is when remaining reserve funding will be fully depleted.

Demographic Pressures

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

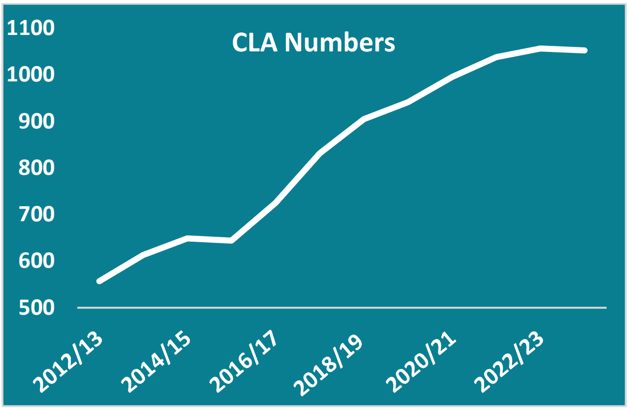
Demographic Increases	£m
Adults Social Services	13.1
Children's Social Services	4.2
Pupil Numbers & New School Costs	9.4
Other	3.7
TOTAL	30.3

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 the impact of preventative strategies. 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 and shows the significant pressure in this area.



(CLA) since 2012/13.

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.

Up until September 2028, 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 are incrementally less 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 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 a declining level of annual increase in the number of Out of County Placements over the medium-term. No further growth is assumed for 2028/29, 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, demand on this budget is a key consideration in medium term planning. Sums available in a Council Tax / CTRS earmarked reserve, are 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. There has been unprecedented pressure in this area 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, recognising that this is a one-off resource.

Unquantifiable Risks

There are several potentially high value areas of financial risk within the period covered by the MTFP that are difficult to quantify. In instances where these relate to WG policy, there is also an expectation of funding linked to these issues. These include:

Additional Needs Learning

Children and young people with a Statement of Education Need are due to be moved to the Additional Learning Needs (ALN) system between January 2022 and August 2025. The Welsh Government is currently responsible for securing post-16 provision for young people whose educational needs cannot be met in mainstream education. Under the Additional Learning Needs (Wales) Act this responsibility will transfer to Local Authorities, and it is anticipated that this will be fully transferred by the end of the academic year 2024/25. At an All-Wales level the funding implications of this change should be neutral. However, details of funding transfers to Local Authorities to cover the shift in responsibility will be a key factor to keep under review in coming months.

Ending Homelessness in Wales

In February 2024, Cabinet received a report on the response to the Welsh Government's White Paper Consultation on ending Homelessness in Wales. The report indicated that the far-reaching reforms to homelessness policy and legislation set out in the white paper would have material capital and revenue implications for Local Authorities. These are not currently reflected in the Council's MTFP as the expectation is that change on the scale indicated would need to be supported by additional funding allocations from Welsh Government.

Section 117 Supreme Court Ruling on Aftercare

Section 117 of the Mental Health Act places a duty on Local Authorities and Local Health Boards to provide after care for people leaving hospital following compulsory detention for treatment for mental disorder. In August 2023, a Supreme Court ruling changed the rules regarding which Local Authority is responsible for the aftercare. Prior to the ruling, if one Local Authority placed an individual in a specialist out of county placement, the placing Authority, (as the individual's ordinary residence) would be responsible for aftercare. The Supreme Court ruling means that the responsibility for aftercare, including the provision of specialised accommodation, now falls upon the Local Authority where the person was "ordinarily resident" *immediately prior* to the qualifying detention. Essentially, this means that if, following placement an individual is detained again, the "Out of County" Local Authority will be responsible for aftercare. Whilst the precise financial impact of this is extremely difficult to quantify it represents a financial risk for Cardiff given that there are a high number of specialist care providers in the city that accommodate those with significant and complex needs.

Emerging Financial Pressures

Forecasts include £3.5 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, there is the potential for fluctuations in 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.

3.3 Funding Key Assumptions

Aggregate External Finance (AEF)

The Provisional 2024/25 Local Government Finance Settlement did not include any indicative AEF figures beyond 2024/25. In the absence of indicative information, future funding assumptions are set out below:

2025/26	2026/27	2027/28	2028/29
-0.3%	-0.5%	+0.2%	+1.0%

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

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 £6.2 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.

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.

Section 3. Medium Term Financial Plan

Funding forecasts currently assume £1.0 million use of reserves in 2025/26 and £0.5 million annually between 2026/27 and 2028/29 as general budget funding. 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.

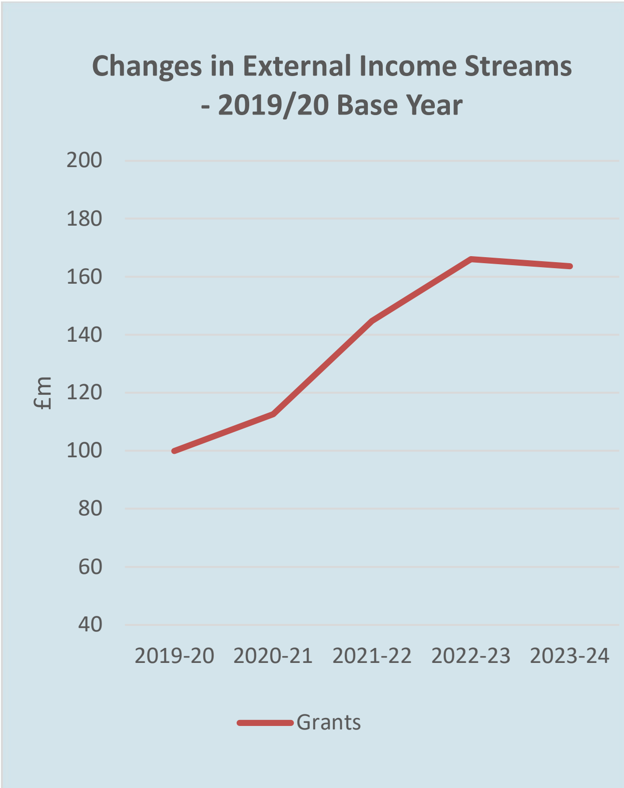
Individual School balances are determined by the responsible individual School Governing Body who have a responsibility for setting a balanced budget and hold an appropriate level of balances that are neither excessive nor insufficient. Welsh Government require Councils to ensure that high surplus balances are either spent or recovered from individual schools. Equally, the Council needs to ensure that where a school goes into deficit that this is for a temporary period and that a credible and deliverable recovery plan is jointly agreed.

Since 31 March 2022, there has been a cumulative reduction in school balances in the region of £25 million with a likely aggregate balance at the end of March 2024 being circa £5 million. Looking forward to 2024/25 and the next two years, there are cost pressures in schools to the extent that the short-term picture for school balances is that there may be at a cumulative deficit level. This will be due to a combination of up-front redundancy costs being made in advance of savings, full year effect of saving changes and recovering pupil numbers in particular individual schools.

The forecast for 2024/25 is that there will be a cumulative negative balance figure with the likelihood of potential reduction in that amount for 2025/26 and 2026/27 as full year effect of changes are felt. There is a risk that future budget settlements will reduce the ability of the deficit balances to recover within the next two years but the need for cost reductions in individual schools will need to factor in those pressures coming over the horizon.

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:



Excludes grants primarily related to third party spend - i.e. HB.

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. Several grants are expected to transfer into RSG in 2024/25 linked to a recent funding flexibility review.

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.

A material risk in relation to specific grants affecting the first year of the MTFP is the future of the Shared Prosperity Fund (SPF). This is confirmed up until the end of the financial year 2024/25. Whilst there could be successor grant scheme, that is not currently confirmed, and so the MTFP reflects a £2.1 million risk linked to potential issues arising from SPF fallout in 2025/26.

Aside from this, the MTFP is based on the assumption that any other 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. The other risk in that area is that the UFSM grant only covers the difference between providing for the whole population and those assessed as eligible FSM pupils. As such any increase in those assessed as eligible for free schools, or in the take-up of that population group, is a pressure that falls on the Local Authority.
- Arrangements for the 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.

Section 4. Addressing the Gap

4.1 Budget Gap

The estimated budget gap for the period 2025/26 – 2028/29 is set out below:

2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
44.3	40.4	33.2	24.4	142.3

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 whether 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 pre-empt these increases within MTFP. This is because an increase in Council Tax Base often results in a reduction in AEF.

Council Tax Reform

Welsh Government are currently considering a package of reforms to the Council Tax system, and it is expected that these will take effect from April 2025. Results of consultation are still being considered but reforms could include revaluation, a review of council tax bands, changing tax rates for each band and review of discounts and reductions. Further detail on changes is expected to be available later this year. It is not possible to pre-empt these changes, but development in this area will need to be kept under close review from a financial planning perspective.

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 3.95% per annum, which is the average increase over the last three years. An annual 3.95% increase would contribute the following amounts to addressing the budget gap:

2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
7.4	7.7	8.0	8.3	31.4

The assumption of annual 3.95% increases is not fixed, will be kept under review over the medium term and is subject to Member approval.

Section 4. Addressing the Gap

4.3 Savings Requirement

The residual budget gap to be met from savings is:

2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
36.9	32.7	25.2	16.1	110.9

In addressing this gap there will be a need to:

- Review budget-setting timescales and decision points, given a need for earlier decisions in order to be able to successfully deliver savings at the levels required.
- Target efficiencies, including baseline efficiencies for *all* services.
- Review income streams and maximise income generation where possible subject to considerations of risk and policy.
- 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.
- 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.
- Identify targeted capital investment and asset rationalisation that delivers immediate 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		
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 sustained 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.
Homelessness	Same as Base	Increasing levels of demand but fully offset by grant.	Increasing demand partially offset by grant.
Pupil Nos	New intake is 5% 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%: 2025/26 1%%: 2026/27 1.5% onwards	2.3%: 2025/26 2.2%%: 2026/27 2.9%: 2027/28 2.8%: 2028/29	5%: 2025/26 4%: onwards
RLW	4%: 2025/26 1%: onwards	5%: 2025/26 3%: onwards	8%: 2025/26 5%: onwards
Inflation	Key drivers considered on a case-by-case basis given volatile position in respect of areas such as energy, etc.		

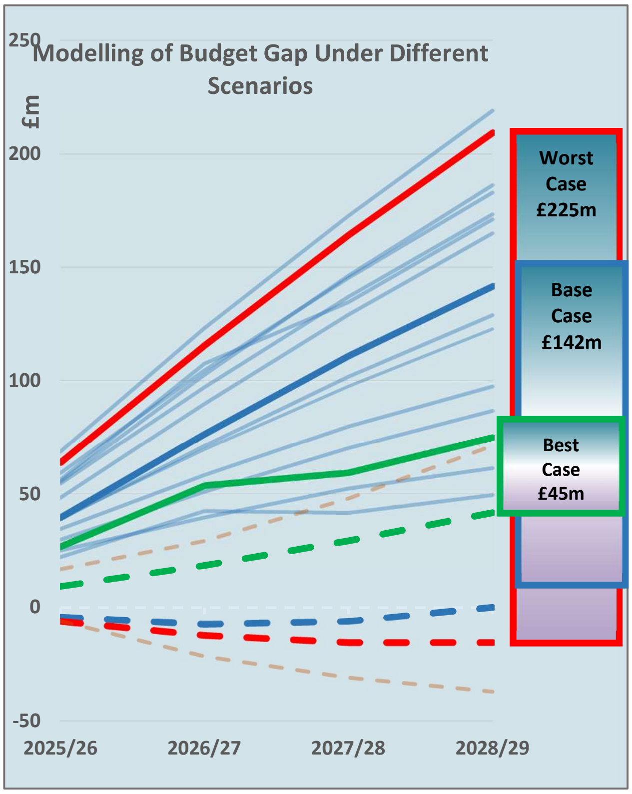
	Economic Growth		
	Growth	Base Case	Recession
AEF	2.75%: 2025/26 2%: 2026/27 3%: 2027/28 3.75%: 2028/29	-0.3%: 2025/26 -0.5%: 2026/27 0.2%: 2027/28 1%: 2028/29	-1%: 2024/25 -1%: 2025/26 -0.5% then -0%

The £3.5 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)

Section 5. Risk and Uncertainty

assumed not to be required in more favourable scenarios, and b) the factors it is there to help address will already have materialised in less favourable scenarios.

The resultant scenarios are summarised on the chart below:



Some notes on scenarios:

- The average budget gap across all scenarios was £146m – reasonably comparable to the £142m base case across four years.
- Maximum was £225m and minimum was £45m.

The £225 million and £45 million are extremes, albeit not completely implausible. The £225 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 £45 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	+83	+59	+47
	Recession & Low Inflation	-8	-56	-44
	BASE CASE	+23	142	-13
	Econ Growth & High Inflation	+6	-42	-30
	Econ Growth & Low Inflation	-61	-109	-97

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 £6.2 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.

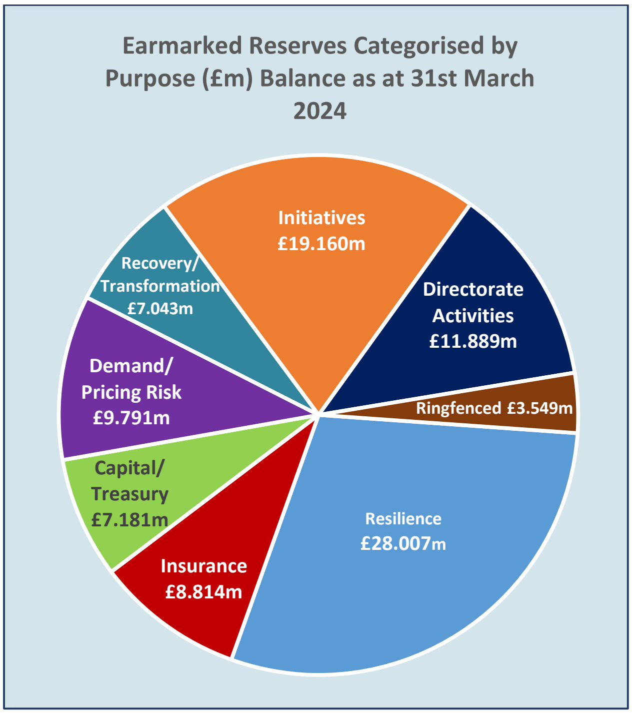
Assumption	£m
AEF - 1% change	6.2
Teachers Pay Award 1% change	2.2
NJC Award 1% change	3.1
Total Annual Impact	11.5

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 2024 (Council Fund and earmarked reserves).

Section 5. Risk and Uncertainty



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.

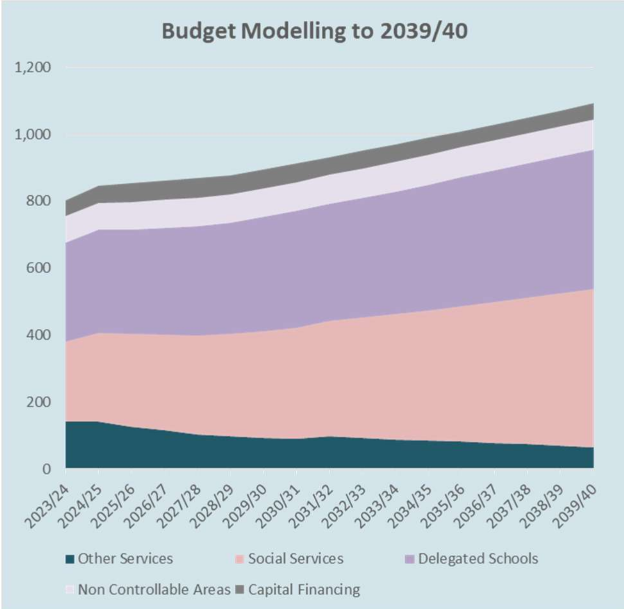
In addition, to earmarked reserves the Council also has in place budgeted contingencies for specific demand issues such as Social Services.

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.

Funding	• 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. • Expected tapering of the Regional Integration Fund • The impact of Council Tax reform due to take effect from April 2025.
Economic Linked	• Inflation - cost and pay award pressure. • Interest Rates - impact affordability of capital programme. • Economic Growth – weak growth / recession may mean lower government receipts leading to reduced Local Government Settlements.

Section 5. Risk and Uncertainty

Demand	• Difficulty in modelling demand & particularly complexity of demand, including in Adult and Children's Services, Homelessness and Additional Learning Needs.
Financial Resilience	• Medium term savings requirements at material 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, including the anticipated aggregate deficit balance on schools balances in the short to medium term.
Other	• Pressure on the Council's pay spine due to the erosion of pay differential particularly at the bottom end of the spine.
Legislative / Policy Change	• The impact of legislative and policy change that is difficult to quantify and /or where associated funding streams are currently unclear including the WG White Paper on Ending Homelessness in Wales, full transition of post-16 ALN to Local Authorities by the end of the 2024/25 academic year and the Supreme Court's August 2023 ruling on Aftercare.