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**CABINET PROPOSAL**

**AGENDA ITEM:**

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**BUDGET PROPOSALS 2016/17**

**Reason for this Report**

To enable the Cabinet to:

1. Having considered and reflected on the responses to all aspects of the consultation, submit to Council their proposal for the estimates of expenditure and income in order to set the Council Tax in accordance with the Local Government Finance Act 1992.
2. Recommend to Council the strategy and plan for the control of the Authority's borrowing and investments for the year 2016/17 (the Annual Treasury Management Strategy).
3. Recognise the financial challenges facing the Council as set out in the Medium Term Financial Plan and to note the opportunities for savings.
4. Recognise the work undertaken to raise awareness of and ensure the financial resilience of the Council.
5. Recommend to Council the Prudential Code, capital expenditure and treasury indicators for 2016/17-2018/19 and the Council's Minimum Revenue Provision Policy for 2016/17.
6. Set the rent levels for Housing Revenue Account properties, service charges and management fees for leaseholders for 2016/17.
7. Agree the rates of fees and charges for Council services for 2016/17.
8. Receive an update on the City Deal and recommend to Council that the City Deal Document be signed subject to the Final Agreement being subject to approval by Council.
9. Approve the Supporting People Spending Plan for 2016/17.
10. Approve the Day Opportunities Strategy and its implementation.

## Structure of the Report

1. The Council's Budget Report needs to provide sufficient assurance that a balanced budget has been set and that robust advice has been given and considered in respect of the adequacy of reserves. A Council's financial strategy needs to consider impacts over the medium term and this report includes a significant section on this aspect. Given the materiality of the current and forthcoming financial challenges it is important that this level of detail is included.
2. The following table provides an explanation of where key sections of the report can be found. In addition the implications to the report and in particular the statement made by the Section 151 Officer within the financial implications should be noted.

<b>Budget Report Section</b>	<b>From Para No</b>	<b>Detail included within section</b>
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## Background

3. The Council's key strategic documents are the Corporate Plan and the Budget. Cabinet members and officers have worked to ensure that a clear alignment exists between the Corporate Plan, the Council's service priorities and the budget setting process. This also demonstrates how the Council will interact with the statutory What Matters 2010-2020 Strategy and its update which is currently nearing completion.
4. For 2016/17, the Corporate Plan follows the direction introduced in 2015/16 which established it as a strategic and outcome focussed document. The Plan will be considered by Cabinet and Council in February 2016 and is part of the same agenda as the Budget. The priorities are confirmed as:
  - Better education and skills for all
  - Supporting vulnerable people
  - Creating more and better paid jobs
  - Working together to transform services
5. The Corporate Plan captures the Council's strategic direction while the Directorate Delivery Plans demonstrate how the Corporate Plan will be achieved. These Delivery Plans will continue to provide an important link between the Corporate Plan, the work of directorates including 'business as usual' activities and the objectives set for individual employees. All plans will need to be resourced where relevant within this budget proposal.
6. The Council recognises that cities are the centre of economic activity and social change. Therefore, whilst working with severe financial constraints on resources the Council continues to progress initiatives to develop the City and the region. Following Cabinet approval in December 2015, work on concluding the Cardiff Capital Region (CCR) City Deal with our nine local authority partners, both the Welsh and Central governments is progressing apace with real anticipation of firm support included in the Chancellor's March 2016 Budget Statement. Further information on the City Deal is included later in the report. In addition, the Great Western Cities initiative continues to develop following the initial announcement in February 2015 whereby Cardiff, Newport and Bristol will work together in key areas such as connectivity, inward investment and sustainable energy.
7. Following the establishment of the Organisation Development Programme in May 2014, Cabinet received a progress report at its meeting in July 2015. The report reflected the progress that had been made towards the delivery of a new operating model and provided assurance that the Council's transition to new ways of working was proceeding at pace. In particular, the programme had been recast to:
  - accelerate the shift to online services and mobile working
  - facilitate the move to alternative models of service delivery

- increase revenue from commercial activities where practicable
  - reduce the Council's asset base through fewer but better buildings
  - maintain progress towards creating a culture of performance management, good workforce planning and staff engagement
8. The scope and scale of the programme has a rolling three year timescale and was predicated on the assumption that every service of the Council needed to plan for a radical adjustment of delivery models to reflect an era of severe budgetary constraint. This direction of travel for the Council is evident in the budget proposals for 2016/17 and the medium term as set out throughout this budget report.
  9. Cabinet received a Budget Strategy report in July 2015 which advised of the seriousness of the financial challenges ahead as a result of both expected reductions in government funding and the increasing financial pressures being experienced by the Council. This was predicated on information and anticipated announcements which led to the formulation of the Welsh Government's (WG) budget following the Comprehensive Spending Review (CSR) in November 2015. Following the approval of the Budget Strategy report, the Council wrote to the WG and the Welsh Local Government Association (WLGA). The letter expressed concern at the continued impact on the Council and the delivery of its services as a result of WG funding scenarios that are real terms cuts and fail to keep pace with the significant financial pressures that the Council is facing.
  10. The content of the Medium Term Financial Plan (MTFP) approved as part of the 2015/16 Budget Report has been incrementally updated during the year following technical refinements to budget lines and revised assumptions in respect of anticipated financial pressures. It was not possible to revise WG funding assumptions as no new information had been published since December 2014. The July 2015 Budget Strategy report detailed these changes and revised the anticipated budget gap for 2016/17 from £51.1 million (February 2015 report) to £47.4 million. The 2016/17 Provisional Revenue Support Grant (RSG) settlement announced in December 2015 was better than the planning assumption as a result of increases in Cardiff's population but mainly as a result of the implications following the CSR and the consequent decision by WG on the shape of its budget. However, the Provisional Settlement was still a cash reduction in absolute terms of £301,000 and means that the Council has experienced a cash reduction in RSG of £12.8 million since 2014/15. At the time of writing this report WG has not announced the Final RSG settlement but has stated that little change is expected between the Provisional and Final stages for 2016/17.
  11. The Budget Strategy report had acknowledged that because of the extent of the financial challenge in the medium term an updated approach to identifying budget targets was required which led to the Reshaping the Base Budget approach. This approach sought to establish linkages between the Reshaping Service Programme and the Council's target operating model. It looked to initially identify the shape of services and then understand the link to strategic priorities. Savings were then identified against the four drivers of:

- Policy led savings
  - Business Process efficiency led savings
  - Discrete Directorate led savings
  - Income/commercialisation savings
12. Given the significant level of savings required in 2016/17 following the unprecedented levels in the previous two years, it is more important than ever that the proposals are robust, planned effectively and deliverable. Following submission, the proposals from directorates have been progressively challenged to give Council confidence that all savings:
- included within directorate proposals are owned by the relevant director
  - identify residual risk as well as an achievability risk rating
  - are technically feasible from a financial perspective
  - are recorded as to their current planning status
  - have been subjected to a robust equality impact assessment where relevant
  - are categorised as to the theme of the saving
  - Include wherever possible the full-time equivalent employee implications of the saving proposal
  - identify cross directorate opportunities or risks that have been discussed by all relevant senior officers and portfolio members
  - demonstrate transparency to ensure clarity at scrutiny committees and with other stakeholder groups
13. The Budget Strategy Report also considered the approach to the development of the Capital Programme as this is an integral part of the Council's budget. The report restated the position that the Council's General Fund Capital Programme for 2015/16 - 2019/20 demonstrated the cumulative need for additional borrowing and general capital receipts of £132 million and £6.5 million respectively but also noted the significant WG capital funding cuts over the medium term.
14. It was recognised that a review of all schemes included within the current Capital Programme would be carried out as part of the budget process for 2016/17 alongside robust consideration of new schemes. New schemes would need to relate to Corporate Plan priorities, contribute to the rationalisation of buildings and services and, where possible, be self-financing or attract a significant level of partner or external grant support.
15. As highlighted previously the impact of the inadequate level of support from WG for capital resources has been that local government has had to find a greater share of the capital funding requirement to meet essential investment. The Council continues to undertake unsupported borrowing as part of the Capital Programme and the schemes within the period 2016/17 to 2020/21 are included later in this Report and set out in detail in the appendices. Affordability indicators are included in relation to the Council's borrowing and the Section 151 Officer must consider whether the amounts contained are prudent and affordable.

16. Since then, the Council's borrowing has increased as have the local affordability indicators that demonstrate that capital financing costs as a percentage of the Council's controllable revenue budgets are increasing year on year. The level of WG revenue budget funding means that even with no new borrowing this percentage would increase as the revenue base budget reduces. Against this backdrop the condition of the Council's assets is of concern as evidenced by increasing maintenance backlogs. It will be important for the Council to relentlessly progress the recently approved strategies for Operational and Non-Operational Property assets to ensure a smaller, but fit for purpose property estate.
17. Later sections of this report review the Council's financial position across the life of the MTFP and identify both the challenges ahead and the radical nature of the actions required. Council-wide solutions across this time frame will need to be holistic and could include consideration of both revenue and capital spend. Therefore whilst approving the Capital Programme for the period up until 2020/21 Cabinet should be aware that the later years of the Programme, together with any new material commitments in respect of these later years, will be subject to an ongoing review of the Council's financial standing and resilience.

## **Consultation and Engagement**

18. The Council's co-operative values focus on fairness, openness and working together. Greater consultation, engagement and joint working with citizens are at the heart of these values which specifically mention the importance of being "open and honest about the difficult choices we face, and leading a debate where people can have their say on what's important to them and their communities."
19. Extreme budgetary pressure is a key driver of the difficult choices facing the Council and therefore budget consultation is an important opportunity to understand what is important to our stakeholders and to encourage their involvement in shaping Council services. The consultation on the Council's 2016/17 budget proposals "Changes for Cardiff" ran from 11 December 2015 to 12 January 2016. A number of mechanisms were used to ensure the consultation was as accessible as possible:

**Council Buildings** – 5,000 hard copies of the questionnaire were distributed throughout Cardiff to the City's public buildings including libraries, leisure centres and hubs. The consultation was also communicated to 6,000 staff within the Council.

**Online** – an online question and answer session took place in December with the Leader and Cabinet Member for Corporate Services and Performance and the online version of the questionnaire was made available on the budget page of the City of Cardiff Council's website, as well as on [www.askcardiff.com](http://www.askcardiff.com) and [www.cardiffdebate.co.uk](http://www.cardiffdebate.co.uk). The consultation was promoted through email to users of libraries, council tax online account holders, castle key holders, active card users, members of Cardiff Citizen's Panel and Library card holders (over 75,000 email

addresses). Links were also sent out through the Council and Cardiff Debate twitter accounts.

**Community Engagement Events** – 20 community engagement ‘drop-in’ events were held across the city during the course of the consultation period and an engagement forum with the Cardiff Youth Council took place. The Council’s Stepping-Up Toolkit was available at events to support community groups who may be considering opportunities to develop and manage services and assets and forms were available to record expressions of potential interest in volunteering opportunities.

**Via Partner Organisations** – the consultation was promoted via email to over a thousand stakeholders including partner organisations, MPs and AMs, Neighbourhood Partnerships and members of the public who expressed an interest via the previous Cardiff Debate summer events. It was promoted to 8,000 people via the Police Community Messaging Service and communicated to 7,000 staff within Cardiff & Vale University Health Board (UHB).

20. The consultation received 3,348 completed questionnaires and public views were also given via petitions, social media, attendance at the ‘drop-in’ public engagement events, and through correspondence. From this, a number of key themes emerged:
- **The financial reality:** an overwhelming 88.5% (2,708) of respondents recognised the budget gap facing the Council meant that difficult choices would be required
  - **Support for new ways of working:** over three quarters of respondent (76% or 2,320) support the Council in exploring new ways of working to deliver its services
  - **Increased Charging:** there are mixed levels of support for the Council charging more for some services if it meant they could be continued with **46.5%** (1,417) supporting the proposal 24.0%, (732) disagreeing and 29.5% (901) unsure
  - **Increased digitalisation of services:** 88.1% (2,691) of respondents supported increased digitalisation of services
  - **Community involvement:** 34.3% (1,047) of respondents agreed that community groups and the third sector should be asked to run more services and facilities - 30.6% (936) disagreed and 35.1% (1,072) were unsure.
  - **Volunteering:** 23.7% (715) of respondents are currently engaged in volunteering in the city and 887 respondents expressed an interest. The highest levels of interest for volunteering were seen in relation to libraries, litter picks and parks maintenance
21. The findings of the consultation on the City of Cardiff Council’s 2016/17 budget proposals can be found in Appendix 1(a) and can be accessed through the Council’s website.
22. In 12 November 2015 Cabinet agreed that consultation be carried out on the draft Day Opportunities Strategy. Consultation was undertaken based on the proposed model and this included writing to 1,742 service

users (all older people currently receiving a package of care) as well as events at Council Hubs. Additionally, specific consultation with partners took place. The results of the consultation have been analysed and are attached as Appendix 1(b).

23. In addition, as part of regular budget preparation, consultation has taken place through:-

**Scrutiny Committees** – both overall briefings and consideration of the detailed proposals were undertaken in February 2016 while some committees also invited stakeholders to discuss particular topics at their January meetings. Responses received in respect of the Scrutiny deliberations will be tabled and considered as part of the Cabinet meeting.

**Trade Unions** – consultation has taken place with the trade unions and any comments will be considered in advance of the Cabinet meeting.

**Employees** – consultation has taken place both generally through staff meetings and particularly with employees impacted by individual savings proposals.

**Schools Budget Forum** – following a number of briefings over the budget formulation period, the Forum met on 20 January 2016 to consider the Cabinet's budget proposals as it affected their remit. Their response is attached in Appendix 1.

**Audit Committee** – the Treasury Management Strategy was considered at its meeting on 1 February 2016 as part of their scrutiny function. Comments have been incorporated into the relevant parts of this report.

## Issues

24. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. This Budget Report will set out in detail the financial issues facing all councils and the City of Cardiff Council in particular. It will outline the setting of the 2016/17 revenue budget against the context of the medium term and the continuing outlook of financial austerity, the Capital Programme and the Council's choices in respect of capital borrowing during a time of increasing difficulty in affording the historic and additional capital charges within reducing revenue budgets. It will also consider the Council's overall financial standing in respect of risks, reserves and resilience. The current and ongoing financially challenging conditions require a composite response to complex services including reshaping services, service realignment and service removal.
25. The following sections of the report provide an update on the current year, set out the impact of the WG Financial Settlement and then develop the components of the proposed budget for 2016/17.



## Budget Update 2015/16

26. The Council's Budget Report for 2015/16 identified significant operational and financial challenges and risks in the current and medium term. These are reviewed as part of the Council's financial resilience testing and monitoring process including updates to the Corporate Risk Register. The topics included:

- The challenging financial position in respect of reducing WG resources, increasing financial pressures against a reducing controllable base budget and increasing volatility and uncertainty in respect of hypothecated grants.
- Continuing demographic demand for social care services if trendlines vary significantly from the anticipated position.
- The impact of welfare reforms, in particular the phased implementation of Universal Credit during 2015/16, on the ability of individuals to contribute to the cost of services provided where relevant.
- Reducing demand for services where the Council has historically charged for the activity and so creating an income shortfall.
- The necessity to deliver budgeted savings from reshaping services and other change proposals that are not currently fully defined.
- The potential impact on insurance costs for the Council as a result of savings proposed.
- The need to build capacity within the community to support the empowerment of communities to take greater responsibility for the delivery of services.
- The need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays to delivery of the proposal has on the budget monitoring position
- The cumulative impact of achieving the savings, within this budget in addition to the non-achievable 2014/15 savings which remain to be realised in 2015/16.
- The service impact of a significant reduction in headcount expected to take place over the medium term.
- The Council's ability to meet the costs of voluntary severance, albeit the discretionary element of the scheme will be reduced from April 2015, as the Council reshapes itself in line with available resources in these times of continuing financial austerity.
- The ability to react to new demands resulting from welfare reforms as they are progressively implemented together with financial risks in respect of the Council Tax Reduction Scheme (CTRS).
- The level of additional borrowing undertaken in previous years and proposed will require more revenue resources to be used for capital financing in future years.
- Capital schemes that are approved on the basis of generating savings, increasing income or capital receipts but which fail to do so will also increase pressure on the revenue budget.
- The potential for additional capital receipts to fall short of the amount modelled in the budget in respect of the in-principle capitalisation direction.

- The impact of the potential adoption of alternative models of service delivery and the requirement to test consequential costs and benefits of the change, for example working through any potential TUPE implications.
  - The impact of continuing to increase the support of revenue budgets from the Civil Parking Enforcement (CPE) reserve.
  - The impact on Cardiff Bus, which is wholly owned by the Council should the WG make significant reductions to the reimbursement rate in respect of concessionary fares in 2016/17.
  - The ongoing uncertainty in respect of the establishment of a permanent CTRS scheme for 2016/17.
  - The financial impact of WG allocating education grants directly to the Central South Education Consortium rather than local authorities.
  - The deteriorating position in respect of delegated schools' balances.
  - The increasing financial exposure to the Council of the School Organisation Plan (SOP) consolidated financial model as the size of the programme and associated risks increase.
  - The risk of WG levying fines if the Council fails to realise recycling or land fill diversion rates.
  - The impact of functions delivered as part of a collaborative arrangement should the planned benefits not be realised.
  - Financial exposure should the Council breach its partial exemption calculation in respect of VAT.
  - The risk associated with the final settlement sum in respect of all remaining landlord councils exiting the existing HRA subsidy system from April 2015.
27. The Council's Month 9 revenue budget monitoring position is included elsewhere on the agenda for this meeting and shows a projected overall surplus position of £988,000. However, the directorate position is somewhat different with a projected overspend position of £1.6 million after use of the budgeted contingency of £4 million. Within this figure, financial pressures continue to be evident in a number of areas and particularly within Social Services. The council position includes the effect of a potential shortfall of £6.075 million against the 2015/16 budget savings of £32.473 million together with a projected shortfall of £2.954 million against the savings shortfalls carried forward from 2014/15.
28. The Month 9 Monitoring Report also includes an update in respect of the Capital Programme. This shows a projected out-turn for 2015/16 of £89.088 million which is a variance of £29.682 million against the spending plan. This variance comprises estimated slippage on schemes amounting to £28.684 million and £0.998 million of underspend on projects. Current slippage forecasts relate to various school schemes and projects across the City Operations Directorate.

## **Revenue**

### **The 2016/17 Settlement**

29. At this point in the budget process the Council would usually be in receipt of the Final Local Government Settlement and would therefore have a

firm figure of Aggregate External Finance (AEF) for the forthcoming financial year. However WG's budget timetable has been delayed as a result of the UK Government's CSR with the result that this budget is predicated on the Provisional Local Government Settlement that was published on 9 December 2015. The WG has stated that there is no intention for significant variation between the Provisional and Final figures for 2016/17.

30. The main points to note from the Provisional Settlement at an all Wales level are:
- a range of change in AEF comprising a decrease in RSG and NDR between minus 0.1% and minus 4.1% with an average of minus 1.4%.
  - inclusion of an additional £35 million to prioritise schools funding together with an assumption of a protection requirement of 1.85%.
  - inclusion of an additional £21 million for Social Services.
  - the transfer into the RSG of the Outcome Agreement Grant at its current level and method of distribution.
  - no indication of future year settlement figures.
  - inclusion of the impact of the 2016/17 Council Tax Base which usually forms part of the Final Settlement calculation.
  - no damping mechanisms.
31. Responding to the Provisional Settlement, WLGA leaders said: *"Times remain tough, but this settlement at least shows that Welsh Government Ministers are listening to local government leaders and working with us to protect local services from the worst impacts of austerity. Today's settlement offers a welcome slow-down in the daunting level of budget cuts local government has experienced over recent years."*
32. *"This will not detract from the need for councils to look at how they can transform their services."*
33. The position for Cardiff within the range of change in AEF set out above shows a funding decrease of 0.1% and a cash decrease of £301,000 in comparison with 2015/16. However, the actual decrease in spending power for Cardiff will be £501,000 as a result of the funding mechanism for the 21<sup>st</sup> Century Schools Local Government Borrowing Initiative (LGBI) because of the treatment used by the WG within the settlement.
34. In addition, as part of the overall settlement for Wales, information on specific grants amounting to £485.376 million was published although this is not a final list and details are still indicative in some areas. This figure is much lower than at the same time last year as a result of some significant grants not yet known for 2016/17. These include the

Education Improvement Grant and Concessionary Fares although the transfer of the previous Outcome Agreement Grant into the settlement for 2016/17 also accounts for some of the difference. Appendix 2 lists the currently known grants at an all Wales level. At the individual authority level the position is less clear with very little information currently available for Cardiff.

35. Once known these specific grants will be available to the particular directorates as additional resources subject to the relevant terms and conditions. As a significant number of grant allocations have yet to be declared by the WG there is a risk of future notifications resulting in a reduced level of funding. Should the Final Settlement include any transfer of additional specific grants then these resources will continue to be used as had been the position in 2015/16.
36. Careful consideration has been given as to how to manage the risk of compiling the budget based on the WG's Provisional Settlement rather than the usual Final Settlement position. The WG budget timetable is such that the Final Local Government Settlement will be published on 2 March 2016 with the final debate on the WG's budget due on 9 March 2016. The statutory deadline for Councils to set Council Tax for 2016/17 is on 11 March and historically the Council's arrangements have been to hold its Budget Council towards the end of February to enable Council Tax bills to be dispatched in time for cash to begin to flow to the Council by 1 April.
37. Informally the Council is aware that the WG intends that there is to be no material change to amounts between the Provisional and Final Settlements and so the judgement arrived at is that the Council continues with its planned Budget Council date of 25 February 2016. However, it will be necessary to note that a contingent arrangement will form part of the recommendations to this report whereby the Council will either add to or draw down from General Balances if the Final Settlement produces figures different from the Provisional Settlement.
38. To exemplify, if the final settlement is £20,000 less than the provisional settlement, the Council would need to increase its draw down on the general balance. Conversely, if the final settlement is £20,000 more than the provisional settlement, the Council would transfer a sum of £20,000 to the general balance.

### **Resources Available**

39. In December 2015 Cabinet approved the release of savings for consultation as part of the 2016/17 budget process. This report identified a budget reduction requirement of £45.645 million in respect of savings of £33.897 million and budget strategy assumptions yet to be approved of £11.748 million. In the absence of any settlement information these figures were based on the best update of the figures included in the July 2015 Budget Strategy Report.

40. When published it became clear that the Provisional Settlement had provided Cardiff with less reduction in resources than had been anticipated amounting to £11.5 million.
41. Therefore the unhypothecated resources available from WG through the Provisional Settlement are set out in the following table.

<b>Resources</b>	<b>£000</b>
AEF (RSG & NDR)	422,941
Outcome Agreement Grant (subsumed into RSG)	3,344
Unhypothecated resources from WG	426,285

42. The report to Cabinet in December 2015 in respect of the Council Tax Base implied an increase in the number of Band D equivalent properties expected by 31 March 2017. As part of that report the ultimate Council Tax collection rate was increased to 98.5% in recognition of the sustained improvement in collection statistics as evidenced over recent years. Consequently and as confirmed once the Provisional Settlement had been published, this change in the Council Tax base increased Council resources by a further £1.9 million. This position would be impacted negatively should current arrangements to support CTRS claimants change. The present arrangement is that the WG provides funding for 100% of the liability. As this funding forms part of the Settlement it does not take account of the impact of the increase in Council Tax nor does it take into account the change in the number of claimants. In both cases these will need to be managed by the Council during 2016/17.
43. The following table sets out the total resources available to finance the budget before any increase in the rate of Council Tax.

<b>Total Resources Available</b>	<b>£000</b>
Resources from WG	426,285
Council Tax (at nil increase)	144,461
Use of reserves to support the budget	2,070
<b>Total resources available</b>	<b>572,816</b>

44. The Budget Strategy report included an assumption that £1.5 million would be available to support the budget through drawdown from reserves. Following the receipt of the Provisional Settlement this has been amended to £1.1 million in order to help protect the council's financial resilience. Detail of drawdown to support this £1.1 million is contained in the Appendix on Earmarked Reserves. The review has identified that a further reduction to the provision for Council Tax bad debts can be supported following the sustained increased recovery action over recent years. This has enabled £1 million to be released to support the budget. Information in respect of reserves and balances can be found in the section on Financial Standing, Risks and Financial Resilience.

## Resources Required

45. The better than anticipated settlement together with the impact of Council Tax base change and a further reduction to the Budget Requirement as a result of lower assumed energy prices all serviced to increase the Council's resources by £14.095 million against that underpinning the proposals released for public consultation in December 2015.
46. Mindful that the budget gap for 2016/17 is still a significant £33 million and that the WG settlement is for one year only, Cabinet considered the use of the additional resources alongside the following principles.
- **Review budget planning assumptions** – to reduce use of one year only solutions, to take out areas of high risk e.g. capitalisation and to support key corporate priorities – i.e. schools.
  - **Introduce a new mechanism** - to reduce future risk, improve financial resilience and allow one off investment and development in priority areas
  - **Review financial pressures** - to address emerging risk areas, to review known areas of high risk/uncertainty, to address corporate priorities
  - **Review consultation savings proposals to:-**
    - a) Improve achievability for 2016/17 by addressing the pace and scale of most challenging areas
    - b) Improve the future financial position by pushing some proposals back into future years, giving a more robust set of proposals for the medium term
    - c) Address emerging issues and moveable assumptions upon which proposals are based (e.g. tonnages)
    - d) Take account of consultation feedback
47. The following table summarises the resources required to cover base expenditure, commitments and budget realignments.

<b>Total Resources Required</b>	<b>£000</b>
2015/16 adjusted base budget (after transfers)	573,506
Employees (pay awards, increments, NI etc)	5,849
Demographic pressures	7,521
Commitments	1,067
Directorate expenditure and income realignments	2,329
Special inflation	2,266
Schools growth (net)	7,183
Financial resilience mechanism	4,000
<b>Total Resources required</b>	<b>603,721</b>

48. An expanded version of the above including the total amount of savings required is shown in Appendix 3.

## Funding Gap

49. A comparison of the resources available to the Council (with no increase in the rate of Council Tax) with the resources required results in the following shortfall.

<b>Funding Gap</b>	<b>£000</b>
Resources required	603,721
Resources available	572,816
<b>Shortfall before savings and new pressures</b>	<b>30,905</b>

50. In preparing this budget proposal, the Cabinet has been aware of the need to balance Corporate Plan priorities and service requirements with the impact on Council Tax payers particularly during the current extensive period of financial constraint. The responses to the Cardiff Debate, as described elsewhere in this report have been instrumental in informing Cabinet's view on the final shape of the budget.
51. As a result, the Cabinet together with the Council's Senior Management Team have considered carefully the need to provide for new financial pressures alongside savings options proposed by directorates. A list of pressures included within the budget is set out in Appendix 4.
52. Total savings included within this budget proposal amount to £28.835 million which equates to 8% of the non schools cash limit. The position in respect of schools is set out later in this report. The detailed savings schedule is attached as Appendix 5.
53. The following table identifies that the amount to be raised from additional Council Tax in 2016/17 is £4.293 million after allowing for the adjustment in respect of CTRS amounting to £1.052 million. This will result in a Council Tax increase of 3.7%.

<b>Budget Shortfall</b>	<b>£000</b>
Shortfall before directorate pressures and savings	30,905
New directorate pressures	2,223
Sub total	33,128
Less	
<b>Total savings</b>	<b>(28,835)</b>
<b>Net amount to be raised from additional Council Tax</b>	<b>4,293</b>

54. Further details in respect of the savings included in the above table are set out in the section on Service Implications of the Revenue Budget.

## Financial Standing, Risks and Financial Resilience

55. In considering the Council's budget proposals, members must have regard to the financial standing of the Council and the impact of their budget decisions on services, citizens, customers and communities. The financial challenge facing the Council in meeting its Budget Reduction

Requirement of £30.905 million this year on top of the £112.75 million in the last three years is such that the significance of reviewing the financial standing, risks and financial resilience of the Council cannot be understated.

56. As part of this process the Council's Section 151 Officer has, as the Responsible Finance Officer (RFO), a number of statutory duties including under Section 25 of the Local Government and Finance Act 2003 a responsibility to report to members on the budget including the adequacy of reserves.
57. To report on these matters, the Council's Section 151 Officer has to have regard to the overall financial context of the Council against which the budget and the adequacy of reserves is being considered. The financial standing of the Council is informed by a number of factors including: the Council's financial position in the previous year's audited statement of accounts (particularly the balance sheet), the in year position as set out in the Month 9 Budget Monitoring Report, the financial risks and issues attached to the budget for the forthcoming year and the Council's financial resilience and sustainability going forward as detailed in the MTFP.
58. During 2015/16 an increased amount of work has been undertaken in relation to the Council's financial resilience, including regular reviews of the overall snapshot of the financial position and benchmarking with other authorities facing similar financial challenges. The information gathered as part of this work will play a vital role in informing future decisions surrounding the MTFP and the adequacy of financial resources. The financial outlook over the medium term remains a matter of concern and the MTFP section will detail these challenges in respect of ongoing financial austerity, increasing financial pressures and the difficulty of setting and realising year on year budget savings.
59. The paragraphs below set out the Council's financial position at present and that contained within the 2016/17 budget. They also detail the work that has been undertaken to provide further assurance in respect of the budget setting process and the Council's reserves together with the context in which this work has taken place.
60. A key contextual factor is the Corporate Assessment Report published by the Wales Audit Office (WAO) in September 2014 and how the Council has progressed the resolution of the range of issues identified within that Assessment. This progress has recently been tested in the Follow-on Corporate Assessment that was carried out by WAO in October 2015. In addition, the WAO has undertaken a review of the financial resilience of councils across Wales. As part of their work they will rate individual councils in respect of financial planning, financial control and financial governance. The Council is currently awaiting the receipt of the reports in respect of these exercises.
61. In addition, an issue identified in the report was the Auditor's concern in respect of the uncertain prospect for achieving proposed savings and



responding to future funding levels. The Council's response to these concerns has been to review the impact of non-achievability in respect of the savings included in the 2014/15 and 2015/16 budget, which has resulted in the write out of unachievable savings for 2016/17. In addition, a due diligence exercise has been undertaken on the 2016/17 proposed savings. The future outlook for achieving the budget gap highlighted in the MTFP has been further developed this year with a thematic set of later year proposals described in the Medium Term section of this report.

62. The Month 9 Budget Monitoring Report identifies a projected surplus of £988,000, with projected overspends £5.6 million in directorate budgets offset by the £4 million general contingency. Within the directorate overspend position, there are projected shortfalls of £6.075 million against the savings targets for 2015/16, with a further shortfall of £2.594 million projected in relation to the shortfalls carried forward from 2014/15. This is a significant concern and, as such, as part of the due diligence for the 2016/17 budget process, consideration was given as to the likely achievability of these shortfalls in future years. Following this, a judgement was made that, in relation to £3.029m of these savings, the risk associated with achieving them was such that they should be written out. The consequential budget realignments that have been actioned are reflected in the directorate base budgets for 2016/17.
63. The 2016/17 budget process has been undertaken in accordance with the high level principles set out in the July 2015 Budget Strategy Report. The budget process has been rigorous and robust and has utilised the expertise of officers in directorates across the Council.
64. The following provides a detailed list identifying the processes to manage risk that have been undertaken as part of setting the 2016/17 Budget:
- A Budget Strategy Report was presented to members in July 2015 setting out the budget principles and timetable that would be followed.
  - The Budget Strategy Report included a list of budget strategy assumptions to aid early consideration of how the anticipated budget challenges might be met.
  - Detailed budget documentation and guidance was prepared for directors to complete, to identify their savings and pressures and to identify Capital Programme bids.
  - The risks attached to all savings and growth pressures have been considered and scored in accordance with the Council's risk methodology.
  - The equalities impact of all savings and growth pressures have also been considered and impact assessments completed and updated following consultation for all those where the rating was red or red-amber.
  - The planning status of all savings has been identified to establish whether they are realised or whether general or detailed planning has been undertaken to inform the Section 151 Officer's view of the robustness of the proposals.
  - The General Contingency amount of £4 million which was established as part of the 2014/15 budget setting process has been maintained.

- The budget has continued to include Issue Specific Contingency allocations and for 2016/17 these amount to £2.468 million. Of this, £1.3 million relates to issues previously identified in respect of external residential placements in Children's Services (£950,000) and the market for recyclates from the Material Recycling Facility (£350,000) in the City Operations Directorate. An amount of £1.168 million is also included in the allocation to recognise the difficulty of predicting waste disposal tonnages in the City Operations Directorate.
- A detailed MTFP has been developed to identify the emerging pressures that the Council will face in future years.
- A 'Reshaping the Base' exercise has been undertaken in order to examine the minimum statutory level for services and, where services are discretionary, to consider the option to fund these services from income. The outcomes of this exercise fed into the savings proposals put forward for 2016/17.
- Cabinet Members have been briefed on the emerging issues contained within the Provisional Settlement, along with briefings for all members on the shape of the budget and the budget process. Significant risks exist as a result of the delayed announcement of the Final Settlement and Cabinet Members are aware of the potential implications this might have.
- Scrutiny Committees have been given the opportunity to review and scrutinise the budget proposals along with budgetary analysis sheets for all directorates.
- The School Budget Forum has been consulted on the budget proposals in general and the proposals for schools budgets in particular.
- The Council's Audit Committee reviewed the Treasury Management Strategy in February 2016 in accordance with their formal scrutiny role in relation to treasury matters.
- Draft budget proposals were released for consultation in December 2015 and, as set out in other sections of the report, consultation activity has been undertaken from which a significant amount of feedback was provided to inform the decision-making process.
- The Section 151 Officer has through Scrutiny briefings and this report made statements in respect of the financial challenges ahead and the financial resilience of both the revenue budget next year and on the medium term and the Capital Programme.
- Lastly all Members are fully involved in the budget setting process as the approval of the Budget and Council Tax setting is a function of Council.

65. When setting budgets and reviewing the MTFP, the Council has considered the reserves that it has established and the maintenance of those reserves. The decision on the level of reserves has been considered alongside the strategic, operational and financial risks that the Council faces. These risks are identified and monitored in the Council's Corporate Risk Register as well as individual directorate risk registers and key risks are regularly brought to the attention of Cabinet. The risks are considered alongside the known financial position including commitments, spending plans and liabilities.

66. The directorate savings proposals as listed at Appendix 5 follow a similar format to last year and identify risk assessments in relation to residual risk, achievability and equality impact assessment. Appendix 6 sets out at a directorate level the breakdown of each of these ratings with the following table reflecting the breakdown at a Council level.

<b>Risk Assessment</b>	<b>Residual Risk £000</b>	<b>Achievability Risk £000</b>
Red	3,955	2,740
Red-Amber	5,708	8,703
Amber-Green	10,682	11,697
Green	8,490	5,695

67. As initiated in 2014/15 a Planning Status category has been included in the budget savings set out in Appendix 5. This identifies that savings of £729,000 have already been realised, £25.354 million are in the detailed planning stage and £2.752 million have a higher degree of risk as only general planning has been undertaken to date. This general planning category accounts for 9.5% of the total savings proposed of £28.835 million.
68. In recognition of both the quantum of savings required and the risk and planning status of savings put forward, a General Contingency sum of £4 million was established in 2014/15 and maintained in 2015/16. A review of the planning status and risk position has been undertaken to consider the amount that should be included in the 2016/17 General Contingency budget. The analysis compared the equivalent position at this stage last year, the overall quantum of savings and associated risks and the challenge of carrying forward savings into 2016/17 that are projected not to be achieved in 2015/16. On the basis of this information the General Contingency sum of £4 million has been maintained within the 2016/17 Budget.
69. The pressures and savings, shown in Appendix 4 and 5 respectively, set out for each item a consideration both of residual risk and achievability. In addition the following points identify a number of significant general and specific Council risks which in summary are:
- The challenging financial position in respect of reducing WG resources, increasing financial pressures against a reducing controllable base budget together with increasing volatility and uncertainty in respect of hypothecated grants.
  - Continuing demographic demand for social care services if trend lines vary significantly from the anticipated position.
  - The significant amount of savings that are predicated on the success of preventative strategies and the difficulty of tracking their impact in terms of financial monitoring.
  - The impact of welfare reforms, in particular the phased implementation of Universal Credit during 2016/17, on the ability of

individuals to contribute to the cost of services provided where relevant.

- Reducing demand for services where the Council has historically charged for the activity and so creating an income shortfall.
- The necessity to deliver budgeted savings from reshaping services and other change proposals that are not currently fully defined.
- The significant level of savings based on commercial and income initiatives that are yet to be tested in the market.
- The potential implications arising from the implementation of alternative delivery models for certain Council services.

70. In addition, other general risks to be managed include:

- The need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays to delivery of the proposal has on the budget monitoring position
- The cumulative impact of achieving the savings, within this budget in addition to the unachieved 2015/16 savings which remain to be realised in 2016/17.
- The service impact of an ongoing reduction in headcount expected to take place over the medium term but also the changing impact of alternative delivery models on the nature of the workforce.
- The ability to react to new demands resulting from welfare reforms as they are progressively implemented together with financial risks in respect of the CTRS.
- The level of additional borrowing undertaken in previous years and proposed will require more revenue resources to be used for capital financing in future years.
- Capital schemes that are approved on the basis of generating savings, increasing income or capital receipts but which fail to do so will also increase pressure on the revenue budget.
- The impact of the potential adoption of alternative models of service delivery and the requirement to test consequential costs and benefits of the change, for example working through any potential TUPE implications.
- The potential impact on insurance costs for the Council as a result of savings proposed.
- The impact on Cardiff Bus, which is wholly owned by the Council, should the WG make significant reductions to the reimbursement rate in respect of concessionary fares in 2016/17.
- The increasing financial exposure to the Council of the SOP consolidated financial model as the size of the programme and associated risks increase.
- The risk of WG levying fines if the Council fails to realise recycling or land fill diversion rates.
- The impact of functions delivered as part of a collaborative arrangement should the planned benefits not be realised.
- The potential impact on RSG funding if allowances for sparsity are included in future settlements and also any redistributive impact of specific grants transferred into the Settlement.

- The impact of the ongoing uncertainty in respect of the outcome of local government reorganisation.
71. Given the risks identified above, particularly in relation to reductions in head count, care will continue to be required to ensure that the significant changes to business processes or personnel do not impact on the financial control environment in a negative manner. In addition, as the Council moves to adopt different models for service delivery, attention will need to be given to understanding new, appropriate governance arrangements including financial accountability.
  72. The Council needs to continue to operate within a framework that ensures that it is able to maintain its current position in regard to VAT. The Council is able to recover all the VAT incurred in making exempt supplies provided that its exempt income does not exceed 5% of the total amount of VAT incurred. This calculation is known as the partial exemption calculation and applies to the Council as a Section 33 organisation. If the Council was to exceed the 5% limit in any one financial year all the input tax previously recovered on exempt supplies would need to be repaid to Her Majesty's Revenue and Customs (HMRC).
  73. Over recent years the Council's partial exemption calculation has been close to this limit and therefore the headroom in this calculation for the Council is limited. Clearly the Council needs to do all it can to minimise the risk of this 5% threshold being breached and careful management of the Council's activities, particularly in relation to the delivery of schemes included within the Capital Programme is required.
  74. In addition, challenges have arisen and new ones will be likely which will need managing and mitigation in respect of the development of alternative delivery models and significant capital projects such as a new school. For example, the tax position in respect of the new school in East Cardiff has proved particularly difficult to manage, given the structure of the development in relation to the provision of facilities for the Cardiff and Vale College, as part of this arrangement. A solution has been identified and is being progressed to deliver the most effective structure and its subsequent operation.
  75. The financial challenges ahead are such that the Section 151 Officer will continue to highlight the financial standing of the Council on a regular basis, as part of members' overall awareness of financial matters. As such, officers will continue to prepare snapshots of financial health to be reported to senior management and Cabinet on a regular basis. Similarly, WG is also considering these matters and it is likely that, in the future, accounting ratios between councils will be collated to provide comparative analysis. This information will provide further insight into the historic financial performance of councils. Whilst acknowledging that financial accounting ratios are not a direct measure of performance, they do highlight the financial impact of the decisions made by councils. They are particularly important as all councils face the ongoing financial

challenges of adapting to delivering services in an environment of reduced public resources.

76. The financial snapshots provided to Cabinet and senior management, alongside the 2016/17 Budget Strategy report, have been designed to give an overview of the financial health of the Council at a particular point in time. These snapshots provide information about past performance, including levels of reserves held, funding sources for the Council budget and financial performance ratios, such as those that demonstrate the level of working capital available, reliance upon external borrowing and net worth. In addition, information about the current year is provided, including the revenue and capital monitoring positions, the level of savings projected to be unachieved and risks relating to savings proposals accepted for the year in question. Finally, the snapshots also provide an insight into the MTFP, budget gap modelling, the capital financing requirement and affordability indicators for future years. Presenting the information in this way ensures that the future financial situation can be evidenced in the context of previous and current financial performance.
77. The snapshot displayed in Appendix 7, provides an overview of the financial health of the Council at the time of setting the budget for 2016/17. It shows the movement on reserves and key financial performance ratios during the past four financial years, highlighting the fact that reserve levels increased over 2014/15, despite the difficult financial circumstances faced by the Council. In addition, it highlights that, whilst most ratios show a resilient financial position, there has been a decrease in the working capital ratio and increase in the level of borrowing undertaken by the Council. However, both of these ratios still indicate a resilient position. The snapshot also gives a summary of the in-year monitoring positions and performance against savings targets, in line with the month 9 monitoring report. Furthermore, the snapshot gives an overview of the future years' outlook for the Council, highlighting the MTFP scenario, including financial pressures and savings requirements, the future capital financing requirement and the affordability of capital financing costs. This highlights an increasing Capital Financing Requirement (CFR) and capital financing costs increasing as a percentage of controllable budgets.

### **Council Reserves**

78. The Council's strategy for holding and utilising reserves is set out in its Financial Procedure Rules and members, following advice provided by the Section 151 Officer, will consider both the level of reserves held and whether any amounts should be used to support the budget setting process. As part of this consideration members are made aware that the use of reserves is finite in nature and therefore care is required to ensure that their use does not create a significant budget gap which would need to be filled in the following year.
79. The Council holds earmarked reserves as outlined in Appendix 8(a), to meet known or predicted commitments, such as the Schools

Organisation Plan, insurance reserves to meet the self insurance responsibilities of the Council, reserves in connection with the HRA and school balances. The Council's total General Fund earmarked reserves, which exclude HRA and school balances, stood at £33.969 million at 31 March 2015 and are projected to be £37.587 million as at 31 March 2016. This projection includes assumptions contained with the Month 9 Monitoring report and, as such, there is potential for certain estimations to change before the end of the financial year. The projected balance as at 31 March 2017 is £32.945 million. This includes the impact of the movements stated in the following paragraphs as well as the contributions to and from other earmarked reserves in line with the purposes set against each reserve.

80. The Council also maintains a General Reserve as a contingency to help cushion the impact of unexpected events or emergencies. The Council's General Reserve as at the end of the 2014/15 financial year was £13.154 million, however as part of the completion of the Council's 2014/15 outturn position, an amount of £595,000 was transferred to the General Reserve, for use in funding the 2015/16 budget as had been approved as part of the Budget Report. The revised balance of £12.559 million is anticipated to increase in the current year with the Month 9 Monitoring report recommending that the projected surplus of £988,000 be transferred to the General Reserve. When this is taken into account the balance on the General Reserve at 31 March 2016 is projected to be £13.547 million. Following consideration of the Council's current position, in relation to risks and the advice of the Section 151 Officer, it is the intention of Cabinet not to make any use of the General Reserve to fund the 2016/17 budget. However, this is subject to no change to the General Reserve being required following receipt of the WG's Final Settlement as set out in paragraph 37.
81. In addition, the Council also holds a General Reserve in connection with the HRA, which comprises accumulated housing surpluses from previous financial years. This reserve is ringfenced for use in connection with the HRA only and cannot be used to fund the Council's overall budget. As shown in Appendix 8(b), the projected balance at 31 March 2016 is £8.438 million and it is currently anticipated that there will be no movements during 2016/17.
82. Benchmarking, undertaken internally, has identified that, as at 31 March 2015, the Council continued to have some of the lowest levels of general and earmarked reserves, compared to gross expenditure, in Wales. The General Reserve only represented 1.3% of gross expenditure in 2014/15 (1.1% in 2013/14) and earmarked reserves represented only 3.4% (3.0% in 2013/14). This further supports research undertaken by the WLGA in respect of the 2013/14 financial year, which identified that the Council had the lowest level of general reserves as a percentage of gross revenue expenditure across all councils in Wales and one of the lowest in terms of earmarked reserves as a percentage of gross revenue expenditure. As members are aware there is no set statutory minimum level of reserves and decisions made should reflect the individual position of each council.

83. The Council has historically taken a proactive role in relation to the use of its reserves and identified, as part of its 2016/17 budget strategy, that a figure of £1.5 million would be considered for release, subject to the outcome of a balance sheet review. Following receipt of the Provisional Settlement, this figure was reduced to £1.1 million to help protect the Council's financial resilience. In addition to this sum, the Council has also been able to identify £1 million for release from the Council Tax provision for bad debts. This is as a result of a review of the level of provision required, in light of improving collection rates.
84. School balances, outlined in Appendix 8(c), form part of the overall balance sheet for the Council. Therefore, the risk of any liability or debt crystallising within the school balance sheet does have the potential to impact on the overall financial standing and resilience of the Council. Whilst schools do have delegated responsibilities and budgets, these are subject to the Council's scheme of financing and adherence to the Financial Procedure Rules. Schools are forecast to have net negative balances of circa £1.6 million, as at 31 March 2016, and these are projected to decrease by a further £251,000 by 31 March 2017. However, it is anticipated that the overall level of school balances will improve over the life of the MTFP.
85. Whilst, a negative balance is of concern there are two underlying items which will improve the March 2017 balance sheet position of £1.839 million debit. In 2014/15, a significant cost was incurred by schools in respect of redundancy costs which resulted in an over spend of £1.9 million for that year. The approach taken was to spread the cost of this overspend over the following five years starting in 2015/16 with an annual payment being identified of £380,000 to be paid from the overall delegated school budget. By spreading the cost over a five year period this has resulted in a temporary position where overall school balances are overdrawn but there is a mechanism in place with identified budget to pay the amount back. Therefore three years of the pay back (£1.12 million) will not have been taken into account in the 31 March 2017 figure. In addition, a significant deficit has been incurred by Glyn Derw and Michaelston which has been taken into account and identified within the School Organisation Programme when considering the relocation and building of a new school. Deficits can only be written off if a school is closed. These two schools are scheduled to be closed in September 2017 and at this point the deficit will be cleared thus improving the overall school balance position by £1.2 million. Therefore, the £1.839 million deficit figure needs to be considered in conjunction with the £1.12 million to be returned to balances over the medium term in respect of redundancies and the £1.2 million writing off of a deficit balance upon closure of the school.
86. The above paragraph puts into context the current position on school balances but does not take away the need for continuing due diligence so that schools ensure that spending plans are in alignment with their budget and wherever possible deficit balances are avoided or reduced. Work will continue to be carried out with those schools causing



significant financial concern. Where the Council's Section 151 Officer determines that the provisions contained within the scheme or procedure rules have been substantially or persistently breached or a budget share has not been satisfactorily managed, then intervention powers will be taken to suspend delegations for that school.

87. The Council instigated a practice of borrowing against earmarked reserves to fund the substantial costs of voluntary redundancy in 2014/15. These amounts have been re-profiled as part of the 2016/17 budget and all sums borrowed from reserves are anticipated to be fully repaid by the end of 2016/17. The planned repayment profile is set out in Appendix 9. No further sums are intended to be borrowed from reserves over the medium term because as set out in the MTFP, the base budget is anticipated to be sufficient to fully cover annual costs.
88. The judgement of the Council's Section 151 Officer, taking into account the budget monitoring forecast as at 31 December 2015, the corporate budget position, the General Reserve, as well as the General Contingency budget of £4 million, is that the projected level of both general and earmarked reserves up until 31 March 2017, is adequate when considering the 2016/17 budget. The position, therefore, allows for the £2.070 million drawdown from reserves to fund the budget and also allows for the ongoing use of earmarked reserves to meet the updated profile of repayments to meet the costs of voluntary redundancy. It should however be noted that the one off release of £2.070 million from the Balance Sheet increases the budget reduction requirement by an equivalent sum in 2017/18.
89. Overall, the position in respect of risk and reserves will require careful monitoring throughout the financial year, particularly in light of the achievability of savings and further financial interventions may need to be considered. Beyond this, given the information and uncertainty contained in the MTFP, the position with regard to reserves will continue to be carefully monitored alongside the Council's general standing in respect of financial resilience.

### **Service Implications of the Revenue Budget**

90. In compiling the revenue budget for 2016/17 the Cabinet has recognised the continuing challenge for the general public in managing their finances through the difficult economic conditions. Consequently the budget includes savings of £28.8 million but despite this and in accordance with Corporate Plan priorities, the Cabinet has achieved a balanced budget by reducing expenditure and increasing income generation in the following manner:
  - increasing external income and identifying alternative funding streams
  - exploring different and more effective ways of delivering services.
  - Identifying and progressing opportunities to work in collaboration.
  - through efficiencies in back office functions and working smarter.

91. For 2016/17, the national pay award for employees other than teachers was offered as part of the award to cover the period to March 2018. The pay related increases for teachers are contained within the Individual Schools Budget (ISB) as described in the Schools section of this report. The total cost increases for employees other than school based staff included in this budget plan are shown in the following table.

<b>Employee Cost Increases</b>	<b>£000</b>
Pay inflation (including voluntary living wage)	1,952
Incremental progression	1,170
Change to National Insurance for contracted out pension schemes	2,727
<b>Total</b>	<b>5,849</b>

92. A list of posts deleted or created as part of the budget is shown in Appendix 10. The Appendix shows that there will be a net reduction of 135 full-time equivalent (fte) Council posts overall made up of the deletion of 165.5 ftes offset by the creation of 30.5 ftes. The information below reflects posts deleted or created in respect of budget proposals. They do not include the potential fte impact of TUPE that may result from the implementation of alternative models of service delivery.

93. The budget assumes that the post deletions will result from:

<b>Reason</b>	<b>fte</b>
Voluntary redundancy	(13)
Vacant posts	(40.1)
Redeployment	(3)
Retirement	(1)
To be confirmed	(108.4)
<b>Total number of deleted posts</b>	<b>(165.5)</b>
Posts created (inc 5 temporary posts)	30.5
<b>Net impact</b>	<b>(135)</b>

94. In addition to the employee savings reflected in the directorate proposals the following council-wide savings also impact on the workforce and these have been allocated and reflected in directorate budgets:

- An efficiency saving in respect of the overall employee budget (£270,000).
- A reduction in the number of agency staff employed as a direct result of improved levels of sickness absence (£300,000).
- A managed reduction in general use of agency staff resulting in a saving of £450,000.

95. It should be noted that the outcome of the annual review of the Council's Voluntary Redundancy scheme was reported to Cabinet in January 2016. The approved recommendation was that no change to the current arrangements would be made for 2016/17 but there would be a further

review of the scheme early in 2017. However, the budget does include the release of £1.9 million previously set aside to meet the cost of voluntary redundancy. An element of this was identified in the 2015/16 budget as a consequence of the scheme change in April 2015 but further savings have been identified including a recalculation of future commitments based on the most recent profile of leavers.

96. The budget includes a sum of £700,000 in 2016/17 to support employees in embracing change and methods of working as the Council implements the budget proposals. This sum will be used to enhance training provided by the Council's Academy, support Workforce initiatives through the Organisational Development Programme and enable improvements to be made to performance management arrangements.
97. Further council-wide exercises on the utilisation of the Council vehicle fleet and improved management of travel and mileage allowances will achieve savings of £400,000 and £350,000 respectively.
98. Following the implementation of the first phase of the new Customer Relationship Management System and the adoption of agile working for social workers it is planned to adopt a 'Digital First' solution for all relevant service delivery in Cardiff by the end of 2017/18. Therefore, in addition to savings in respect of digitalisation included within the directorate savings, a further target of £875,000 has been included in the budget for 2016/17. Directorates will be expected to embrace the opportunities presented by digitalisation in order to achieve the target.
99. As in recent years, no allowance for general inflation has been allocated to directorates. However research undertaken has identified budgets that should be increased as there is evidence of particular pressures. Consequently an inflationary allowance has been allowed in the budget for the following items:
  - Adult social services fee increases including domiciliary care arrangements
  - Non-domestic rates
  - Schools out of county placements
  - Special Guardianship Orders
100. As expenditure on energy and fuel is significant for the Council, research is undertaken using the expertise of the energy and procurement teams across the Council. Although volatile, prices have generally remained favourable when compared against the planned resources in this area and latest pricing information suggests that it is possible to reduce existing energy budgets to reflect falling prices. As a result a reduction of £559,000 has been made to Council-wide energy and fuel budgets.
101. A review of the level of insurance cover required based on the Council's current claims history recently undertaken by our external advisor has resulted in a budget reduction of £500,000 for 2016/17.

102. The capital financing budget reflects both the repayment of principal and interest on loans for capital expenditure together with receipt of interest payments from short-term investment of surplus cash. For 2016/17 a reduction of £535,000 against the current budget has been possible. This is based on an assumption of utilising internal borrowing whilst feasible to minimise short term interest costs and maintaining a single pool of debt for the Council. Over the medium term based on the current level of capital spending additional budget of £1 million will be required. The budget for 2016/17 assumes that a dividend payment of £150,000 will be received from Cardiff Bus and this position will be kept under review.
103. It is expected that the CTRS will remain unchanged for 2016/17 and will comply with CTRS Prescribed Requirements (Wales) Regulations 2013. In addition, the scheme will continue to provide additional assistance for war pensioners by disregarding the income from war pensions including War Widows Pensions, War Disablement Pensions and income from the Armed Forces and Reserve Compensation Scheme. This is in line with the Council's commitment to support veterans and their families. The cost of this disregard is estimated at £34,000. The income from these benefits will also continue to be disregarded for Housing Benefit purposes at an estimated cost of £14,000.
104. The continuation of the Office Rationalisation project which aims to reduce the area of occupied office space and focus occupancy in the Council's core administrative buildings is expected to deliver revenue savings of £1.25 million as well as achieving capital receipts through the disposal of interests in buildings that are no longer necessary.
105. This budget proposal does not include an allowance for a general increase in fees and charges. Directors were advised that they should consider the particular circumstances for which they charge for their functions and reflect any such changes in their savings proposals. The list of proposed revisions to fees and charges in 2016/17 is shown in Appendix 11.
106. Contained in Appendix 5 are budget savings proposals that suggest the alternative delivery of services potential from a source other than the Council. At the point that these changes occur then the fees and charges specific to those services may be reviewed and in some circumstances would cease to be the responsibility of the Council.
107. Some savings have assumed securing a wider market share through commercialising areas of City Operations (£400,000), Trade Waste (£78,000) and the Alarm Receiving Centre (£300,000). Other areas have looked at achieving additional income such as the bulk loading recycling facility (£90,000), landfill gas generator contract (£100,000) and land charges (£41,000). In addition Bereavement & Registration will increase their income by £100,000 as will a review of parks charges (£38,000) and outdoor sports (£22,000).
108. In order to support further investment in the highways infrastructure an additional £360,000 will be generated through an increase in the income

from Moving Traffic Offences. Litter enforcement will also generate an additional £50,000 income. Planning fees are expected to generate an additional £100,000 with a further £50,000 being anticipated through charging for bespoke planning applications.

109. For 2016/17, the School Catering Unit will increase the price of primary school meals by £0.10 per day thus taking the charge to £11.50 per week. The cost of Secondary School meals will increase by £0.10 per day to £2.75. This will result in an additional income of £220,000 thereby reducing the cost of catering to the Council. Additional income is also planned for within advertising & sponsorship (£88,000), City Centre Management activity sites (£45,000) and Tourism (£33,000).
110. Whilst recognising the continuing difficult economic conditions, it is important that the Council is able to react quickly and appropriately to changing events both in terms of opportunities and to address shortfalls. To aid this it is proposed that the Council continues to delegate to the appropriate officer the ability to introduce and amend prices as and when needed. This decision will be taken by the Section 151 Officer in conjunction with the Cabinet Member for Corporate Services & Performance. Where appropriate a report will need to be considered by the Cabinet within a reasonable timescale of the decision. From 2017/18, there will be a presumption an assumption that unless prohibited by statute or regulation, then all fees and charges will be increased on an annual basis at least in line with the Consumer Price Index.
111. Within the budget proposals are items which further build on a commercial approach. Whilst the primary nature of the savings will be income there remains the need to ensure the commercial approach delivers savings which also focus on cost and customers. This commercial approach will be developed through the Council's Commercialism Strategy which is due to be considered by Cabinet shortly and look to deliver a range of services some of which will be achieved in the first year with others requiring time in order for the sizeable opportunities to be delivered.
112. School transport is regarded as a corporate activity in Cardiff with responsibility for policy being held by the Cabinet Member for Education & Skills while responsibility for delivery of the policy is within the portfolio of the Cabinet Member for Transport, Planning & Sustainability. Savings of £371,000 have been included from school transport and cover:
  - Full year effect of the withdrawal of non-statutory primary school transport approved as part of the 2015/16 budget (£81,000)
  - Continuation of route optimisation and re-tendering for pupils with Additional Learning Needs (£100,000) and secondary and primary school pupils (£60,000)
  - Review of transport and policy for pupils with Additional Learning Needs who live within two miles from primary school and three miles from secondary schools (£125,000)
  - Increase of bus passes prices (£5,000)

113. The budget retains the Neighbourhood Partnership Fund at £60,000 but in future each of the six Neighbourhood Areas will set the priorities for use of £10,000 during 2016/17. This is a change from previous practice which was a grant bidding process and will reduce the administration of the arrangement.
114. The Equality Act 2010 places a general duty on the Council to eliminate unlawful discrimination and promote equality according to the nine protected characteristics. To comply with this duty, directors have undertaken Equality Impact screenings for each of their savings and financial pressure submissions with full Equality Impact Assessments undertaken on any regarded as higher than Red/Amber. Following moderation by the Council's equality team these assessments have informed the budget setting process.
115. The following paragraphs provide a commentary on significant areas of change within the budget. The overall changes to directorate budgets between 2015/16 and 2016/17 are shown in Appendix 12 while Appendix 13 shows the 2016/17 Revenue Budgets related to Cabinet Member portfolios.

#### **Amendments Since Publication of Consultation Proposals**

116. As set out earlier in the report, the Council's budget proposals released for public consultation in December 2015 took account of neither the WG's Provisional Settlement nor the impact of the updated Council Tax base which was also a function of the settlement.
117. The additional resources received as a result of this better than anticipated position has enabled the Cabinet to change some proposals through reflecting on the results of the consultation exercise and they have also had regard to initiatives that improve the Council's financial resilience in the medium term. In addition, it has been possible to enhance provision for the priorities set out in the Corporate Plan.
118. As a result, Cabinet have identified a series of changes that are detailed in Appendix 14, and have been reflected in the commentaries on directorate budgets and are summarised below:
  - Reductions to savings proposals included within the public consultation document in order to take account of feedback and to address the pace and scale of change in the most challenging proposals.
  - Increased investment on priority initiatives as a combination of on-going and one-off additional funding.
  - Reduction in the proposed increase for Council Tax.
  - Amendments to budget lines as a result of updated information.

- Technical adjustments to improve future financial resilience and reduction of risk.

## Directorate Commentaries

### City Operations

119. Significant additional resources have been allocated to the Directorate in order to meet demographic and other financial pressures in 2016/17. In addition, allocations have also been made as part of the Financial Resilience Mechanism to provide improvements to services and infrastructure across the City during the coming financial year. These sums are allocated on a one-off basis and will then be available to support the Council's overall budget reduction targets in future years.
120. Demographic pressures totalling £288,000 have been funded as part of the budget with £197,000 in School Transport reflecting a number of specific pressures including the new Autistic Unit at Springwood and £91,000 in Waste Management reflecting the potential for increased tonnages to be collected and processed. As in the current year an earmarked contingency budget will also be maintained in order to offset any fluctuations in tonnages during the year. This will amount to £1.168 million in 2016/17. A budget realignment of £200,000 has also been made in order to reflect anticipated shortfalls in the level of income likely to be received by the Material Recycling Facility. In addition, as in the current year an earmarked contingency budget of £350,000 will be retained in order to reflect potential volatility in prices and income in this area. An amount of £367,000 has also been added to the Directorate budget in order to reflect the previous commitment to reinstate the revenue budgets for Eastern Leisure Centre once the upgrade to the facility had been completed.
121. Funding of £926,000 has been allocated to the Directorate to reflect specific financial pressures identified during the budget process. This includes £456,000 to offset the anticipated reduction in WG grant funding for the Single Environment Grant which supports a range of recycling processing and initiatives to drive recycling and avoid fiscal fines, local environmental quality improvements, prevention of fly tipping and flood prevention activities. Other financial pressures include £175,000 to support the cost of introducing new recycling initiatives for the public including mattresses, carpets and other materials such as hygiene waste and £75,000 to provide additional support for the development of supplementary planning guidance following approval of the Local Development Plan by Council in January 2016. Funding of £220,000 has also been allocated to meet pressures and fund improvements in relation to Neighbourhood Services. This includes the introduction of teams to support cleansing and enforcement activities including the provision of activities outside of normal working hours. The funding will also support tidal parking enabling a deep cleanse and help to prevent drainage issues, reintroduction of street washing to the city centre and also to provide street washing outside of the city centre in areas where liquids

can less frequently cause pavements to become unclean but also potentially hazardous. In addition two apprenticeships will be created.

122. The allocations made as part of the Financial Resilience Mechanism to provide improvements to services and infrastructure across the City during the coming financial year total £600,000. These are one-off allocations which include £320,000 to fund targeted interventions for potholes enabling approximately 3,000 potholes to be repaired. Other allocations include £100,000 for transport project delivery including increasing the number of 20 mph schemes in sensitive areas and improvements to residential parking schemes and £80,000 to support a new mobile recycling facility. A further £100,000 is also being made available to support visible street scene services including the creation of an additional enforcement unit to tackle high priority areas across the city. This is in addition to the £220,000 allocated to Neighbourhood Services as part of the financial pressures referred to above.
123. The savings proposed within this directorate total £7.586 million representing 22.8% of the net controllable budget. The savings include changes to service delivery including alternative delivery models, commercialisation and increased income generation and reduced expenditure and efficiencies within services.
124. Savings proposals based on changes to service delivery and alternative delivery models total £4.093 million. This includes £1.052 million for reshaping services within City Operations primarily through an alternative delivery model for Infrastructure Services. A saving of £850,000 is also proposed in relation to a new operating model for Leisure Services. The detailed business cases for these new models of service delivery are being developed and will be presented to Cabinet for decision in the next few months. A budget saving of £759,000 has also been identified in respect of waste disposal, this reflecting the projected savings as a result of the full implementation of the new contract arrangements in relation to Prosiect Gwyrdd. The overall costs in relation to waste disposal will be subject to a number of factors including fluctuation in tonnages. As such a budget contingency of £1.168 million will be maintained as part of the 2016/17 budget in order to offset any unforeseen cost increases. Funding is also available in the Waste Management Reserve should this be required. A saving of £450,000 is also proposed from reshaping the Grounds Maintenance Service, protecting core services but increasing productivity, whilst in relation to Regulatory Services a further saving of £310,000 is expected to be released from the Regulatory Collaboration with the Bridgend and Vale of Glamorgan Councils. The new model for Children's Play is also anticipated to release a saving of £270,000 in 2016/17 with play, including after school club activities being run from a range of community facilities within Neighbourhood Partnership areas in future. Other significant savings include £137,000 from the cessation of the contract for automated public conveniences with the units being taken out of operation from 1 April 2016 and £78,000 from the full year effect of the alternative delivery model for the Cardiff International Sports Stadium with the Cardiff & Vale College taking over the operation of the stadium in the current year. There are also proposed savings of £59,000



from the transfer of Insole Court to a community trust, £45,000 as a result of the Victoria Park paddling pool wet play improvements, £43,000 in relation to a new operator for Canton Community Hall and £40,000 from changes to the operation of the Heliport.

125. Savings proposals based on commercialisation and increased income generation total £1.416 million. This includes £400,000 from commercialisation within the Directorate including improved charging, income generation projects and areas such as sponsorship, selling services via the website and from fees and charges. A saving of £78,000 is also anticipated through increased commercialisation within Trade Waste by increasing income through the provision of new services and improved competitiveness. An increase in income from moving traffic offences will also provide a further contribution of £370,000 to fund transport and environmental improvements within the revenue budget. A saving of £128,000 is also anticipated as a result of an improved recharging process for landscape design fees with an additional £50,000 also proposed through optimising the recharging of Drainage staff costs to applicable grant schemes. Additional income of £100,000 is expected in relation to planning fees with a further £50,000 through improved charging for support on bespoke planning applications. Other significant savings include £100,000 as a result of increased income opportunities from the renewal of the landfill gas generator contract, £100,000 through reshaping services and increased income opportunities in Bereavement Services and £90,000 through income generated by optimising the marketing of transfer waste and the recycling bulk loading facility with other local authorities and businesses. A saving of £50,000 is anticipated as a result of increased enforcement powers in relation to dog fouling, highways and litter with £41,000 also projected as a result of optimising parks income through increasing sales of nursery plants and increasing income from Roath Park Conservatory and the Royal Horticultural Show. Savings are also identified in relation to Street Lighting with £33,000 from improved performance allowing alternative chargeable works to be undertaken and £26,000 through improving the recharging of design and inspection both externally and internally.
126. There are a range of proposals totalling £1.877 million based on efficiencies and reduced expenditure within the Directorate. This includes £252,000 as a result of increased productivity and plant maintenance efficiencies in relation to materials recycling, £240,000 through the alignment of core processes and identification of synergies across the directorate and £200,000 from improved digitalisation of services and payments, introducing e-auctioning to all areas of the Directorate. A saving of £105,000 is also proposed in relation to cost reductions arising from the implementation of improved customer management processes with an overall saving of £234,000 also anticipated as a result of improved business process efficiencies and contract rationalisation in the Electrical and Design Teams. Other savings include £90,000 through improved recharging for services and deletion of posts in Transportation Policy, £80,000 as a result of reduced maintenance costs following capital investment in the fans in the Butetown Tunnel and £68,000 through improved automation of the security at the Lamby Way depot. A

saving of £76,000 is also anticipated in respect of the household waste recycling centres (HWRCs) reflecting the full year effect of seasonal opening hours, charging for non-Cardiff householders and additional productivity and effectiveness once the new HWRC opens in the Summer 2016. Other significant savings include £60,000 from improved highway safety inspection resulting in a reduction in the level of insurance claims, £50,000 from rationalisation and reduction of vehicles in Highways Transport and £50,000 through a review of additional staff payments in Highway Operations. A saving of £50,000 is also proposed in relation to school crossing patrols reflecting a realignment of the budget and staffing structure. There will be no change to the number of crossings supported by patrols with locations being reviewed as officers retire. Outdoor Sports is also anticipating a saving of £50,000 reducing subsidy through reductions in employee and supplies and services costs, a remodelling of fees and charges and implementation of alternative delivery models. A range of other efficiency and cost reduction proposals across the Directorate will provide further savings of £272,000.

127. A number of addressable spend savings also impact on the City Operations Directorate. These include £371,000 of targeted savings on School Transport, £210,000 within Street Lighting including conversion to LED lighting and £175,000 in relation to the facilities management costs at the Cardiff International Sports Stadium with the Cardiff & Vale College taking a lease of the stadium in the current year. The savings also include energy savings totalling £90,000.

### **Communities, Housing & Customer Services**

128. The savings proposed within this directorate total £1.259 million representing 7.69% of the net controllable budget. They include £250,000 in relation to the continued rollout of the Libraries / Hub Strategy including the implementation of the Cabinet decision on Roath Library to advertise for expressions of interest for a community asset transfer incorporating the re-provision of a library service in the building. The saving also relates to the vacation of the Dominions Way storage facility. A saving of £100,000 is also proposed as a result of refocussing services from the Hubs. Currently advice in the Hubs is provided through a variety of approaches. This proposal would reduce Council funded partner advice services to specialist financial advice with less complex issues delivered by the Hub Advice Officers. A number of the savings proposals are based on income generation. This includes £300,000 from further realisation of income opportunities following the creation of the Alarm Receiving Centre. Others include £49,000 from additional income in relation to the Learning for Life Programme thereby reducing the level of subsidy within the Adult Community Learning Service and £30,000 by commercially exploiting the expertise of the Council's Web Team to achieve additional income. Changes to the alignment of the Adult Community Learning Grant will also assist in delivering outcomes and a saving of £130,000 in relation to Into Work Services.
129. Budget savings are also proposed as a result of reviewing service structures and opportunities to recharge costs. This includes £142,000 in

relation to the recharging of service costs in Neighbourhood Regeneration either to capital schemes or to the Housing Revenue Account. A saving of £65,000 is also proposed through efficiencies in the allocation and recharging of management costs within the Directorate. A review and restructure of Reablement Services, refocussing towards reablement activities with fewer and better trained staff is also anticipated to provide a saving of £193,000.

130. As part of the due diligence for the 2016/17 budget process the level of risk attached to current shortfalls against budget savings targets in 2015/16 was assessed. Based on this a previous year budget saving of £35,000 in relation to reorganising the way community meals are delivered has been re-instated into the base budget for 2016/17. This reflects a change to the proposals for the delivery of this service.

### **Corporate Management**

131. The savings proposed in Corporate Management amount to £307,000 and represent 11.26% of the net controllable budget. The proposals include efficiencies of £77,000 in Communications and Media based on a reduction in campaign budgets and £54,000 through staff reductions in the Cabinet Office. A saving of £131,000 is also proposed in relation to corporate initiatives with a reduction made to the amount available to support events and market the city. Other corporate savings include £30,000 from an anticipated reduction in audit charges reflecting increased partnership working and £15,000 as a result of savings made in relation to corporate banking charges.
132. Other corporate savings, identified as part of the addressable spend proposals include £32,000 through a net reduction in precepts and levies paid to other bodies. A further reduction of £25,000 in respect of audit fees is also anticipated reflecting a review to ensure that all areas of the Council are being appropriately charged for the audit work undertaken.
133. As part of the due diligence for the 2016/17 budget process the level of risks attached to current shortfalls against budget savings targets in 2015/16 was assessed. Based on this a previous year budget saving of £40,000 in relation to increased Communications and Media income targets has been reinstated into the base budget for 2016/17. This reflects the continued unachievability of this proposal. The budgets within Corporate Management also include £500,000 to reflect the reinstatement of the funding for the Central Enterprise Zone which was temporarily reduced in 2015/16 and £250,000 to reflect the increase to the Fire Service Levy as a result of price changes and demographic changes which impact on the relative distribution of the levy amongst constituent authorities.

### **Economic Development**

134. Budget savings totalling £1.286 million have been proposed representing 56.13% of the net controllable budget. This includes £430,000 based on a review of costs, income and service delivery in two Arts venues.

Following public consultation a number of changes were made to proposals in respect of Arts and Culture including the re-instatement of budgets for Community Arts Grants (£68,000), Artes Mundi (£20,000) and Cardiff Singer of the World (£36,000). The £37,000 budget for the Cardiff Contemporary Initiative has also been reinstated, however a saving of £50,000 is still anticipated as a result of identifying alternative funding sources for the Arts Management budget. A number of other savings are also proposed as a result of reviewing and realigning existing services. This includes £122,000 through a new approach to funding the taxi marshalling service for the night time economy in the city centre on weekends and £95,000 from rationalising existing culture, venues and events marketing and sales provision. Other savings include £41,000 from a service redesign of Strategic Estates and £15,000 from a reduction in part time hours within Economic Development.

135. A number of the savings proposals relate to increased income generation including £88,000 through increased sponsorship and advertising in Economic Development and £86,000 from a further capitalisation of staff costs in Major Projects to reflect capital works undertaken. Additional rental income of £56,000 is anticipated from the Council's property estate through the periodic rent review process with an additional £47,000 also anticipated from increased rental income in the managed industrial workshop estate. Budget savings based on increased income are also proposed in relation to City Centre Management with £45,000 expected through the use of activity sites in the city centre and additional tourism income of £33,000 through increased local business subscriptions to the Cardiff Convention Bureau and the Cardiff Tourism Network. The budget saving of £47,000 previously proposed in relation to a reduced service in Tourism has been reinstated following the outcome of the public consultation. Other savings within Economic Development include £120,000 from a reduced subsidy to the Cardiff Business Council, £51,000 by removing the budget for the provision of discretionary grants to small to medium sized enterprises (SMEs) and £7,000 through a reduction in miscellaneous revenue support budgets.
136. As part of the due diligence for the 2016/17 budget process the level of risks attached to current shortfalls against budget savings targets in 2015/16 was assessed. Based on this a previous year budget saving of £300,000 based on savings in cultural venues has been reinstated into the base budget for 2016/17. This has been replaced by updated proposals submitted as part of the 2016/17 budget process.

### **Education & Lifelong Learning**

137. Within Education £500,000 has been allocated in order to establish a fund that as part of the Cardiff Commitment provides opportunities for apprenticeships therefore offering another route into higher education. This is one off funding but will be reviewed as other apprenticeship schemes develop.
138. Whilst additional funds have been allocated to delegated school budgets the Education directorate has had to identify budget savings totalling

£3.074 million which represent 18.1% of the net controllable budget. They include £650,000 saving in respect of the continued remodelling of the Youth Service which commenced in 2015/16. The Council will continue to support the delivery of youth provision throughout the City, directly supporting provision with targeted Council run services for young people and communities in greatest need. A reduction in the number of Out of County placements through partnership working by reducing the number of new placements will deliver a £680,000 saving whilst reductions in the costs of existing placements will deliver a saving of £150,000. Working in partnership with Children's Services a review of Looked After Children will reduce the number of Out of County Placements (£100,000) whilst a different approach to commissioning tutors for pupils who are not educated in school will deliver savings of £149,000.

139. A restructure of the Specialist SEN teams will produce a £60,000 saving whilst a reduction in the Childcare Team will achieve a saving of £100,000. A reduction in the staffing capacity in the Education Welfare Service structure delivers £100,000 with further savings in Performance Management (£35,000) and directorate business process redesign (£100,000) respectively. Rationalisation of budgets such as energy efficiency and the revision of service level agreements will deliver a saving of £569,000 with a reduction in the contribution to the Central South Consortium contributing a further £81,000. Additional income will generate £300,000 savings through increasing school meal charges.
140. As part of the due diligence for the 2016/17 budget process the level of risk attached to current shortfalls against budget targets was assessed. Based on this a previous year budget saving of £42,000 in relation to staffing restructures has been re-instated into the base budget for 2016/17.
141. In 2015/16 delegated school budgets were increased by 3.2% which was the largest increase across all Local Authorities in Wales. For 2016/17, the delegated school budgets will increase by a further £11.185 million (5.4%).
142. Whilst there has been no formal announcement from WG there is an expectation that all Welsh Local Authorities will need to continue to demonstrate that they have met School Protection. For Cardiff this means that the 2016/17 delegated school budget of £205.609 million needed to be increased by at least 3.823 million (1.85%) excluding any changes for pupil numbers. This budget allocates to delegated school budgets an additional £7.152 million (3.47%) for non-demographic growth which exceeds protection by £3.329 million.
143. The £7.152 million will contribute to meeting 75% of the inflationary pressures facing schools such as pay awards, teachers superannuation, National Insurance, increments and free school meals.
144. In addition, demographic pressures in relation to pupil numbers (and their associated needs) have required extra resources of £4.033 million.

These demographic pressures are primarily represented by pupil increases in both mainstream and special school settings but also include the resulting increase in free school meals, breakfasts and pupils with complex needs.

## **Governance & Legal Services**

145. Budget savings of £125,000 are proposed representing 5.32% of the net controllable budget. A saving of £50,000 is proposed in relation to the scrutiny research function. This is being offset by a one-off allocation of £50,000 to undertake a full review of the function during 2016/17. Other savings include £7,000 from a reduction in the level of directorate printing and £3,000 though the provision of in-house welsh language translation at Council meetings. There are two savings proposals based on income generation with £41,000 of additional income anticipated in relation to land charges through a combination of increased demand and price and £24,000 via a proposed invest to save initiative in respect of welsh translation.
146. Additional budget of £258,000 is proposed in order fund financial pressures. This includes £158,000 to fund additional solicitors and to meet the demands of the workload. This will enable further legal work to be carried out in-house with less reliance placed on more costly external services. In particular additional legal posts are required in order to carry out work in relation to child protection and procurement. An additional £100,000 has also been allocated to member support to enable preparation for the future implementation of the Local Government (Wales) Act.

## **Resources**

147. Budget savings of £1.842 million are proposed representing 13.3% of the net controllable budget. This includes savings of £645,000 on employee budgets of which £322,000 relates to Finance with post reductions and other employee savings in Exchequer and Development, Audit, Service Accountancy and Business Administration. Other employee savings include £215,000 in Human Resources, £56,000 in ICT, £30,000 in the Central Transport Service and £22,000 in the Improvement and Information Team all reflecting a reduction in posts.
148. Savings based on income generation amount to £884,000. This includes £165,000 in relation to Revenue Services with £150,000 based on an extension of the recent changes to bring more of the enforcement of penalty charge notices directly under the control of Council staff and £15,000 in relation to the recovery of additional court cost income from business rates. A saving of £135,000 is also identified in relation to Security and Cleaning, this being linked to the process of implementing an alternative delivery model. An income target of £125,000 is also being introduced to reflect the Enterprise Architecture Team's support in driving out the adoption of digital services across the organisation thereby improving customer experience, increasing automation and enabling employee efficiencies. A similar target of £105,000 has also

been introduced for ICT reflecting the transitional support required in respect of alternative delivery models. Other income targets include £82,000 through the delivery of information governance responsibilities across Council services and £35,000 from reviewing the pricing and charging model for the Council's Record Centre. Additional income of £60,000 is anticipated through the sale of staff time to an employee owned mutual or local authority trading company in relation to Commissioning and Procurement and £50,000 through maximising internal income and marketing services to public sector bodies by Building Services. An income stream of £30,000 is also anticipated in relation to Security and Cleaning based on partnership working with the Alarm Receiving Centre. Other additional income targets include £54,000 of funding from the Fraud Detection Reserve in relation to Audit work, £29,000 of additional income generated by Cardiff Works and £14,000 in Project Accountancy based on support provided to Major Projects.

149. Other proposed savings reflect service efficiencies or a reduction in external costs. This includes a reduction of £111,000 in the spend on licences, network, telephony links and support and maintenance within ICT and £68,000 through procurement efficiencies in relation to the vehicle replacement programme in the Central Transport Service. A reduction of £60,000 is also proposed in relation to third sector infrastructure funding reflecting efficiencies and increased collaboration of back office functions with a reduction of £35,000 also proposed in relation to Community Safety funding. This includes savings based on the removal of obsolete mobile CCTV cameras and reductions to the events/Operation Mistletoe budget with this anticipated to be replaced by alternative funding mechanisms later in the year. Other efficiencies and savings totalling £39,000 have also been identified across the Directorate including £20,000 as a result of reduced costs in the Central Transport Service.
150. As part of the due diligence for the 2016/17 budget process, the level of risks attached to current shortfalls against budget savings targets in 2015/16 was assessed. Based on this a previous year budget savings of £26,000 in relation to charges for credit card payments has been reinstated into the base budget for 2016/17. This reflects a technical change which means that this proposal can no longer be achieved. The budget for the Resources Directorate has also been increased by £981,000 to reflect the reinstatement of the revenue budget for the Organisation Development service. This budget was temporarily reduced in 2015/16 as part of the one-off capitalisation funding available to the Council that year.

## **Social Services**

151. Significant additional resources have been allocated in the budget in order to meet existing and new financial pressures within Social Services. This includes both Children's and Adult Services with additional budget provided to meet demographic pressures, fee increases, financial pressures including the impact of the Social Services

and Wellbeing Act and to write out unachievable savings targets from the current and previous financial years.

152. In Children's Services an additional £1.6 million has been allocated in order to reflect the budget pressures in the current financial year. This includes the increased costs of external placements for looked after children including both fostering and residential placements. The budget has also been increased by £435,000 in order to reflect the full year effect of the proposed increase to the allowances for Special Guardianship Orders. As in the current financial year a specific contingency allocation of £950,000 will also be maintained for 2016/17 in order to fund any growth in external placements should this become evident during the year.
153. In Adult Services an additional £1.6 million has been allocated in order to meet the impact of new demographic pressures in services such as domiciliary care, direct payments and residential and nursing placements. Additional budget of £1.95 million has also been allocated to meet cost increases in 2016/17 which includes a contingency for any exceptional increases in the coming year.
154. Funding of £953,000 has been allocated in order to meet specific financial pressures in Social Services. This includes £193,000 directly relating to the implementation of the Social Services and Wellbeing Act with £143,000 required to support a new duty to meet the care and support needs of the prison population and £50,000 for an advocacy service for people with care and support needs. Additional budget of £410,000 has also been allocated to fund a range of measures forming part of an Early Help Strategy in Children's Services. The proposals include the establishment of an Adolescent Resource Centre to offer support to children aged over eleven, the introduction of a safer families initiative and the development of family group conferencing. The component elements will provide additional support to families and young people and will contribute to an anticipated reduction in the number and cost of looked after children. This is reflected in the savings proposals put forward by the Directorate. From 1 April 2016, Welsh local authorities must have implemented a 'When I'm Ready' Scheme providing financial support for young people in foster care past the age of 18. Additional funding of £200,000 has been allocated to support this and to provide funding for increased pressures on the Fostering Service in relation to connected persons assessments. Additional budget of £150,000 has also been provided in order to meet the anticipated increase in the level of support payments to families with children who have no recourse to public funds. This reflects an on-going and anticipated further increase in the level of migrant families with children.
155. As part of the due diligence for the 2016/17 budget process, the level of risks attached to current shortfalls against budget savings targets in 2015/16 was assessed. Based on this, a total of £2.586 million has been reinstated into the Social Services base budget for 2016/17. This relates to seven specific savings targets, one in Children's Services and six in Adult Services. These are either considered unachievable or have a



level of risk in terms of achievability that is considered unacceptable in terms of the future budget monitoring and financial resilience for 2016/17. The most significant of these savings targets is the projected shortfall of £1.676 million in relation to efficiencies in strategic commissioning in Adult Services. Other significant shortfalls include £400,000 in relation to spot contracting for domiciliary care and £300,000 in relation to commissioned services including residential and nursing contracts.

156. The budget savings proposed by the Directorate for 2016/17 total £4.865 million and represent 3.6% of the net controllable budget. The savings include £2.035 million in relation to Children's Services, of which £1.75 million is specifically based on reducing the number and cost of looked after children in care. This includes a proposed saving of £700,000 based on the establishment of an Adolescent Resource Centre to assist in supporting young people to stay at home. Other savings in this area include £340,000 from the introduction of an 'Early Help Strategy' to promote and facilitate early interventions to tackle problems emerging for children, young people and their families and £210,000 from the introduction of a Safer Families Initiative. This will utilise and encourage volunteering in the community to provide a mentoring service aimed at reducing looked after children's admissions. As noted earlier, additional budget of £410,000 has been provided as a financial pressure in order to implement these preventative measures and to support the release of budget savings. A saving of £500,000 is also proposed in relation to reducing the number of children placed in out of area placements. This is a continuation of the savings proposed in 2015/16 based on an enhanced fostering scheme with the aim of 'stepping down' children who are in residential care into a family placement with wrap around support. Other savings in Children's Services include £130,000 from an anticipated reduction in external legal costs, £90,000 from a restructure of social work teams and £65,000 from a review of staffing in the Family Support/Youth Offending Service involving utilisation of grant funding.
157. The proposed budget savings include £2.675 million in relation to Adult Services. This includes £1.0 million which is based on a range of commissioning opportunities that have been identified by the Directorate to be targeted in 2016/17. Other savings include £350,000 which will be realised as a result of the full year effect of the new arrangements for the supported living contract which commenced in August 2015 and £250,000 from reshaping day services for older people. The day service proposals are subject to the consultation with service users but will be achieved through the development of day opportunities that will be more outcome focused. A saving of £250,000 is also proposed in relation to demand management with increased sign posting of service users to alternative forms of care and preventative services in order to reduce overall demand and cost. In addition a further saving of £250,000 is also proposed in relation to locality based service delivery with initial mapping indicating opportunities for improved service delivery and reduced costs through service redesign on a locality focussed basis. Other proposals include £200,000 from a review of the administrative arrangements for Direct Payments, £100,000 from a review of staffing within Assessment and Care Management, £100,000 from a review of commissioning within

the Community Alcohol and Drug Team, £100,000 from a review of continuing health care eligibility for Physical Disability care packages and £75,000 from a review of third sector grants. Cross Directorate savings of £155,000 are proposed with efficiency savings of £130,000 due to the integration of the Directorate's central functions and £25,000 from a reduction in travel costs arising from office rationalisation.

### **Supporting People Programme Grant Spending Plan**

158. The Supporting People Programme provides nearly 7,000 units of housing-related support to vulnerable individuals in Cardiff to assist them to live independently and to prevent homelessness. Support can be provided in the clients own home, in hostels, sheltered housing or other specialist supported accommodation. Thirty two organisations deliver this support, the majority of which are charitable organisations. However the Council does also provide some services directly including two homeless hostels.
159. The WG provides Supporting People funding in the form of a grant and local authorities administer the funds and commission services. A multi-agency Regional Collaborative Committee (RCC) for the Vale of Glamorgan and Cardiff operates to provide a collaborative approach and share best practice.
160. The WG requires each local authority to develop a Local Spending Plan in a prescribed format that indicates the areas where the Council intends to spend the grant. This is prepared following an indicative grant allocation figure from the WG.
161. The indicative grant allocation for Cardiff for 2016/17 is £16.2million which has remained the same as in 2015/16. The level of intended spend within each spend category can be seen at Appendix 15 and is broadly similar to that of the current year, however there has been some realignment of funding.
162. Each region has been tasked by WG to ensure services for Older People are targeted at the most vulnerable and work is continuing to ensure that is the case. There has been an increase in Community Alarm service users and costs which is increasing the expected spend in this category.
163. The Council has reviewed its services for young people and due to void and demand data the number of floating support units have been reduced while at the same time increasing spend in 24 hour supported accommodation for the most vulnerable young people.
164. The proposed Local Spending Plan is a reflection of regular and ongoing engagement with all stakeholders and direct discussions with individual providers and reflects the Council's priorities for 2016/17. Work has commenced on recommissioning the Council's floating support services with the intention of procuring new services during 2016/17 for implementation from April 2017 and further information about this will be reported to Cabinet in due course.

## **Day Opportunities Strategy**

165. A report in respect of the Council's proposed Day Opportunity Strategy was considered by Cabinet in November 2015.
166. This Strategy is aligned to the councils' key corporate policies and the new requirements as part of the new Social Services and Well-being (Wales) Act 2014. It takes into account the rising population, changing expectations from existing and future service users, and the need to address loneliness in Cardiff. At the same time, ensuring public funds are directed to those with the highest need that will achieve the best outcomes.
167. The aim of the Strategy is to prevent social isolation and enable older people to achieve their chosen outcomes based on individual level of need by:
- Providing information, advice and assistance to encourage independent access to social activities and engagement opportunities
  - Providing assistance to those who need it to access community services and activity through targeted intervention and support
  - Supporting the most vulnerable through high quality specialist day services
168. At Council on the 28 January 2016 an amended Notice of Motion was agreed that included: "In relation to the Alzheimer's Society service at Oldwell Court, it is proposed that:
- The Council will continue to fund places for those people who currently receive a service funded by the council at Oldwell Court
  - The Council will continue funding for these individuals until such time as the arrangements are no longer required
  - The Council will support the Alzheimer's Society to help them secure their current accommodation into the future."
169. In line with this notice of motion, the response to the consultation and through the productive meetings with the Alzheimer's Society, the proposed Day Opportunities Strategy has been updated (attached Appendix 16). Therefore, the recommendation in this report requests the approval of this strategy and the authorisation to implement.

## **Medium Term Financial Plan and Financial Strategy**

### **Future Outlook and Inherent Uncertainties**

170. The budget reduction requirement is influenced by numerous external factors including new Government policy initiatives, new legislation, future funding settlements, economic conditions and price inflation. It is therefore a dynamic figure which requires regular review and refresh to ensure it reflects emerging issues and the most recent information. As an

important part of financial resilience and sound financial planning, the Council undertakes regular updates to the Budget Reduction Requirement. Following this report the next reported update will be included in the Council's Budget Strategy Report in July 2016.

171. In recognition of the areas of uncertainty inherent within the plan, the MTFP includes both a base case and a sensitivity analysis which is covered further in the report. A further significant area which will impact the period covered by the MTFP and which it is not possible to model within scenario analysis, is the prospect of Local Government Reorganisation. The recent consultation on the Local Government Wales Bill will have many implications for Local Authorities to consider over the plan period, including the harmonisation of Council Tax rates and shadow arrangements.

### Medium Term Financial Plan – Overview

172. This section sets out, as far as possible through use of available information the financial challenges facing the Council for the period 2017/18 - 2019/20. As set out in the table below, a budgetary gap of £73 million is estimated over this three year period. An extended version of the table below is set out in Appendix 17 (a).

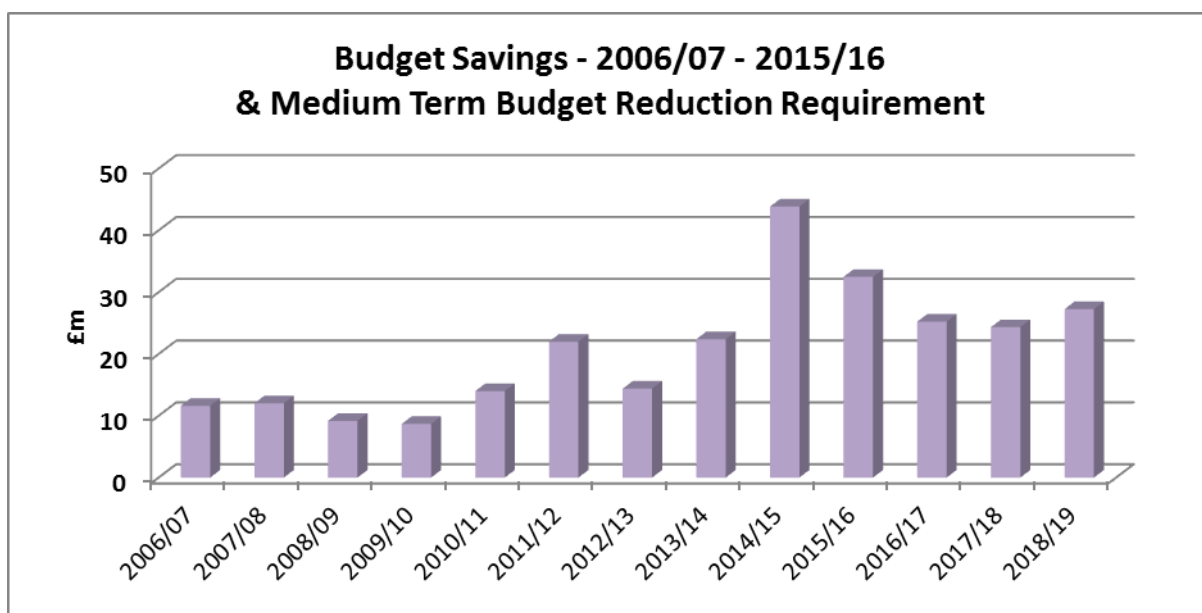
Component of Budget Gap	2016/17 £000	Medium Term Financial Plan		
		2017/18 £000	2018/19 £000	2019/20 £000
<b>Adjusted base Budget B/forward</b>	<b>573,506</b>	<b>578,161</b>	<b>571,828</b>	<b>567,608</b>
Pay*	5,849	3,685	3,080	2,704
Price Inflation	2,266	2,760	2,760	2,760
Schools Growth	11,216	7,770	7,049	7,186
Capital Financing	0	(1,258)	242	2,017
Commitments	6,119	2,073	480	50
Realignments	2,329	(3,600)	(1,900)	0
Non Schools Demographic Growth	3,488	3,900	3,900	3,900
Emerging Financial Pressures	2,223	3,000	3,000	3,000
2016/17 Savings	(28,835)			
Budget Reduction Requirement		<b>(24,663)</b>	<b>(22,831)</b>	<b>(25,753)</b>
<b>Net Expenditure</b>	<b>578,161</b>	<b>571,828</b>	<b>567,608</b>	<b>563,472</b>
<b>Funding</b>				
Aggregate External Finance	(426,285)	(422,022)	(417,802)	(413,666)
Use of Earmarked Reserves**	(2,070)			
Council Tax (at 2016/17 Rate)**	(149,806)	(149,806)	(149,806)	(149,806)
<b>Total Funding</b>	<b>(578,161)</b>	<b>(571,828)</b>	<b>(567,608)</b>	<b>(563,472)</b>

\* Schools pay pressures are included in the Schools section of the table

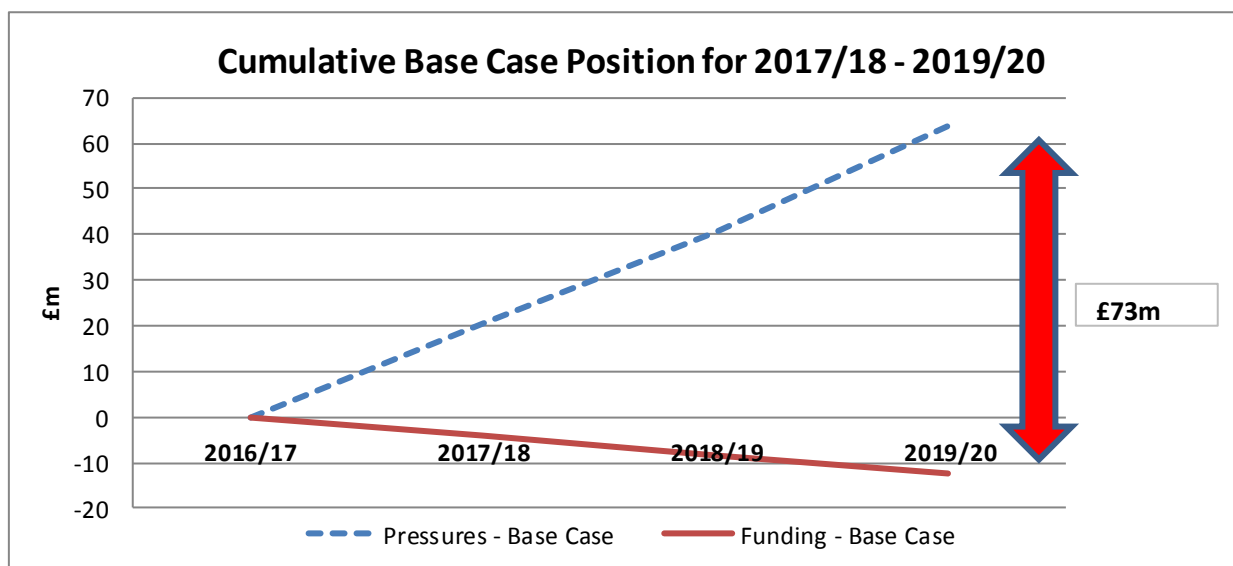
\*\* Before any planning assumption on use of reserves and council tax increase which are considered in the response to the Medium Term Plan Section of this Report

<b>Budget Reduction Requirement</b>	<b>£000</b>
2017/18	24,663
2018/19	22,831
2019/20	25,753
<b>Total</b>	<b>73,247</b>

173. A budget reduction of £73 million over a three year period is a lower medium term reduction requirement than in recent budget rounds. However, it will still be a significant challenge, as the £73 million budget gap builds from the Council having made £190 million savings over the 10 year period 2006/07 – 2015/16, over half of which were over the three year period 2013/14 – 2015/16.



174. Although the Council has made £190 million savings over the past decade, the base budget has not reduced by this amount. This is because the most significant driver for the Council to find savings is escalating demand, as illustrated by the graph below.



175. As the gap between central funding and increasing demand has widened over recent years, the areas of the Council's budget that are afforded WG protection (such as Schools) or are the subject of escalating demand (such as Schools and Social Services) are accounting for proportionately more of the Council's budget as budgets are redirected into these areas. Over an extended time-frame this makes addressing the budget reduction requirement through directorate savings increasingly challenging, as explained further in the following section.

### Controllable Savings Base

176. As set out above, the budget challenge facing the Council is exacerbated by the fact that it is not possible to make cuts across the whole of the Council's budget. For example in setting the 2016/17 budget, out of a base budget brought forward of £570 million, the majority of cuts were only able to be directed at budgets totalling £223 million, just 39% of the overall budget, compounding the impact for those services.

177. As a result, those areas in which it is possible to make cuts, (known as the controllable savings base) are contracting at a steeper rate and will continue to do so whilst pressures and funding levels diverge. It is also worth noting that many of the services included within the £223 million, are themselves, the subject of escalating demand, such as Social Services which accounts for circa 65% of the £223 million, further limiting the scope for targeting cuts.

178. In recognition that savings from within the controllable base will not be a sufficient solution to ongoing budgetary pressure, the Council has made every effort to extend its budget strategy into the other areas of its budget which are summarised below.

<b>Budget Element</b>	<b>£000</b>
Controllable Savings Base	222,963
Other Areas of Addressable Spend	311,101
Non Controllable	36,155
<b>Total Cash Limit 2015/16</b>	<b>570,219</b>

179. Addressable spend budgets, which account for £311 million (55%) refer to those areas in which it is more difficult for individual directorates to propose savings. This is because budgets included within this area are:-
- The subject of Government protection requirements – for example the £205 million Delegated Schools budget
  - Under pressure from demographic growth – again, the £205 million Delegated Schools budget
  - Externally set – for example, the £17 million fire levy budget
  - An important part of financial resilience – for example the £5 million insurance budget
  - Property related – for example office accommodation budgets
  - Necessary to service debt- for example the £37 million capital financing budget required to support borrowing undertaken in relation to the Capital programme
180. The 2016/17 budget includes £5.6 million savings in relation to the non-schools areas outlined above, with further challenging targets for the medium term. As part of the 2016/17 budget strategy, each of these areas have been designated champions in order to maximise potential savings in this area. In addition, review of the non-demographic growth allocated to schools has been an important budget strategy consideration over recent years.
181. The residual £36 million non-controllable budget, relates to areas in which it is not possible to make savings, the largest component being the £28 million Council Tax Reduction Support Budget.
182. The budgetary gap will need to be addressed through a further fundamental realignment downwards of directorate budgets, further targeting of addressable spend budgets along with potential Council Tax increases. Given the scale of the gap, and the challenges associated with the Council's budget profile referred to above, this will inevitably entail reductions in service delivery, ongoing consideration of alternative delivery models and continued commitment to becoming a more commercially minded Council. The Council's Programme of Organisational change will continue to review the shape and scope of the evolving organisation. Further detail on bridging the funding gap over the medium term is at paragraphs 228 to 234.

### **MTFP Assumptions - Future Expenditure**

183. Financial pressures account for £58.5 million (80%) of the anticipated budget gap. Within the £58.5 million, a total of £22 million relate to pressures in schools.

## Employee Expenses

184. Local Government pay is a matter for collective bargaining between the national employers and trade unions through the National Joint Council. The pay award reflected within the first year of the MTFP reflects the latest offer made by National Employers (December 2015) which covers the period 1 April 2016 to 31 March 2018.
185. The impact of the NJC award for Cardiff is broadly 1%. Whilst the offer includes significantly higher uplifts for lower pay scales, the Council's commitment to the voluntary living wage (VLW) means that at Cardiff, these pay scales are already supplemented to a level over and above that included in the offer.
186. In the absence of any firm indication of teacher's pay awards, an increase of 1% has been assumed. Later years of the plan allow for annual pay awards of 1% for all categories of staff within the base case MTFP. However, in recognition that there could be a significant in-year budgetary impact if awards of over 1% are agreed, the worse case scenario reflects the possibility of annual pay awards of 2% from 2018/19 onwards.
187. The MTFP makes the assumption that the VLW will increase incrementally at a rate which will bring it into line with the projected National Living Wage (NLW) by 1 April 2020. This progression is estimated to cost the Council approximately £1.2 million over the life of the plan. It is anticipated that approximately one additional spinal point per year will be encompassed by the VLW rate over this period. As the number of spinal points encompassed by the VLW grows, erosion of pay differential is likely to become an increasing issue.
188. The medium term plan allows for incremental salary drift for both schools and non-schools staff. Each year, a reduced proportion of estimated drift is allowed within the plan on the basis that over time, annual provision for the cost of increments should result in a budgeted establishment that is sufficient to cover each post being at maximum spinal point.
189. The Council's Local Government Pension Fund (LGPS) is subject to an Actuarial Review on a triennial basis. It is difficult to predict the outcome of the 31 March 2016 valuation which will set rates for 2017/18, 2018/19 and 2019/20. The MTFP included in the 2015/16 Budget Report had assumed, as a base case, that employer's pension contributions would remain at 22.9% following the March 2016 Actuarial Review. However, given increasing volatility in investment markets, it is considered prudent to revise this assumption so that the base case MTFP reflects an increase in the employer's contribution rate to 23.4%. It is assumed that the Council would take advantage of the mechanisms available to manage upward pressure on the contribution rate and step this increase over a three year period. In recognition of the difficulty in predicting future rates, the worse case scenario reflects a potential stepped increase to 24.9% over the same period.



190. Cardiff's auto-enrolment date was 1 February 2013. However, Cardiff chose the deferral option and all employees qualifying for auto-enrolment as at the start date, were deferred to 1 October 2017. In estimating the potential cost associated with the enrolment of these employees, it could be considered likely that most employees will opt out having previously decided not to join or remain in the Pension Fund. However, it would be imprudent to assume that there would be no additional LGPS members following auto-enrolment. The base case MTFP therefore includes provision for 10% of those who are auto-enrolled to remain in the fund, with the worse case scenario allowing for a further 10%. Given the enrolment date is half way through the year, these costs initially impact on 2017/18 with a full year effect in 2018/19.
191. The changing shape of the organisation will also impact the current shape of the Council's pension budgets. When staff transfer to alternative delivery models, the Council will retain the deficit recovery component of current employer's pension contributions; currently 7.9% within the 22.9% rate. Given that budgets already exist in respect of these retained costs, no additional sums need to be factored into the MTFP.

### **Price Inflation**

192. Inflation is currently running well below the Bank of England's 2% target (Consumer Price Index.) In line with the practice in recent years, the plan assumes that directorates will be expected to absorb the impact of price inflation within their existing resource base, except in instances that are deemed to be truly exceptional.
193. The plan includes estimated future provision in respect of NDR, Out of County placement costs and potential fee increases in relation to Adults' Social Services. Whilst it is recognised that price fluctuations in relation to energy and fuel are likely over the three year period, given the absence of any indicative pricing beyond 2016/17 and the volatility of prices in this area, the base case plan assumes static pricing. Any price fluctuations, including reductions, will be factored into the budget gap at the appropriate MTFP refresh points.

### **Capital Financing**

194. The assumptions that underpin the capital financing figures included within the plan are covered in further detail elsewhere in the report. Three key assumptions to note are:-
- A change in Minimum Revenue Provision (MRP) policy from 4.5% to 4% per annum with effect from 2017/18 to align the provision for the repayment of debt on supported borrowing with WG assumed levels
  - The Capital financing costs included within the MTFP reflect the 2016/17 capital programme contained within this report. There is no

assumption of any further new scheme approvals in 2017/18 and onwards

- The MTFP assumes a level of internal borrowing which minimises external interest costs

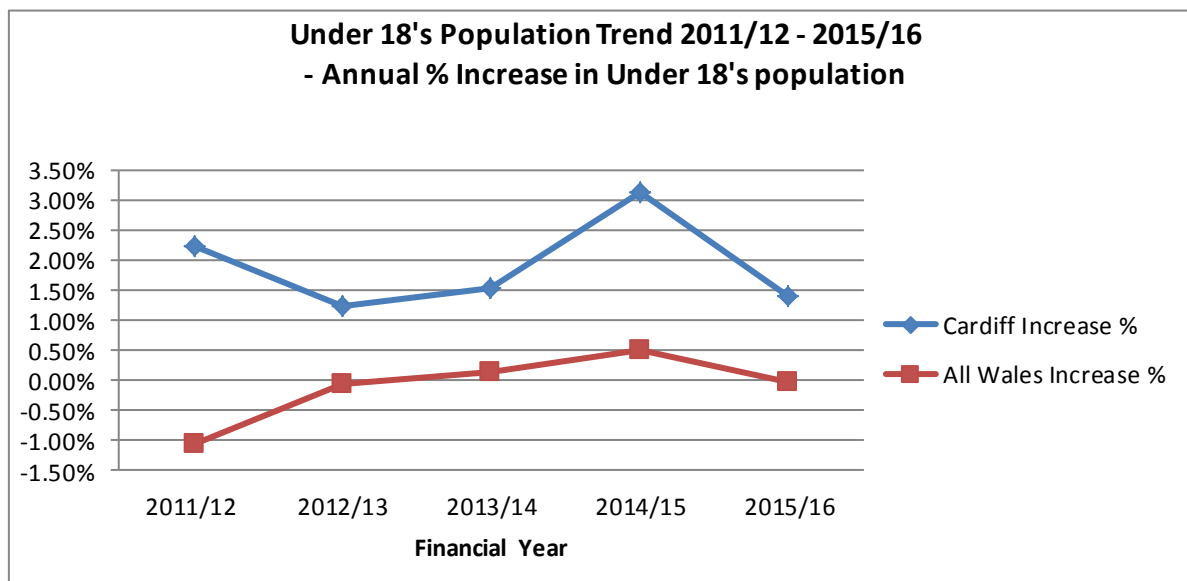
## Commitments

195. The financial year 2017/18 includes a new anticipated commitment in respect of an Apprenticeship Levy. The Chancellor announced in the Summer 2015 Budget that a new levy on large employers would be introduced in order to fund new apprenticeships. Further detail announced in the November 2015 Comprehensive Spending Review indicated that the levy will apply to all employers, regardless of sector, at 0.5% of pay bill. Each employer will receive an allowance of £15,000 to offset against the levy which effectively means that it will only be payable on paybills exceeding £3 million. Whilst much of the detail around the levy, especially the Welsh context, is yet to be confirmed, available information suggests that the Council should plan for a levy of approximately £1.5 million per annum from 2017/18 onwards.
196. The commitments section of the MTFP includes a £4 million realignment downwards of the voluntary severance budget over the first two years of the plan. This is based on a reset of the anticipated number of annual leavers included within the voluntary severance model. The reset reflects the fact that the number of staff exiting the Authority on voluntary severance during 2015/16 is significantly lower than in previous years. It is considered prudent to assume that this position is likely to continue over the medium term given that the anticipated annual savings requirement is less than in recent years. It is also the case that the nature of savings has shifted, with alternative delivery models forming a key component of the medium term plan.
197. As part of the 2014/15 budget, a £4 million general contingency budget was established in recognition of the financial challenge associated with delivering savings of the scale required. Over the medium term, it is anticipated that whilst still significant, the annual savings requirement will be lower than in the years 2014/15 and 2015/16. It is therefore considered prudent to release £1 million of the general contingency in 2017/18.
198. The commitments section of the MTFP includes provision in relation to the Central Enterprise Zone (CEZ) budget. A £1.5 million budget for CEZ was due to be established by 2014/15 however, slippage from estimated CEZ timescales meant that provision of the £1.5 million was delayed. Moreover, in order to assist with the challenges of achieving a balanced budget, extant budget provision for CEZ was cut in 2015/16. Amounts are included within the 2016/17 budget and over the MTFP period to reinstate the 2015/16 budget cut and establish a full £1.5 million budget by 2018/19, in line with anticipated commitments in this area.
199. The commitments section of the MTFP also includes the full year effect of commitments included within the 2016/17 budget along with one-off

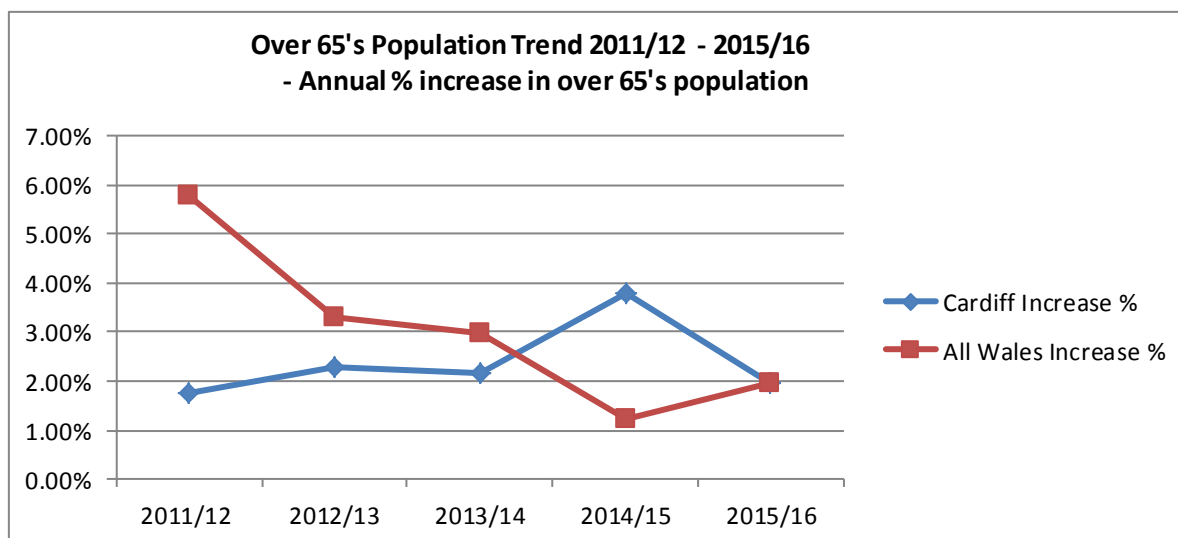
costs of £0.5 million associated with hosting the Volvo Round the World Yacht Race. It is planned that the Cardiff Harbour Project Fund will contribute the remaining £0.5 million of the Council's contribution to the race, with a further £3 million grant funding provided by WG.

### Demographic Pressures

200. Of the £58.5 million expenditure pressures identified over the next three years, 38% is attributable to pressure on services as a result of demographic growth. Over recent years, Cardiff has had one of the fastest growing populations of any UK core cities. Projections suggest that this trend will continue with statistical projections suggesting significant population growth out to 2034.
201. These demographic trends have been reflected in the Council's financial position for a number of years and are reflected within the data that underpins the Council's Standard Spending Assessment (SSA) as illustrated below. The SSA is a formula based calculation of "Relative need to spend" that is used by the WG to determine funding distribution across Wales. However, even though the city's demographic growth is recognised within the calculation it does not begin to address the escalating cost pressures associated with such a demographic profile as the overall fund available for distribution has significantly diminished.



**Figures sourced from Welsh Government's Annual Green Book Publication**



**Figures sourced from Welsh Government's Annual Green Book Publication**

202. The above graphs highlight the issue raised earlier, that there has been substantial growth in age groups in which demand for services can be more costly. An increasing school age population places additional financial burdens on the education service. Similarly, an increase in the older population can create additional financial pressures on social services budgets as people become more likely to need services to help them continue to lead independent lives.

203. This trend places pressure on both capital and revenue budgets, for example, the SOP section of this report sets out the financial exposure the Council faces as a result of seeking to meet suitability and sufficiency issues within the schools estate over the life of the MTFP and into the longer term. In addition, £1.9 million has been allocated to supplement the disabled adaptations budget elsewhere in this report, to help people continue to leave independent lives.

204. The demographic pressures included within the MTFP are set out in the table below and are in areas that already account for 60% of the Council's budget. As referred to earlier in this section, in the absence of additional central government funding, the £22.1 million estimated requirement will involve an element of redirection from other areas of the Council's budget.

<b>Demographic Increases</b>	<b>Predicted Three Year Pressure £m</b>
Social Services – Adults	6.0
Social Services – Children's	4.5
Schools	11.1
Other	0.5
<b>Total</b>	<b>22.1</b>

205. It should be noted that whilst labelled as demographic growth, the sums in respect of Children's Services are also reflective of increasing complexity of demand. This is very difficult to predict and a small number of high cost packages can significantly impact on the Council's budget. In recognition of this issue, in addition to the sums identified for Children's Services, the Council's base budget contains £950,000 as a service specific contingency.
206. A further area that will need to be monitored in terms of its demographic impact is the recently approved Local Development Plan. Over the life of the plan (2006-2026) provision is made for 41,100 new homes and 40,000 new jobs, based on projected population growth over the same period. As the LDP progresses, there will be a need to consider the impact of these increases both in terms of a positive impact on council tax base and future settlements, and the associated increased demand for services. Future modelling within the MTFP will need to give consideration to the timing of these impacts, which is currently uncertain, with particular recognition that there is an inherent delay between an increase in population and a resultant increase in settlement.
207. A further area that will need to be monitored in terms of its demographic impact is the recently approved Local Development Plan which will see significant property growth in the city over the period to 2026. Whilst additional properties will mean an increase in council tax base; the MTFP shows the base as static. This is to reflect the fact that additional council tax income will be accompanied by increased demand for services. Future modelling will need to be undertaken as the LDP progresses.

### **Emergent Financial Pressures**

208. The MTFP includes a sum of £3 million per annum to address emerging financial pressures. This sum, which represents just over 0.5% of the Council's cash limit, has been included in recognition that it is impossible to foresee all issues and that in reality, additional burdens may arise due to issues including legislative and policy change and specific grant fall out, an issue which is covered in further detail in the funding section below. These sums will be reviewed at the MTFP incremental refresh points referred to above and updated to reflect most recent information.

### **Aggregate External Finance**

209. In the absence of any indicative funding figures for 2017/18 onwards, the level of AEF across the plan has had to be estimated. It is widely accepted that the future funding outlook for Welsh Local Government will remain challenging
210. The base case MTFP for the financial years 2017/18 – 2019/20 assumes an AEF reduction of 1% per annum.
211. In recent years, the absence of multi-year settlements for Welsh Local Government and significant changes to indicative funding figures when

they have been provided, has been a significant obstacle to financial planning. This uncertainty is set to continue over the medium term as the 2016/17 settlement covers only the forthcoming financial year unlike the position in England.

212. Ongoing budget reductions of the scale required to achieve a balanced position require difficult decisions with long-lead in times. The absence of sound evidence upon which to base future funding assumptions is extremely problematic, especially given that a 1% fluctuation in AEF for Cardiff equates to £4.3 million.
213. As set out earlier in the Report, in recognition of this key risk the Council has established a £4 million financial resilience budget as part of the 2016/17 budget. The financial resilience budget, which equates to approximately 1% of AEF, will operate as a base budget that will be spent on one off initiatives to support the reshaping of the organisation and to invest in priority areas. The one-off nature of investment means that in future years, the budget will be available for immediate release should settlements be more challenging than included in the MTFP base case, thereby reducing the need for significant additional directorate savings at short notice. In summary, the base budget is a mechanism that will enable short term investment in priority areas, whilst managing risk and providing surety to the medium term position.
214. The November 2015 CSR documentation contained estimates of the future level of the Welsh Block Grant. Using these indications as a starting point, the Welsh Local Government Association (WLGA) modelled future funding scenarios for WLGA. The scenarios cover a variety of potential protection levels for other parts of the Welsh public sector including NHS Wales, and range from an optimistic scenario which suggests modest annual AEF increases over the MTFP period, through to a most pessimistic scenario which sets out potential reductions of 2%-2.5% over the period. The Council's base case MTFP reflects reductions of 1% per annum. This is a "middle of the road" scenario aimed to allow for some protection of the NHS with cash flat settlements for the rest of the sector. Steeper funding reductions of 2% per annum are modelled in the worse case scenario, although as noted above, the financial resilience base budget offers some assurance against this risk from a planning perspective.

### **Specific Grant Funding**

215. The Council receives a significant amount of specific revenue grant funding. The WG has committed to provide greater flexibility and to reduce the administrative burden on Local Government by transferring specific grants into RSG wherever possible. Whilst this is helpful, there is a risk that upon transfer, the overall quantum and / or the distribution mechanism of the grant will be altered. There is also a risk that specific grants may simply reduce or fall out altogether.
216. Future changes to specific grants, either by way of transfer or reduction are arguably even harder to predict than AEF levels. This uncertainty is

compounded where there are unconfirmed changes to existing arrangements such as the potential for separate grant streams to merge into one, or where complicating factors such as consortia arrangements exist. Within the Local Government settlement, information on specific grants is usually in outline form and no indicative sums are provided beyond the forthcoming financial year.

217. The Council has an existing base budget of £250,000 to deal with specific grant funding issues. There are no specific sums included in the MTFP over and above this amount. The assumption is therefore that any future specific grant reductions would be dealt with by either reviewing the grant funded activity or addressing the issue through the sums set aside within the plan for emerging financial pressures.

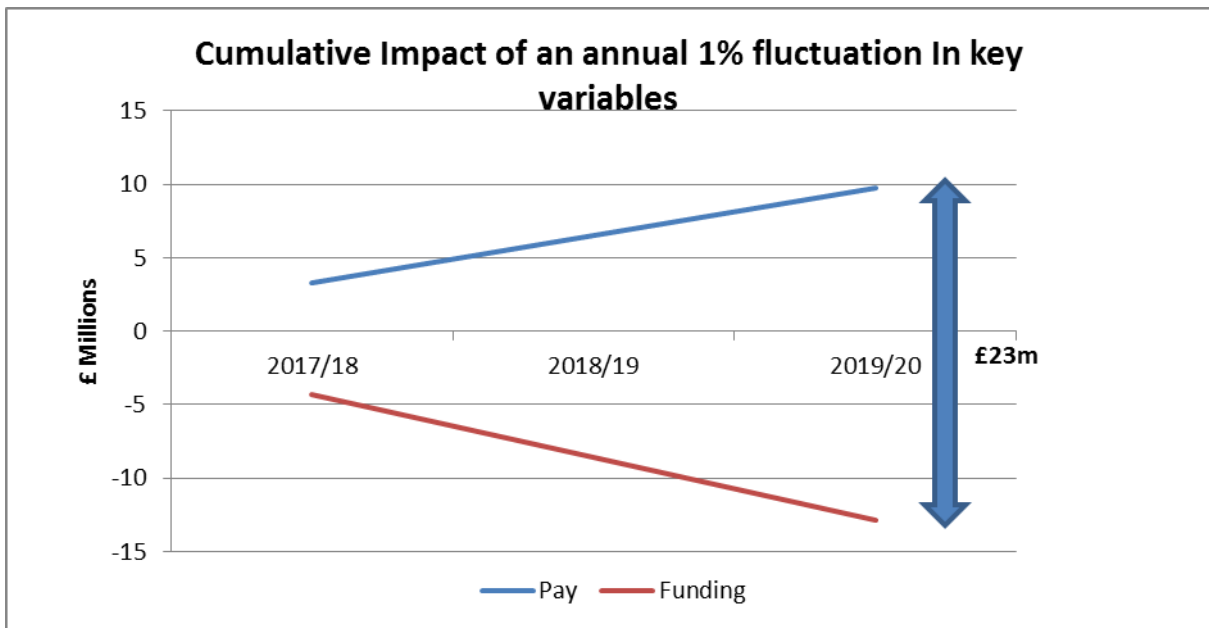
## **Reserves**

218. General practice is to avoid over-reliance on reserves as budget funding for a number of reasons. Firstly, due to their finite nature, use of reserves to support the budget creates a resource gap which must be filled in the following year. Secondly, earmarked reserves are set aside for a specific purpose which would be compromised if routinely used for general budget funding without replenishment. Finally, the existence of reserves improves the Council's financial resilience, especially in periods of extreme financial challenge. It is also of note that whilst prudent, the level of reserves held by Cardiff City Council could be considered to be at just an adequate level for an Authority of this size; as a percentage of gross revenue expenditure, Cardiff has the lowest level of general and useable reserves across Wales.
219. There is therefore a careful balance to be struck between holding too much and too little cash in reserves. If reserves are too small, this increases the Council's exposure to risk and affects its capacity to deliver its planned priorities in a prudent fashion; too high and this funding should be used on services in times of financial pressure. It is also important to note that cash in reserves is not idle. Investment income is generated on cash balances in line with the Council's Treasury Management Strategy and as an Authority that utilises internal borrowing, cash reserves help the Council avoid the need to undertake short term borrowing and its associated costs.
220. The base case MTFP shows no annual drawdown from reserves, which are brought in as part of planning assumptions in the next section. Careful annual scrutiny is given to the lever of earmarked reserves and their planned profile of use and the specific reserves for release in connection with the plan will be identified as part of this process.

## **Sensitivity Analysis**

221. As outlined in the sections above, it is very difficult to accurately predict future spending and funding levels three years into the future. Moreover, minor fluctuations in key variables can have a significant impact as depicted in the graph below which illustrates the cumulative cash impact

of an annual 1% fluctuation in key variables. The graph below depicts the impact of AEF decreases being 1% lower than planned and pay awards being 1% higher than planned which have a cumulative impact of £23 million over the MTFP period.



### Worse Case Scenario

222. The following table reflects the potential worse case scenario. This reflects:-

- Pay awards of 2% compared to the 1% within the base case
- Annual funding reductions of 2% over the life of the plan compared to the 1% within the base case
- A less optimistic outcome of the next actuarial review
- A higher percentage of people opting to remain in the LGPS upon auto-enrolment

Worse Case Scenario	2017/18 £000	2018/19 £000	2019/20 £000	TOTAL £000
<b>Base Case MTFP Position</b>	<b>24,663</b>	<b>22,831</b>	<b>25,753</b>	<b>73,247</b>
<b>Changes:</b>				
AEF	4,263	4,220	4,136	<b>12,619</b>
Pay Award	3,250	3,200	3,150	<b>9,600</b>
Pensions Issues - actuarial	1,055	1,055	680	<b>2,790</b>
<b>Revised MTFP Shortfall</b>	<b>33,231</b>	<b>31,306</b>	<b>33,719</b>	<b>98,256</b>

223. One key risk across the life of the plan period is pay awards. The Chancellor, in his Summer 2015 budget, stated that up until 2020 he

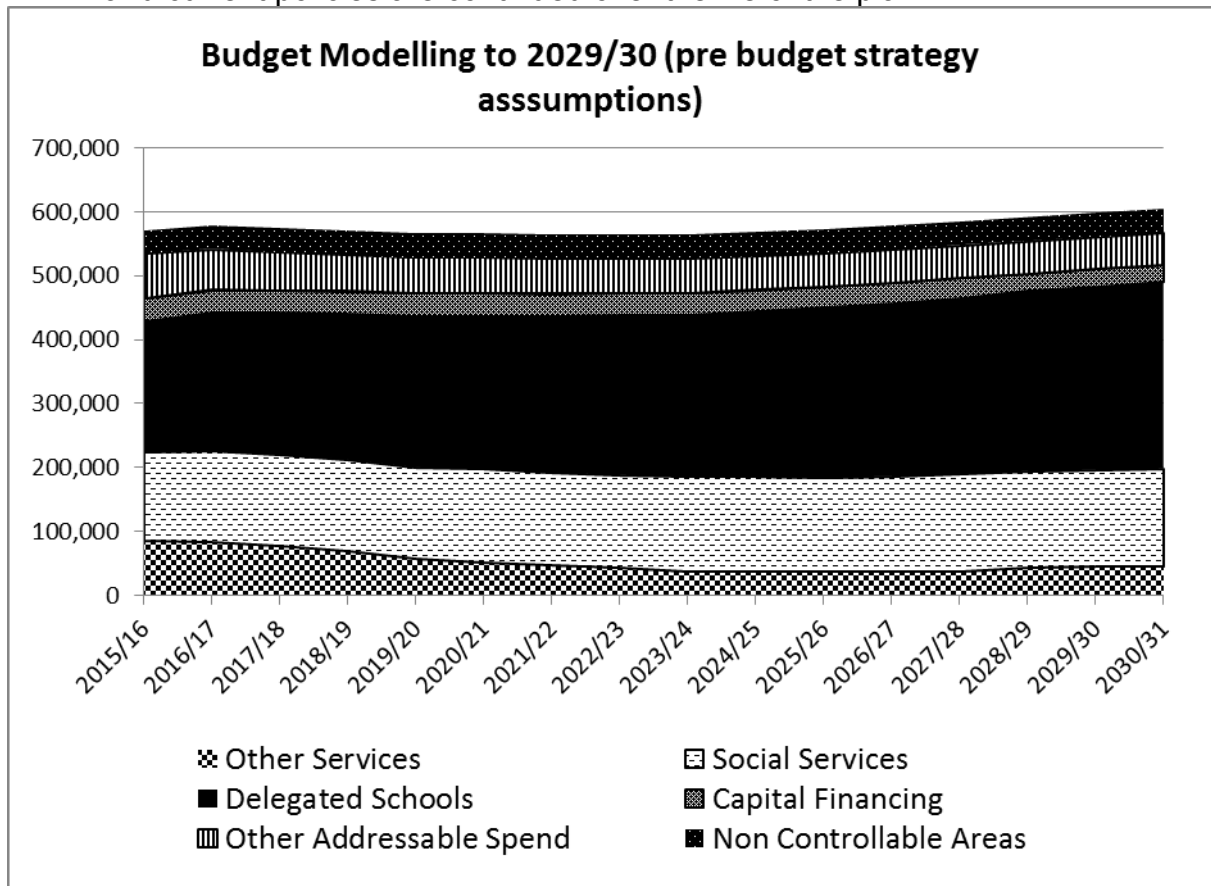


would make provision for pay awards of 1%. This extrapolates the general theme of restraint in respect of public sector pay over the medium term. Whilst the announcement indicates the Chancellor's intended provision for public sector pay, it not necessarily indicative of the actual awards over this period which will be determined by respective bargaining processes. For this reason, the risk of higher awards have been reflected in the worst case scenario for prudence, although could perhaps be considered unlikely.

224. The impact of potential fluctuation in AEF around the base case assumption has the biggest impact on this scenario. As noted earlier in this report, in recognition of the risks associated with the absence of multi-year funding settlements, the Council has established a financial resilience mechanism of £4 million as part of the 2016/17 budget. This allows for one-off investment in priority areas in the short term, but will also be available for immediate release in future years in the event that funding settlements are worse than covered in the base case MTFP.

### Future Years Outlook

225. The chart below illustrates the likely impact on the different components of the Council's budget moving beyond the life of the existing MTFP. Clearly, for all the reasons noted earlier in this section of the Report, it is very difficult to predict this far into the future given the inherent uncertainty in key areas. The graph therefore projects the overall likely envelope of funding and analyses the resultant budget if recent trends and current policies are continued over the life of the plan.



226. The graph is before any budget strategy assumptions for example, around capping schools growth, Council tax price increases and use of reserves, are built in, all of which are given further consideration in the next section. It is also worth noting that the capital financing section assumes no further growth beyond the existing capital programme. Consequently, any new approved schemes dependent on additional borrowing will result in the capital financing section of the above graph increasing at the expense of other areas. This highlights the importance of considering the impact of a decision in one area in the context of the Council's overall budget. At times when funding levels are static or reducing, growth in one area must inevitably be at the expense of others.
227. The graph reiterates the point made throughout this section, that savings from the Council's controllable savings base, which itself includes a number of areas of statutory duty, will not be a sufficient long term antidote to the problem. As has been the case in recent budget rounds, solutions outside this will continue to form a key part of the medium term plan. It will be important to continue to set clear assumptions and policies at an early enough stage to have the most impact on the future shape of the Council's budget as the cumulative impact of decisions taken now can have a significant impact in later years. It may be that policies are considered unaffordable when viewed over an extended time-frame.

### **Council Response to the Medium Term Financial Plan**

228. The previous section set out a further potential budget gap of £73 million over the next three years. As already noted, savings found from within the Council's controllable savings base will not be a sufficient solution to the problem in isolation. Developing the budget strategy to bridge this gap and ensuring the Council's ongoing financial resilience will require further targeting of addressable spend budgets, further review of policy around schools growth and potential future Council tax increases.
229. The table below extrapolates budget strategy assumptions across the medium term to arrive at the likely figure that will need to be found from savings over this period. These assumptions, which will be reviewed and refreshed as part of the Budget Strategy Report developed in July are:-
- A cap on schools non-demographic growth of 30%
  - A council tax increase of 3.7%, in line with the current year's increase
  - Annual draw down from reserves of £1.5 million – sum considered to strike a balance between protecting financial resilience whilst utilising available resources to mitigate front line impact.

	2017/18 £000	2018/19 £000	2019/20 £000	TOTAL £000
<b>Budget Reduction Requirement</b>	<b>24,663</b>	<b>22,831</b>	<b>25,753</b>	<b>73,247</b>
Cap on Schools Growth - @ 30%	1,253	1,163	1,073	<b>3,489</b>
Council tax at 3.7%	4,451	4,616	4,786	<b>13,853</b>
Use of Earmarked Reserves	1,500	1,500	1,500	<b>4,500</b>
<b>Residual Gap</b>	<b>17,459</b>	<b>15,552</b>	<b>18,394</b>	<b>51,405</b>
<b>Addressable Spend Target</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>9,000</b>
<b>Residual Sum from Directorate Savings</b>	<b>14,459</b>	<b>12,552</b>	<b>15,394</b>	<b>42,405</b>

230. The above table includes addressable spend targets of £3 million per annum which are in line with the current year. Work to shape these targets will continue in 2016/17 but will involve further investigation of opportunities in relation to divestment of the Council's property portfolio resulting in premises savings, further review of energy budgets to maximise efficiencies and review of capital aspirations over the medium term.

231. As part of the development of the 2016/17 Budget Strategy, the Council undertook a review of base budgets which took into consideration statutory minimum levels of service, the Council's Reshaping Services Programme and Target Operating Model. This work set the direction of travel for achieving the level of savings anticipated over the medium term. The savings identified as part of this exercise are set out in Appendix 17b on a thematic basis. The themes used are described in further detail below:-

**Being a commercially minded Council** – this theme considers how we can make better use of our assets and how to offer our services to the public, third sector, or private sector organisations. Examples include opportunities in respect of income generation, new operating models and alternative delivery arrangements, reshaping services and commissioning and procurement opportunities in respect of third party spend.

**Ensuring Public Services are Accessible** – this area considers the accessibility of public services, where appropriate moving from buildings based services to those which provide outreach staff or mobile services. Through the One-Council approach making contact with the Council will be through the provision of seamless and consistent customer services encouraging people who are able to use digital services.

**Greater alignment of our services** – this area considers how the public and third sector organisations must work more closely. The opportunity identified is to join up services and consider the sharing of assets and the use of multi-agency teams whilst also recognising that these same

challenges apply to services delivered within the Council. It also covers the need to realign services downwards in non-front line areas, through business process efficiencies and reductions to more closely reflect available resources.

**Targeting services and early intervention** – the challenge within this theme is in relation to targeting services that are focused on the need to support the most vulnerable and disadvantaged in society to achieve better outcomes for residents and communities.

232. The following table below summarises the opportunities identified within Appendix 17b:-

	2017/18 £000	2018/19 £000	2019/20 £000	TOTAL £000
<b>Residual Sum Required from Savings</b>	<b>14,459</b>	<b>12,552</b>	<b>15,394</b>	<b>42,405</b>
Being a Commercially Minded Council	7,787	7,472	9,388	<b>24,647</b>
Ensuring Public Services are Accessible	583	645	810	<b>2,038</b>
Greater Alignment of Our Services	3,296	3,198	4,018	<b>10,512</b>
Targeting Services and Early Intervention	2,793	1,237	1,178	<b>5,208</b>
<b>Total</b>	<b>14,459</b>	<b>12,552</b>	<b>15,394</b>	<b>42,405</b>
<b>Residual Shortfall</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

233. The planning status of the individual proposals that sit behind the identified opportunities will be further developed as part of detailed Budget Strategy work for 2017/18 and beyond and further due diligence work will be undertaken. In addition, in re-commencing budget strategy work following approval of the 2016/17 budget, the Council will roll forward its budget strategy work one year into 2019/20 and develop detailed proposals. The figures included for 2019/20 above set a direction based on incidence of savings across themes in the earlier years of the plan and in line with the Council's target operating model.

234. The Financial Standing, Risk and Financial Resilience section has already set out the challenges of finding significant savings over a protracted time frame, and the increasing importance of both considering and responding to the matters in respect of the Council's financial resilience. Work on financial resilience will continue over the medium term including regular review and reporting of the financial resilience snapshot at appropriate intervals, development of benchmarking activities and exploring opportunities for financial stress testing of the MTFP to gain a developed understanding of areas to target additional assurance work in future.

## City Deal

235. The *Cardiff Capital Region City Deal Update* report taken to Cabinet on the 10<sup>th</sup> December 2015 identified the next steps of an outline schedule for the development of the City Deal as:

- **Spring** – Chancellor's Budget and agreement of City Deal Document

- **April – June** – Development of economic model (with WG), project prioritisation and development of programme
- **June – August** – Programme optimisation, and agreement of funding and financing details between CCR partners and UK and Welsh Governments
- **Late summer** – Finalisation of programme financial, governance and delivery arrangements

236. This timescale identifies a critical point in the development of the City Deal as the initial signing of a high level agreement in Spring 2016 ('The City Deal Document'). This document will take the form of a 'Heads of Terms' that outlines the proposed structure of the City Deal in terms of governance, scale of funding and areas of intervention. The City Deal Document will provide the basis for more detailed work in developing a final programme of investment and detailed governance arrangements. The document is currently being developed by the UK Government in consultation with Cardiff Capital Region partners and the Welsh Government. In the event that the City Deal Document is agreed, it will commit the participating authorities to exploring ways of delivering the City Deal principles and strategic objectives.
237. Discussions have outlined that the City Deal Document will include proposals for the establishment of an Infrastructure Investment Fund of up to £1.28 billion for the Cardiff Capital Region, including a capital contribution of circa £120 million from participating local authorities. It will also include proposals to establish a Joint Committee (to be known as a Joint Cabinet) formed of the Leaders of the participating local authorities to oversee the delivering of the Infrastructure Investment Fund. The City Deal will also explore proposals for regional working, including pooling appropriate resources in areas of planning, transport and economic development, the retention of elements of growth of business rates within the region and the establishment of a Regional Skills and Employment Board. Due to UK Government timescales it is possible that the City Deal Document will need to be signed on the basis that it would require approval from all participating authorities. On this scenario the Council would need to consider the Document during the March cycle of meetings.
238. In signing the City Deal Document the Council would commit to work with the other nine local authorities, Welsh and UK governments to finalise all elements of the proposed City Deal. This includes detailed consideration of the governance structure, financial contributions, a robust assurance framework for project identification and the overall agreement of the infrastructure investment programme. There will also need to be agreement on how the local contribution to the Fund will be allocated as between the ten authorities. Consideration of these further details will be brought to Council in due course. Based on experience from other City Deals it is expected that it will take between 6 and 18 months for the full programme to be agreed and the detailed legal agreements to be finalised.

239. In developing the overall City Deal governance and investment programme it is also anticipated that a dedicated team will be put in place. It is proposed that local authorities make a contribution to the costs of putting this team in place.

### **Housing Revenue Account and Rent Setting 2016/17**

240. The Housing Revenue Account (HRA) is a ring-fenced account which records income and expenditure in relation to council housing. The Local Government and Housing Act 1989 places a statutory duty on local authorities to maintain a separate account for the costs associated with the management and maintenance of Council dwellings. The ring fencing of the account means that local authorities may not subsidise any costs relating to council housing from the General Fund (i.e. from Council Tax or from the RSG).
241. The main expenditure items within the account include maintenance and repair costs, management costs (including rent collection, housing allocations, property and estate management) and capital financing charges on the HRA's outstanding loan debt.
242. The major income streams include Council house rents and income from service charges.
243. During 2015/16, the Council made a £187 million settlement payment to WG to exit the former Housing Revenue Account Subsidy System. As has previously been reported, this meant that the HRA was no longer required to pay a net subsidy payment to WG, but this was replaced with the costs of servicing and repayment of borrowing in relation to the settlement payment. The net impact of this is an estimated £3.4 million annual revenue benefit which is assumed to be retained on an annual basis for re-investment in enhancing the condition of existing housing stock and development of new stock.
244. The new Social Housing Rent policy was introduced for Local Authorities in April 2015. This sets an annual Target Rent Band for each landlord, which is based on a range of low end, mid point and high end rents. While the responsibility for setting rents for individual dwellings rests with specific landlords, they are required to operate within average weekly rent levels that fall within the Target Rent Band. WG set a recommended rent increase each year and Councils are also allowed some flexibility to raise additional income to improve services, invest in improvements to existing homes and neighbourhoods and in building new properties.
245. It is proposed that from 4 April 2016, rents for the majority of tenants will increase in Cardiff by 1.4% plus £2 per week. This is in line with the WG guidelines which protect individual tenants from large annual increases. As a result of this change the average rent for a council home will increase by £3.10 per week, exclusive of service charges.
246. Consultation about the proposed increase in Council rents took place between 11 January 2015 and 29 January 2016. Consultation forms

were sent to all Recognised Tenants and Residents Associations, Reading Group, Service Improvement Group and to 2,500 randomly selected individual tenants. In total 3,020 forms were sent out. The consultation was also advertised on the Cardiff Tenants website and discussed at the Tenants Voice meeting on 19<sup>th</sup> January 2016.

247. 350 responses were received (341 postal responses and 9 via the website) of which 45 were negative about the increase (13%). The main issues raised were around affordability and cost of living. This was a particular issue for those tenants who have to contribute to the rent such as those in low paid work and those affected by Welfare Reform changes. It should be noted however that Council rents are good value as rents charged by private landlords are circa 50% higher.
248. Tenants were also asked how they would like the Council to use their rent payments. 254 (73%) of respondents said the money should be spent on improving existing stock, 197 respondents (56%) said that the money should be spent on improving housing services and 193 (55%) said the money should be spent on new build Council Housing. Respondents were able to vote on multiple priorities.
249. It is planned that additional revenue generated through the rent increase will be invested in a number of areas. These include the Housing Partnership Programme which aims to deliver 1,500 new homes over the project life with at least 600 Council rented and low cost home ownership.
250. In addition, planned investment includes major estate regeneration works, expansion of the Community Hub programme, modernisation and large scale capital improvement works.
251. Other factors which make up the HRA budget proposal include the following main items:
  - Provision is made for a 1% pay award, increases due to changes in Employers National Insurance contributions and employee increments.
  - An £18 million budget has been set for Council Housing Repairs in 2016/17. This increased budget reflects the estimated requirements for both planned and responsive maintenance. Increases are due to a number of factors, including a higher volume of repairs and a reassessment of the classification of repairs between capital and revenue. This latter point has resulted in a realignment of budget between housing repairs and the direct revenue financing provision within capital financing.
  - The direct revenue financing budget for capital expenditure assumes a contribution of £5.4 million in 2016/17.
  - Provision is made for the anticipated impact of Welfare Reform under the Universal Credit scheme on rent income levels, additional costs of collection and recovery, an increase in bad debts provision and the potential impact on void allowances.
  - Anticipated revenue costs relating to the Housing Partnership Project.

- The HRA's fair contribution to the planned corporate and other initiatives where HRA activities are involved.
252. The detailed proposals for changes to the HRA charges which can be found in Appendix 11(b) are summarised as:
- Service charges that normally increase in line with inflation have been frozen this year.
  - A small number of charges have been increased to allow for full cost recovery.
  - Some charges where cost recovery is being achieved have been maintained at their current level.
  - Some charges have decreased in line with reduced cost.
253. For future years 2017/18 to 2019/20, the budget proposals are in line with the HRA Business Plan which will be reported to Cabinet in March 2016 and make provision for the following:
- Pay awards and employee increments at assumed levels.
  - General inflation increases for non employee budgets.
  - Rent increases in line with the new national rent policy guidelines.
  - Capital financing requirements in line with the proposed HRA Capital Programme.
  - Contributions to HRA balances to meet future investment in the housing stock and other planned initiatives.
254. The proposed HRA budget for the financial years 2016/17 to 2019/20 is shown in Appendix 18.

### **School Organisation Plan and 21<sup>st</sup> Century Schools Initiative**

255. The SOP relates to the significant Programme of capital investment which aims to reorganise school places in Cardiff thereby using resources more effectively and ensuring that schools are fit for purpose.
256. As part of the 21<sup>st</sup> Century Schools programme the Council submitted a revised Band A funding bid to the WG in March 2015. An indicative Capital Investment Programme of £164.1 million received in-principle approval, subject to the successful submission of individual detailed project business cases.
257. The 21<sup>st</sup> Century Schools Programme forms part of the overarching SOP financial model. The SOP is designed to be self-funding and the projects to be undertaken are included in the Council's Capital Programme.
258. The SOP Financial Model brings together Council and WG supported 21<sup>st</sup> Century Schools Band A projects. The Model includes a projection for both capital expenditure and capital funding over the life of the plan, and subject to the submission of business case documents to WG, can be summarised as follows:



<b>School Organisation Plan (2011/12 to 2019/20)</b>	<b>Funding £m</b>	<b>Expenditure £m</b>
Capital Programme		226.2
Capital Receipts	35.3	
Capital Grants	101.5	
Section 106 Contributions	0.9	
Capital Programme Allocations	14.7	
Welsh Government LGBTI	17.3	
Additional Borrowing	56.5	
<b>Total</b>	<b>226.2</b>	<b>226.2</b>

259. The capital investment programme within the model during the period 2011/12 to 2019/20 (the life of the 21<sup>st</sup> Century Schools Programme) totals £226.2 million. Within this, the 21<sup>st</sup> Century Schools expenditure is £164.1 million.
260. Schemes are first included on the basis of Initial Development Appraisals (IDAs) and/or current market intelligence adjusted for construction cost inflation over the life of the model. An additional contingency sum of 10% is added, which is decreased as proposals progress and costs become more certain. The expenditure projections are regularly monitored and updated, along with the project funding sources, to identify changes in either the value or timing of expenditure.
261. Of the £164.1 million 21<sup>st</sup> Century Schools programme, 50% (£82.1 million) will be grant funded by the WG. This includes £64.8 million of capital grant. WG will additionally provide revenue grant over 32 years, to support capital borrowing for the remaining £17.3 million. The £64.8 million capital element is included within the £101.5 million grant figure above. The Council's match funding element is included within the other resources listed.
262. The WG has extended the LGBTI to support the 21<sup>st</sup> Century Schools Programme. This initiative, which started in 2014/15, will accelerate the WG's share of investment in the programme by providing councils with a revenue stream to support the capital charges associated with additional borrowing. This will not alter the funding share of WG. The objective of this initiative is to complete delivery of Band A of the programme by 2018/19.
263. Where proposals include the disposal of school land, the capital receipt is reinvested into the SOP. The model relies upon £35.3 million of capital receipts, including those already received. Funding is also secured as capital grants from the WG, with a total of £36.7 million (excluding 21<sup>st</sup> Century Schools) in the form of scheme specific grants such as Tranche 3 transitional grant from the WG, which bridges the gap between the previous Schools Building Improvement Grant regime, and the start of 21<sup>st</sup> Century funding. The Tranche 3 grant approval was £35.6 million, which supported the new build St Teilos High School and some associated schemes in the East of Cardiff.

264. Funding has also been allocated from the Council's own Capital Programme and Section 106 Contributions where available. The balance of funding is provided by Council borrowing of £56.5 million, over and above the WG supported LGBTI borrowing. The capital charges arising from the Council borrowing are funded from revenue release savings which include savings from facilities management budgets as well as efficiency savings and historical adjustments to delegated schools budgets.
265. Band A 21<sup>st</sup> Century Schools funding will finish in 2018/19. Band B is anticipated to begin in 2019/20, however the scope and funding arrangements for Band B are not yet finalised. It is likely that the scope will be significant and will require the Council to commit material sums over the period 2019/20 – 2023/24 albeit they are yet to be determined.
266. The SOP also includes significant revenue expenditure. For the period 2014/15-2019/20 this totals £18.1 million and is in connection with organisational restructure costs attached to the proposals. These include project management costs, additional costs incurred by schools which are closing or are in transition, and pump priming for the establishment of new educational provision. The risks around organisational restructure costs increasing should be noted and officers regularly review the potential financial implications attached to the proposals.
267. The overall Financial Model represents a significant financial exposure for the Council and the following capital and revenue key risks have been identified and are continually reviewed:
- Changing scope of works as schemes progress through feasibility studies and design.
  - The management of cost over-runs and fluctuating construction cost inflation which may lead to expenditure exceeding contingency levels.
  - Potential for underachievement of capital receipts within the current climate, failure to obtain planning consent or changes in Council policy in respect of land sales.
  - Potential for the WG funding levels to be reduced or changed.
  - The potential for revenue costs of closing schools and opening others to be higher than estimated.
  - The potential for the underachievement of revenue savings.
268. A further challenge for the Consolidated Financial Model is the cash flow impact of the timing of both capital and revenue expenditure and income. An earmarked reserve has been established for the SOP, and the movements on this reserve is shown in Appendix 19. This reserve is used to manage these cash flow implications and the risks as identified above. At present the balance on the reserve is judged to be sufficient in the context of the overall size of the SOP programme, however careful monitoring will be required over the period.

269. Where amendments are made to capital expenditure for re-profiling of cashflows, and increases are within the level of contingency and inflation for the scheme then these would be actioned and reported through the regular capital monitoring reporting process. However, where amendments over and above the allocated levels of scheme-specific contingency are necessary, the Directorate would seek approval in accordance with the Council's Financial and Contract Procedure Rules.
270. A Programme Panel has considered significant matters arising in relation to the SOP / 21<sup>st</sup> Century Schools Programme, providing robust advice to and governance of the Programme including relevant approval of variations and business cases.
271. A comprehensive SOP revenue budget for 2016/17, to be funded from the SOP reserve, has been produced and will be submitted for approval by the Programme Panel in February 2016. A summary table of the revenue budget is shown below:

<b>SOP Revenue Budget 2016/17</b>	<b>£000</b>
Project Team Costs	1,439
Specific Scheme Costs	772
Pump-Priming of newly established schools	420
Ongoing Commitments	795
Contingency	250
<b>Total</b>	<b>3,676</b>

272. The SOP Operational Manager will have delegated authority to vire between these budgets in line with the scheme of delegations with the only exception being the contingency provision which will be managed by the Programme Panel.
273. Any overspend against the overall revenue budget will need to be reported to the Programme Panel and consideration given to any remedial action required. Material overspends will be included in the Council's budget monitoring reports.

### **Civil Parking Enforcement**

274. Cardiff was designated as a 'Civil Enforcement Area' on 5 July 2010 and, since that date, has undertaken responsibility for enforcing a range of parking contraventions. In addition, new legislation has been made available to local authorities in Wales under the Civil Enforcement of Road Traffic Contraventions (General Provisions) (Wales) Regulations 2013 which allows for the enforcement of bus lanes and certain other moving traffic conventions. In 2014 Cardiff applied to the WG to acquire these additional powers to complement the existing parking enforcement powers and to provide a greater resource to address traffic congestion. Following WG approval for the transfer of related legal powers to the Council, the Moving Traffic Offences (MTO) initiative commenced in Cardiff on 1 December 2014.

275. The advantage to the Council of operating enforcement powers is that it has been given direct day-to-day control of the deployment of enforcement staff across the highway network thus allowing targeted enforcement in support of transportation strategies and more effective responses to local needs.
276. Civil Parking Enforcement is a ring-fenced account. The income generated from car parking fees, resident's permits, penalty charge notices and moving traffic offences is used to fund the associated operational costs including the cost of the enforcement service. Any surplus or deficit will be transferred to the Parking Reserve and can only be used for specific purposes such as supporting transportation services, parking and highway and environmental services in accordance with section 55 of the Road Traffic Regulations Act 1984.
277. The anticipated operating surplus for 2015/16 is £4.933 million. When this and the eligible expenditure for the current year are applied to the brought forward figure the balance in the Parking Reserve at 31 March 2016 is estimated to be £255,000.
278. For 2016/17 income from car parking fees, residents' permits, penalty charge notices and moving traffic offences is forecast to be £11.430 million. This represents an increase of £1.395 million compared to the forecast position for 2015/16 mainly due to anticipated increases from moving traffic offences.
279. Operating costs include staffing and other costs of enforcement services, administration, traffic regulation orders, maintenance of parking for both on and off street parking and disabled bays. It also includes capital financing costs in respect of repayments in relation to the additional investment in bus lane and junction enforcement and parking meter replacement as set out in the Capital Programme. Overall, expenditure in the Civil Parking Enforcement Account in 2016/17 is estimated to be £5.731 million, leaving a net surplus of £5.699 million.
280. In respect of moving traffic offences, income is anticipated to increase to £3.668 million in 2016/17 with further increases in future years based on an assumption of a continuous expansion of the network. Operating costs are estimated to be £1.266 million in 2016/17.
281. Eligible expenditure commitments supporting overall highway, transportation and environmental improvements total £5.116 million in 2016/17. This includes £370,000 relating to savings proposals within the City Operations Directorate which reflect the impact of the proposals to increase income from moving traffic offences and reduces the need for further reductions to the budgets of eligible expenditure. A direct revenue contribution to capital of £150,000 is also reflected as a commitment in 2016/17. This is in relation to the funding of the Waungron Road bus interchange as set out in the Capital Programme. It is estimated that the balance in the reserve at 31 March 2017 will be £688,000.
282. On the basis of known levels of operating expenditure, other commitments and anticipated increases in income, the future balance in the reserve is estimated at £1.402 million by the end of March 2018, £2.113 million by the end of March

2019 and £2.803 million by the end of March 2020. A summary of the overall position on the Civil Parking Enforcement Account including the anticipated balances on the reserve is set out in Appendix 20 to this report. No assumptions have been made in this budget regarding the future use of reserve balances however the anticipated surpluses provide significant scope for future investment in line with the LDP and Parking Strategy to assist in delivering improvements and key transport schemes in the City. Use of the reserve for investment in initiatives will be reported as part of the Council's regular monitoring arrangements.

### Joint Committees and Relevant Bodies

283. Cardiff is currently the lead Authority for Glamorgan Archives and Prosiect Gwyrdd; it is also a member of the Central South Consortium Joint Education Service and the Shared Regulatory Service. In addition the Council has to meet a number of levies and contributions. The Budget as set out in Appendix 3 includes the following budgeted revenue contributions from the Council in respect of these committees and bodies:

<b>Joint Committees and relevant Body</b>	<b>2015/16 Revenue Contribution £</b>	<b>2016/17 Revenue Contribution £</b>
<b>Joint Committee</b>		
Glamorgan Archives	218,141	211,520
Prosiect Gwyrdd	58,800	37,000
CSC Joint Education Service	1,534,379	1,507,110
Shared Regulatory Service	3,579,000	3,023,000
<b>Joint Body</b>		
South Wales Fire & Rescue Service	16,507,721	16,775,747
Natural Resources Wales	140,688	136,467
Cardiff Port Health Authority	143,629	114,904
Newport Port Health Authority	4,681	4,681

284. The figures shown for 2016/17 are subject to confirmation by the respective Joint Committees.

### Activities inherited from Cardiff Bay Development Corporation including Harbour Authority

285. The Council agreed to take on the role of the Cardiff Harbour Authority in April 2000 following the winding up of Cardiff Bay Development Corporation (CBDC). The functions and responsibilities of the Harbour Authority are detailed in the Agreement made between the Council and CBDC (now the WG) under Section 165 of the Local Government Planning and Land Act 1980. The funding required to discharge these obligations is provided by a specific grant received from the WG. This funding and any income generated are ring fenced.

286. The arrangement has been subject to a number of negotiated changes over the past 15 years; the latest variation was signed on 3 April 2014 and included a three year fixed cost and asset renewal budget for April 2014 to March 2017. The revisions ensured that a sufficient funding level was made available to the Harbour Authority to meet the liabilities under the agreement and any additional duties relating to the Cardiff Bay Barrage Act 1993. Discussions are taking place with WG regarding the 2016/17 budget, however at this stage no further changes have been agreed.
287. Following a critical examination of the future resource requirements a fixed cost and asset renewal budget was agreed with the WG as part of the current three year agreement. This identified a total funding requirement for 2016/17 of £6.146 million.

#### Harbour Authority Funding Requirement 2014-15 to 2016-17

	2014/15	2015/16	2016/17
	£000	£000	£000
Expenditure	6,765	6,680	6,600
Income	(700)	(750)	(800)
<b>Fixed Cost Budget</b>	<b>6,065</b>	<b>5,930</b>	<b>5,800</b>
Asset Renewal	332	323	346
<b>Total Budget</b>	<b>6,397</b>	<b>6,253</b>	<b>6,146</b>

288. The revised fixed cost budget for 2016/17 is a reduction of £130,000 in addition to the £1.170 million applied in the previous two years. This has increased the level of financial risk to the Council as any unforeseen costs have to be absorbed within the agreed fixed cost budget unless there are qualifications within the agreement.
289. This reduction will be achieved by increasing the income target by £50,000 to £800,000. Income generation has steadily increased over the years mainly from car park fees and water activities and it is anticipated this will continue. A further reduction of £50,000 will be achieved by reducing the subsidy to cover staff costs at the Cardiff International White Water Centre. This will be achievable mainly through the increased income sources at this centre. The remaining savings will be made from reducing various operational budgets through improved efficiency.
290. With the overall reduction in budgets the ability for the Council to fund large unforeseen operational costs is reduced and therefore a cap of £100,000 has been set for the Council's risk on unforeseen barrage maintenance. Whilst the Council does have the ability to switch its fixed cost budgets to manage individual pressures it has been agreed to maintain this sum as a minimum retention figure for unforeseen additional costs within the project and contingency fund. The scale of the budget reductions limits the scope for increasing the contingency sum and therefore it has also been agreed that any capital receipts for land disposals are fully retained for new initiatives.

291. The Asset Renewal budget of £346,000 includes provision for the renewal and replacement of a range of items across all activities and functions. This includes various renewals on the Barrage and replacement of groundwater and environmental equipment, including vessels. In addition there is provision for the renewal of seating, litter bins and decking timber in the Inner Harbour and the replacement of equipment at the Cardiff Bay Water Activity Centre.
292. The estimated balance in the Project and Contingency Fund at 31 March 2016 is £707,000. A contribution of £400,000 has been committed to the hosting costs of the Volvo Round the World Yacht Race in 2018. It is therefore necessary to secure savings to generate fund balances to meet this commitment and maintain a realistic operating contingency. The option to retain capital receipts received from the disposal of land should enable this to be managed.

## **Capital**

293. The Capital Programme for the period 2016/17 to 2020/21 has been prepared following consideration of the demands on capital expenditure as well as resources for capital investment.
294. The Prudential Code for Capital Finance in Local Authorities includes Capital and Treasury Management indicators to be considered by the Council when approving capital expenditure plans and borrowing limits to ensure they are affordable, prudent and sustainable. Capital indicators are set out in this section of the report and treasury indicators and limits are included as part of the Treasury Strategy, also in this report.
295. The Council is over a period of time increasing the amount it needs to borrow and this will have a consequential increase on the capital financing budget within the revenue account. The impact of these increases is recognised in the Council's MTFP. The local capital financing prudential indicator shown later in this report highlights that the proportion of the Council's General Fund revenue budget that it spends on capital financing over the medium term is increasing as WG funding levels fall.
296. It is accepted that the Council needs to borrow to both meet the objectives of the Corporate Plan and invest in schemes that allow the Council to make savings. There are other initiatives such as the Cardiff Capital Region City Deal being developed which, when progressed will have significant capital expenditure implications. Careful consideration will need to be given to the affordability of additional borrowing, the amount of income receivable to support any borrowing over the period of the deal and risk implications on the Council's Treasury Management Strategy. No figures are assumed in the Capital and Treasury Management sections in relation to this initiative at this stage.
297. However in the medium term the Council must decide, following consideration of advice from the Section 151 Officer the threshold of Council borrowing. As the Council realigns itself strategically to lower

funding levels it will need to consider the level of debt and wherever possible seek to divest itself of assets to reduce debt levels and to meet the costs of expenditure.

### **Capital Expenditure Pressures**

298. The level of support provided by the WG is barely sufficient to meet current annual capital expenditure commitments. Continued expenditure above this level using additional borrowing is not sustainable in the long term and will require directorates to continue to secure better value, better outcomes and only undertake priority schemes.

299. Expenditure pressures include:

- ensuring a sustainable property asset base and that property is fit to deliver service improvements, by addressing the maintenance backlog, disabled access and health and safety requirements.
- meeting the aspirations of directorates to invest in existing assets or create new capital assets in order to improve service delivery and meet pressures of increasing demand.
- the need to maintain the highway and associated infrastructure such as roads, traffic signals, bridges, street lighting and address the backlog of repairs to avoid higher costs in future.
- to continue annual commitments and meet mandatory investment in services such as disabled adaptations, whilst WG General Capital Funding has been reduced.
- meeting the economic development, regeneration, employment and capital city aspirations of Cardiff and the region.
- CCR City Deal and other major regeneration projects being developed.
- requirement for capital investment to meet savings targets, to generate income, to reshape the way services are delivered and to meet the costs of organisational development.
- meeting expenditure commitments from capital schemes approved in previous years.
- implementing the Council's 21<sup>st</sup> Century Schools Programme.
- meeting expenditure commitments pending the generation of capital receipts.
- sustaining Public Housing Welsh Quality Standards and investment in creation of new Council housing as part of the Housing Partnering Scheme.

300. Set against the demand for these capital resources and the current economic climate, tough choices are required, which may include determining that a greater share of the Council's revenue budget will need to be set aside to meet capital investment.



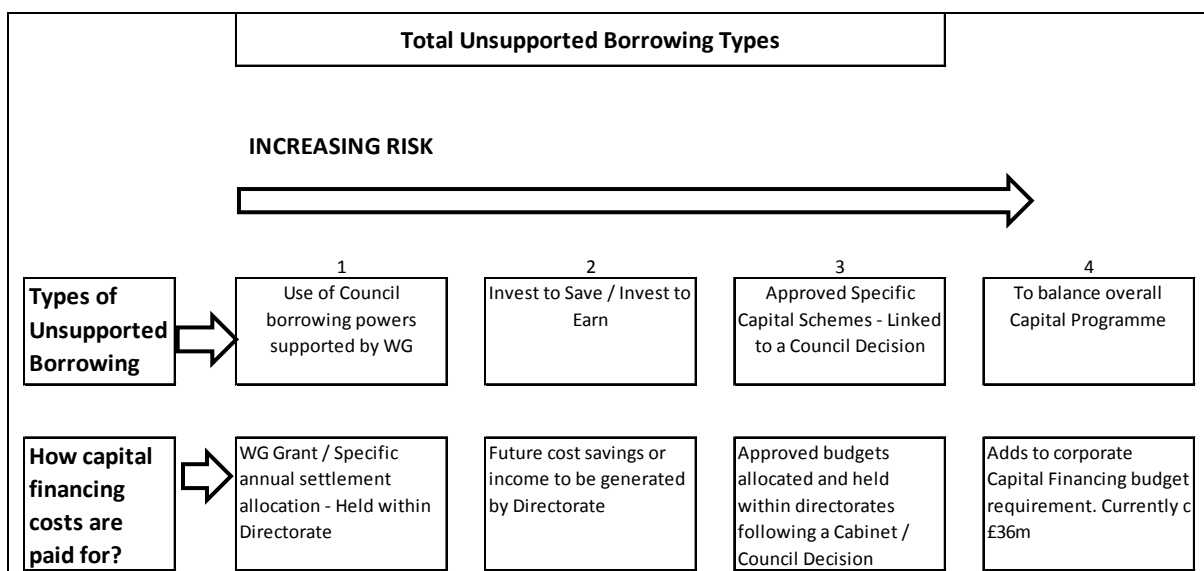
## Borrowing for the Capital Programme and Financial Resilience

301. Where capital expenditure has been incurred without a resource to pay for it immediately e.g. via capital receipts, grants or other contributions, this will increase what is termed the Council's Capital Financing Requirement (CFR) or its need to undertake borrowing. The Council is required to make an annual prudent provision for the repayment of historic capital expenditure from its revenue budget. This reduces the CFR. Calculation of the CFR is summarised in the following table.

	Opening Capital Financing Requirement (CFR)
+	Capital expenditure incurred in year
-	Grants, contributions, reserves and receipts received to pay for capital expenditure
-	Prudent Minimum Revenue Provision & Voluntary Repayment
=	Closing Capital Financing Requirement (CFR)

302. There are two main types of additional borrowing to pay for capital expenditure:-

- 'Supported Borrowing' - costs of servicing are included within the annual RSG the Council receives from the WG.
- 'Unsupported Borrowing' – costs of servicing to be met by the Council from Council tax, savings, additional income or sale of assets. The types of unsupported borrowing typically undertaken by the Council and how capital financing costs are paid for are shown in the following diagram.



303. It is the CFR that results in the need to borrow and it is important to note that any financial deficit and liabilities of the HRA are ultimately liabilities of the Council.

304. Also in order to comply with the guidance on landfill aftercare provision, the CFR is amended to include estimates of future expenditure

obligations over a 60 year period, included in a financial provision, the creation of which has been capitalised.

305. The actual CFR as at 31 March 2015 and estimates for current and future years are shown in the following table. The increase in the HRA during 2015/16 relates primarily to the Housing Finance Settlement to exit the subsidy system. The timing of capital expenditure, timing of capital receipts and new schemes that may be considered for approval in future years are risks to the CFR forecast and although it can be seen that the Council's underlying need to borrow is increasing. This will eventually need to be paid for by revenue savings, revenue income or Council Tax and Housing Rents:

<b>Capital Financing Requirement as at 31 March</b>					
	<b>2015 Actual £m</b>	<b>2016 Estimate £m</b>	<b>2017 Estimate £m</b>	<b>2018 Estimate £m</b>	<b>2019 Estimate £m</b>
General Fund	400	438	459	454	455
HRA	95	277	279	296	302
<b>Sub Total</b>	<b>495</b>	<b>715</b>	<b>738</b>	<b>750</b>	<b>757</b>
Landfill – (Provision)	26	25	23	22	21
<b>Overall CFR</b>	<b>521</b>	<b>740</b>	<b>761</b>	<b>772</b>	<b>778</b>

306. Summarising the above, it can be seen that the Council is undertaking additional borrowing which will eventually need to be paid for by setting aside more of the Council's revenue budget, or increasing income from external sources. This is as a result of:

- implementing new schemes and allocations and continuing with commitments included in the budget.
- undertaking invest to save schemes on the assumption that the borrowing will be repaid from future revenue savings or revenue income.
- use of Council borrowing powers by WG as part of their contribution towards 21<sup>st</sup> Century Schools Programme.
- further schemes are in the pipeline including housing development as well as the provision of interest free loans or repayable grants using WG Financial Flexibility funding available for a range of schemes. Whilst welcome as there is linkage between strategic aims of the Council, these schemes use local authority borrowing powers and therefore present an ongoing risk in terms of increasing the Council's capital expenditure which needs to be paid back.

307. This clearly limits the scope for additional borrowing in future years and is a factor considered by Members when determining the current and future Capital Programme along with:-

- The Prudential Indicators highlight the longer term impact of capital decisions on the revenue budget and affordability, prudence and sustainability.

- Consideration of potential initiatives not currently included in the Capital Programme.
- Control mechanisms for different types of unsupported borrowing before approval.
- Determining core areas of long term investment e.g. maximum exposure limits to unsupported borrowing for discretionary services.
- Whether the inherent risks in a project are better managed via commercial options rather than direct Council investment.

### Capital Programme 2016/17 – 2020/21

308. The inclusion of schemes in the Capital Programme has been profiled in accordance with technical advice relating to regulatory processes, timetables and work plans. However, with such an extensive Programme there remains a residual risk that expenditure may slip between years. Whilst acknowledging that some slippage cannot be avoided, directorates are reminded of the importance of:

- Minimising slippage wherever possible.
- Their responsibilities to ensure that they have sufficient and capable resources to develop and deliver capital schemes.
- Notifying the Financial Service of slippage at an early stage.
- Having sufficient and capable contract management processes and procedures in place.

309. The proposed Capital Programme for 2016/17 and indicative Programme for 2017/18 to 2020/21 is summarised in the following table and detailed in Appendix 21.

Capital Programme	2016/17* £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	Total £000
Annual Sums Expenditure	14,389	13,505	13,255	13,505	13,505	68,159
Ongoing schemes	20,921	47,517	13,010	837	750	83,035
New Capital Schemes	5,242	2,677	2,500	2,500	2,000	14,919
Schemes Funded by External Grants and Contributions	27,241	31,158	2,575	350	350	61,674
Invest to Save Schemes	21,131	18,930	17,240	5,700	500	63,501
<b>Total General Fund</b>	<b>88,924</b>	<b>113,787</b>	<b>48,580</b>	<b>22,892</b>	<b>17,105</b>	<b>291,288</b>
<b>Total Public Housing (HRA)</b>	<b>25,405</b>	<b>28,250</b>	<b>27,350</b>	<b>21,050</b>	<b>21,100</b>	<b>123,155</b>
<b>Total Capital Programme</b>	<b>114,329</b>	<b>142,037</b>	<b>75,930</b>	<b>43,942</b>	<b>38,205</b>	<b>414,443</b>

\* Includes slippage estimated at Month 9. The final slippage figure which will be known at outturn will be updated and reflected in the Month 4 2016/17 budget monitoring report.

310. It is essential that the achievement of key outcomes are managed within the estimates initially provided, with any variations approved and managed in accordance with the Council's Constitution. The five year programme includes:-

311. Provision for Existing Annual Sums including:

- Investment of £14.7 million in highway infrastructure including investment in carriageways/footways, improving the condition of structures such as bridges following principal inspections and replacement/installation of street lighting columns. A Highway Infrastructure Asset Management Plan is to be updated during the course of the year to identify longer term performance measures for the condition of such assets and options to address improvement in condition.
- Traffic management, junction, pedestrian and cycling improvements of £6.9 million aimed at addressing strategic pressures and utilising available funds to secure external grant matchfunding.
- Investment of over £22.6 million on Disabled Adaptations Grants, maintaining the significant investment that the Council has previously undertaken. This is made up of General Fund (£13.6 million) and Public Housing (£9.0 million) expenditure.
- A contribution towards owner occupier costs of housing regeneration schemes of £1.4 million to help secure wider regeneration where works are carried out to public housing estates. Environmental, security and sustainability improvements to neighbourhoods of £3.2 million, with schemes involving public realm, regeneration of community shopping centres and alleygating. It is essential that materials used in such schemes allow more to be done with limited resources and are sustainable in terms of the Council's ability to maintain improvements made.
- Investment of £21 million to improve the condition of Council buildings, including schools.

312. Provision for previously approved schemes including:

- The upgrade of Lamby Way Household Waste Recycling Centre costing £1.4 million to allow closure of the Wedal Road site.
- Completion of both the STAR Hub and Eastern Leisure Centre refurbishment at a cost of £3.5 million. Existing commitment towards hubs of £5.1 million which includes a proposal for a phase 2 extension of St Mellons Hub, subject to ensuring a level of capital receipts towards costs.
- Public realm delivery strategy for Central Square, £8.6 million, to be paid for by capital receipts and planning obligations.
- Estimated costs towards delivery of the new Central Transport Interchange and developments at Central Square costing £20 million. The intention has always been to identify a funding approach which maximises recovery of capital receipts and consideration will also be given to making applications for WG public transport funding to enable the integration between the new interchange and the train station.
- Advanced preparation works and contribution towards the development of commercial shop units at Maelfa Centre in Llanedeyrn costing £1.4 million.
- The Council's contribution and capital receipt assumptions towards the 21<sup>st</sup> Century Schools financial model of £28.2 million. There are

significant assumptions made about capital receipts in relation to potentially surplus school sites, subject to the outcome of consultation. Whilst some are the subject of appropriation to Housing, they do represent an enhanced risk to the Council's need to borrow and the affordability of the financial model.

- Maintaining the existing £2.5 million allocation towards schools suitability and sufficiency requirements in relation to buildings not part of the current 21<sup>st</sup> Century Schools programme.
- Completion of disabled adaptations costing £2 million for accessibility works at the Whitchurch Upper school site to allow progression of pupils post September 2016 as well as replacement of poor condition accommodation.
- Investment of £4.1 million in modernising technology systems to join up and improve business processes and the way services are accessed and delivered.

313. As well as the commitments identified above, provision for new capital schemes includes:

- Investment of £750,000 in 2016/17, for reconstruction of structurally deteriorating roads deemed a priority.
- Creation of a transport interchange at Waungron Road, linking the wider south-east Wales rail network with major bus corridors to the west and north-west of the city. Subject to detailed design, the balance of land not required for the interchange will be sold and used for this project with the balance funded from the Civil Parking Enforcement reserve to pay for the £500,000 works.
- A final tranche of £0.6 million of funding towards completion of commitments in the Hubs programme. It is essential that all hubs are delivered within the remaining allocation.
- Further investment of £5.9 million on top of existing allocations for Disabled Adaptations Grants to meet increasing demand and to meet current waiting time targets. However, future allocations are subject to a review of processes and effectiveness of outcomes and costs, in order that such significant expenditure can be financially sustainable. In recognition of this, it is proposed that the additional requirement of £1.9 million for 2016/17 is paid for by a one off direct revenue financing contribution, to minimise capital financing costs.
- Increasing the existing investment in suitability and sufficiency for schools from the current £0.5 million per annum to £1 million per annum.
- A medium term provision for further investment of £2 million in Whitchurch High School to determine a longer term Council wide approach to ensuring a permanent accessibility solution for disabled pupils.

314. Provision for known schemes proposed to be funded by grant bids and contributions including:

- Metro funding from WG of £1.5 million to implement bus corridor schemes on the A469 and A470.

- Match funding totalling £1.6 million for the Greener Grangetown Scheme from Dwr Cymru, Natural Resources Wales and Landfill Communities Fund, subject to completion of a partnership agreement and affordability of scheme.
  - WG cash grant of £50 million towards Band A school investment, subject to submission of detailed proposals and business cases.
315. External grants and other contributions available for financing capital expenditure are subject to bidding processes which may change over time and are also subject to in year approval. This makes planning for schemes difficult, particularly given the lead in time required to implement schemes. Approved grant funding allocations towards capital schemes will be updated during the course of 2016/17 as part of the budget monitoring process.

### **Invest to Save Schemes – Additional borrowing to be repaid from revenue savings / Income**

316. The General Fund programme includes significant borrowing commitments of £63.5 million for directorate schemes modelled to pay for themselves over a set period of time either from revenue resources budgeted for in future years, revenue savings or income generation. Invest to Save schemes will need to repay amounts owed from existing revenue budgets irrespective of whether the level of savings or income initially expected materialise, accordingly it is essential that there is a robust review of business cases before commitments are entered into, a requirement supported by Investment Review Board.
317. New invest to save capital schemes to be funded in this way include:
- An initial allocation of £4 million used to enhance the current leisure centre portfolio in order to maximise income generation opportunities and achieve a significantly reduced subsidy over the next three years. This service is part of an ongoing competitive procurement process and the quantum of borrowing that may be necessary to achieve the desired subsidy reduction may be subject to change as dialogue with potential operators continues and proposals are refined.
  - Additional equipment to expand enforcement of bus lanes and junctions as well as a phased programme for replacement of obsolete parking meters amounting to £1 million
318. Expenditure commitments previously approved on an Invest to Save basis include:
- Changing existing street lighting on strategic routes to Light Emitting Diode (LED) lights. This project estimated at £8 million is subject to business case approval and option appraisal in respect of the preferred technology.
  - A contribution towards economic development initiatives as part of the Cardiff Enterprise Zone. This is to be repaid from sums identified

in the revenue budget to support capital expenditure investment of up to £15 million to unlock further infrastructure investment and regeneration of the City. Timing of such expenditure is subject to approval of viable scheme.

- Further Council investment of £1 million to develop commercial properties in Maelfa Centre to generate a commercial rate of return.
- The WG Schools LGBTI and additional borrowing totalling £31.6 million undertaken as part of the investment in 21<sup>st</sup> Century schools.
- Smaller Invest to Save schemes approved during the period by a delegation to the Section 151 Officer, conditional upon a satisfactory business case.

### **Public Housing (HRA)**

319. The proposed 2016/17 Public Housing Programme is £25.405 million. Resources include the Major Repair Allowance (MRA) grant of £9.6 million, and a £5.6 million in-year revenue contribution. This includes the revenue benefit from housing finance reform which is to be retained on an annual basis for re-investment in enhancing the condition of existing housing stock and development of new stock.

320. As part of the agreement to exit from the subsidy system, the Council must adhere to a debt cap. Accordingly any new expenditure to be paid for by borrowing should be prioritised to ensure that improvements are either essential or have an element of pay back, to ensure that there are no long term issues of affordability and sustainability in respect of borrowing.

321. The continued receipt from WG of the MRA grant remains essential in order to sustain the Welsh Housing Quality Standard (WHQS) improvements made to the stock and the level of grant is subject to WG approval of the HRA business plan.

322. The aim of the future five year programme is to focus on:

- Regeneration strategies that deliver estate-wide improvements and aim to transform the environmental quality and safety of priority neighbourhoods. Improvements include works to defensible space, court-yards, parking, pedestrian routes and general environmental conditions. This includes the continuation of schemes at Trowbridge Mawr and Butetown, as well as Channel View in Grangetown.
- Investment in the stock itself in order to maintain the WHQS and to encourage tenants to accept improvements where they have not already done so.
- Investment identified in stock condition data such as roofing, rewiring, energy efficiency improvements such as central heating and boiler upgrades and potential cladding and replacement of windows and roofs of high rise blocks.
- Remodelling of existing stock for specific needs and removing hard to let properties including sheltered housing, remodelling accommodation to ensure they are fit for purpose and offer flexible living spaces promoting independent living. A £1.8 million

improvement scheme at Sandown Court is underway, with work to start on remodelling the former children's home at 150 Thornhill Road into self contained, flexible older person flats.

- To provide disabled adaptations and associated improvements to enable occupants to continue to live independently.
- New build council housing as part of the Housing Partnership Programme (HPP) using additional borrowing and planning contributions. The HPP was officially 'launched' in January 2016 with the signing of a Development Agreement between the Council and Wates Living Space. It aims to build at least 1,500 (of which 600 will be Council) new sustainable homes, of which 40% are affordable, enabling land in more sought after areas of the City to cross subsidise development in what may otherwise not be viable sites.

323. A number of sites will be appropriated from the General Fund into the HRA for the development of new housing. These include the former school sites at Rumney, Llanrumney, Mynachdy, Howardian as well as the site of the old STAR Centre. No additional expenditure is shown as a result of these transfers in to the HRA, as this is achieved by a transfer of debt from the General Fund to the HRA.

324. Consideration will be given to bringing budgets forward for direct land purchase to prepare for further phases of dwellings construction as well as appropriation of other suitable Council owned sites where opportunities arise and affordability allows.

325. As set out earlier in this report, the Council's MTFP covers a period of financial austerity and uncertainty. Therefore whilst approving the Capital Programme for the period up until 2020/21, a further review of the later years of the programme will be required as part of the 2017/18 Budget Strategy.

### Capital Resources 2016/17 to 2020/21

326. Resources proposed to be used to pay for capital works are summarised in the table below and detailed in Appendix 22.

Capital Resources	2016/17 £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	Total £000
WG General Capital Funding - Supported Borrowing	8,387	8,387	8,387	8,387	8,387	41,935
WG General Capital Funding - Grant	5,103	5,103	5,103	5,103	5,103	25,515
Major Repair Allowance Grant (HRA)	9,600	9,600	9,600	9,600	9,600	48,000
Additional borrowing	47,581	34,477	31,626	13,543	7,850	135,077
Earmarked Capital Receipts	5,207	42,971	11,691	87	0	59,956
Non earmarked Capital Receipts	3,000	2,000	1,000	1,000	1,000	8,000
Revenue & Reserves	8,210	6,040	5,831	5,872	5,915	31,868
Other External Grants and Contributions	27,241	33,459	2,692	350	350	64,092
<b>Total Resources</b>	<b>114,329</b>	<b>142,037</b>	<b>75,930</b>	<b>43,942</b>	<b>38,205</b>	<b>414,443</b>



327. The Council will in 2016/17 receive £13.490 million in grant and supported borrowing approval from the WG in order to determine its own spending priorities for capital items. This is a slight increase of 0.3% from 2015/16 but a significant reduction of circa 35% compared with 2010/11. The Council will be required to submit its Public Housing business plan to WG in March 2016, which assumes Major Repairs Allowance remains at previous levels of £9.6 million per annum.
328. Expenditure funded by unsupported borrowing of £134.9 million is proposed over a five year period in order to meet General Fund capital expenditure and to pay for invest to save schemes of £90.8 million and for public housing capital expenditure of £44.1 million. This excludes proposed land appropriations between the General Fund and the Housing Revenue Account.
329. Over the five years of the Capital Programme, £8 Million of non earmarked capital receipts has been assumed. In addition earmarked receipts and specific contributions of £25.2 million have been identified to offset expenditure and minimise levels of borrowing for 21<sup>st</sup> Century Schools Programme and £34.8 million for other schemes including Central Square redevelopment and the integrated transport hub. Until such sums are actually received this remains a significant risk to the level of additional borrowing. Should there be a delay in realising receipts or should amounts be lower than anticipated after contracts for expenditure have been let this will create significant financial risks to the Council.
330. Over the life of the Capital Programme and particularly beyond 2016/17 the level of external grants included are based on assumptions. This is due to the lack of data being available from grant funding bodies which clearly causes difficulty in longer term planning when considering capital investment decisions. Any grant approvals received during the year will be reported as part of the Councils budget monitoring as a basis for inclusion in the budget framework.

### **Planning Gain (Section 106) and Other Contributions**

331. There remains a significant level of existing contributions which directorates must focus on utilising within relevant timescales and in accordance with the terms and conditions of the agreements.
332. The following table summarises the balances of existing Section 106 and other contributions projected to be held by the Council at 31 March 2016 on a service basis, together with a planned profile of spend over future years determined by directorates. Due to the level of uncertainty, future amounts potentially receivable in respect of Section 106 balances have not been included. In previous years the planned profile of Section 106 spend for Parks and Public Open Space has not been achieved. This will require close monitoring by the directorate during the course of the year to ensure sufficient resource is prioritised to implement essential improvements using this source of funding held.

<b>Areas of Service</b>	<b>Projected Balance at March 2016</b>	<b>Planned Use 2016/17</b>	<b>Planned Use 2017/18</b>	<b>Planned Use 2018/19 and beyond</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Traffic & Transportation	1,850	703	699	448
Parks	2,740	1,325	1,138	277
Strategic Planning	228	133	95	0
Schools	270	270	0	0
Economic Development	932	494	438	0
Neighbourhood Regeneration	439	171	183	85
Other	20	20	0	0
<b>General Fund Total</b>	<b>6,479</b>	<b>3,116</b>	<b>2,553</b>	<b>810</b>
<b>Public Housing Total</b>	<b>2,418</b>	<b>0</b>	<b>2,301</b>	<b>117</b>
<b>Total</b>	<b>8,897</b>	<b>3,116</b>	<b>4,854</b>	<b>927</b>

333. Some of the schemes included in the profile above are:

- Traffic & Transportation – public transport improvements; junction improvements; bus stops and bus boarders; installation of CCTV and Real Time Information; telematics; and transportation schemes including the provision of bus routes in the City and strategic transport initiatives.
- Parks – Canal Park (£120,000); Water Play Park at Victoria Park (£55,000); Hendre Lake Park (£278,000), Llanishen Park (£170,000); public open space and cemetery works in Adamsdown (£118,000) and Parc Coed Y Nant (£148,000). It is essential that the Directorate devotes adequate resources to ensure that such schemes can be completed.
- Strategic Planning – regeneration scheme at Mount Stuart Square and a programme of works in the City Centre.
- Schools – contribution towards works at Coed Glas primary.
- Economic Development – Llanrumney Hall dilapidations (£294,000), Public Realm at International Sports Village (£300,000) and other regeneration initiatives.
- Neighbourhood Regeneration – funding for community facilities including the Council’s Hubs Programme e.g. STAR Hub (£166,000), environmental improvements and regeneration of community shopping centres.
- Housing – development of new Council housing as part of Housing Partnership Programme.

334. The Community Infrastructure Levy (CIL) regulations came into force in April 2010. CIL is a system of regulations that allow local authorities in England and Wales to raise funds from developers undertaking new building projects in their area. CIL sits alongside the existing Section 106 process, which remains relevant. However, CIL regulations change some of the key rules associated with Section 106, in particular to prevent overlap between the two funding mechanisms.

335. The money raised through CIL can be used to help fund a wide range of Relevant Infrastructure that is needed to support the development of an area. Relevant Infrastructure is not clearly defined in the regulations but may include:
- Roads and other transport facilities
  - Flood defenses
  - Schools and other educational facilities
  - Medical facilities
  - Sporting and recreational facilities
  - Open spaces
336. An Infrastructure Plan has been prepared in association with the Local Development Plan (LDP). This gives a broad indication of the range and extent of community infrastructure needed to support the Council's LDP's projected level of growth. It also provides an indicative cost and identifies potential funding sources to deliver the required infrastructure, however the financial implications of this will need to be considered as proposals are developed.
337. Public consultation on a Preliminary Draft Charging Schedule was undertaken during November and December 2014. The stage two Draft Charging Schedule will be consulted on in Summer 2016 before submission for Public Examination during Autumn / Winter 2016. The intention is to be in a position to implement the CIL in early 2017.

### **Asset Management Board and Investment Review Board**

338. Within this financial climate of reducing revenue resources it is clear that all necessary actions must be taken to reduce both initial capital expenditure by accelerating a reduction in the Council's asset base within a limited timeframe and also the subsequent need to borrow.
339. The role of the Asset Management Board is key in ensuring strategic and affordable choices are made in relation to property retention, acquisition and disposal, securing holistic solutions which consider both revenue and capital budgets. An Investment Review Board has been established as part of the Council's Organisation Development Programme arrangements and is chaired by the Corporate Director Resources. These Boards liaise closely to ensure that robust governance processes are in place to challenge and review both capital expenditure and the capital resources of the Council.
340. Confidence in the property market has improved as the economy has generally picked up. However, disposing of certain types of property remains challenging and is subject to securing interest from third parties. It is, therefore, important that where a property is identified for disposal it is promptly declared surplus and disposed of or demolished. This will avoid an adverse revenue budget impact in terms of increasing the Council's level of borrowing and costs in continuing to secure and maintain the property.

341. Releasing capital receipts often requires significant investment in improving other assets or providing alternative facilities which means an additional drain on realisable receipts. Additionally, the actual realisation of capital receipts will always be a relatively unpredictable exercise given the number of variable factors which can influence the end product. Accordingly, it is not prudent to set a Capital Programme on capital receipt assumptions alone without a clear and approved strategy for the realisation and timing of such receipts in so far as this can be determined. To do otherwise will put additional pressure on the Council's borrowing requirement and future revenue budget pressures.
342. The Council is taking forward a number of initiatives to ensure that it uses its own property effectively and that options are considered for collaboration with other partners across the City. These initiatives include:
- Continuing the rationalisation of office accommodation including the relinquishment of Global Link.
  - Implementation of a new Corporate Property Strategy and utilisation of the Asset Management Board to provide corporate awareness of all property related initiatives across the Council.
  - Review of the non-operational investment property estate to rationalise and re-invest proceeds in modernising this estate to sustain income. In accordance with the Cabinet report of 12 November 2015, it is proposed to establish a new governance arrangement to deal with the efficient management of the Investment Estate. This will involve a new Investment Board consisting of officers from Strategic Estates, Legal and Finance. Day to day management will be undertaken by Strategic Estates with external advice through an appointed commercial advisor. Recommendations for disposal, investment, re-gearing and acquisition will be presented quarterly to the Investment Board. Decisions will be reported quarterly to Asset Management Board and subsequently to Cabinet. In addition to the above a forward plan of actions and a report on the performance of the Investment Estate over the previous 12 months will be included in the annually published Corporate Asset Management Plan and will be subject to the Council's normal scrutiny processes.
  - Taking forward Community Asset Transfer projects.
  - Transferring sites identified as suitable for new build housing from the General Fund to the HRA, subject to determining a transparent value.
  - Using land holdings to secure regeneration of the City.

### **Other Capital Prudential Indicators**

343. The Council is required to set a number of indicators for the years 2016/17 to 2018/19 to assist in determining whether it establishes a prudent, affordable and sustainable Capital Programme. The CFR forecast considered earlier was one of these. In addition the Council has developed a local indicator which is detailed in this report for the period

up to 2020/21. Treasury indicators are included in the Treasury Management section of this budget report.

## Capital Expenditure

344. The capital expenditure incurred in 2014/15 and estimates of capital expenditure for the current and future years as set out in the programme are as follows:

<b>Capital Expenditure</b>					
	<b>2014/15 Actual £m</b>	<b>2015/16 Estimate £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
General Fund	62,849	89,088	88,924	113,787	48,580
HRA	19,665	210,675	25,405	28,250	27,350
<b>Total</b>	<b>82,514</b>	<b>299,763</b>	<b>114,329</b>	<b>142,037</b>	<b>75,930</b>

## Incremental Impact of New Capital Investment Decisions

345. Increases in capital expenditure must be affordable within the projected income of the Council for the foreseeable future. Accordingly the Council must calculate its budget requirement for each financial year to include the revenue costs that flow from new capital expenditure decisions which include:

- Increases in capital financing costs (interest and prudent provision for repayment of borrowing).
- Increases in running costs from new capital projects.

346. Whilst it is difficult to isolate the financial impact of new capital investment decisions proposed in this budget, the prudential indicator requires an estimate of the incremental impact on Band D Council Tax and on the weekly housing rent. The indicator is based on current gearing levels between central and local taxpayers. The calculation takes into account new schemes proposed in the budget only. It is required to exclude borrowing commitments for schemes proposed in previous budgets.

347. For the HRA it is assumed that the costs of any additional borrowing undertaken towards the development of new Council housing is offset by additional rental income from new properties.

<b>Incremental Impact of New Capital Investment Decisions</b>			
	<b>2016/17 Estimate £</b>	<b>2017/18 Estimate £</b>	<b>2018/19 Estimate £</b>
For the Band D Council Tax	0.29	2.15	4.33
Average Weekly Housing Rent	0.32	1.59	2.93

## Ratio of Financing Costs to Net Revenue Budget Stream

348. An indicator of the affordability of historic and future capital investment plans is the ratio of financing costs to net revenue budget stream. It identifies the trend in the cost of capital financing (excluding the running costs of schemes). Financing costs include:

- Interest payable on borrowing and receivable on investments.
- Penalties or any benefits receivable on early repayment of debt.
- Prudent revenue budget provision for repayment of capital expenditure paid for by borrowing.
- Reimbursement of borrowing costs from directorates in respect of Invest to Save schemes.

349. For the General Fund, the net revenue stream is the amount to be met from non-specific WG grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers. An increasing ratio indicates that a greater proportion of the Council's budget is required for capital financing costs over the planned Capital Programme period.

<b>Ratio of Financing Costs to Net Revenue Budget Stream</b>						
	<b>2014/15 Actual %</b>	<b>2015/16 Estimate %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>
General Fund	6.15	5.90	6.08	5.86	5.89	6.24
HRA	15.87	31.93	31.17	31.51	30.78	30.50

350. The percentage for the General Fund is estimated to increase from an estimated 5.90% in 2015/16 to 6.24% in 2019/20. This includes a change in the approach to calculating the prudent minimum revenue provision for supported borrowing from 2017/18 onwards which is reduced from 4.5% to 4% per annum. The HRA ratio increased significantly in 2015/16 due to additional borrowing undertaken for the housing finance reform settlement payment to WG ending the housing subsidy system.

351. It should be noted that these figures include a number of assumptions such as:-

- No new approvals of additional borrowing apart from that currently proposed over the period.
- Interest rates.
- The timing of borrowing decisions and expenditure.
- The total level of the WG revenue support etc, which can fluctuate due to transfers in or out of the settlement.

352. These variables have long term implications and are extremely uncertain.

353. Whilst the indicator above is required by the Prudential Code, it has a number of limitations. It:

- Does not take into account the fact that some of the Council's revenue budget is non-controllable, delegated or protected.
- Is impacted by transfers in and out of the settlement.
- Includes investment income which is highly unpredictable, particularly in future years.
- Does not reflect gross capital financing costs for schemes where additional borrowing is undertaken to be repaid from within directorate budgets.

354. Although there may be short term implications, invest to save schemes such as 21<sup>st</sup> Century Schools are intended to be net neutral on the capital financing budget. There are however risks that the level of income, savings or capital receipts anticipated from such schemes will not materialise, having a detrimental long term consequence on the revenue budget. This requires careful monitoring when considering future levels of additional borrowing.

355. Accordingly an additional local indicator has been developed for the General Fund and is shown in the table below for the period up to 2020/21. These local indicators show the ratio of capital financing costs of the Council expressed as a percentage of its controllable budget, excluding investment income:

<b>Capital Financing Costs expressed as percentage of Controllable Budget</b>								
	<b>2011/12 Actual %</b>	<b>2015/16 Estimate %</b>	<b>2016/17 Estimate %</b>	<b>2017/18 Estimate %</b>	<b>2018/19 Estimate %</b>	<b>2019/20 Estimate %</b>	<b>2020/21 Estimate %</b>	<b>Difference 11/12-20/21 %</b>
Net	13.47	15.42	15.79	15.27	15.53	17.00	16.82	24.87
Gross	15.17	19.13	19.94	20.31	20.80	22.51	22.37	47.46

356. In accordance with the principles of invest to save, the net ratio assumes that any costs of undertaking additional investment are recovered over time from directorate budgets, capital receipts or other budgets. The gross ratio indicates the gross capital financing cost i.e. it represents a worse case scenario.

357. An increasing percentage indicates that a greater proportion of the budget that is controllable is required for capital financing costs which are committed in the long term. The requirement to meet these additional costs can only come from future savings or from increases in Council Tax. This clearly limits the scope for additional borrowing in future years and reduces the Council's overall flexibility when making decisions on the allocation of its revenue resources. The percentages take into account the significant level of savings having to be found in 2016/17 and over the medium term.

358. Approval of any additional capital schemes to be funded from borrowing would negatively impact on the indicator. As set out earlier, this report reviews the Council's financial position across the life of the MTFP and identifies both the challenges ahead and the radical nature of the actions

required. Council-wide solutions across this time frame will need to be holistic and could include consideration of both revenue and capital spend. Whilst approving the Capital Programme for the period up until 2020/21, Cabinet should be aware that the later years of the programme, together with new material commitments in respect of these later years, will be subject to an ongoing review of the Council's financial standing and resilience.

## **Treasury Management**

359. Treasury management involves:-

- ensuring cash is available when needed
- investing temporary cash balances and
- ensuring appropriate borrowing facilities to pay for the Council's capital expenditure commitments and for the prudent management of its financial affairs.

360. The Council carries out its treasury management activities in accordance with a Treasury Management Code of Practice developed for public services in 2011 by the Chartered Institute of Public Finance and Accountancy (CIPFA). This requires the Council to set out the policies and objectives of its treasury management activities and adopt the four Clauses of Treasury Management. These were formally adopted by the Council in February 2010. Appendix 23 includes a glossary of terms used in relation to Treasury Management.

361. The Council's Audit Committee undertakes scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.

362. During the course of each year, a number of reports are produced in relation to the Council's treasury management activities including a strategy at the start of the year, performance reports during the year, a mid year report and an outturn report.

## **Treasury Management Strategy**

363. The Strategy links plans for capital investment, financing and affordability of those plans and how cash will be safely managed to meet the Council's financial commitments and objectives.

364. It is accepted that no treasury management activity is without risk. In undertaking its treasury management activities, the overriding objective is to minimise the risk of adverse consequences or loss, whilst at the same time not unduly constraining investment returns or unnecessarily incurring interest costs.

365. The successful identification, monitoring and control of risk are integral elements of treasury management activities. Risks include credit and counterparty, liquidity, interest rate, refinancing, fraud and regulatory. The Council has Treasury Management Practices to address and



mitigate these risks which were last updated in March 2015 following a review by Internal Audit and Audit Committee.

366. The Council recognises the value in the use of treasury advisors to support the management of risk and to access specialist skills and resources. Support provided by Capita Asset Services Treasury Solutions includes advice on timing of decision making, training, credit updates, economic forecasts, research, articles and advice on capital finance, with the terms of appointment reviewed periodically.
367. Responsibility for treasury decisions ultimately remains with the Council.
368. The following paragraphs set out the integrated strategy for borrowing and investments for 2016/17. The strategy covers:
- The current treasury position.
  - Economic background and prospects for interest rates.
  - Borrowing, including:-
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Council borrowing requirement and choice between internal and external borrowing and
    - Borrowing Strategy
  - Treasury management indicators and limits for 2016/17 to 2018/19
  - Investment Policy and Strategy, including security and investments approved for use.
  - Training.
369. The proposed strategy is based on information known at the time of writing this report. Any changes on treasury management will be reported in future scheduled reports to Council, Cabinet and Audit Committee treasury management during the course of the year.
370. The Strategy includes the impact of the Housing Revenue Account Subsidy (HRAS) buyout completed during 2015/16, when borrowing of £187million was undertaken and paid to WG / HM Treasury. In determining the approach to managing the Council's debt, consideration was given as to whether HRA debt is notionally split from the rest of the Council debt, which would necessitate two different strategies being prepared, or whether the Council continues with the current single integrated strategy and single loans pool. This strategy is based on the latter, with rationale included in the 2015/16 budget report as well as later in this report.

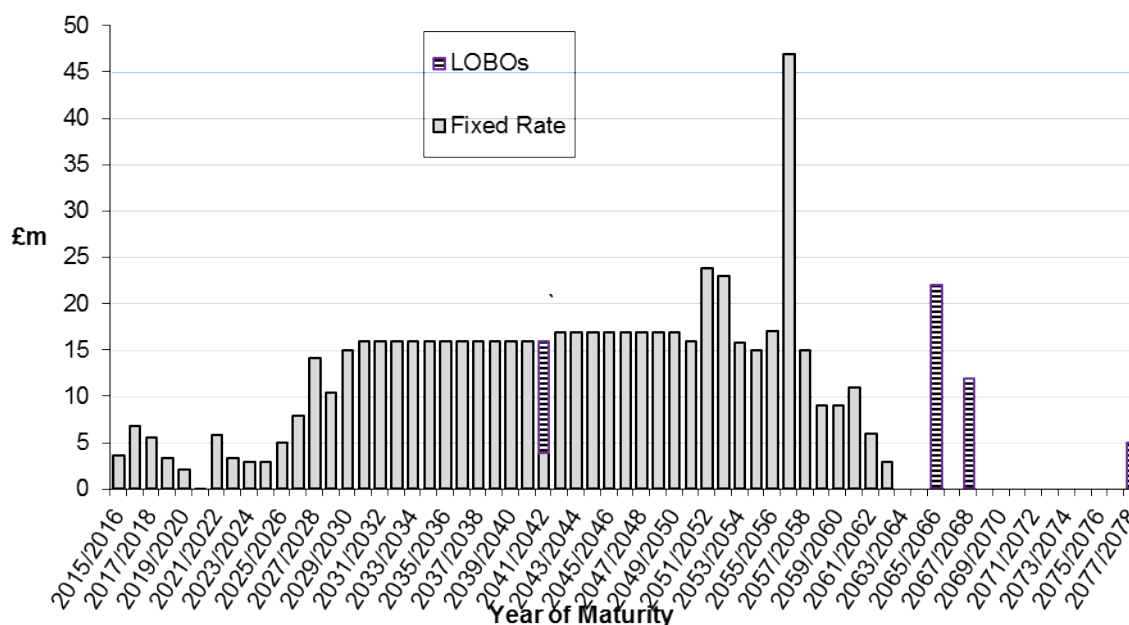
## **The Treasury Position**

371. The treasury position for borrowing and investments as at 31 December 2015 is shown in the following table. Borrowing is predominantly made up of fixed interest rate loans payable on maturity. Investments fluctuate daily and are represented by fixed term deposits, notice deposit accounts and money market funds. These balances arise due to the timing of cash

flows and working capital as well as the existence of reserves, provisions and balances required for future use.

	<b>Principal £m</b>	<b>Average Rate %</b>
<b>External Borrowing</b>		
- Public Works Loan Board	614.5	4.94
- Market Loans	52.0	4.13
- Other	0.9	0
<b>Total Debt</b>	<b>667.4</b>	<b>4.87</b>
<b>Treasury Investments</b>	<b>83.4</b>	<b>0.7</b>

372. The Council's current debt maturity profile is shown in the following graph on the assumption that all loans run to their final maturity.



373. The main loans maturities during 2016/17 are PWLB loans of £6.7 million. Unless the Council's Lender Option Borrower Option loans (LOBO's) are required to be repaid early, very little debt matures within the next 10 years.

374. LOBO products are loans to the Council where the lender can request a change in the rate of interest payable by the Council on pre-determined dates. The Council at this point has the option to repay the loan. The Council has six such loans totalling £51 million.

375. Apart from the option to increase rates these loans are comparable to PWLB loans and have no other complications such as variation in interest rates or complex terms. Interest rates on these loans range between 3.81% and 4.35% and are below the Council's average rate of interest payable. Details of the loans are shown in the next table.

<b>Lender Option Borrower Option (LOBO) Loans</b>			
<b>Potential Next Repayment Date</b>	<b>Loan Value £m</b>	<b>Option Frequency Every</b>	<b>Full Term Maturity Date</b>
01/03/2016	6	6 months	23/05/2067
21/05/2016	6	6 months	21/11/2041
21/05/2016	6	6 months	21/11/2041
21/05/2016	6	6 months	23/05/2067
15/01/2018	5	5 years	17/01/2078
21/11/2020	22	5 years	23/11/2065

376. It should be noted that £24 million of the LOBO loans are currently subject to the lender potentially requesting a change in the rate of interest payable every six months. A further £5 million and £22 million have call options in January 2018 and November 2020 respectively and every five years thereafter.
377. Risk of early repayment is deemed to be low, however in the longer term, options will need to be considered to reduce any potential large repayments in a single year.

### **Economic background and prospects for Interest Rates**

378. The following table gives the Council's treasury management advisor's latest forecast of interest rates taking into account the 20 basis point certainty rate reduction available for PWLB loans to eligible local authorities. It is a central forecast, acknowledging for example that the bank rate may rise sooner if there are sustained and robust UK growth, employment and inflation expectations.

	<b>January 2016 %</b>	<b>March 2016 %</b>	<b>March 2017 %</b>	<b>March 2018 %</b>	<b>March 2019 %</b>
Bank Rate	0.50	0.50	0.75	1.25	1.75
5yr PWLB rate	1.92	2.00	2.40	2.80	3.20
10yr PWLB rate	2.58	2.60	3.00	3.40	3.70
25yr PWLB rate	3.36	3.40	3.70	4.00	4.10
50yr PWLB rate	3.18	3.20	3.50	3.90	4.00

Forecast at January 2016

379. Whilst counterparty risk of organisations whom we may invest with has eased compared to previous years, financial markets remain volatile and economic forecasts remain uncertain. Growth in the UK economy is strong, however, for it to be balanced and sustainable, it needs to move away from dependence on consumer expenditure and the housing market. With inflation currently subdued due to falling food, oil and gas prices, there also remains uncertainty around how quickly inflation will rise in the next few years. Whilst there are also a number of geopolitical risks that impact on interest rates, two key factors used by the Bank of

England in determining when to change interest rates are growth and inflation.

380. The bank rate, which is unchanged since March 2009, is currently forecast to rise towards the end of 2016. As a consequence and coupled with the Bank of England's funding for lending scheme, returns from Council Investments are likely to remain minimal. In respect of future borrowing rates, these are set to rise should growth and inflation be firmly established, as a result of higher levels of UK Government borrowing and reversal in quantitative easing. This will result in higher future borrowing costs for the Council.

## **Borrowing**

### **Policy**

381. Borrowing to pay for capital investment has long-term financial consequences and risks, with decisions taken many years ago impacting currently and in the future in the form of interest and provision for repayment of capital expenditure. These costs are assumed in the Council's revenue budgets.
382. Loans are not undertaken for specific schemes or directorates. All loans are taken in the name of the Council and secured on all revenues of the Council meaning that all loans and investments are pooled. The Council will aim to manage its debt portfolio on a long-term basis with a high regard to the effects on current and future Council Tax and Rent Payers.
383. The view of the Section 151 Officer is to maintain a single pool for all Council debt. In determining this approach, the Council has also sought advice from its treasury management advisors and considered guidance from CIPFA.
384. The reasoning for this included consideration of the following:-
- One pool is consistent with the pooling of treasury management activities for effective management of risk and control.
  - The Council through delegation to the Section 151 Officer is ultimately responsible for all debt, including debt undertaken by the HRA. Interest costs are recharged to the HRA, in the same way as to directorates who take invest to save schemes.
  - All loans are charged across all the revenues of the Council in accordance with the Local Government Act 2003.
  - In accordance with good treasury management practice loans are not taken out for specific purposes.
  - There is no mechanism to charge HRA for risks of default on Investments. This is all borne by the General Fund so it is deemed inconsistent to treat debt and investments separately.
  - A single pool avoids the requirement for two separate Treasury Strategies and documents at all current reporting meetings. The extent of additional work in administration, management and reporting of maintaining two pools should not be underestimated.

- Planned loan maturities for HRAS exit were taken with regard to the existing debt maturity profile to smooth the historic debt maturity profile to minimise the overall re-financing risk to the Council.
  - The Prudential Code still requires indicators to be aggregated and treasury risk is managed across the council.
  - De-pooling is a one off exercise which ignores the historic benefit which may have accrued either to the HRA or to the General Fund.
  - One pool avoids the risk of over borrowing. If the HRA pays off debt quicker than anticipated, this allows flexibility to transfer loans at nil cost to the General Fund. In addition the HRA can secure a long term, stable portfolio.
385. The Council's Borrowing Strategy for 2016/17 and the capital financing revenue budgets included in the MTFP will consider all options to meet the long-term aims of:
- Promoting revenue cost stability to aid financial planning and avoid a stop-start approach to service delivery, although it is recognised that this may have a financial impact.
  - Pooling borrowing and investments to ensure the whole Council shares the risks and rewards of treasury activities.
  - Reduction over time in the average rate of interest on overall Council borrowing.
  - Ensuring any refinancing risk is manageable each financial year, using opportunities to re-profile borrowing where cost effective to do so both in the short and long term.
  - Ensuring borrowing plans are aligned to known capital expenditure spending plans, the useful life of assets created, financial reserve levels and consistent with the prudent provision for the repayment of any such expenditure paid for by borrowing.
386. The Council will not borrow in advance of need, purely to profit from any investment of the extra sums borrowed. However, if it is felt that by borrowing in advance of need up to a maximum of three years, opportunities exist to lock into favourable long-term rates and the credit risks associated with this can be managed, then this is an option that will be considered.

**Prudent Repayment of Capital Expenditure – Annual Minimum Revenue Provision (MRP) Policy Statement for 2016/17**

387. The Council has a statutory duty to calculate and set aside each year from its annual revenue budget an amount 'which it considers to be prudent'. This results in a reduction in the Council's underlying need to borrow (CFR).
388. The broad aim of the 'prudent provision' is to ensure that debt arising from Capital expenditure is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits to service delivery (useful life) or in the case of borrowing supported by the WG via the RSG, reasonably commensurate with the period implicit in the determination of that grant.

389. Legislation does not define what constitutes a 'prudent provision'. Instead WG has provided guidance and examples in order to interpret that term. Whilst authorities must have statutory regard to that guidance, other approaches can be considered if they are deemed prudent in the judgement of the Section 151 Officer and individually designed for each local authority circumstance.
390. A statement on the Council's policy for its annual MRP is required to be submitted to full Council for approval before the start of the financial year to which the provision will relate. Similar to decisions to undertake capital expenditure funded by borrowing, decisions in respect of the allocation of MRP have short, medium and very long term impacts. Impacts of changes in policy decisions should be considered over that time horizon.
391. It is proposed that the Council's MRP Policy will be as follows with any change in the level, timing and method of provision in year delegated to the Section 151 Officer :
- General Fund historic expenditure prior to 1 April 2004 as well as subsequent supported borrowing approved by the WG is to be provided for at 4.5% on a reducing balance basis in 2016/17. This is in excess of the WG grant basis of 4%, and will continue to be reviewed for ongoing affordability and consideration of what expenditure the Council incurs utilising supported borrowing.
  - HRA supported borrowing, which was part of the previous housing subsidy system is to be provided for at 2% on a straight line basis. MRP on the £187million settlement buyout payment is to be at 2% straight line basis, as a minimum, with the first provision made in the year of the settlement.
  - Additional borrowing for a general increase in investment either in the General Fund or HRA to balance the Capital Programme in a year is to be provided for on a straight line basis over the estimated average life of the assets created.
  - Any additional expenditure linked to specific schemes e.g. Invest to Save, 21<sup>st</sup> Century Schools etc. is to be provided for on a straight line basis, or over the estimated useful life of assets being created or a shorter period as determined by the Section 151 Officer or suggested periods determined by WG as is the case with LGBI.
  - Revenue Provision in excess of the above requirements can be made subject to affordability and following advice of the Section 151 officer.
  - MRP may be waived on expenditure recoverable within a prudent period of time through capital receipts (e.g. land purchases) or deferred to when the benefits from investment are scheduled to begin.
  - The MRP charged against liabilities under finance leases, or contracts that have the characteristics of finance leases, shall be equal to the principal element of the lease repayment, calculated on an annual basis.

## Council's Borrowing Requirement

392. The following table shows the projected level of external borrowing currently held by the Council, taking into account any scheduled loan repayments. It compares this to the projected CFR based on current, known estimates and timing of the Council's capital expenditure plans, subject to approval of the Council's budget in February 2016. The difference between the projected CFR in 2018/19 (£757 million) and the level of external borrowing after any planned repayments (£649 million) is £108 million, i.e. there will be a requirement for additional external borrowing over the medium term.

<b>Gross Debt compared to Capital Financing Requirement</b>					
	<b>2014/15 Actual £m</b>	<b>2015/16 Estimate £m</b>	<b>2016/17 Estimate £m</b>	<b>2017/18 Estimate £m</b>	<b>2018/19 Estimate £m</b>
External borrowing at 1 April	473	470	665	658	652
New borrowing	5	13	tbc	tbc	tbc
Settlement payment		187			
Scheduled repayments	(8)	(5)	(7)	(6)	(3)
<b>External Borrowing at 31 March</b>	<b>470</b>	<b>665</b>	<b>658</b>	<b>652</b>	<b>649</b>
Capital Financing Requirement	495	715	738	750	757
<b>Under / (Over) borrowing</b>	<b>25</b>	<b>50</b>	<b>80</b>	<b>98</b>	<b>108</b>

393. To be meaningful for treasury management purposes, the CFR figures in this strategy exclude the accounting provisions for the management and aftercare of landfill sites which may not be incurred for many years to come. Accordingly, when setting the treasury indicators, landfill provision is excluded from the calculations, except for the setting of the Authorised Limit for external debt, which is required to be set under statute.

394. Some of this requirement may be covered by internal borrowing in the short term, dependent on the sustainability and risks of any internal borrowing position. The table demonstrates that over the medium term, borrowing is undertaken only for a capital purpose and the Council is not borrowing in advance of need.

### External versus Internal borrowing

395. Whilst interest rates for borrowing are greater than interest rates the Council receives for investments (the cost of carry), it makes financial sense to use any internal cash balances held in the short-term to pay for capital expenditure and minimise costs (Internal Borrowing), rather than undertake external borrowing. However, there is a risk that the Council may have to borrow at higher rates when it does actually need to borrow in future and so this position is kept under continuous review.

396. A high level balance sheet review undertaken at a point in time suggests that a maximum level of internal borrowing is circa £70 million. However this is dependent on cash flows, the timing of use of General and Earmarked Reserves and provisions and longer term pressures in the MTFP.

### **Borrowing Strategy**

397. The forecast level of internal borrowing at 31 March 2016 in relation to the CFR is deemed manageable. However, based on the current forecasts of future capital expenditure plans and high level analysis of the sustainability of internal borrowing from the Council's balance sheet position for future years, external borrowing will be required to be undertaken in the medium term.
398. The following strategy is proposed to manage the Council's Capital Financing Requirement:-
- Whilst investment rates remain lower than long term borrowing rates internal borrowing will be used to minimise short-term costs where possible.
  - Any external borrowing is to be a balance between temporary borrowing on a short term basis to minimise revenue costs (the cost of carry) where possible, with options considered to take an element of the Council's borrowing requirement with loans of longer periods. This strategy should help to mitigate against the risk of borrowing rates rising faster than currently anticipated.
399. If it were felt that there was a significant risk of a sharp rise in long and medium-term rates, then fixed rate borrowing may be undertaken whilst rates were still comparatively lower. If there was a significant risk of a sharp fall in rates, then long-medium term borrowing would be deferred, following consideration of internal borrowing capacity.
400. Current interest rates on the Council's existing debt portfolio compared to new borrowing rates and the high penalty rates charged by the PWLB for early debt repayment, results in limited options for restructuring of debt. Options have been considered but these have resulted in very short term financial gains outweighed by the risk of higher longer term costs. Opportunities will continue to be reviewed to determine whether options exist to reschedule debt at an acceptable refinancing risk.

### **Treasury Management Indicators and limits for 2016/17 – 2018/19**

401. The Council is required to set its treasury management indicators for the years 2016/17 - 2018/19. Appendix 23(a) gives further background in respect of the Prudential Indicators.
402. The Council must set and keep under review how much it can afford to borrow from debt or other long-term liabilities for the forthcoming year and the following two financial years (the Affordable Borrowing Limit). It must have regard to the Prudential Code and locally determined



indicators when setting this limit and be content that capital investment plans are within sustainable limits and that the impact upon future Council Tax payers and tenants is acceptable.

403. It is recommended that the Council approve the following authorised limits (Statutory limit under Section 3(1) of the Local Government Act 2003) and operational boundaries for the next three years (figures for 2015/16 are for comparison only). The undertaking of other long-term liabilities, within the overall limit, is delegated to the Section 151 Officer based on the outcome of financial option appraisals and best value considerations.

#### Authorised limit for external debt

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Limit for external borrowing and other long-term liabilities	781	780	780	780

404. This limit is consistent with known commitments, existing plans and proposals contained within the budget for capital expenditure, financing and revised accounting requirements. It includes landfill provision and is based on the estimated and prudent, but not worst case scenario and in addition with sufficient headroom over and above this to allow for operational management and unforeseen cash movements. The limit for the Council overall has been set at a constant level of £780 million for 2016/17 to 2018/19.
405. Whilst there is currently no self imposed or national imposed overall cap on the level of General Fund borrowing, upon exit from the Housing Subsidy system, HM Treasury required a cap on HRA borrowing to be implemented. Breach of this cap could result in the Council incurring financial penalties from WG. The cap is based on the level of the HRA Capital Financing Requirement at the end of each year. The table below shows that based on HRA business plan forecasts for capital expenditure, capital resources to pay for it and prudent provision for repayment of capital expenditure, the Council is forecast to be within the cap currently set.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
HRA CFR forecast at 31 March	277	279	296	302
HRA CFR Current Cap	316	316	316	316
<b>Headroom / (Excess)</b>	<b>39</b>	<b>37</b>	<b>20</b>	<b>14</b>

406. The HRA thirty year business plan will need to be monitored closely in order to ensure that any risks to the breach of the Cap and any unsupported borrowing is prioritised and remains affordable and sustainable in the long term.

## Operational boundary for external debt

407. The proposed operational boundary or projected level of external debt (excluding landfill) is initially set at the anticipated level of the CFR at the end of each year. This will be subject to the level and timing of borrowing decisions.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Boundary for external borrowing and other long-term liabilities	665	738	750	757

408. The Council's actual external debt represented by borrowing at 31 March 2015 was £470 million, with no significant other long-term liabilities. The Council's external debt increased significantly in April 2015 due to the £187 million payment of the HRA subsidy buyout payment.

## Limits for fixed and variable interest rate exposure

409. Various upper limits are required to be set in order to manage risk and reduce the financial impact on the Council of any adverse movement in interest rates. The limits below reflect that whilst the majority of Council borrowing is currently at long term fixed rates, there could be exposure to variable rates. This is in the form of interest on LOBO loans being changed early, the strategy to utilise internal borrowing where possible and short term external borrowing when required to manage cash flow.

	2015/16 %	2016/17 %	2017/18 %	2018/19 %
Upper limit for fixed interest rate exposure	100	100	100	100
Upper limit for variable rate exposure	25	25	25	25

## Maturity structure of fixed rate borrowing

410. Limits are set to guard against a large element of the Council's debt maturing and having to be refinanced in a very short space of time, when it may not be economically favourable to do so. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be undertaken for the optimum period. The table assumes that loans run to their final maturity, however a separate column is also included to show the maturity profile should the Council repay its LOBO loans early.

<b>Maturity structure of borrowing in 2016/17</b>	<b>Upper limit</b>	<b>Lower limit</b>	<b>Actual to Maturity</b>	<b>Actual if LOBOs Repaid Early</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Under 12 months	10	0	0.99	4.64
Over 12 months and within 24 months	10	0	0.82	1.60
Over 24 months and within 5 years	15	0	0.82	4.17
Over 5 years and within 10 years	20	0	2.95	3.05
Over 10 years and within 20 years	30	0	20.96	21.65
Over 20 years and within 30 years	35	0	23.92	22.90
Over 30 years and within 40 years	35	0	26.06	26.92
Over 40 years and within 50 years	35	0	17.79	15.07
Over 50 years and within 60 years	15	0	4.96	0.00
Over 60 years and within 70 years	5	0	0.73	0.00

## **Investments**

### **Policy**

411. The Council has regard to the WG Guidance on Investments issued in 2004 and its subsequent amendments, as well as the 2011 revised CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA Treasury Management Code).

412. The Council recognises that given the nature of investments, a trade-off between security, liquidity and yield cannot be avoided i.e. there is risk of default. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity, however the level of risk will be contained by ensuring:-

- All investments and repayments are in sterling.
- Investment instruments identified for use in the financial year are listed under 'Specified' investments and 'Non-Specified' investment categories, dependant on their complexity and risk.
- A list of highly credit worthy counterparties with whom to invest is created and monitored.
- Diversification of approach, investment product and counterparties are sought where possible to avoid concentration of risk.
- Any set limits are implemented with immediate effect following approval of this Treasury Management Strategy by Council.
- Continual monitoring of treasury activities with the categories of investments that may be used, the credit criteria and associated limits in determining with whom to invest and timing of decisions being delegated to the Section 151 Officer.

### **Specified Investments**

413. A specified investment is defined as one :

- being for a period up to one year.

- which is in straightforward easily understood low risk products.
- not involving corporate share or loan capital.
- where the principal sum to be repaid at maturity is the same as the initial principal sum invested.

414. Specified investments may comprise up to 100% of the Council's total investments.

<b>Instruments approved for use</b>	<b>Minimum Credit Criteria</b>
Debt Management Agency Deposit Facility	Assumed Government Guarantee
Term deposits – UK government and other Local Authorities	Assumed Government Guarantee
Deposits with the Council's banking services provider	Long-term A /Short-term F1
Term deposits – banks and building societies	Long-term A /Short-term F1
Term deposits with variable rate and variable maturities up to one year e.g. structured investment products	Long-term A /Short-term F1
Deposits with banks wholly or partly nationalised or where guaranteed by high credit rated (sovereign rating) countries	Long-term A /Short-term F1 Assumed Government Guarantee

### **Non-Specified Investments**

415. These are all other investments not meeting the definition of a specified investment which could be used in order to achieve diversification and manage liquidity needs. A maximum upper level of £60 million is to be set for non-specified investments including investments for greater than one year.

<b>Instruments approved for use</b>	<b>Min Credit Criteria</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Term deposits with Local Authorities (with maturities in excess of 1 year)	Assumed Government Guarantee	15	2 Years
Term deposits – banks and building societies (with maturities in excess of 1 year)	Long-term AA- /Short-term F1+	15	2 Years
Deposits over one year with banks wholly or partly nationalised institutions where guaranteed by high credit rated (sovereign rating) countries	Long-term A /Short-term F1 Government Guarantee	20	2 Years
Term deposits with variable rate and variable maturities in excess of 1 year e.g. structured investment products	Long-term AA- /Short-term F1+	10	2 Years

<b>Instruments approved for use</b>	<b>Min Credit Criteria</b>	<b>Max % of total investments</b>	<b>Max. maturity period</b>
Certificates of Deposit (In-house)	Long-term AA- /Short-term F1+	10	Maximum 2 year duration
UK Government Gilts and Gilt funds (In-house)	Assumed Government Guarantee	40	Maximum 3 year duration
Treasury Bills (In-house)	Assumed Government Guarantee	40	6 Months
Collective Investment Scheme structures - Money Market Funds	AAA Constant Net Asset Value	60	Weighted Average Maturity 60 days
Other Collective Investment Schemes structures - e.g. enhanced cash funds, Government and Corporate Bond, Gilt or Liquidity Funds and floating rate notes	AAA Variable Net Asset Value	20	Weighted Average Maturity 3 years

416. The Council uses money market funds and other collective investment funds which pool together investments in a diversified portfolio of products and sectors mainly high quality, short-term money market instruments such as bank deposits, certificates of deposit, government guaranteed bonds, corporate bonds and commercial paper. It should be noted that any such funds are triple A rated and allow instant access.

### **Security**

417. Credit and fraud risk are managed through procedural requirements and controls. The Council uses Fitch Credit ratings as a basis for assessment of credit worthiness of institutions it will invest with (See Appendix 24). Changes in the criteria and decisions with whom to invest are delegated to the Section 151 Officer. Commercial organisations (counterparties) on its approved list will have at least the short-term credit rating of F1 and be authorised institutions within the meaning of the Financial Services and Markets Act 2000. The rating F1 infers “Highest Credit Quality” and indicates the strongest capacity for timely payment of financial commitments.

418. For internally managed investments provided by the private sector, the lending list for any new direct investment in an organisation is based on the following credit criteria:

<b>Fitch Ratings (minimum)</b>	<b>Long-term</b>	<b>Short-term</b>	<b>Limit £m</b>
Overnight to one year	A	F1	10
Overnight to two years	AA-	F1+	12
UK Part Nationalised Banks overnight to two years	A	F1	15

419. For internally managed funds the maximum limit for direct investment in any one group of related companies is £15 million.
420. Credit ratings are monitored regularly through use of the treasury management advisor's credit service. If a downgrade results in the counterparty or investment scheme no longer meeting the Council's criteria, its further use for new investment will be withdrawn immediately.
421. Where investments are held with a counterparty which falls below the Council's approved criteria for new investment, the investments will be reviewed and options to call back funds before the maturity date would be investigated. It should be noted that any early repayment is only at the discretion of the borrower and often at a penalty.
422. Whilst Fitch ratings form the basis of the Council's threshold criteria, the Council will also have regard to the following when determining with whom to invest:
- Rating updates provided by treasury advisors in respect of all three credit rating agencies, as well as credit default swaps, support ratings and other market data.
  - Media reports as well as sovereign credit ratings with the minimum requirement being a Fitch sovereign rating of AA for non UK based institutions.
  - The informed judgement of treasury staff and treasury management advisors after consideration of wider economic factors.
  - Financial sector and country exposure.
  - The extent to which organisations who do not meet the above criteria, are nationalised.

## **Liquidity**

423. The Council aims to have sufficient funds to ensure it does not become a forced borrower for a significant period of time at rates in excess of what may be earned on such investments. In determining the maximum periods for which funds may be available and can be invested, short term cash flow forecasts are undertaken and a longer term balance sheet review is undertaken as part of the calculation of Prudential Code indicators.

## Investment Strategy

424. Given uncertainty of financial markets, the Specified and Non Specified investments above allow for a range of products to be available to manage short term investment balances and diversification.
425. Given the likelihood of internal borrowing and the interest rate forecasts identified above, longer term investments above one year will be unlikely. The Debt Management Agency Deposit Facility will be used only as a last resort.
426. The Investment Strategy for 2016/17 will continue to adapt to changing circumstances and market sentiment, with a pragmatic approach taken. Credit criteria changes are delegated to the Section 151 Officer, which allows a prompt response to uncertainties with the Council being kept informed of significant changes through the various reports it receives on treasury activities during the course of the year.

## Treasury Management Training

427. Treasury staff directly and regularly involved in borrowing and lending activities are provided access to a wide range of training. This includes seminars and workshops organised by treasury advisors bringing together practitioners from different authorities; seminars organised by CIPFA and other national bodies, regular contact with a client relationship manager as well as their briefing notes and articles. Staff responsible for treasury activity on a day to day basis have a recognised accountancy qualification and are encouraged to undertake relevant treasury management training.
428. The Council's Audit Committee Members who are responsible for scrutiny of treasury management activities have also been provided with training and offered one to one training in order to support their role.

## Budgetary Framework

429. Under the Budget and Policy Framework Procedure Rules the Council is able to specify the extent of virement within the budget and the degree of in-year changes. The Council's Financial Procedure Rules also allow virements within directorate budgets as set out in the following table.

<b>Revenue</b>	
Up to £50,000	Relevant Assistant Director in consultation with the Section 151 Officer
Between £50,001 - £250,000	Relevant Director in consultation with the Section 151 Officer
Over £250,000	Cabinet
<b>Capital</b>	
Up to £100,000	Relevant Assistant Director in consultation with the Section 151 Officer
£100,001 - £250,000	Relevant Director in consultation with the Section 151 Officer
Over £250,000	Cabinet

430. It is proposed to continue the current policy whereby the Cabinet has the authority to vire amounts between directorates of up to £500,000 and, subject to the Section 151 Officer raising no objection, to use reserves and to commit expenditure in future years up to a total in the year of £1.5 million.
431. In addition to the virements shown above, the Section 151 Officer will also undertake all necessary technical adjustments to the budgets and accounts during the year and reflect any changes to the accounting structure as a result of management and organisational changes within the Council.

### **Reason for Recommendations**

432. To enable the Cabinet to recommend to Council approval of:
- the Revenue and Capital budget and to set the Council Tax for 2016/17.
  - the budget for the Housing Revenue Account.
  - the Treasury Management Strategy.
  - the Prudential Code for Borrowing indicators for 2016/17-2018/19.
  - the Capital Programme for 2016/17 and the indicative programme to 2019/20, delegating to the Section 151 Officer authority to bring forward or delay schemes within the programme to match resources where necessary.
  - the Minimum Revenue Provision Policy for 2016/17.
433. To enable the Cabinet to recommend to Council:
- that in the event that the final settlement figure differs from the provisional figure a proportionate adjustment to the general reserves is made.
  - that the City Deal Document be signed on behalf of the Council (on the understanding that the document will provide that the Final City Deal Document will be subject to the agreement of the Council).
434. To enable Cabinet to:
- approve the level of fees and charges for Council goods and services for 2016/17.
  - approve the level of rent and charges for 2016/17 in respect of Council Houses, garages and other service charges.
  - approve the Supporting People Spending Plan for 2016/17.
  - Note the work undertaken to raise awareness of and ensure the financial resilience of the Council.
  - note the financial challenges facing the Council as set out in the Medium Term Financial Plan.



- note the opportunities for savings over the medium term and that officers will continue to develop them to inform the Budget Strategy Report in July 2016.
- approve the Day Opportunities Strategy and its implementation.

## **HR Implications**

435. Whilst the additional resources received through the Provisional Welsh Government settlement were better than anticipated, the overall budgetary position is still challenging. The additional monies has enabled the Cabinet to modify some proposals based on the outcome of the consultation exercise and enhance provision for the priorities set out in the Corporate Plan. The final Council proposed budgetary position as outlined in this report represents a necessary response to the identified budget gap. Appendix 10 shows that there will be a net reduction of 135 full-time equivalent (fte) Council posts overall made up of the deletion of 165.5 ftes offset by the creation of 30.5 ftes. This reflects posts deleted through a combination of vacant posts, redeployment and voluntary severance. There are still a number yet to be determined .The figures do not however include the potential fte impact of TUPE which may result from the implementation of alternative models of service delivery.
436. Whilst the numbers of staff impacted by this final budget proposal may not be as significant as in previous years, the Council retains a range of mechanisms designed to support the people implications of the Council's budget proposals. Through the continued use of such mechanisms, the Council will continue to work hard wherever possible to reduce the number of compulsory redundancies. In addition to redeployment, other mechanisms include use of flexible working policies plus access to skills support through Cardiff Council Academy and Trade Union Learning Representatives (TULR). Access to skills training either through the Academy and TULRs will continue to support staff in either refreshing their existing skills or developing new skills in order to enhance their opportunities to find another role in the Council or externally.
437. The revised budget includes a sum of £700,000 in 2016/17 to support employees in embracing change and methods of working as the Council implements the budget proposals. This sum will be used to enhance training provided by the Council's Academy, support Workforce initiatives through the Organisational Development Programme and enable improvements to be made to performance management arrangements.
438. Cabinet on 21st January 2016 determined that the Council's Voluntary Redundancy Scheme will remain unchanged for 2016/17. The decision was made after consultation with the Trade Unions and a detailed review of Voluntary Redundancy (VS) schemes operated in other Welsh Local Authorities which highlighted that Cardiff's current scheme continues to be broadly comparable with other Welsh authorities. Cabinet also recognised, in the light of the ongoing budgetary challenges, that it will be important that the Council's Voluntary Redundancy Scheme continues to attract sufficient numbers of volunteers. All the Trade Unions were

clear that they wanted the Council's scheme to remain unchanged. The scheme will be reviewed annually with the next review due in early 2017.

439. In addition to the employee savings included within directorates' proposals, the following Council-wide savings also impact on the workforce :

- An efficiency saving in respect of the overall employee budget (£270,000).
- A reduction in the number of agency staff employed as a direct result of improved levels of sickness absence (£300,000).
- A managed reduction in general use of agency staff resulting in a saving of £450,000.

440. The Council will need to continue to progress the development of new organisational operating models of delivering key services including identifying and progressing opportunities to work in collaboration with others. The implications for staff of future operating models will continue to be subject to full consultation with Trade Unions. The Trade Unions have been consulted throughout the budget planning process and their comments have been considered. As part of the Council's commitment to partnership working, the Trade Unions will continue to be involved in all the proposals which impact on staff.

### **Legal Implications**

441. The budget report sets out certain duties and constraints in relation to setting a balanced budget and Council Tax. They form part of the legal implications to which the decision maker must address its mind notwithstanding that they are not repeated in this section of the report.

### **Budget duties**

442. The Local Government Finance Act 1992 (LGFA 1992) requires the Council to set a balanced budget, including the level of the Council tax. This means the income from all sources must meet the proposed expenditure. Best estimates must be employed to identify all anticipated expenditure and resources.

443. The approval of the Council's budget and Council Tax, and the adoption of a final strategy for the control of the Council's borrowing or capital expenditure are matters reserved, by law, to full Council. However, the Cabinet has responsibility for preparing, revising and submitting to Council estimates of the various amounts which must be aggregated in making the calculations required in order to set the budget and the Council tax; and may make recommendations on the borrowing and capital expenditure strategy. (Pursuant to the Local Authorities (Executive Arrangements) (Functions and Responsibilities) (Wales) Regulations 2007.)

444. Local authorities must decide every year how much income they are going to raise from Council Tax. This decision must be based on a

budget that sets out estimates of what the Council plans to spend on services. As the Council Tax must be set at the start of the financial year and cannot be increased during the year, consideration must be given to risks and uncertainties, and allowances made in funds for contingencies and reserves.

445. The budget and the Council Tax must be set by 11th March in the preceding financial year. A failure to comply with the time limit may leave the Council open to challenge by way of judicial review.
446. When the Council is considering its budget, it must have regard to the Section 151 Officer's report on the robustness of the estimates and the adequacy of the reserves in the budget proposals (section 25 of the Local Government Act 2003). This ensures that Members make their decision on the basis of authoritative advice. Members should provide clear reasons if they disagree with the professional advice of the Section 151 Officer.
447. Members will note from the body of the report that the proposed budget is based on the Welsh Government's Provisional Settlement figure, and that there is not expected to be any significant variation in the Final Settlement to be announced in March 2016. However, in the event that the Final Settlement differs from the Provisional Settlement figure, the recommendation is that such variation should be managed by a proportionate adjustment of the general reserves (as set out in the body of the report), without changing the level of the Council tax or the budget for services. Provided Members are content with the robustness of the estimates and the sufficiency of reserves, as certified by the Section 151 Officer, there is no impediment to the Council Tax (and budget) being approved on this basis.
448. Members should note that, after the Council has approved its budget and Council Tax, it is possible for the Council to make substitute calculations during the year (although the basic amount of Council Tax cannot be increased), but a change in the amount of the Revenue Support Grant from Welsh Government (whether higher or lower than the Provisional Settlement figure) is not, by law, allowed to lead to a recalculation of the Council Tax payable (s.37 LGFA 1992).
449. The Local Government Act 2003 establishes a system to regulate the capital expenditure and borrowing of the Council. The heart of the prudential borrowing system is the duty imposed upon authorities to determine and keep under review how much money they can afford to borrow. The Local Authorities (Capital Financing and Accounting) (Wales) Regulations 2003 (as amended) specify the prudential code for capital finance to which local authorities in Wales must have regard in setting and reviewing their affordable borrowing limits (sections 3 and 5 of the 2003 Act).
450. The Local Government & Housing Act 1989 Part VI sets a statutory regime for housing finance. The Council has a general duty to review the rents of its houses from time to time and in fixing rents the Council must

have regard, in particular, to the principle that the rents of dwellings of any class or description should bear broadly the same proportion to private sector market rents as the rents of dwellings of any other class or description. The review of the rents is a Cabinet function, and is undertaken with regard to the provisions of Part VI of the 1989 Act which governs housing finance and housing subsidy. Rents for council houses are a credit to the HRA and outgoings a debit. The Council is under a duty to prevent a debit balance on the HRA which is ring-fenced. There are restrictions in the way in which the account can be operated and the proposals in this report must comply with these accounting requirements to ensure that the rent should be set so as to ensure that the Council is able to comply with its duty to prevent a debit balance arising on the HRA.

### **City Deal Legal Implications**

451. The body of the report contains provision relating to the City Deal. Legal Services are instructed that an agreement (referred to as the City Deal Document) is being prepared and that its terms must be kept confidential until the City Deal Document is agreed, signed and made public. Accordingly, this legal advice is based on the current understanding of the City Deal Document, as being developed. Key points to note are that the City Deal Document will provide an outline of the proposed terms for the final City Deal agreement between the ten local authorities, Welsh Government and UK Government, including the proposed governance arrangements and funding obligations.
452. Importantly, the City Deal Document will make clear that final agreement will be conditional upon a number of matters, including agreement by each of the constituent councils. That said, the signing of the City Deal Document will serve to act as a public recognition of the Council's commitment to the successful development of the City Deal and as such will create an expectation that the Council will actively seek to progress matters. The City Deal Document in effect acts as a step in the process of developing the final City Deal arrangements.
453. In terms of governance arrangements as between the 10 local authorities, the City Deal Document is premised on the authorities establishing a joint committee, to which the authorities would delegate certain powers. The joint committee would be referred to as the Cardiff Capital Region Joint Cabinet. In brief, it is understood that the rationale for recommending the joint committee model is that this model allows for certain functions (a range of activities) to be carried out jointly by the authorities and therefore on a collaborative basis. The joint committee model provides for member representation and decision making. It also has the advantages of being a well established model, which is familiar to the ten local authorities.
454. In order to establish the Joint committee there will be need for an agreement as between the ten authorities (sometimes referred to as a joint working agreement), which agreement will serve to set out, amongst

other things; the matters delegated to the Committee, its membership, quorum, voting rights and financial arrangements.

455. A considerable amount of work will be required in terms of developing the final city deal agreements.
456. The generic provisions of this legal advice should also be taken in to account in developing the City Deal, namely the advice as regards consultation, the statutory equality duty, and the matters referred to under the heading 'General'.

## **Equality Duty**

457. The Council has to satisfy its public sector duties under the Equalities Act 2010 (including specific Welsh public sector duties) – the Public Sector Equality Duties (PSED). These duties require the Council to have due regard to the need to (1) eliminate unlawful discrimination, (2) advance equality of opportunity and (3) foster good relations on the basis of 'protected characteristics'.
458. The 'Protected characteristics' are:
  - Age
  - Gender reassignment
  - Sex
  - Race – including ethnic or national origin, colour or nationality
  - Disability
  - Pregnancy and maternity
  - Marriage and civil partnership
  - Sexual orientation
  - Religion or belief – including lack of belief
459. As noted in the report, the PSED requires the Council to carry out Equality Impact Assessments in relation to many of the savings proposals, to ensure that the decision maker has understood the potential impacts of the proposals in terms of equality. This assists the decision maker to ensure that it is making proportionate and rational decisions having due regard to the public sector equality duty.
460. Where a decision is likely to result in a detrimental impact on any group sharing a Protected Characteristic, consideration must be given to possible ways to mitigate the harm. If the harm cannot be avoided, the decision maker must balance the detrimental impact against the strength of the legitimate public need to pursue the service remodelling to deliver savings. The decision maker must be satisfied that having regard to all the relevant circumstances and the PSED, the proposals can be justified, and that all reasonable efforts have been made to mitigate the harm.
461. It is noted that Equality Impact Assessments (which include consideration of views and information obtained through consultation) have been undertaken in respect of the relevant proposals and are

available on the Council's website and as background papers to this report.

462. The decision maker must consider and have due regard to the Equality Impact Assessment prior to making the decisions recommended in the report.

### **Employee and Trade Union Consultation**

463. The report recognises that notwithstanding efforts to reduce impacts on staff resulting from the level of funding cuts imposed, there will be staff reductions during the financial year 2016/17. Since the Budget Strategy Report was approved in July last year engagement has been ongoing between Directors and Trade Unions to discuss budget saving implications. The Council has formally consulted with Trade Unions about the 2016/17 budget proposals and the likely impact on staff, particularly where posts are at risk of redundancy. Under the general law relating to unfair dismissal all proposals to make redundancies must involve reasonable consultation with the affected employees and their trade unions.
464. Due to the potential number of redundancies Section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 requires consultation to be undertaken with the Unions to include ways of avoiding the dismissals, of reducing numbers of employees being dismissed and or mitigating the consequences of dismissals. The relevant notice has been issued by the Chief Executive and the consultations are ongoing

### **Charging**

465. Each proposal to make or increase charges must comply with the statutory framework (including primary and secondary legislation and any statutory guidance issued) relating to the activity in respect of which charges are being levied, including any limitations on levels of charges.
466. Where reliance is placed on the power to charge for discretionary services (Section 93 of the Local Government Act 2003), any charges must be set so that when the charges are taken as a whole no surpluses are made (i.e. the power is limited to cost recovery).
467. In relation to certain activities which are subject to authorisation by the Council (e.g. licences), the Provision of Services Regulations 2009 prevent the recovery of charges in excess of the cost of the procedures and formalities under the scheme of authorisation, (i.e. the Council is permitted to recover costs only), and such costs must also be reasonable and proportionate.
468. Where activities are being undertaken for which charges are being made with the intention of producing surplus income, it is necessary to consider whether that activity is material and would amount to "commercial trading". For commercial trading, the Council must develop a business

case and establish an arms' length company to undertake that activity (in accordance with the general trading power under Section 95 Local Government Act 2003), or identify another statutory power for a particular trading activity.

## **Consultation**

469. Duties to consult certain stakeholders in respect of proposals may arise from a number of different sources.
470. Members will note that the Council has engaged in consultations as part of the 2016/17 budget process as set out earlier in the report under the heading "Consultation and Engagement".
471. In considering this matter, Members must genuinely and conscientiously consider the feedback from each consultation and have proper regard to it when making any decision in relation to the subject matter of that consultation. Members should carefully consider the results of the consultation as set out in Appendix 1.

## **General**

472. All decisions taken by or on behalf of the Council must:
- Be within the legal powers of the Council and of the body or person exercising powers on behalf of the Council.
  - Comply with any procedural requirement imposed by law.
  - Be undertaken in accordance with procedural requirements imposed by the Council e.g. procedure rules.
  - Be fully and properly informed.
  - Be properly motivated (i.e. for an appropriate, good and relevant reason).
  - Be taken having regard to the Council's fiduciary duty to its tax payers as elected members are trustees of the public interest and of its statutory purposes for which public powers are conferred on them. This general duty requires the Council to act prudently and in good faith in the interests of those to whom the duty is owed.
  - Otherwise be reasonable and proper in all the circumstances.

## **Financial Implications**

473. The financial implications are written within the context of this report while the following paragraphs summarise the significant points and related financial matters. Given the materiality of the current and forthcoming financial challenges, it is important that the level of detail in the report and financial implications is considered. Of interest is a similar message that was included in the 1937 Financial Report of Cardiff Corporation which stated that "*The reader, at the cost of patient thought, may find herein some little entertainment and more certainly much information.*" G.W. Barker, City Treasurer.

474. The financial outlook over the medium term remains a concern and the Medium Term Financial Plan details these challenges in respect of ongoing financial austerity, increasing financial pressures and the difficulty of setting and realising year on year budget savings.
475. The budget for 2016/17 has been compiled against the backdrop of continued financial constraint with many expert commentators suggesting that although the budget reductions in the next period may not be as severe as previously anticipated, the period of austerity is still likely to last until the end of the decade.
476. Usually this budget proposal is based on the Provisional Local Government Revenue Settlement. This is due to the Budget timetable adopted by the Welsh Government which is in itself a consequence of the publication date of the UK Government's Comprehensive Spending Review in November 2015.
477. The details included in the Provisional Local Government Revenue Settlement announced in December 2015 confirmed that for the third year running Cardiff has suffered an absolute reduction in the amount of RSG received. For 2016/17 this resulted in a decrease of £301,000 but a decrease of £12.8 million over the period since 2014/15.
478. The Cabinet in its budget strategy and subsequent budget proposal has been conscious of the impact its proposal may have on the citizens and communities of Cardiff. The specific budget proposals have been subject to a period of public scrutiny lasting for over four weeks and responses to this consultation have been reflected on by Cabinet and senior officers as part of their final deliberations. The budget has, therefore, considered the issues raised having regard to the WG Settlement and in conjunction with the priorities in the draft Corporate Plan.
479. The budget proposals set out in this report will result in significant operational and financial challenges as evidenced by the risk assessment exercise. The outcome of these challenges will be monitored through directorate plans, performance reports and the Corporate Risk Register when reported to Cabinet, Scrutiny Committees, Audit Committee and the Senior Management Team.
480. Particular changes for 2016/17 and the medium term have been identified and are set out in paragraphs 68 & 69 of the report with the most significant being:
- the challenging financial position in respect of reducing WG resources, increasing financial pressures against a reducing controllable base budget together with increasing volatility and uncertainty of hypothecated grants
  - the need to deliver significant levels of savings during a period of prolonged financial austerity particularly given the impact that delays in achievement of savings has on the budget monitoring position



- the impact of the potential adoption of alternative models of service delivery and the requirement to test consequential costs and benefits of the change
  - continuing demographic demand for social services if trendlines vary significantly from the anticipated position
  - the risk of WG levying fines if the Council fails to achieve the required recycling rates
  - the level of additional borrowing undertaken will require more revenue resources to be used for capital financing in future years.
481. The budget process has been rigorous and has utilised the expertise of officers in directorates across the Council. In particular a Reshaping the Base Budget approach was established to develop the targets for 2016/17 which involved both Cabinet members and the Senior Management Team in working closely together. This approach looked to initially identify the shape of services and then understand their link to strategic priorities. These discussions acknowledged the difficult policy choices ahead but also identified that given the scale of the challenge that choices were severely constrained. The Reshaping the Base Budget exercise identified services at their minimum statutory level and for discretionary services considered whether they could be self-funding. These opportunities were then mapped against the achievability for implementation, residual risk and policy acceptability to provide the shape of savings targets over both one and three years. These targets were then developed into savings proposals which became the basis for the proposals published for consultation in December 2015.
482. In formulating their budget, the Cabinet must come to a balanced judgement between the need to provide for services and the financial impact of the cost of those service needs on Council Tax payers. In coming to this judgement and as a result of the impact of the WG's financial settlements, the Council's budget now amounts to £578.161 million.
483. It should be noted that although the Council received a better than anticipated WG Settlement, the budget for 2016/17 still contains a significant element of risk and complex savings proposals will need to be relentlessly driven if they are all to be achieved. In summary, the revenue budget proposal includes:
- Savings of £20.3 million from directorate proposals, £5.6 million from addressable spend savings and £2.9 million in respect of council-wide efficiencies.
  - Continuation of the General Contingency of £4 million to mitigate the achievability risks associated with the level of savings to be delivered.
  - Continuation of the Specific Issues contingencies of £2.468 million broken down between £950,000 for external placement costs in Children's Services, £350,000 to protect against price volatility in the MRF and £1.168 million to recognise the difficulty of predicting Waste Disposal tonnages.

- Directorate financial pressures awarded amounting to £2.2 million together with one-off funding of £700,000 for workforce development, £500,000 for developing the Cardiff Commitment and Apprenticeship scheme and £250,000 to support city development initiatives.
- Reinstatement of budget savings amounting to £3.029 million outstanding from 2015/16 and 2014/15 where following review they are deemed to be no longer achievable.
- The use of £2.07 million from reserves to support the budget based on a review of the Council's Balance Sheet which includes the release of part of the former provision for Council Tax Bad Debts.
- Introduction of a new mechanism of £4 million to reduce future risk, improve financial resilience and allow one off investment and development in priority areas.
- Estimated reduction of 165.5 fte posts partially offset by the creation of 25.5 fte permanent posts and 5 fte temporary arrangements.
- Increase in the Schools Budget of £11.2 million (5.4%) including both demographic and 75% of non-demographic growth.
- A Council Tax increase of 3.7% resulting in a Band D charge of £1,060.29.

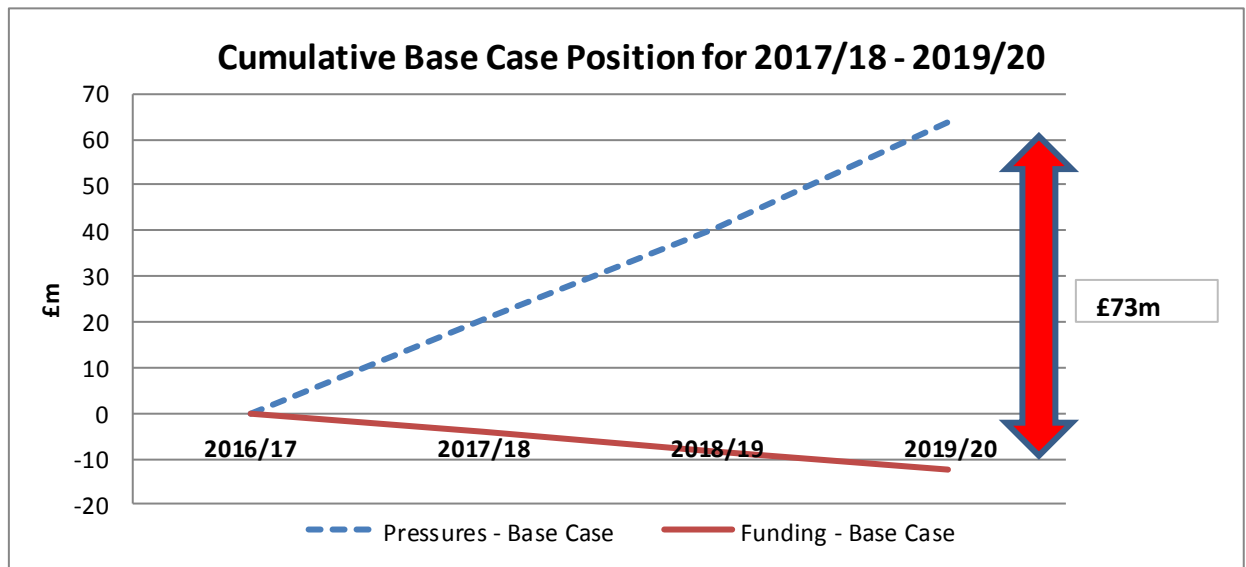
484. Within the budget proposals are a number of initiatives that require option appraisal, complex procurement arrangements and the implementation of new operating or delivery models. This work will need to be completed within strict timescales in order that the budgeted level of savings are achieved. A number of the budget proposals require the development of a commercial ethos that will enable the authority to respond speedily to market shifts and financial opportunities whilst maintaining a hold on risk, however the Council will have to be realistic with its ambitions for commercialism. The Investment Review Board will continue to be the forum to test these matters before they progress to the appropriate formal governance routes. In Addition it is important that the Council retains sufficient support capacity to manage the transition to a lower financially sustainable cost base.

485. The continuing financial challenges are such that the financial resilience snapshots introduced in 2015/16 will continue to be prepared and used to raise members overall awareness of financial matters. The position in respect of risks and reserves will require careful monitoring throughout the financial year, particularly in light of the achievability of savings and the further financial interventions that may be required.

486. The level of School Balances requires close attention as negative overall balances are being predicted throughout the medium term. Significant deficits are being carried by a minority of secondary schools and this together with the temporary use of reserves to fund 2014/15 voluntary redundancies has resulted in this position. Council officers will continue to support schools to ensure that spending plans are in alignment with their budgets and deficit balances are avoided or reduced.

487. The Medium Term Financial Plan set out in paragraphs 165 to 225 uses the best available information to assess the financial challenges facing the Council over the next three years. It is clear that anticipated

resources will not cover emerging financial pressures and the resulting funding gap will need to be addressed through a combination of directorate budget reductions, commercialisation of services, use of reserves and increases in the rate of Council Tax. Although the Council has made almost £200 million savings over the past decade, the base budget has not reduced by this amount. This is because the most significant driver for the Council to find savings is escalating demand, as illustrated by the graph below.



488. The following table demonstrates the funding gaps forecast to 2019/20 using sensitivity analysis to demonstrate a further potential adverse position.

Medium Term Financial Plan	2017/18	2018/19	2019/20	Total
	£000	£000	£000	£000
Base Case	24,663	22,831	25,753	73,247
Worse Case	33,231	31,306	33,719	98,256

489. Following the significant cuts that the Council has made in the recent past, either of the above scenarios confirms the position expressed in the 2015/16 Budget Report that radical changes must be made to the shape of the organisation in order for it to remain operational and resilient. During 2015/16 work has begun in earnest on developing the case for alternative delivery models for leisure services, cultural venues and infrastructure services but this work now needs to be driven to its conclusion and robust decisions taken and implemented without delay.

490. The table above shows a base case scenario Budget Reduction Gap of £73 million over the next three years and while proposals to meet the gap in the final year are yet to be determined it is clear that the Council will need to look to increase digitalisation of services and back office functions, be more commercial in its approach, benefit from current investment in preventative strategies and implement new service delivery models where appropriate. The Organisation Development Programme

continues to play a key role in understanding these challenges and considering how the Council can be realigned to a lower, financially sustainable base. For 2017/18 and 2018/19 savings options are being developed as set out in Appendix 17(b) and work will continue apace on 2017/18 proposals so that the Budget Strategy Report in July 2016 will include firmer proposals than has been the case previously.

491. Notwithstanding the importance of the three year time horizon for medium term planning, the financial climate in Welsh Local Government is such that councils also need to consider likely impacts beyond that timeframe including Local Government Reorganisation. This is because the cumulative impact of decisions taken now, or not taken, can have a significant impact on the Council's budget in later years and it may be that current policies are considered unaffordable when viewed over an extended timeframe.
492. The Council has a statutory duty to ensure that the HRA achieves a balanced budget and this has been evidenced in this budget proposal. The average weekly increase in housing rents of £3.10 is within the WG's Target Rent Band.
493. During 2015/16 the Council, along with all other Welsh Councils with housing stock, exited the former Housing Revenue Account Subsidy System. The net impact of this change is an estimated £3.4 million annual revenue benefit which is to be retained for investment on enhancing the condition of existing housing stock and development of new stock. The Revenue Budget Capital Programme and Treasury Management Sections of the report all reflect the above change.
494. The Consolidated Financial Model for the SOP brings together the projected capital expenditure and funding schedule over the life of the initiative. The model is designed to be self-funding and the projects are included within the Council's Capital Programme to be commenced once the particular scheme business plan has been approved by WG. However, the resultant significant financial exposure for the Council demands that close monitoring of the key risks is continued, contract management is robust and issues are escalated where necessary.
495. The inclusion of schemes in the Capital Programme have been profiled in accordance with technical advice relating to regulatory processes, timetables, expectation of grants and workflow priorities. In previous years the Council has experienced significant slippage of capital schemes which has prompted adverse comments from the WAO. Consequently, capital scheme sponsors have again been reminded of the importance of robust profiling in order that capital plans are achieved as expected. Nevertheless, with such an extensive programme there is a residual risk that expenditure will slip between years and so any resultant impact on the programme will be addressed through the monitoring process in 2016/17.

496. Robust control of project costs is another area where issues have been in evidence and so it is important that Directors give sufficient weight to good contract management capacity when allocating resources.
497. Resources to finance the General Fund Capital Programme between 2016/17 and 2020/21 include non-earmarked capital receipts to be achieved of £7 million. Additional borrowing of £90.5 million is also required to resource the programme and is made up of:

<b>Additional borrowing</b>	<b>£m</b>
To support estimated slippage from 2015/16	4.0
Capital Programme 2016/17 approved in February 2015	11.4
Finance for new schemes to be approved in February 2016	11.6
Invest to save schemes	63.5
<b>Total</b>	<b>90.5</b>

498. Particular attention needs to be given to the medium and long term impact of additional borrowing on the Council's revenue budget as it is clear that continuing to increase levels of additional borrowing within the General Fund is not consistent with the significant levels of savings required to be found. Accordingly, local affordability indicators have been developed to track the impact of decisions in the medium term although this is also impacted by reductions in the level of RSG received. It should be noted that whilst approving the Capital Programme for the period up to 2020/21, Cabinet should be aware that the later years of the Programme, together with any material commitments entered into in respect of these later years, will be subject to an ongoing review of the Council's financial resilience.
499. An example of this will be to consider the impact of Cardiff's contribution to the Cardiff Capital Region City Deal at the appropriate time. This may require a further report to Council not only in respect of the Budgetary Framework but also should changes to the Treasury Management Strategy be required.
500. In the current extensive period of significant budget reductions and consequential loss of employee resources, financial control continues to be of fundamental importance. It is vital that responsible officers take ownership of their budgets and that expenditure remains within the approved positions. Compliance with financial rules and governance requirements is expected and this will continue to be monitored and reported regularly as part of performance management arrangements.
501. In concluding the financial implications of this Budget Report and in recognition of the continuing financial challenge facing the Council, I would bring the following statement to members' attention.
502. *"In the financial implications of the 2015/16 Budget Report I referred to the materiality of the service choices ahead of the Council and that those difficult choices were facing all Councils. The 2016/17 Budget Strategy responded to this challenge through development of the reshaping of the Base Budget approach to determining targets for directorates over the*

*medium term. However until the decisions in respect of radical service changes are taken and the changes implemented, the risk remains that the Council may not be able to achieve financial savings of sufficient magnitude to meet the target savings. I will keep this under review and report progress to members as part of the financial monitoring regime. As well as highlighting the financial challenges in the medium term, the role of the Section 151 officer is to advise members if the Cabinet risks setting an unbalanced budget. I do not consider this to be the case in 2016/17."*

## **Cabinet Consideration**

503. The Cabinet considered the budget proposals on 18 February 2016 and having taken account of the comments of the Section 151 Officer in respect of the budget and the adequacy of reserves as required under Section 25 of the Local Government Act 2003 and having considered the responses to the Budget Consultation resolved that:

- 1.0 the changes to fees and charges as set out in Appendix 11 to this report be approved
- 2.0 authority be delegated to the appropriate Director in consultation with the Section 151 Officer and the Cabinet Member for Corporate Services & Performance to amend or introduce new fees and charges during the year.
- 3.0 the rents of all Housing Revenue Account dwellings (including hostels and garages) be increased having taken account of WG guidance.
- 4.0 all service charges and the management fee for leaseholders as set out in Appendix 11(b) be approved
- 5.0 all Housing Revenue Account rent increases take effect from 4 April 2016.
- 6.0 the work undertaken to raise awareness of the financial resilience of the Council be recognised and the steps taken within the budget to improve this position be approved
- 7.0 the financial challenges facing the Council as set out in the Medium Term Financial Plan be recognised and the opportunities for savings over the medium term be noted
- 8.0 the Supporting People Spending Plan for 2016/17 as set out in Appendix 15 be approved
- 9.0 the Day Opportunities Strategy and its implementation be approved.

## CABINET PROPOSAL

The Cabinet, having taken account of the comments of the Corporate Director Resources in respect of the robustness of the budget and the adequacy of reserves as required under Section 25 of the Local Government Act 2003, and having considered the responses received to the Budget Consultation recommend that Council:

1.0 Approve the Revenue, Capital and Housing Revenue Account budgets including all proposals and increasing the Council Tax by 3.7% as set out in this report and that the Council resolve the following terms.

2.0 Note that at the Cabinet meeting on 10 December 2015 the Council calculated the following amounts for the year 2016/17 in accordance with the regulations made under Section 33(5) of the Local Government Finance Act 1992:-

a) 141,288 being the amount calculated in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) (Wales) Regulations 1995, as amended, as its Council Tax base for the year.

b)	Lisvane	2,347
	Pentyrch	3,184
	Radyr	3,655
	St. Fagans	1,234
	Old St. Mellons	1,289
	Tongwynlais	812

being the amounts calculated in accordance with Regulation 6 of the Regulations as the amounts of its Council Tax base for the year for dwellings in those parts of its area to which special items relate.

2.1 Agree that the following amounts be now calculated by the County Council of the City and County of Cardiff for the year 2016/17 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-

a) Aggregate of the amounts which the Council estimates for the items set out in Section 32(2)(a) to (d) (including Community Council precepts totalling £296,100).  
£1,048,880,100

b) Aggregate of the amounts which the Council estimates for items set out in Section 32(3)(a) and (c).  
£472,793,000

c) Amount by which the aggregate at 2.1(a) above exceeds the aggregate at 2.1(b) above calculated in accordance with Section 32(4) as the budget requirement for the year.  
£576,087,100

- d) Aggregate of the sums which the Council estimates will be payable for the year into its Council Fund in respect of Revenue Support Grant, its Council Tax Reduction Scheme, redistributed Non-Domestic Rates.

£426,284,786

- e) The amount at 2.1(c) above less the amount at 2.1(d) (net of the amount for discretionary relief of £300,000), all divided by the amount at 2.0(a) above, calculated in accordance with Section 33(1) as the basic amount of Council Tax for the year.

£1,062.39

- f) Aggregate amount of all special items referred to in Section 34(1).

£296,100

- g) Amount at 2.1(e) above less the result given by dividing the amount at 2.1(f) above by the amount at 2.0(a) above, in accordance with Section 34(2) of the Act, as the basic amount of Council Tax for the year for dwellings in those parts of the area to which no special items relate.

£1,060.29

- h) The amounts given by adding to the amount at 2.1(g) above the amounts of special items relating to dwellings in those part of the council's area mentioned below, divided in each case by the amount at 2.0(b) above, calculated in accordance with Section 34(3) as the basic amounts of Council Tax for the year for dwellings in those parts of the area to which special items relate.

	£
Lisvane	1,074.78
Pentyrch	1,086.99
Radyr	1,091.07
St. Fagans	1,074.88
Old St. Mellons	1,081.70
Tongwynlais	1,083.72

- i) The amounts given by multiplying the amounts at 2.1(g) and 2.1(h) above by the number which in the proportion set out in the Council Tax (Valuation Bands) (Wales) Order 2003 is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D calculated in accordance with Section 36(1) of the Act as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

#### VALUATION BANDS

Area	A £	B £	C £	D £	E £	F £	G £	H £	I £
Lisvane	716.52	835.94	955.36	1,074.78	1,313.62	1,522.46	1,791.29	2,149.55	2,507.81
Pentyrch	724.66	845.43	966.21	1,086.99	1,328.54	1,570.09	1,811.64	2,173.97	2,536.30
Radyr	727.38	848.61	969.84	1,091.07	1,333.53	1,575.99	1,818.45	2,182.14	2,545.83



St. Fagans	716.58	836.02	955.45	1,074.88	1,313.74	1,552.60	1,791.46	2,149.75	2,508.05
Old St. Mellons	721.13	841.32	961.51	1,081.70	1,322.08	1,562.46	1,802.84	2,163.40	2,523.97
Tongwynlais	722.48	842.89	963.30	1,083.72	1,324.54	1,565.37	1,806.20	2,167.44	2,528.68
All other parts of the Council's Area	706.86	824.67	942.48	1,060.29	1,295.91	1,531.53	1,767.15	2,120.58	2,474.01

2.2 Note that for the year 2016/17, the Police and Crime Commissioner for South Wales has stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992 for each of the categories of dwelling shown below:-

#### VALUATION BANDS

A	B	C	D	E	F	G	H	I
£	£	£	£	£	£	£	£	£
138.57	161.66	184.76	207.85	254.04	300.23	346.42	415.70	484.99

2.3 Having calculated the aggregate in each case of the amounts at 2.1(i) and 2.2 above, the County Council of the City and County of Cardiff in accordance with Section 30(2) of the Local Government Finance Act 1992 hereby set the following amounts as the amounts of Council Tax for the year 2016/17 for each of the categories of dwellings shown below:-

#### Part of Council's Area

#### VALUATION BANDS

Area	A	B	C	D	E	F	G	H	I
	£	£	£	£	£	£	£	£	£
Lisvane	855.09	997.60	1,140.12	1,282.63	1,567.66	1,852.69	2,137.71	2,565.25	2,992.80
Pentyrch	863.23	1,007.09	1,150.97	1,294.84	1,582.58	1,870.32	2,158.06	2,589.67	3,021.29
Radyr	865.95	1,010.27	1,154.60	1,298.92	1,587.57	1,876.22	2,164.87	2,597.84	3,030.82
St. Fagans	855.15	997.68	1,140.21	1,282.73	1,567.78	1,852.83	2,137.88	2,565.45	2,993.04
Old St. Mellons	859.70	1,002.98	1,146.27	1,289.55	1,576.12	1,862.69	2,149.26	2,579.10	3,008.96
Tongwynlais	861.05	1,004.55	1,148.06	1,291.57	1,578.58	1,865.60	2,152.62	2,583.14	3,013.67
All other parts of the Council's Area	845.43	986.33	1,127.24	1,268.14	1,549.95	1,831.76	2,113.57	2,536.28	2,959.00

2.4 Authorise the Corporate Director Resources to make payments under Section 38 of the Local Government (Wales) Act 1994 from the Council Fund by equal instalments on the last working day of each month from April 2016 to March 2017 in respect of the precept levied by the Police and Crime Commissioner for South Wales in the sum of £29,366,937.

2.5 Agree that the Common Seal be affixed to the said Council Tax.

2.6 Agree that the Common Seal be affixed to precepts for Port Health Expenses for the period 1 April 2016 to 31 March 2017 namely

	£
The County Council of the City and County of Cardiff	114,904
The Vale of Glamorgan County Borough Council	12,976

- 2.7 Agree that notices of the making of the said Council Taxes signed by the Chief Executive be given by advertisement in the local press under Section 38(2) of the Local Government Finance Act 1992.
- 2.8 In the event that the final settlement figure differs from the provisional figure, the Council approve a proportionate adjustment to the general reserves.
- 3.0 Approve the Prudential Indicators for 2016/17, 2017/18 & 2018/19 delegating to the Section 151 Officer the authority to effect movement between the limits for borrowing and long term liabilities within the limit for any year.
- 4.0 Approve the Treasury Management Strategy for 2016/17 in accordance with the Local Government Act 2013 and the Local Authority (Capital Finance & Accountancy) (Wales) Regulations 2003 and subsequent amendments.
- 5.0 Approve the Minimum Revenue Provision Policy for 2016/17.
- 6.0 Authorise the Section 151 Officer to raise such funds as may be required to finance capital expenditure by temporary or long term borrowing within the limits outlined above, and to bring forward or delay schemes within the Capital Programme.
- 7.0 Maintain the current Council Tax Reduction Scheme as set out in the report.
- 8.0 Resolve that the City Deal Document referred to in paragraph 235 to 239 of the report be signed on behalf of the Council (on the understanding that the document will provide that it will be subject to the agreement of the Full Council). Pursuant to the City Deal Document the Council continues to work with the Cardiff Capital Region partner local authorities, UK and the Welsh Government to develop the final City Deal Agreements, and further reports on this matter be submitted to Council as appropriate to keep members apprised of developments.

**THE CABINET**  
18 February 2016

*The following Appendices are attached:*

Appendix 1	Consultation responses
	(a) Changes For Cardiff Budget Consultation (Executive Summary)
	(b) Day Opportunities Strategy
	(c) Budget Letter - School Budget Forum – 12 January 2016 (Cllr Hinchey)
	(d) Budget letter – UNISON Response – 12 January 2016
	(e) Budget Scrutiny Letter – Community & Adult Services Scrutiny Committee – 16 February 2016 (Cllr Bale)
	(f) Budget Scrutiny Letter – Children & Young People Scrutiny Committee – 16 February 2016 (Cllr Hinchey)
	(g) Budget Scrutiny Letter – Economy & Culture Scrutiny Committee – 17 February 2016 (Cllr Bradbury)
	(h) Budget Scrutiny Letter – Economy & Culture Scrutiny Committee – 17 February 2016 (Cllr Derbyshire)
	(i) Budget Scrutiny Letters – Economy & Culture Scrutiny Committee – 17 February 2016 (Cllr Hinchey)
	(j) Budget Scrutiny Letters – Environmental Scrutiny Committee – 16 February 2016 (Cllr Derbyshire)
	(k) Budget Scrutiny Letters – Environmental Scrutiny Committee – 16 February 2016 (Cllr Hinchey)
	(l) Budget Scrutiny Letters – Environmental Scrutiny Committee – 16 February 2016 (Cllr Patel)
	(m) Budget Scrutiny Letters – Policy Review & Performance Scrutiny Committee – 18 February 2016 (Cllr Bale)
Appendix 2	List of known Specific Grants from Welsh Government at the all Wales level
Appendix 3	Revenue Resources Required 2016/17
Appendix 4	Directorate Financial Pressures 2016/17
Appendix 5	2016/17 Budget Savings
	(a) Overview 2016/17 Savings
	(b) Directorate Savings 2016/17
Appendix 6	Risk Assessment Summary of Savings Proposals
Appendix 7	Financial Snapshot report – Budget Report version
Appendix 8	Earmarked Reserves
	(a) General Fund
	(b) Housing Revenue Account
	(c) Schools
Appendix 9	Earmarked reserves used temporarily to fund voluntary redundancy
Appendix 10	Employees Implications of Budget
Appendix 11	Summary of Fees and Charges 2016/17
	(a) General Fund
	(b) Housing Revenue Account
	(c) Outdoor Activities
Appendix 12	Directorate Revenue Budgets
Appendix 13	Cabinet Portfolio Revenue Budgets
Appendix 14	Amendments Since publication of consultation proposals
Appendix 15	Supporting People Programme Grant Spending Plan

Appendix 16	Day Opportunity Strategy
Appendix 17	Medium Term Financial Plan (a) MTFP 2017/18 – 2019/20 (b) Themed Opportunities for savings – 2017/18 and 2018/19 in Directorate clusters.
Appendix 18	Housing Revenue Account
Appendix 19	School Organisation Plan Reserve
Appendix 20	Civil Parking Enforcement Reserve
Appendix 21	Capital Programme Expenditure
Appendix 22	Capital Programme Resources
Appendix 23	Glossary of Terms (a) Prudential Indicators (b) General
Appendix 24	Approved list of Counterparties

*The following Background Papers have been taken into account:*

- Budget Strategy Report (July 2015)
- 2016/17 Budget Proposals – For Consultation (December 2015)
- The WG Provisional Financial Settlement (December 2015)
- Equality Impact Assessments of Cardiff Council's 2016/17 Budget
- Details of Fees and Charges
- Analysis of Section 106 Balances
- Log of changes to the 2016/17 Budget Proposals for Consultation
- "Changes for Cardiff" Budget Consultation: Full Report and Appendices
- Treasury Management Practices (March 2015)