

## Budget Strategy Report 2021/22 - Question and Answers

### What is this about?

- This is a brief overview of the Council's 2021/22 Budget Strategy Report, which you can view in full online.
- It is split into two sections – the first outlines the strategy for setting the 2021/22 Revenue Budget. The second outlines the approach to rolling forward the Capital Programme for 2020/21 – 2025/26.

## The Revenue Budget

### What is the Revenue Budget?

- The revenue budget is the amount of money the Council has to spend on day-to-day services
- These services include running our schools, caring for the vulnerable, collecting waste, maintaining the highway and parks and operating libraries and cultural venues.

### How is the Budget Strategy Formulated?

- The Council must estimate the cost of providing services in the forthcoming financial year and compare this to the amount of funding that is likely to be available.
- The Council has a statutory duty to prepare a balanced budget, so if anticipated funding and expenditure are unequal, the Council must set out plans to bring them into balance.
- Every year, balancing the books becomes more challenging. The Council has identified over £225 million savings over the past ten years. Schools, Social Services and capital financing now account for over 70% of the Council's budget, which has made the squeeze on other areas harder.

### Are things different this year because of the pandemic?

- Yes, as you would expect, this creates significant uncertainty in many areas.
- The pandemic may affect service delivery and associated costs over the medium term but things continue to change quickly. Each easing of lock down restrictions has seen shifts in the key issues to be addressed. Things will continue to evolve over the medium term.
- No organisation operates in a vacuum. This means that all the economic uncertainties that we hear about at a UK level have the potential to affect key assumptions in our financial planning. These include future funding levels, pay, inflation, interest rates and unemployment rates, which may affect demand for services.

### What are the economic uncertainties?

- **UK Economic Position** - the UK is currently in recession and economic recovery is very uncertain. It is difficult to know what long-term impact lockdowns and social distancing requirements will have on businesses. We do not know how confident customers will be to spend in future, or whether people will simply just change their spending habits. It is not certain whether there will be a second spike of the virus, or if and when a vaccine may be available. All these factors affect economic recovery.
- **Unemployment** - the Government's Job Retention Scheme (JRS) also known as "furlough" has mitigated the number of job losses to date. There is the potential for unemployment rates to increase as the scheme is withdrawn.

- **Public Sector Debt** – Government support for business and jobs during the pandemic has had a big impact on Public Sector Borrowing. UK net debt recently reached £2 trillion for the first time and further heavy borrowing is expected in coming months. Over time, the UK Government is likely to seek to reduce debt to more sustainable levels. This may well have an impact for the funding of public services.

#### **What are the anticipated cost pressures on the Council next year and beyond?**

- The Council is still facing significant cost pressures over the next few years.
- Inflation related pressures include external providers increasing their prices and pay awards.
- Although in some areas, there are reductions in demand to take into account – for example, primary school numbers are anticipated to reduce over the medium term, in other areas demand continues to increase, including for example, numbers of looked after children.

#### **What is the funding position?**

- The Council will not have an indication of its 2021/22 grant funding (called Aggregate External Finance or AEF) until early December, when Welsh Government issues the Provisional Local Government Settlement.
- This is problematic - we have to estimate what we may receive, and small changes make a big difference - each 0.5% change in AEF equates to £2.345 million in cash terms.
- When the Medium Term Financial Plan was last updated (Feb 2020), the Council assumed funding increases of 1.5% per annum over the medium term. This was more optimistic than in previous years, due to the positive 2020/21 funding settlement, but not too optimistic as the Ministerial letter accompanying the settlement cautioned that it did not mean that austerity was over.
- The assumption of a 1.5% funding increase has been retained for 2021/22 but reduced to 0.5% for subsequent years. This is on the basis that the unprecedented level of UK debt could lead to tightening on public spending over time. However, our current modelling assumes this might not be whilst public bodies are still dealing with the pandemic.
- The Council could withstand a settlement of up to 0.8% worse than this, by using a financial resilience budget that would otherwise be used for one-off investment.

#### **What are the additional Covid-19 risks?**

- In the current financial year (2020/21), the additional costs and lost income associated with the pandemic have been significant with £22.4 million additional costs and £13.3 million lost income in quarter one alone.
- These have largely been reimbursed by the Welsh Government's Covid-19 Hardship Fund, which supports Local Authorities with Covid-19 related financial issues.
- In the current year, additional costs associated with Covid-19 have included the procurement of protective equipment, provision of emergency accommodation for homeless people, and the continued provision of free school meals support whilst schools were closed. They include the provision of financial support to care providers, supplier relief in other areas and operational changes required to ensure the safe delivery of services. Income loss relates to the closure, during lock down of the Council's sporting and

cultural venues, as well as a reduction in activity in other areas such as parking, planning and trade waste.

- Looking forward, the particular set of pressures resulting from Covid-19 is likely to shift. The implications for the Council finances of the potential ongoing impact of a set of wider issues will continue to be closely monitored in coming months. These include

Issue	Council considerations (not exhaustive – further list in the Report)
Business Failure / Unemployment	<ul style="list-style-type: none"> <li>Potential increases in demand for services / support – e.g. Council Tax Reduction Scheme, free school meals, advice services.</li> <li>Potential impact on income streams – including vacancies in leased property, council tax and potential for bad debt</li> </ul>
Public Health Measures	<ul style="list-style-type: none"> <li>Will there be a need for a PPE budget?</li> <li>Cleansing requirements – schools, office, school transport</li> <li>Longer term loss of income in venues</li> <li>Ongoing providers / supplier viability</li> </ul>
Behavioural Shift	<ul style="list-style-type: none"> <li>New transport norms – impact on Cardiff Bus / Parking etc.</li> <li>Emphasis on outside space – cleansing maintenance</li> <li>Office / ICT requirements and other strategies for “new normal”</li> </ul>
Demographics	<ul style="list-style-type: none"> <li>Difficulty in predicting demand in Adult Services, Homelessness arrangements, potential for increased family breakdown?</li> </ul>

### How much is the Budget Gap?

- The budget gap is estimated £97.2 million over the next four years, of which £25.4 million relates to 2021/22.

2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
25.417	21.905	26.562	23.298	<b>97.182</b>

### How will the Council bridge this gap?

- The Council’s plan to address the gap is set out in its Budget Strategy.
- The Budget Strategy aims to balance the Council’s priorities as set out in the Corporate Plan and Capital Ambition, with risk and the Council’s long-term financial resilience. This is the strategy as outlined in the Budget Strategy Report:-

To be kept  
under  
review

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
Modelled Council Tax at +4.0%	(6.090)	(6.334)	(6.587)	(6.880)	(25.891)
Savings	(19.327)	(15.571)	(19.975)	(16.418)	(71.504)
<b>Total</b>	<b>(25.417)</b>	<b>(21.905)</b>	<b>(26.562)</b>	<b>(23.298)</b>	<b>(97.395)</b>

### Savings

- At £71.5 million over the four-year period, savings form the largest part of the strategy. This will be a challenge in view of the levels of savings previously found.

- Where possible, efficiency proposals will be implemented in the current year to improve the chances of securing full year savings in 2021/22.
- In previous years, income generation proposals have contributed to the Council's strategy to addressing the budget gap. At a time when core income budgets are in jeopardy as a result of the pandemic, the scope for income generation to form part of the 2021/22 Budget Strategy is far more limited.
- The quantum of savings required is such that there will be a requirement for more transformational proposals. Work on fully framing these, and developing business cases will be accelerated over the autumn.
- Although the immediate focus must be on delivering savings for 2021/22, directorates will also be considering in broader terms how to address savings requirements for later years.

#### How can I have my say?

- There will be a detailed consultation, which will focus on transformational proposals or areas of policy change. This is likely to take place in December, once the Council has an indication of 2021/22 funding.

#### What next?

- This year, more than ever, we will continue to keep the budget gap under close review – things can change quickly and regular review is an important part of being prepared.
- Directorates will refine their work on savings proposals over the coming months
- There will be early implementation of efficiency proposals where possible, and where appropriate. There will be further focus on framing proposals to be delivered through transformational or policy change.
- Progress, along with any further clarity on funding issues, will be reported in December in order to inform consultation.

## The Capital Programme

#### What is capital?

- Capital expenditure refers to acquiring or improving assets for the long term.
- Similar to the revenue budget, councils receive some general and specific grant funding to support capital expenditure. However, there are some significant differences to how capital expenditure is funded.
- One of these is that Council are permitted to borrow to fund capital expenditure **as long as that borrowing is deemed affordable, prudent and sustainable.** Councils can also fund capital expenditure from the proceeds of selling assets (called capital receipts.)
- The capital programme sets out our expenditure plans and how we will pay for them over a five-year period.
- The current five-year capital programme was approved by Council in February 2020. This set the programme for 2020/21 and the indicative programme until 2024/25.
- The 2021/22 Budget Strategy must set the approach to updating the indicative programme and rolling it forward one year to cover 2025/26.

**What are the key considerations in updating the programme?**

- Investment pressures
- Affordability.

**What are the investment pressures on the Programme?**

- Broadly speaking, these relate to investment in existing assets, or to investment in development projects to meet the Council's strategic aims. Some examples include:
  - Maintaining our Highways infrastructure
  - Vehicle procurement
  - Property maintenance
  - Demand for affordable housing
  - 21<sup>st</sup> Century Schools Programme – Band A&B
  - Economic development and regeneration aspirations
  - Mandatory investment – e.g. disabled adaptations
  - Creating city resilience for future ways of working and service delivery resulting from the impact of Covid-19.

**What are the key considerations in terms of affordability?**

- General Capital Funding provided by WG has reduced by 35% over the past decade
- This places pressure on the Council to fund necessary investment. It means that in order to fund new capital spend, we must either borrow, or sell existing assets (to generate a capital receipt). There are important considerations around both – see more below.

**What is the position on capital receipts?**

- In times of financial pressure, reducing the assets we hold can have a dual benefit in terms of financial planning. Firstly, it provides funds to support the capital programme. Secondly, it reduces the financial pressures associated with maintaining and operating assets.
- The current capital programme already includes challenging targets in respect of capital receipts, with over £34 million to be found between 2020/21 and 2024/25.
- There is a significant risk associated with capital receipts in the capital programme in terms of realisation. It is therefore important to ensure there is a clear, approved strategy to realise them and that progress is kept under close review.
- The Council's approach to the delivery of the capital receipts target will be updated in the Annual Property Plan due to be considered by Cabinet in October 2020.

**What is the position in terms of borrowing?**

- Borrowing places pressures on the revenue budget because debt must be repaid with interest.
- Broadly speaking, each £1 million of capital expenditure places additional pressure of £65,000 on the revenue budget in early years – and this assumes a long asset life of 25 years, the impact on revenue is higher when asset lives are shorter.
- The capital-financing budget already accounts for a significant proportion of the revenue budget. Even with no further borrowing, this budget will increase over the medium term.
- Other considerations from a revenue perspective, are the additional operating and maintenance costs of new assets.

- Given the challenges on the revenue budget, the MTFP assumes there will be no further borrowing beyond that which is already included in the current capital programme.

**Is there opportunity for some investment to pay for itself through savings or new income streams?**

- Yes, these are called invest to save (ITS) or invest to earn (ITE) schemes.
- Usually, the capital investment results in savings or income that help meet the borrowing costs without having a net impact on the revenue budget.
- A robust business case is key to ensure that the income / savings will actually materialise and that they will be sufficient to meet the borrowing costs. If they do not, there is a risk that the revenue budget will end up picking up those costs for many years into the future.

**In light of the above, what will be the approach to updating the capital programme?**

- Firstly, directorates will be asked to confirm if commitments in the current programme remain essential, or whether there is any scope to reduce or defer them. This should include a realistic appraisal of capacity to deliver these schemes.
- Secondly, it is essential to keep progress towards capital receipts under review. This is an important factor in overall programme affordability.
- After that, the overarching approach, in line with the Capital Strategy approved in February, will be to focus on looking after our existing assets. Even then, there must be evidence of need to spend, and this should be prioritised by risk.
- New capital expenditure pressures that do not relate to existing assets should only be considered if they can be funded externally, or if there is clear evidence of a sound invest to save business case.
- For 2025/26, which will be the “new” year in the 2021 Programme, additional borrowing will only be considered where it relates to existing assets. All proposed investment should be in line with the Capital Ambition delivery programme, and all alternative solutions for funding and achieving the same outcome should be explored before additional Council funding is considered.

**What next?**

- Directorates will be asked to commence with the approach outlined above, starting with a robust review of the current programme.