Reason for this Report

1. To provide Cabinet with details of the impact on the Council’s finances of the Welsh Government’s 2014/15 Provisional Local Government Settlement which was announced on 16 October 2013 and which significantly reduces the resources being made available for Welsh Councils. The report asks Cabinet to consider whether, in the circumstances, the previously approved 2014/15 Budget Strategy remains a valid basis for setting the Council’s budget over the medium term.

2. To outline current progress against the agreed budget timetable and, given the unprecedented financial challenge now facing the Council, to ask Cabinet to consider the additional measures required to enable the Council to agree its 2014/15 Revenue and Capital Budgets.

Background

3. Cabinet has a duty to receive financial forecasts, to develop a sound financial strategy and to propose a balanced budget for the Council to approve. In doing so, it needs to have proper regard to the legality and achievability as well as the risks associated with any proposals which it proposes to place before the Council for approval.

4. In addition, every Councillor shares the responsibility to ensure that the Council discharges its statutory duty to set a balanced budget which must be agreed by 11 March each year. The Section 151 Officer has a responsibility to present a report to Council if the officer believes that this statutory responsibility is at risk.

5. Cabinet, at its meeting on 22 July 2013, considered the 2014/15 Budget Strategy, including details of the process and timetable to be adopted to enable the Council to agree next year’s Budget. The Cabinet’s recommendations were approved by Council at its meeting on 27 July 2013.
6. At that time, based on Welsh Government indicative funding levels, all councils in Wales were already expecting significant financial challenges in setting their 2014/15 budgets due to the on-going period of financial constraint across the public sector. However, the impact of measures imposed by the Westminster Government since the autumn of 2012 has resulted in significant reductions in Welsh Government funding. The Chancellor’s 2012 Autumn Statement identified that the National Assembly’s budget would be cut by £65 million in 2014/15 and this figure was increased to £81 million in his March 2013 budget statement.

7. These measures, combined with increasing financial pressures on the Welsh NHS, resulted in statements in the summer of 2013 by the Welsh Government Minister for Local Government & Business indicating that the previously published indicative funding levels could no longer be relied upon as a valid basis for budget setting and which also made reference for the need for Welsh Council’s to brace themselves for English-style cuts to council services. In addition, the Minister stated that “authorities need to engage immediately in decisive and radical short-term financial and service planning … in the longer term, the significantly lower levels of resource must drive deep transformational change which crosses geographical and organizational boundaries”. However, the level of the reduction being proposed remained unclear until the publication of the Provisional Settlement on 16 October 2013.

8. In addition, all councils continue to face significant inflationary and demographic pressures on their budgets and these are particularly acute in Cardiff. These pressures, combined with the unprecedented reduction in funding allocations, exacerbate the scale of the financial challenge facing the Council and necessarily form a significant proportion of the Budget Reduction Requirement.

**A Policy Driven Budget Strategy**

9. Cabinet has emphasised the need for its Budget Strategy to enable the development of a Budget which reflects the policy priorities set out in the Administration’s 2012 Election Manifesto, which are reflected in the Council’s approved Corporate Plan agreed by Council in February 2013.

The Administration has summarised the Corporate Plan priorities as:

- A clear focus on economic development across the city and across all sectors aimed at generating growth in the Cardiff economy in order to protect as many existing jobs as possible and to maximise the creation of new jobs which will allow the city to discharge its obligations as Wales’ economic dynamo;

- The provision of first class education and skills-training services to enable people of all ages to fulfil their potential and to take advantage of the employment opportunities generated by the council’s economic development strategy;
• Ensuring that nobody gets left behind through the delivery of services designed to protect the most vulnerable in our society.

10. The recent WLGA Peer Review report highlighted the need to ensure that these key policy priorities are embedded in the Council’s service and financial plans. As a result, the Budget Strategy needs ensure that the 2014/15 Budget creates a sustainable and affordable base from which to deliver council services. It also needs to put in place mechanisms to ensure that the actions of all individual directorates contribute to the effective delivery of the key priorities and, perhaps more importantly, do not detract from them. Furthermore, given the backdrop of significantly reduced resources, both next year and in the medium term, it is imperative that the Council not only effectively distributes finite and reducing revenue streams, but also looks at non-traditional ways of delivering those services which the Council is no longer able to deliver itself in order to retain the most important services and protect jobs.

11. The Corporate Plan, as the Council’s primary policy document, together with the Council’s financial strategy will continue to reflect any significant issues identified through the Council’s Statement of Internal Control, the Corporate Risk Register and Performance Management Reports which will underpin the financial strategy for 2014/15 and beyond.

Provisional Settlement Overview

12. The Welsh Government’s 2013/14 Provisional Local Government Settlement, announced in the autumn of 2012, continued to rely on previously published three year indicative funding levels which quoted an anticipated funding increase for Cardiff of 1.27% which would have provided the Council with an additional £5.665 million in cash terms.

13. However, the tables included with the 2014/15 Provisional Local Government Settlement indicated an average decrease across all Welsh councils of 3.5%, with a 2.9% reduction - £12.8 million in cash terms - for Cardiff. Furthermore the percentage reductions included in these tables understate the full impact of 2014/15 funding reductions for the following reasons.

14. In the current year, a separate grant of £22 million has been shared by Welsh Councils to address the impact of the Council Tax Reduction Scheme (CTRS). This grant reflects the decision to protect CTRS recipients eligible for full CTRS entitlement, who otherwise would have been liable to pay an element of council tax in 2013/14. Welsh Government has indicated that it requires these arrangements to continue into 2014/15 but that it will not provide separate grant funding for the purpose. Instead, Welsh Government has indicated that the full quantum of CTRS funding is included within the Revenue Support Grant (RSG). This creates an additional funding pressure for Local Authorities equivalent to the value of the current year’s grant which equates to some £2.5 million in Cardiff.
15. It was also anticipated that additional funding would be made available next year in respect of Welsh Government’s Local Government Borrowing Initiative (LGBI). However, this sum has also been included within the overall settlement, creating a further 2014/15 funding pressure of some £350,000.

16. The reduction in the Council’s funding next year is lower than the Welsh average which is the result of data changes used when calculating the settlement. These data changes reflect increased demand for services as a result of demographic changes and which will result in increased financial pressures. However, in calculating the provisional settlement, Welsh Government has employed a floor funding mechanism to ensure that no individual council experiences a reduction in excess of 4.75%. Cardiff’s contribution to this mechanism is £520,000 which means that the total impact of the data changes referred to above are not included in the Cardiff allocation and which will mean that the Council will need to identify an alternative source of funding or other ways of meeting the increased demand.

17. Taking all these issues into account, the reduction in the Council’s funding next year increases from the indicative -2.9% to -3.5% which, in cash terms, equates to a reduction of some £15.8 million. In real terms (i.e. taking into account the effect of inflation) these figures translate into a reduction of some 6.2% for Cardiff compared to a Welsh Average reduction of some 6.7%.

18. Information provided within the settlement on specific grants is incomplete and is currently provided only at an all Wales level. The information currently available implies that a number of these grants will suffer reductions at the all Wales level which means that the officers will need to carefully monitor the situation in order to assess the impact on the Council. This position is further exacerbated by in year grants reductions, particularly where these are not finalised until part way through the year. An example of this is the Sustainable Waste Management Grant.

19. The 2014/15 Provisional Settlement includes indicative figures for 2015/16. The figures indicate a further reduction in the Cardiff’s allocation of some 1.54% or some £6.7 million in cash terms, which is fractionally better than the Welsh average figure of -1.55%. However, these figures are subject to further announcements by UK Government and, based on recent experience, it would be imprudent to place too much reliance on them at this stage.

20. The Final Budget Settlement is expected in early December. The final settlement will need to take account of the redistributive impact of councils’ council tax base calculations. As in previous years the Council will set its Council Tax Base at its meeting in December.
Schools

21. The Provisional Settlement states that Schools Protection for 2014/15 is at 1% over and above the level of the Welsh Government block grant. This translates into a +0.9% protection for schools and compares to a protection figure of +1.27% that had been anticipated prior to Welsh Government funding reductions from UK Government.

22. In previous years, protection has had to be evidenced from base budget funding, i.e. funding underpinned by the RSG. However, the Minister’s letter to Council Leaders states that, for next year, protection is ‘built into the settlement and the Pupil Deprivation Grant (PDG)’.

23. The PDG is a specific grant and it was recently announced as part of the Welsh Government’s Budget that the PDG will be increased for 2014/15, from £450 currently to £918 per eligible child next year. Specific grant tables highlight an increase from £33 million at an all Wales level to £71 million but information at an individual Authority level is not yet available.

Social Services

24. As noted in the July Budget Strategy Report, social services budgets are no longer protected and the Council is free to choose the level of cuts to be imposed and the level of pressures supported across these spending profiles. The current strategy requires the relevant directorate to fully fund any new pressures from cuts in current spending levels.

25. In a presentation to Cabinet on 26 July 2013, members of the Peer Review Team suggested that it should be possible for social services to contribute at least 10% to the overall budget reduction and the Review Team has recently been asked by Cabinet to provide specific details of where and how they believe this can be achieved for Cabinet consideration. Cabinet will need to decide whether to require the directorates to identify this level of cuts in spending next year.

Budget Monitoring Position

26. The development of the Council’s 2014/15 Budget will necessarily be informed by the current year’s budget monitoring position. Cabinet will be aware that the 2013/14 Month 3 Budget Monitoring Report identified a projected in-year overspend of £7.1 million at Directorate level. In particular there were significant overspends in the Environment, Health & Social Care and Resources directorates.

27. Furthermore, the Report identified that within the overspend of £7.1 million it was projected that £5.8 million of the £22.4 million of savings identified within the 2013/14 budget might not be achieved. The reasons for under-achievement include delays in the delivery of savings, additional financial pressures and issues with the overall achievability of the savings identified.
28. The inclusion of projections in relation to the position on the council tax surplus, capital financing and other items reduced the projected overspend for the Council to £3.9 million.

29. The Interim Head of Paid Service requested that all directorates review and where possible reduce spend in all areas and Cabinet, as part of the Month 3 Budget Monitoring Report, approved that over-spending directorates develop action plans to address their individual situations. These plans are being considered in monthly Budget Clinics with the relevant Cabinet Member and the Cabinet Member for Finance & Economic Development and their respective officials.

30. Discussions at a Health & Social Care Budget clinic agreed that financial support for the costs of care for any adult – i.e. those aged 18 or above falls to Health & Social Care where there is an assessed need that they be continue to be placed and supported in a residential or semi-independent environment. The arrangement in Cardiff prior to 2013/14 was that this financial responsibility up to the age of 21 was met by Children’s Services. The position changed in 2013/14 to rectify what was in fact an anomalous position but there was no corresponding transfer of budget to support the policy change. It is necessary therefore to establish a level playing field and make an appropriate transfer of budget from Children’s Services to Health & Social Care in respect of all those placements for adults which up until 31/3/13 were being supported by Children’s Services. This will result in the Health & Social Care overspend being reduced with a corresponding increase in Children’s Services.

31. The Month 6 Budget Monitoring Report will be presented to Cabinet in December. Interim Month 5 projections suggest that there has been some improvement with further improvement expected at Month 6. Consequently there are no current plans to introduce an emergency budget in relation to the current year.

32. The pressures within the in-year monitoring position are, where known, allowed for within the Medium Term Financial Plan (MTFP). This has then informed the Budget Reduction Requirement for 2014/15 and beyond. In summary, savings become harder to identify and achieve each financial year and therefore the savings identified for next year must be robustly scrutinised and reviewed to ensure detailed delivery plans are in place to support proposed budget reductions.

Financial Resilience

33. Wales Audit Office Reports have consistently recognised that financial management and control is one of the Council’s major strengths, a view reinforced by the WLGA Peer Review Team. However, the Peer Review highlighted the significant financial challenges facing the Council in the medium term and supported the financial resilience exercise being undertaken by officials at the time of their visit. The exercise has now been completed and has identified a number of issues and opportunities.
34. A Balance Sheet review has highlighted some potential opportunities and further work is being undertaken across the council to explore how best they can be taken forward. Where appropriate, these matters will be the subject of further Cabinet reports. In summary these include:

- **Sale of assets**

  The review identified that further opportunities exist to generate capital receipts which could be applied to the existing Capital Programme which would reduce capital financing charges currently included in the MTFP. This would therefore offset the Council's costs of borrowing and thereby reducing the cost to the revenue account.

- **Long Term Investments**

  The review identified that there may be opportunities to either optimise the income from long term investments or, where the yield was insufficient, realise the asset and receive a capital receipt which could be applied to the existing capital programme.

- **Land appropriations**

  The review identified that further work is on-going to maximise the benefit of appropriations of land from the General Fund to the Housing Revenue Account. These transactions interact with the Housing Subsidy System and officers are in on-going dialogue with Welsh Government on these matters.

- **Minimum Revenue Provision (MRP)**

  The review identified that the Council could review its existing policy in respect of the repayment of borrowing. The provision could be reduced and would still remain within existing accounting regulations and guidelines. The Section 151 Officer has an existing delegation to review the policy and this will be considered in conjunction with the Cabinet Member for Finance & Economic Development.

35. In addition, a number of issues were identified as part of the Balance Sheet review which are also the subject of further work and which will also be the subject of future Cabinet reports. In summary these issues include:

a. **General Reserves (Balances)**

   The review identified that the Council’s General Reserves, which currently stand at £11.548 million represents 2.1% of the net expenditure budget. An Audit Commission Report entitled “Striking a Balance” states that the median for single tier and unitary councils is 5%. As a result, and particularly due to the current
budget monitoring position, the level of General Reserves will need to be carefully monitored in the immediate term.

b. Earmarked Reserves

Earmarked reserves total some £39.5m and, by definition are held for specific purposes to fund specific liabilities which are expected to crystallise at a future date. However, the Section 151 Officer continues to review the level of reserves set aside for each purpose to ensure that they remain at the correct level.

The Section 151 Officer will continue to advise members on the adequacy of the Council’s reserves during these difficult times but Cabinet is advised to exercise serious caution when deciding to draw down any reserves as their use is finite and they can only be spent once. In addition, the impact of any non-achievability of proposed spending cuts on the Council’s balances and reserves will need to be carefully assessed during the budget setting process.

c. Voluntary severance

The review identified that, given the current financial challenges the Council will face significant financial exposure to voluntary severance costs. Over the last three years the average cost for the Council in respect of voluntary severance has total 3.8million and figures to date this financial year suggest that a significantly higher figure is likely. The Council has limited provision to meet the costs of voluntary severance from its base budget and earmarked reserves and will need to consider the funding of these in year amounts in future monitoring reports. In recent years, councils have been given the opportunity to capitalise a component of these costs, subject to meeting a number of thresholds imposed by Welsh Government. Where successful, this has allowed councils to spread the cash flow implications over a longer period. However, Welsh Government has advised that it is unlikely this facility will continue. As a result, severance costs will themselves constitute a significant financial challenge over the medium term.

36. The Balance Sheet Review has made an important contribution to the assessment of the Council’s overall financial resilience the outcome of which confirms that any attempt to release funds to avoid directorate cuts would more than likely undermine financial resilience over the medium term. In other words, releasing funds currently held on the Council’s balance sheet to help fill the budgetary gap is not really an option. These matters will be further considered in the 2014/15 Budget Report in February 2014.

Alternative Delivery Models

37. Cabinet has consistently recognised that the Council will no longer be able to continue to deliver all of the services or undertake all of the
activities that it does currently. In addition, it may well be necessary to reduce the level and standard of delivery of those services which it will continue to provide, including statutory services and obligations.

38. Cabinet has consistently indicated that it is reluctant to simply cease delivering certain services, close facilities or terminate existing arrangements before it has given due consideration to possible alternatives. It was for this reason that Cabinet took early steps to ensure that organisations in receipt of grant funding were given adequate notice of any cuts in council support in order to enable them to access alternative sources of funding to finance their activities. Cabinet has also indicated that it wishes to seriously consider how those services and activities that the Council decides that it will no longer be able to deliver or support can be sustained in the future.

39. Cabinet has always accepted the need to explore alternative models of service delivery, as identified in the October 2012 Cabinet Report “Exploring New Models of Delivery”, but progress in bringing forward specific proposals has been slow. The Peer Review suggested that the Council should identify and pursue alternative delivery models where there is evidence that they provide adequate service standards and value for money. Cabinet recognises the need to invest time and resources upfront to deliver these changes and provision is included in the current year’s budget to supplement other corporate and directorate level budgets set aside for this purpose.

40. Identifying alternative delivery models may be the only way to sustain some services and activities and the Cabinet Member for Finance & Economic Development suggests that Cabinet agree that all Directors, as a matter of urgency, report to Cabinet details of those services which lend themselves to being delivered via an alternative delivery model, the alternative delivery models that they are currently exploring and, where possible, to outline proposals which will secure the successful delivery of these services and activities by alternative means. Failure to do so will inevitably result in the closure of facilities, the loss of jobs and opportunities and an increase in the number of individuals requiring council support all of which are contrary to the Council’s own stated policy priorities.

41. As a result, during this budget cycle, Cabinet acknowledges that it will need to determine the impact that its stated policy priorities will have on the future direction and shape of the Council and on the services and activities which it will continue to deliver, provide and support. Cabinet has indicated that it is committed to shape the future in consultation with all of its stakeholders in order to ensure that there is a shared understanding of the dilemmas facing the council at the present time and, as far as possible, to secure support for the future direction of travel. The mechanisms which Cabinet intend to adopt to help fulfil this commitment are outlined elsewhere in this report.
Income Generation

42. Cabinet has consistently identified the need for all directorates to maximise the Council’s income generation potential beyond the annual increase in fees and charges levied by the Council. It should be noted that the impact of increasing income generation opportunities on service users should be taken into account when proposals are considered.

43. Cabinet has already sanctioned a proposal from the Economic Development directorate to establish a Film Unit to raise the funding necessary to cover the costs associated with accommodating film and television productions at locations within the county. Cabinet also approved a proposal from the directorate to raise finance through advertising on council owned buildings and sites. Cabinet may wish to receive an early report outlining the progress made to date in respect of both initiatives.

44. The Economic Development Directorate is currently working via the recently established Cardiff Business Council to explore models and mechanisms through which local business can contribute to the cost of sustaining and improving the Cardiff offer which will add value to those businesses and which will help stimulate economic growth and jobs across the city. In particular, the directorate is exploring the possibility of businesses contributing towards the costs of subventing the costs of attracting conferences and events to the city which generate increased footfall which benefits a range of businesses. Again, Cabinet may wish to receive an early report from the Director of Economic Development outlining this initiative.

45. The Environment Directorate is currently exploring the potential benefits for the council from new developments in the city including potential district heating systems and energy generation on council owned land. Cabinet may wish to receive an early report in relation to these matters. These potential Invest to Save schemes should deliver financial savings, although it is acknowledged that additional capital charges may be incurred in the early years.

46. Furthermore, the Cabinet Member for Finance & Economic Development has suggested that the Interim Chief Executive should request details from all directorates on income generation initiatives being explored at the present time. For example the Communities Directorate is considering further opportunities to increase income in relation to operation of the community alarm service.

Council Tax

47. Cabinet is conscious that in its 2012 election manifesto, the Administration made a commitment to “freeze council tax in 2013/14 and, all things being equal, to increase council tax by a maximum of 2% in the succeeding two years”. Cabinet will need to consider whether the outcome of the Provisional Settlement means that all things are not equal such that it can justifiably increase council tax above the 2% limit.
This matter will be addressed as part of the budget process and an appropriate recommendation will be included in the February 2014 Budget Report.

48. Council tax equates to about 22% of net Council funding and a gearing effect applies. In addition, following the 2013/14 Settlement the Council now receives fixed funding as part of its Revenue Support Grant (RSG) in relation to the CTRS. This means that any increase in revenues generated from council tax will be partially offset by the requirement of councils to fund an element of this increase for CTRS claimants from this fixed funding pot.

49. Using the 2013/14 council tax base the following table identifies the resources generated from council tax increases of between 1% and 5% and shows the reduction in overall resources as a result of the interaction of CTRS as detailed above. The table shows that even a 5% increase in council tax would still require a further £40.9 million to be found from budget cuts.

<table>
<thead>
<tr>
<th>Council Tax Increase</th>
<th>Additional Council Tax Raised £000</th>
<th>Impact on Cash Limited CTRS Budget £000</th>
<th>Net additional amount raised £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>1,292</td>
<td>282</td>
<td>1,010</td>
</tr>
<tr>
<td>2%</td>
<td>2,585</td>
<td>564</td>
<td>2,021</td>
</tr>
<tr>
<td>3%</td>
<td>3,877</td>
<td>846</td>
<td>3,031</td>
</tr>
<tr>
<td>4%</td>
<td>5,169</td>
<td>1,128</td>
<td>4,041</td>
</tr>
<tr>
<td>5%</td>
<td>6,461</td>
<td>1,410</td>
<td>5,051</td>
</tr>
</tbody>
</table>

50. In addition the Council will have to consider any further cost pressures submitted by directorates and how any additional funding required can be met.

51. Cabinet should also note that the Welsh Government has capping powers in relation to council tax levels.

Risk

52. The July Budget Strategy Report identified a number of significant medium term operational and financial risks associated with the ongoing budget preparation process. A detailed list of these risks was included in that report and remains relevant in the current context. The impact of these risks and challenges is regularly monitored when the Corporate Risk register is reported to Cabinet and the Senior Management Team at regular intervals.

53. It should be noted that the two key risks on the register in relation to the budget setting process are the risk that the Council is unable to set a balanced budget by the required date and also the risk that the Council is unable to effectively meet its priorities as a result of the reduction in
the level of resources available and increasing inflationary and demographic pressures. Cabinet has been made aware of the increasing risks attached to budget setting. The Corporate Risk Register shows that the residual risk attached to budget setting remains red even following the identification of mitigation measures.

54. In addition to the scheduled programme of meetings, additional meetings involving the Leader of the County Council, the Cabinet Member for Finance & Economic Development, the Interim Head of Paid Service and the Section 151 Officer have been arranged to specifically discuss these risks and to monitor progress in relation to the ongoing budget setting process against the agreed timetable. Given the uncertain financial environment, meetings involving the Council’s Section 151 Officer and the Wales Audit Office have been arranged to discuss the specific ongoing challenges of this year’s budget setting process.

Budget Principles

55. The preceding paragraphs provide the backdrop to what was an already challenging budget setting exercise for next year and in the medium term. The situation has been made significantly worse as a result of the 2014/15 Provisional Local Government Settlement and Cabinet has previously delegated the responsibility for agreeing the level of budget reductions required to achieve a balanced budget to the Interim Chief Executive, in consultation with the Cabinet Member for Finance & Economic Development. The final figure is subject to further clarification being provided by Welsh Government in respect of the specific issues referred to earlier in this report.

56. The Council’s base budget is £593 million. However, a significant element of council spending is protected which means that the controllable base budget from which cuts can be generated is only £268.9 million. The most significant exclusion is in respect of delegated schools budgets which amount to some of £197.1 million. Other exclusions relate to policy and contractual commitments, capital financing and levies. A further adjustment of £20.7 million in respect of central transport services and facilities management budgets reduces the adjusted controllable base budget to just £248.2 million.

57. The July Budget Strategy Report set out a number of principles which would be used to guide the 2014/15 budget setting process. At that time, it was agreed that social services would be required to identify cuts of 4.5% which would generate the resources necessary to meet the financial pressures identified by their respective directorates within the MTFP. As previously indicated, a member of the Peer Review Team has suggested that social services directorates could contribute savings of at least 10% towards the required budget reduction.

58. As detailed earlier Welsh Government has confirmed its continued requirement for councils to protect the delegated schools budgets. Based on Welsh Government’s indicative budget for 2014/15 delegated
schools budgets were required to be increased by a minimum of 1.27%. Following the publication of the Welsh Government’s 2014/15 budget, this figure has been amended to a minimum increase of 0.9%. No such protection is afforded to social services spending next year.

59. In addition, the savings proposal expected in respect of the Council’s contributions to joint committees was set at 10%. The most financially significant joint committee is the Joint Education Service Consortium. Welsh Government has recently agreed changes in the consortium including the way in which it is funded such that the Council will not be able to achieve the proposed savings level in respect of this service.

60. On that basis, using the controllable base budget figure of £248.2 million and assuming that the required budgetary savings would be evenly applied across all other directorates, it was noted that directorates would each need to identify cuts amounting to 23.5% of their total spending. It was acknowledged that this represented an unprecedented savings percentage and that this approach would seriously undermine the ability of every directorate to effectively deliver services.

61. In that context Cabinet suggested that the time has now come for some directorates and some specific services within directorates to be treated disproportionately. Cabinet will appreciate that if this was the perceived wisdom in July, then the outcome of the Provisional Settlement only serves to exacerbate the need to adopt such an approach. Cabinet therefore needs to agree, as a matter of urgency, which services and directorates will be required to contribute a greater proportion of cuts during the period going forward. In reaching its decisions, Cabinet will wish to be guided by its key policy priorities and by an assessment of which services can best be delivered via another delivery model or by an alternative provider in order to protect both the service and jobs.

62. Prior to the announcement of the Provisional Settlement, directorates were required to develop savings proposals for 2014/15 to achieve the targets set out in the February 2013 Budget Report as amended by the July 2013 Budget Strategy Report. Proposed cuts of some £32 million have been put forward against a target of £33 million although a significant number of these proposals are at present not accompanied by a detailed plan and will require further consideration as part of an iterative process to give further assurance as to how they will be achieved.

63. The outcome of the Provisional Settlement means that the quantum of the cuts now required in order to achieve a balanced budget has increased. The result of the Provisional Settlement is to increase the 2014/15 Budget Gap to some £46 million.

64. This is a significant financial challenge which has to be achieved in a relatively short period of time. As a result, it will impose an enhanced level of risk on the ability of the Council to achieve the required target. Cabinet will be aware that, in the current year, further interrogation of
the issues contained in the Month 3 Budget Monitoring report identified that some £5.8 million of the 2013/14 budgeted savings of £22.4 million were unlikely to be achieved. This represents some 25% of the total target savings. A further year requiring an even greater level of cuts will only serve to further increase this risk.

65. Consequently, this report proposes that Cabinet agrees to increase the 2014/15 Budget Requirement Gap to £50 million in order to protect against the possible non-achievement of the budget targets next year. This will mean that a further £17 million – in addition to the £33 million referred to above – will need to be secured. The scale of the new challenge is such that unless those cuts are targeted in the manner referred to in paragraph 61 above, that many parts of the organization will become unsustainable.

66. Cabinet will note that directorates have only a limited amount of time to respond to the new challenge and to identify the additional savings required. It is therefore necessary to reach an early decision about the directorates and services which will be required to contribute a disproportionately larger share of cuts.

67. Given the unprecedented level of savings required both in 2014/15 and beyond it will be important that the savings proposals identified are robust and deliverable. These submitted savings proposals are being progressively challenged by Finance Officers in order that by the time the budget is set in February all savings:

- Included within a Directorate are owned by the relevant Director.
- Are technically feasible from a financial perspective.
- Identify both an initial and residual risk as well as an achievability risk rating.
- Have been subjected to a robust Equality Impact Assessment, where relevant.
- Are categorised as to their current status eg realised, detailed delivery plan in place or general delivery plan in place.
- Include wherever possible the full time equivalent employee implications of the identified savings proposal.
- Are categorised in accordance with the savings drivers.
- Identify cross directorate opportunities or risks, which are discussed by all relevant senior officers and portfolio members.
- Demonstrate transparency to ensure clarity at scrutiny and other consultation forums.

Early Decisions

68. However, as part of the 2013/14 budget process directors have been asked to consider whether early decisions are required to give effect to the level of savings required to balance their budgets next year. For example, in order to achieve a full year saving in 2014/15 it may well be necessary to seek approval to commence negotiations in relation to such savings in 2013/14. Where Cabinet approval is required then
directorates have been asked to accelerate work on these proposals with a view to bringing forward a further report in December.

**Employment Costs**

69. The scale of the financial challenge faced by the Council as a result of the Provisional Settlement has increased considerably. The increase of the budget requirement gap from £33 million to £50 million will necessitate fundamental changes to the shape of the Council and how it operates. The funding reduction together with inflation, increasing demand and increased costs will mean that the Council will face an unprecedented budget shortfall in 2014/15 and beyond. This means that the Council needs to make very significant cuts each year for the foreseeable future and as almost half of the Council’s spend is on employees, there will be a need to significantly reduce the size of the workforce over the medium term. Whilst the Council will do all that it can to protect jobs in these financially challenging times, the scale of change required is such that it will not be possible to avoid redundancies.

70. In order to try to alleviate some of the workforce reductions that may be required in 2014/15 and beyond, Cabinet will need to consider options around reducing employment costs. This could include additional mechanisms concerning the advertising and filling of vacancies along with continued focus on reducing agency spend.

71. One of the key mechanisms in place as part of the Employee Support Framework is the Redeployment Policy. Last reviewed in 2010, the current policy provides employees with a period of up to six months for redeployment purposes which includes statutory notice provision. However, given the current financial climate a review of this time period needs to be considered. Consequently, it is recommended that, following consultation processes, a report be submitted to Cabinet in December 2013 outlining revised redeployment proposals for consideration.

72. An area highlighted within the recent Peer Review recommendations concerns the scale of redundancy costs and implications for the pension fund related to predicted staffing changes. Consequently, the current Voluntary Severance Scheme may need to be reviewed. Whilst there are no proposals in-year to change the Voluntary Severance scheme, there is an opportunity to consider reviewing the scheme for implementation during 2014/15 and beyond.

**Updating the Medium Term Financial Plan**

73. The July 2013 Budget Strategy Report identified a number of potential scenarios in respect of the potential budgetary gap over the next three years as set out in the table below:-
74. The main, although not the only, differential between the scenarios was the quantum of funding to be received from Welsh Government. Although, at the time of writing the July 2013 Report, authorities had been advised that the previously circulated indicative 2014/15 figures were no longer a basis on which to plan, there were no confirmed figures available for planning purposes.

75. The best case scenario, which assumed an equal spread of Welsh Government cuts across the Welsh public sector was recognised at the time to be highly optimistic but was included for completeness. The base case scenario was premised on the assumption that councils would need to bear at least an equal share of the cuts allocated to Welsh Government for 2014/15 and allowed for the real possibility that Welsh Government would choose to protect NHS Wales from funding reductions. The worse case scenario was premised on a more significant protection for NHS Wales that included a redistributive element across the Welsh public sector. This scenario was based on a 4% funding reduction.

76. As anticipated in the lead up to the Provisional Settlement, the reality for 2014/15 is very close to the worse case scenario outlined in the July 2013 report. Not only did the Welsh Government budget protect the NHS Wales budget from any cuts in 2014/15, it also allocated a cash increase of 3%. As the other main recipient of Welsh Government funding, Local Government was, therefore, hit significantly by the redistributive impact referred to above as represented by the worse case scenario.

77. An early refresh of the MTFP for the impact of the 2014/15 settlement is outlined below. At this stage, the refresh is purely in relation to funding implications, which have been updated based on the provisional settlement. However, pressures within later years of the plan will be subject to a more rigorous refresh as part of roll-forward of the MTFP undertaken for inclusion in the February Budget Report.
78. It should be noted that as each year rolls forward, demand and other emergent pressures can be more accurately projected and there is a tendency for the pressures indicated in a given year to increase as that year rolls forward one year nearer. For example the Minister for Natural Resources and Food has written recently to the WLGA to around the segregation of residual waste streams from January 2015 which will place further financial pressures on the Council. The funding pressures allocated above are based on the provisional settlement for 2014/15, including the indicative 2015/16 figures contained therein. For prudence, a further 2% funding reduction has been assumed in 2016/17. It is important to note however, that indicative figures can no longer be considered as a firm basis on which to plan and further scenario analysis will need to be undertaken in this respect as the budget process moves forward.

79. As explained earlier in this report, the differential between the base figure used in the July Budget Strategy and the position that has emerged as a result of the Provisional Settlement is £13m. The MTFP contained within the 2013/14 Budget Report identified a base case where the gap between expenditure and financing stood at circa £64 million over the period to 2016/17. The base case cumulative gap has now increased to £99 million across the three year period albeit it is recognized that further work is required on the later years of this MTFP.

2014/15 Budget Reduction Requirement

80. The Budget Report, approved by Council in February 2013, identified a 2014/15 Budget Reduction Requirement of £27.8 million. For the reasons set out above, this had increased to £33 million by the time Cabinet considered the Budget Strategy Report in July this year. The outcome of the Provisional Settlement results in a reduction in funding totaling £15.8 million which is £13 million more than that projected in the July Budget Strategy Report generating a total budget reduction of some £46 million. Cabinet has previously agreed that the gap will need to be filled through a combination of savings from directorates, use of reserves and increases in the rate of council tax. As indicated above, the scope for using reserves to help fill the gap is extremely limited.

81. The revised figure represents a reduction of some £15.8 million in the level of resources provided by Welsh Government and some £30.2 million in respect of additional financial pressures on council services associated with increased employee costs, price inflation, unavoidable commitments, capital financing assumptions, demographic growth, policy decisions and realignment issues in respect of the in year budget monitoring position. It is clear, that the effective management of these additional financial pressures is a key element in achieving a balanced budget. The position is summarised in the table below:
82. For the reasons set out in paragraphs 62 to 65 above, Cabinet is requested to recognise a budget gap of some £50 million next year to be filled by combination of cuts, increased income and an increase in council tax.

Beyond 2014/15

83. The extent of financial challenge beyond 2014/15 is unclear but the scenarios above show a continued period of restraint which would result in savings targets for controllable budgets which will be hugely challenging particularly given their cumulative impact. The severity of the financial task ahead is such that there will be significant changes to how local government services are delivered.

84. The protection position adopted by Welsh Government in respect of delegated schools budgets was referred to in the July Budget Strategy Report as being difficult to maintain in light of the financial challenge ahead and the Welsh Government’s inclusion of the Pupil Deprivation Grant in the calculation of the protection is a potential acknowledgement of this.

85. It is acknowledged that a longer lead in is required for savings in later years. In recognition of this, directorates have already been asked to identify half of their 2014/15 savings target as proposals for 2015/16. The proposals submitted by directorates are being reviewed and it is likely that some of the items identified may be considered as potential savings proposals against the additional £17 million required. In any case, it is anticipated that where early decisions are required in respect of savings proposals whether for 2014/15 or beyond that these may be brought to Cabinet in advance of the February budget setting meeting.

Consultation and Engagement

86. As explained in paragraph 41 above, Cabinet has indicated that it is committed to shape the future in consultation with all of its stakeholders in order to ensure that there is a shared understanding of the dilemmas facing the council at the present time and, as far as possible, to secure support for the future direction of travel.

87. Cabinet is eager to engage with as many residents, council taxpayers and other stakeholders as possible to create an effective dialogue across the whole county. However, the need to engage with the Council’s own staff both directly and through their trade unions is a high
priority for Cabinet members. Cabinet has indicated that it wishes to use established channels such as the Ask Cardiff Survey, the Schools Budget Forum, the Cardiff Third Sector Council and the Cardiff Business Council to help stimulate a conversation across the city. Face to face meetings with community groups and organisations as well as online forums are also planned as well as working through local media outlets. The Deputy Leader of the County Council is finalising a comprehensive communications plan which will ensure that stakeholders are provided with relevant information at each stage of the budget process in order to effectively inform the on-going conversation.

88. As a first step, the period of citizen engagement will commence immediately following the Cabinet meeting with the launch of an online budget tool which will enable citizens to identify their top priority services. Further online tools will be rolled out as more details of the budget proposals are brought forward in the run up to the February 2014 budget meeting.

89. Scrutiny Committees have engaged early with the budget setting process with the Policy Performance & Review Committee considering the initial Budget Strategy Report in September. During November scrutiny committees will receive an update from directors in respect of the Budgetary Analysis packs prepared for each area.

90. It is hoped that in identifying further opportunities with key stakeholders to engage and consult that comments and further suggestions for savings can be considered alongside the directorate driven savings responses.

Capital

91. The Provisional Settlement provides Cardiff with a general capital funding figure of £13.411 million in 2014/15. This represents a 2% or £270,000 reduction on the current year figure. This position builds on a trend which has seen general capital funding reduced by 35.3% between 2010/11 and 2014/15. Details of the allocation of specific capital grants at individual authority level are not yet available. However, on an All Wales basis, indicative specific capital grants have reduced by 21% or £64.386 million compared to the current year.

92. Members will be aware that the Council’s General Fund Capital Programme for 2013/14 to 2017/18 demonstrated the cumulative need for additional borrowing and general capital receipts of £131 million and £5.3 million respectively and included the impact of the forecast 40% cut in Welsh Government capital funding by 2013/14.

93. The Section 151 Officer will continue to monitor the affordability of borrowing to ensure that long term borrowing is affordable. The local affordability indicators that were developed as part of the 2013/14 budget setting process will be updated to consider the implications of the Capital Programme for 2014/15 to 2018/19. These indicators will worsen as the Council’s controllable base budget against which to make
savings reduces. Given this increasing pressure a review of all schemes included within the Capital Programme will be required as part of the budget setting process alongside robust consideration of new schemes. New schemes should 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/external grant support.

Future Developments

94. The July Budget Strategy report identified a number of relevant future developments which remain valid in the current context including:

- The Williams Commission Review of Public Services has been set against a context of drastic financial cuts and a perception of poor performance across elements of the entirety of the Welsh public sector
- The Hill Report in respect of The Future Delivery of Education Services in Wales. The Council has responded to the consultation and is feeding into the changing position on the Joint Education Consortium joint committee
- Ongoing work to understand the financial implications as a result of the welfare reforms in Wales and in particular the CTRS interim scheme
- Changes to be made to the existing Outcome Agreement Grant. These changes will include both performance against the existing National Strategic Indicators and standards of corporate and service governance as reflected in the findings of the main regulators and inspectors.
- Consideration will also be given to potential Housing Revenue Account (HRA) reforms although these are unlikely now to be introduced from April 2014.

Reasons for Recommendations

95. To seek Cabinet approval for the Updated 2014/15 Budget Strategy and in particular to increase the savings requirement for directorates to £50 million as part of the Budget Principles identified within the report;

96. To allow Cabinet to consider any additional recommendations as a result of the scale of the financial challenge ahead and to delegate responsibility to the Interim Head of Paid Service in consultation with the Cabinet Member for Finance and Economic Development to develop a targeted approach for the identification of additional savings targets for directorates.

Legal Implications

97. It is the responsibility of the Cabinet to receive financial forecasts, and develop a financial strategy with a view to proposing a budget for the Council to approve. There are no direct legal implications arising from this report. Any specific legal issues will be addressed in detail as part of the proposed budget preparation.
**Financial Implications**

98. The financial implications set out in the July Budget Strategy report in respect of context, risk and affordability remain relevant to this report.

99. In addition, this report sets out the impact of the Provisional Settlement on Cardiff. It is now clear that the Council faces a significantly greater financial challenge in 2014/15 and that the turnaround in funding from Welsh Government since its figures were published in December 2012 is a decrease of £21.4 million.

100. Cardiff’s Budget Gap is now calculated at £46 million but the report rehearses arguments as to why the Council should work to a total requirement of £50 million.

101. The report identifies scenarios in respect of the MTFP which, if realised, would result in financial sustainability issues for the remaining directorates. The Council’s ongoing scenario planning will need to consider the impact if changes are made to this controllable base budget calculation as a result of changing policy decisions at a Welsh Government and Council level in respect of both schools and social care.

102. In this challenging financial environment it is vital that savings proposals are robust and that significant changes to business processes do not impact on the financial control environment in a negative manner. In addition to the formal risk assessment process the Budget Report will need to consider the increasing level of risk attached to budget savings proposals and what mitigations it is able to put in place in respect of this.

103. The report also sets out the continuing bleak picture of the quantum of capital resources in the medium term and confirms that there is little opportunity for new schemes unless they can be contribute to savings targets through service and buildings rationalisation or be seen to be self-financing.

104. In setting the Council’s budget strategy for 2014/15 it is acknowledged that the budget setting process must be flexible enough to react to both unknown and anticipated but not fully quantified financial risks and challenges.

**HR Implications**

105. The report outlines the significant financial challenges facing the Council following Welsh Government’s funding Settlement for Cardiff. The increase of the budget gap of £33 million in July 2013 and now increased to £50 million in October creates significant and unprecedented people implications of managing the financial pressures facing the Council as outlined in this report. The staff communication from the Leader and Interim Head of Paid Service on 17 October clearly acknowledges that the extent of this financial challenge means that the
Council will have to make very significant cuts each year for the foreseeable future. Consequently, as almost half of the Council’s spend is on employees, the reality is that the number of people in our workforce will significantly reduce. The Council will continue to seek every opportunity to avoid or minimise compulsory redundancies where possible, however the scale of the change required will be such that redundancies cannot be avoided.

106. Preparing savings proposals on budget reductions will inevitably impact on staff costs particularly in those directorates where these costs represent the most significant element within the overall budget. The process of developing and discussing additional financial planning scenario will commence with a view to consulting on savings proposals with the trade unions prior to approval of the Corporate Plan and Budget in February 2014. It will be essential that there continues to be appropriate consultation on proposals which are taken forward by the Cabinet. Many of these will have people implications which will need to be considered at an early stage in consultation with the Trade Unions and staff impacted.

107. In addition to the use of the Council’s Voluntary Severance Scheme, other mechanisms available within the Employee Support Framework to support these significant challenges include continued use of the Flexible Retirement Policy, Sabbatical Leave and a suite of flexible working policies. These will be promoted more widely to ensure that staff and managers are aware of this provision. Whilst Redeployment will be subject to review, support for those ultimately displaced will continue. However, it must be recognised that redeployment opportunities are likely to arise less frequently in future.

108. Cabinet have indicated their wish to introduce additional mechanisms concerning the advertising and filling of posts. This would include Directors seeking formal sign off from their Cabinet Members where there are urgent and business led needs for a post to be advertised and filled. If this principle is confirmed, a clear process and criteria will need to be developed.

109. Additionally there will need to be a continued focus on reducing agency spend, rigorous management of overtime and continued focus on driving compliance with the new Attendance & Well Being policy

110. The ability to express an interest in being released on the grounds of voluntary severance is open to all and there are currently circa 800 people registered on the database. Details of these have now been passed to directors in order for them to determine business cases for those who wish to leave the Council.
RECOMMENDATIONS

The Cabinet is recommended to:

(1) Note the outcome of the Welsh Government Provisional Settlement for 2014/15.

(2) Note the opportunities and issues identified as part of the Financial Resilience exercise and agree that that these should be pursued further where relevant. In particular the approach to the Council’s Minimum Revenue Provision will be reviewed.

(3) Agree that the Budget Reduction Requirement increases to £50 million which includes a contingency of £4 million and agree that a delegation be given to the Interim Head of Paid Service in consultation with the Cabinet Member for Finance and Economic Development to develop a targeted approach for the additional amount of £17 million that directorates will need to identify.

(4) Agree that directorates work with the relevant Cabinet Member, in consultation with the Interim Section 151 Officer and Cabinet Member for Finance & Economic Development to identify potential savings to meet the additional indicative Budget Reduction Requirement of £17 million.

(5) Agree that the Cabinet should receive a report in December in relation to a revised Redeployment policy.

(6) Agree that consultation should commence with the trade unions as soon as is reasonably practicable on options relating to employment costs with a view to a further report being brought to December's Cabinet.

(7) Agree that those significant budget savings proposals that require early decisions be the subject of a further report to Cabinet in December.

MARCIA SINFIELD
Interim Section 151 Officer
4 November 2013

The following Background Documents have been taken into account:-

2014/15 Budget Strategy Report – 25 July Cabinet