

Appendix 5 - Revenue In year Action

1. Key Financial Background

- £28.5m of headroom has been created to fully cover the first 6 years of repayments via the capital equalisation reserve and MRP reprofiling. By year 7 further income generation will be online (including phase 2) which will assist capital repayment
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- By April 2020 the authority will have repaid £120m of existing debt
- The £79m required to fund the councils contribution to the project is over £40m less than the amount repaid since 2012.
- It will create new revenue streams for the council, which subject to further decisions will assist and may cover the councils repayment requirements
- The cost of unsupported borrowing is now a 1/3rd less than in 2004.
- The identified level of unsupported borrowing in 2012 would be £93m if adjusted for inflation.

1. Directorate Budget Savings.

Place £nil shortfall

In year action will be taken to permanently address the budget and a continued forecast nil outturn is forecast. This is in line with previous year's performance.

Education £2m base shortfall

Many of the pay, price and demand pressures identified in the second quarter budget monitoring report are a continuation of the overspend position from 2018/19. Ongoing robust management action will continue. This will seek to mitigate pressures and continue to bring forward additional savings where possible.

The scale of external demand and cost pressures facing education services is such that no continuing robust management action will be able to bring the net spending across the directorate into balance within the 2019-20 financial year. By far the most significant area of education spending is the delegated schools budget and whilst this cannot be reduced in year it would be possible to effectively 'top slice' the budget in 2020-21, as a one off base adjustment, to effectively recover any net overspend by the year end on the 1st April 2020. Any such retrospective 'top slicing' would be in addition to any cash or real terms reductions in funding for schools approved as part of the Council budget for 2020-21. The LEA central budgets will also be subjected to a further review to maximise the contribution the authority can make to redressing the balance and thus reduce any potential impact on schools delegated budgets.

Social Services one off shortfall £1m rising to £4m after one off grants

At the halfway point of the financial year, the forecast outturn is for a c £1.0m overspend on gross expenditure of c. £175m. This is a significantly improved half year position compared with recent financial years.

The £1.0m is predominantly made up of a £975k shortfall on likely achievement of savings.

In order to address the £1m gap, an in year review of gross expenditure across the Directorate compared to last financial year is being undertaken. For any increases above 2% wage inflation, remedial action will be taken to bring increased spend back below 2% by year end.

In addition to the above, a vacancy freeze will be implemented across the Directorate for any posts which do not give rise to either a safeguarding or business continuity risk.

Finally WG have announced a further tranche of regional grants to address Winter pressures and the local authority will seek to draw down further funding to accelerate transformational activity this financial year.

In light of the above, there is a good deal of confidence that the Social Services & Poverty and Prevention Directorate will achieve a balanced budget by year end (if not a small underspend).

However there remains concern that at least £4million of grant income will cease in the new financial year creating an additional financial burden for which alternative income or further compensatory savings have not yet been agreed.

Resources in year balanced one off but base shortfall of £1.4m

Corporate Services underwent significant change in 2017/18 which followed into 2018/19, in order to realise savings and rebalance the budget.

The Directorate has proactively and strictly managed any overspending in Quarter 1, and as a base budget has performed well. The legacy savings from the previous years have affected the budget and for Quarter 2 these have been offset by underspends on service areas mainly as a result staff savings through managing vacant posts and from a one off income item in relation to the Liberty Stadium court case and CTRS underspend which is dependent on caseloads. This has resulted in an overall variance of £-65k.

Detailed plans and proposals are in place for all of the savings variances above by 31st March 2020.

Action Plans for Resources include:

- Releasing of vacancies in each service
- Ensuring all legacy savings are achieved, which were previously allocated to services
- Service budget reviews to release additional savings, reviewing the risk across the Council including impact on other Directorates.
- A range of other measures are being considered as part of in year and annual budget savings considerations, these include.
 - Review of the CTRS which is a demand-led service
 - Reductions in corporate services.
- Bringing forward savings as a result of digital wherever possible
- Reducing and stopping fees and subsidies wherever possible.

2. Future Stress Tested Scenarios

In extremis, if for any reason schemes could not progress and all spend to date, plus now sought, was deemed ultimately abortive capital costs to be written off to revenue, it would exceed the totality of General Fund Reserves and clearly breach the Council's fiduciary duty. That is one of several reasons why the capital equalisation reserve was established by Council on top – predominantly to smooth future costs of the whole scheme when it fully progresses – but also to provide “insurance” in the worst case scenario. It is intended that the capital equalisation reserve is actually used to offset some of the future costs as shown in the capital financing table above, even further.

The Section 151 officer is required under the Constitution to determine a source of funding for the scheme as it is not in the existing capital programme. This is unsupported capital borrowing present with some future offset from City Deal Grant, capital receipts and some limited future net revenue operating income streams. The total amount envisaged spent over the next two years is substantial. The level of ongoing risk and magnitude of the decision is therefore very substantial and must be fully borne in mind when taking any decision to proceed.

Any capital spending within the envisaged affordability envelope in the medium term is predicated on creating the necessary headroom to increase overall capital financing costs by 50% and making all current and planned future revenue savings to achieve that headroom. Deviation from that plan will limit the ability to finance the future capital ambition. There is already substantial current deviation from the revenue planning assumptions in the current year of around £3m per annum. This position also masks a number of one off actions and one off grant which when they fall out will increase the underlying gap to nearer £7m. Cabinet has previously resolved in August 2019 to task all Directors with bringing forward credible plans to balance. Those are still to be fully developed but some progress is being made.

The current planning assumption is that in agreeing these step phases all necessary action will be taken at officer and member and Cabinet level to assure and ensure no material deviation from revenue savings plans in the current and all future years to enable capital to proceed in stepwise fashion as

requested. A Welsh Audit office letter is attached as appendix 7. The contents of which need to be considered as part of decision making.

Whilst neither the Section 151 officer or Cabinet may bind or fetter future decision of Council, the decision to proceed “locks in” yet more spend that must be ultimately financed. Given the outlook for public finances over the longer term, where real term cuts for local government potentially remain the order of the day, failure to fully offset that locked in spend with other savings would itself increase the likelihood of the Section 151 officer forming an opinion that future resources could fall short of future expenditure.

3. Future Disposal Option

It might be appropriate at a future point in time, once Council have completed their market intervention and place shaped and led the city’s regeneration to take a step back and consider onward disposal of the asset to free up future revenue spending power (by reducing net debt) or provide a source of capital receipts for future wave of capital spending. This would likely only realistically be after the cessation of the initial 15 year city deal period to ensure compliance with the deal, and could otherwise be subject to any grant clawback provisions applying at the time. Any such future beneficial capital receipts have not been factored into the evaluation of costs in this report. Equally foregone future revenue income from amongst others potentially increased car park income has not been factored in to any potential disposal. Potential future disposal consideration will need to weigh the immediacy of a capital receipt with lost future income at that time.