BY SUBMITTING THIS REPORT TO THE CABINET OFFICE, I, (CHRISTOPHER LEE) (CORPORATE DIRECTOR RESOURCES) AM CONFIRMING THAT THE RELEVANT CABINET MEMBER(S) ARE BRIEFED ON THIS REPORT

CARDIFF COUNCIL
CYNGOR CAERDYDD

CABINET MEETING: 23 SEPTEMBER 2021

BUDGET MONITORING - MONTH 4 REPORT 2020/21

FINANCE, MODERNISATION & PERFORMANCE (COUNCILLOR CHRIS WEAVER)

AGENDA ITEM: X

Reason for this Report

1. To provide the Cabinet with details of the financial monitoring position for the authority as projected at the end of July 2021(Month 4), adjusted for any significant movements since that date, compared with the budget approved by Council on 4th March 2021. This report includes an assessment of the ongoing financial impact arising from the response to the COVID-19 crisis and the level of financial support provided by Welsh government.

Background

2. The last eighteen months have been dominated by the issues faced in response to the Covid-19 pandemic and the uncertainty that still remains with regards to the future operation of Council services. This monitoring report will continue to set out the pressures arising from responding to the crisis separately from those relating to operational service delivery. As such, the first part of the report addresses the financial impact of the crisis, both in terms of additional expenditure and reduced income generation, as well as the Welsh Government (WG) funding response to this. The report then provides details of the overall revenue position, including any unfunded impacts of COVID-19 and any emerging operational issues that have arisen for reasons other than the pandemic. An outline of the actions taken by the Council in response to the emerging financial position is then provided, followed by an update on the position in relation to the Capital Programme.

Issues

COVID-19 Financial Impact

3. The ongoing COVID-19 pandemic continues to have a significant financial impact on the Council. This is being evidenced through both additional expenditure pressures and reduced income generation across services. These additional expenditure pressures have varied in nature, but have included both the need to change the way services are delivered and also the requirement to react to additional and different demand pressures being faced. In relation to income, losses have been experienced in a number of directorates and as the year progresses there will be a need to track how those services are delivering against the income levels budgeted for in year.

4. In response to these financial pressures, the Welsh Government (WG) has continued to support COVID-19 impacts this year and has committed to continue funding arrangements across Wales for the first six months of 2021/22 and to consider the level of support required for the remaining half of the financial year. Within this funding is also provision to support the ongoing income losses being experienced by local authorities, although it is expected that part of this will also be used by the sector to take advantage of opportunities for change that have arisen as a consequence of the pandemic. This funding commitment is intended to cover the remainder of this financial year but with an understanding that some services will be presumed to require less financial support as the crisis eases allowing some services to return to pre-pandemic levels of service. In order to access funding, local authorities have been required to submit monthly expenditure claims and quarterly income claims.

5. This financial year to date, the Council has submitted expenditure claims to WG totalling £8.497 million, with the table below providing an overview of claims made to July.

Expenditure claimed by Month	April - £'000	May - £'000	June - £'000	July - £'000	Total - £'000
Adult Services	1,092	1,239	1,162	1,201	4,694
Childrens Services	116	149	188	200	653
Infection Control	49	76	38	50	213
FSM	407	58	56	570	1,091
Homelessness	28	58	98	86	270
SIPS	104	43	46	229	422
Delegated Schools	125	194	266	118	703
Other	56	138	94	63	451
Total	**2,077**	**1,955**	**1,948**	**2,517**	**8,497**

6. The table below provides an overview of the status of claims to July 2021, showing the amounts reimbursed by WG.

Expense Claims between April - July by Category

Expense Claims	Claimed - £'000	Reimbursed - £'000	Held - £'000	Disallowed - £'000
Adult Services	4694	4694	0	0
Childrens Services	653	653	0	0
Infection Control	213	213	0	0
FSM	1091	55	1035	0
Homelessness	270	231	40	0
SIPS	420	420	0	0
Delegated Schools	703	703	0	0
Other Spend	453	436	0	17
Total	**8497**	**7404**	**1075**	**17**

7. In respect of the table above, a key service supported remains Adult Services and the majority of Covid-19 related expenditure within this service takes the form of financial support to Providers. WG have recently issued guidance which sets out revised arrangements for Provider support until the end of this financial year. The monitoring position assumes that ongoing support will reflect these arrangements and will be fully reimbursed. As previously reported last year, there are delays in approval on free school meals provision but there are no concerns that the payments will not be agreed. It should also be noted that some items have been retrospectively withdrawn from the Council's claim, because alternative funding sources have become available.

8. In addition to the expenditure claims submitted between April and July, the Council has also submitted one claim for lost income, net of any expenditure savings made, covering the first quarter of this financial year. In addition, WG also requested details on any income that may have been delayed in its receipt, but not permanently lost.

9. The table below provides an overview of the status of the Q1 income claim, including details of the most significant income losses experienced. As can be seen from the table, the majority of the claim has already been agreed. Those areas that remain relate to income that will be considered later in the year when the amount of income collected in areas such as planning and licensing will be clearer in terms of lost versus delayed income.

Qtr 1 - Income Claim

	Claimed	Reimbursed	Holding
Parking	-964	-964	0
Planning	-204	0	-204
Property	-523	-522	-1
SCH	-130	-130	0
SCH CAT	-136	-136	0
Sport & Leisure	-619	-114	-505
Venues	-1868	-1868	0
Other	-565	-334	-231
Total	**-5009**	**-4068**	**-941**

10. Any additional expenditure or income losses that the WG has decided not to fund will need to be met from existing Council resources and the relevant amounts are reflected within the projected directorate outturn positions that are outlined later in the report. A combination of WG signalling a revision of Hardship support from October and the uncertainty of the economic and pandemic conditions for the remaining months of the year highlights a level of financial risk that not all additional expenditure and income loss will be fully reimbursed by the WG Hardship Fund arrangements. Because of this, the projected directorate positions included within the report do not incorporate the full potential pandemic related pressures that may occur during the last few months of the year. Instead, because of the range of potential scenarios that could occur, the table below has been prepared to provide an indication of the financial impact that may result:

	Estimate (£000)		**25% Council Cont (£000)**	**50% Council Cont. (£000)**	**75% Council Cont. (£000)**	**100% Council Cont. (£000)**
Projected Cost (August – March)	2,000		1,500	1,000	500	2,000
Projected Income Loss (Q2-Q4)	5,000		1,250	2,500	3,750	5,000
Total	**7,000**		**2,750**	**3,500**	**4,250**	**7,000**

Revenue Position

11. The overall revenue position reported in the paragraphs that follow comprises projected variances that have arisen irrespective of the pandemic, combined with COVID 19-related items of additional expenditure or lost income that WG have indicated will not be funded through the COVID-19 Hardship Fund. In addition, these variances include shortfalls against 2021/22 budget savings proposals and any in-year savings or efficiencies that have been identified during the year.

12. The overall monitoring position, as at Month 4, reflects a total projected net annual Council overspend of £1.442 million. This position is detailed in Appendix 1 and includes a total directorate net overspend of £4.042 million and a projected overspend of £400,000 in relation to Capital Financing, partially offset by the £3 million general contingency budget.

13. The table below provides a summary of the overall position and outlines the component parts of each directorate's total variance.

Directorate	**Directorate Position (£000)**
Corporate Management	0
Economic Development:	
Economic Development	1,863
Recycling & Neighbourhood	150

Education & Lifelong Learning	595
People & Communities:	
Housing, & Communities	(163)
Performance & Partnerships	0
Adult Services	45
Children's Services	1,215
Planning, Transport & Environment	371
Resources:	
Governance & Legal Services	166
Resources	(200)
Total Directorate Position	**4,042**
Capital Financing	400
General Contingency	(3,000)
Summary Revenue Account	0
Total Council Position	**1.442**

14. From the table above, it is, however, clear that there are particular pressures evident in Children's Services, Economic Development and Education & Lifelong Learning but the majority of Directorates are currently highlighting adverse financial positions.

15. The specific overspends and underspends within each directorate's position are outlined in more detail within Appendix 2. However, the main pressures relate to the additional cost and number of residential and internal fostering placements within Children's Services, as well as additional expenditure in relation to agency staffing within that directorate. In addition, Education is experiencing pressures in relation to Out of County Placements, both in terms of cost of individual placements and the overall number of pupils requiring specialist provision. In addition, there are underlying pressures evident within School Transport, due to the number of pupils with additional learning needs requiring transport. Economic Development highlight the level of uncertainty facing the income generating services and reflects the level of risk if WG are not able to support fully the impact on services

16. As well as these specific pressures, there are pressures in most directorates arising from not being able to fully deliver the savings proposals agreed as part of the 2021/22 budget. As outlined in Appendix 3, there is an overall projected shortfall of £733,000 (13%) against the target of £5.554 million. For those 2020/21 savings proposals, the position is that 62% of the savings have been achieved against the £2.147 million carried forward with the remaining proposals being predominantly income related and therefore have an element of uncertainty in the current year.

17. The Capital Financing outturn is forecast to be £400,000 in excess of budget. This budget supports the Council's Capital Programme and treasury management activities, including external interest payable, prudent provision for the repayment of any debt in line with Council policy, as well as interest earned on temporary investments. The position against the budget is impacted by a number of variables which may change during the course of the year such as interest rates, the level of investment balances, share of interest chargeable to the Housing Revenue Account (HRA), the need for and timing of external borrowing, as well as performance in achieving capital expenditure projections.

Whilst there are delays in some capital projects resulting a lower borrowing requirement during the year, factors combining in determining the current projection include HRA picking up a lower share of overall external interest costs, lower levels of interest recoverable from directorates in relation to invest to save schemes expected to be completed during 2021/22 and a higher provision for prudent repayment of historic capital expenditure than assumed for 2021/22

18. A balanced position is being reported in relation to Council Tax Collection. Performance to date suggests that collection rates are at a level at least comparable to 2020/21. Should a variance emerge, this will be reported in future reports.

19. As part of the reported directorate positions, contributions from contingency budgets have been incorporated where appropriate. These include a transfer from the Council Tax Reduction Scheme (CTRS) contingency, of £3.788 million, to meet the increasing demand from residents for financial support, largely as a direct consequence of the pandemic and financial hardship that people have been experiencing. In addition, the Children's Services position includes the £2.175 million contingency held for meeting the additional costs arising from external placements.

20. In addition to the general fund directorate positions are the positions of ring-fenced and grant funded accounts, which are outlined in more detail as part of Appendix 2. In summary, the position on the Housing Revenue Account (HRA) is projecting a balanced position but that any capital financing cost savings will be used to improve the ability to deal with future budget pressures including capital works postponed to future years and provide more flexibility for any unavoidable commitments in the new financial year. The CPE position reflects an in-year surplus of £2.321 million compared to the budgeted surplus of £3.741million. The restrictions remained in April and May and since then activity has increased. It is anticipated that reliance on some level of WG Hardship Grant will be required throughout the year but at a lower level than previous months. The Harbour Authority is projecting a balanced position

Response to the Emerging Financial Position

21. As outlined earlier in this report, the financial and economic impact of the pandemic will remain with local authorities for the foreseeable future. There is a need to ensure that demand pressures are picked up early as well as where demand for services does not return to anticipated levels particularly with respect to income generating services. This combined with the changing nature of support from WG and the ceasing of the Job Retention Scheme highlights the continuing need to ensure that budgets are tightly managed.

Capital

22. The Council on 4 March 2021 approved a new Capital Programme of £244.353 million for 2021/22 and an indicative programme to 2025/26. The budget for the General Fund and Public Housing has since been adjusted to £279.125 million to include actual slippage reported at outturn, incorporation of new grant approvals and confirmation of actual grant awards.

23. The sections below indicate a forecast position for 2021/22 for the General Fund and Public Housing.

General Fund

24. The projected outturn for the year is currently £168.599 million against a total programme of £192.385 million with a variance of £23.786 million, which is predominantly slippage. Expenditure at the end of Month 4 was £26.334 million which represents 16% of the projected outturn, however there are a number of large expenditure items which are subject to progress during the latter part of the year.

Capital Schemes Update

25. Delivery of capital projects is complex, may span a number of years and is influenced by a number of external and internal factors such as weather, statutory and non-statutory approval processes. Directorates continue to be reminded of the need to set achievable profiles of expenditure and to identify slippage at an early stage.

26. The Council's capital investment programme plays an essential role in both stimulating the local economy and delivering local services during the post Covid-19 recovery period.

27. The impact of Covid-19 on the programme has been dependent on the nature of the works being undertaken. Following initial delays on schemes during lockdown, contractors are adapting to Covid-19 work restrictions, although other cost inflation and supply chain challenges represent a significant delivery challenge to projects. The drivers of these pressures remain unclear; however, the impact of Brexit, ongoing pandemic management and a UK-wide pipeline of construction-led recovery projects are all considered potential drivers of cost inflation, shortage of materials such as steel, timber and cement and difficulties recruiting for key roles. Some of the issues may be temporary, however it is unclear whether stepped increases in cost inflation will be sustained in the medium to long term.

28. Across projects, mitigation approaches vary, and includes early dialogue with contractors, ordering materials in advance, consideration of alternative material suppliers and methods of construction, supporting training and development.

29. Though fixed prices and framework agreements afford some protection to the inflationary pressure in the short term, this cannot be sustained beyond the contract period and increases in tender prices are likely and risk is built into contract processes.

30. These issues will impact on costs of works which is likely to impact on managing within estimated budgets. This may require re-prioritisation of schemes to be undertaken including changes in specification where this allows the same outcomes to be met.

31. It remains important that directorates continue to allocate sufficient capacity and resource to ensuring projects progress in the timescales intended and consider opportunities to bring forward expenditure where possible. Robust business cases

continue to be essential particularly where schemes are undertaken on the basis of generating income or savings.

32. Utilising grants bid for and awarded in approved timescales is a risk to be managed by directorates in the remainder of the year. Consideration of switching of Council resources and early discussion with grant funding bodies should be undertaken in order to ensure that approved grants can be utilised in full.

33. Further detail on progress against significant capital schemes included in the programme is included in Appendices 4 and 5 to this report.

Capital Receipts

34. The Capital Programme approved by Council in February 2018 set a target for non-earmarked General Fund Capital receipts of £40 million, with a subsequent increase of £1 million to this target in 2019/20, after making a deduction for eligible revenue costs of disposal. Up to 31 March 2021, a total of £7.861 million has been received against the overall receipts target.

35. The forecast of income towards the target whether by external disposal or approved land appropriations to the Housing Revenue Account (HRA) during 2021/22 was £6 million. Receipts to date total £165,000, and the Annual Property Plan for 2021/22, due to be presented to Cabinet shortly, will update current forecasts and will be key in determining the affordability of the Capital Programme update to be considered as part of 2022/23 budget strategy work to take place shortly.

36. In addition to the above, land appropriations to the Housing Revenue Account will take place for the development of affordable housing, with the main site being the former Michaelston school site, which was originally anticipated to be completed in 2019/20. Where sites are to be appropriated to the HRA, this needs to be within the approved budget framework for the HRA and based on an agreed independent valuation and housing viability assessment.

37. The Capital investment programme also includes a number of major development projects which assume that capital receipts are earmarked to pay towards expenditure incurred on those projects. Examples include the development strategy at the International Sports Village, Arena contribution and commitments agreed as part of proposals in respect to Llanrumney Development. Expenditure incurred in advance of realisation of receipts represents a risk of both abortive costs and to the level of borrowing and should be incurred as part of a Cabinet approved business case.

Public Housing (Housing Revenue Account)

38. Directorate Programme 2021/22 £86.740 million. Initial variance of £21.014 million identified.

39. The estate regeneration budget of £3.150 million tackles issues of community safety, defensible space, and waste storage and courtyard improvements to blocks of flats. Expenditure of £4.733 million is forecast, with the variance of £1.583 million brought forward from future years. Major schemes within the programme include the Roundwood Estate (£1.400 million), Arnold Avenue/Bronte Crescent

(£545,000) and Litchfield Court (£350,000) as well as improvements to garages (£1.250 million).

40. In respect of planned investment on Council dwellings, there is a total budget for the year of £19.250 million. Total expenditure in year is projected to be £12.746 million and this will ensure that the Major Repairs Allowance grant allocation for 2021/22 of £9.557 million is utilised in full. Areas of expenditure forecast during the year include replacement boilers (£1 million), front door upgrades to flats (£1 million) and refurbishment of Nelson high-rise flats as they are transformed for family accommodation (£1 million). Slippage of £6.504 million is currently anticipated for building improvements and this is primarily in relation to flat and house roofs, works to BISF houses and rewiring. There are also still delays in relation to Covid-19 as restricted access into houses has meant further anticipated slippage on planned kitchen and bathroom works. Furthermore, new legislation released in December 2020 regarding cladding testing, changes in scope, duration and market conditions for a scheme at Lydstep high-rise has meant that the major work scheme has been delayed until options are reviewed. Whilst contractors are on site undertaking smaller schemes such as fire doors, expenditure of only £917,000 is projected against an in year budget estimate of £5.750 million.

41. The budget for disabled adaptations for public housing is £3.350 million but expenditure during the year is forecast to be £2.500 million. During 2020/21, Covid-19 caused delays as access was not permitted into homes for work to be carried out. Work is now continuing in order to catch up with demand but the expected underspend during the year is largely due to reduced staff capacity and materials.

42. Expenditure on the development of new housing over a number of sites during the year is estimated to cost £45.757 million in total. This includes the completion of the phase one Cardiff Living sites and the commencement on Cardiff Living phase two and three sites. Two schemes remain in progress for Phase 1 of Cardiff Living; Llandudno Road which is due to complete this financial year and the PassivHaus scheme at Highfields which is expected to complete in the autumn of 2022. Public consultation will begin towards the end of this summer on the Caldicot Road/Narbeth Road site through Cardiff Living which will deliver in the region of 75 mixed tenure homes for local people. The early stage master-planning is well underway on the proposed older person/wellbeing village on the former Michaelston College site which will deliver in the region of 250 new homes and a wide range of public buildings providing a range of facilities for the local community with a focus on older people and health and well-being. Work has also started for the low-carbon scheme on the Former Rumney High school site and on the former Howardian school site in Penylan.

43. Progress on other development projects outside of Cardiff Living include the conclusion of the tenders for the St. Mellon's and Maelfa older person community living buildings which will deliver over 100 older person flats and a range of communal facilities, both of which will commence on-site before the end of the year as well as the conclusion of the tender process to appoint a developer for 16 new two, three and four bed homes on the former Local Training Enterprise Centre building in St. Mellons. Planning applications have now also been submitted for the Channel View masterplan and phase one, the new older person community living building at Bute Street and Riverside/Canton Community Centre as well as the proposed development of Waungron Road, Llandaff. Work on site is due to

commence in August for the development of 28 one and two bed flats on the former Paddle Steamer pub site in Butetown and the scheme to deliver 16 new council homes at the former Air Training Centre site in Caerau will handover in August.

44. Cabinet in June 2020 considered the impact of Covid-19 on the Council's housing delivery programme and agreed approval in principle of a specific request from Wates Residential to the immediate purchase of a number of additional properties currently in development as part of the Phase 1 Cardiff Living programme. Furthermore, Cabinet considered in July 2020 a future service model for Homelessness and set out a range of schemes to offer long-term and sustainable housing options for homeless families and single people. The purpose of this work is to replace the leased hotels that were taken on during the Covid-19 crisis with longer-term solutions for temporary accommodation. Two sites were identified to deliver such new-build temporary accommodation, one of which is Hayes Place which completed in February 2021 and provides 19 new modular homes using the Beattie Passive 'Haus4studio' pods. There is also a meanwhile use on part of the Gasworks site, Grangetown which will provide 50 flats as temporary accommodation for homeless families. This is well underway with all the modular units being delivered and craned into site by the middle of August 2021 and the scheme is projected to handover by December 2021. The Council has also recently purchased the YHA Hostel in Butetown for £6.500 million in order to continue the provision of further accommodation to tackle homelessness within the city.

45. Further to this, specialist supported accommodation for homelessness was proposed at Adams Court to create an integrated facility of approximately 103 self-contained units with intensive support and an additional 49 flats for longer term more settled accommodation.

46. In order to support the costs of the above three projects, the Council submitted a number of grant bids to Welsh Government covering Covid-19 related homelessness recovery plans and over £12 million pounds of funding was approved, subject to detailed terms and conditions. Much of this was spent in 2020/21 but the balance of £3.957 million will be utilised this year. This is made up of £3.857 million for Adams Court and £100,000 for the Huggard site.

48. The Development team are aware of current risks to the programme caused by the Covid-19 pandemic and Brexit. A shortage of materials and labour supply is being recognised nationally and is a source of concern for the development industry. As a result, the implementation of some schemes could be delayed until early 2022 and therefore the new build programme is projected to have slippage into the next financial year of £15.243 million.

Reasons for Recommendations

49. To consider the report and the actions therein that form part of the financial monitoring process for 2021/22.

Legal Implications

50. The report is submitted for information as part of the Authority's financial monitoring process. The Council's constitution provides that it is a Council

responsibility to set the budget and policy framework and to approve any changes thereto or departures there from. It is a Cabinet responsibility to receive financial forecasts including the medium term financial strategy and the monitoring of financial information and indicators.

HR Implications

51. There are no HR implications arising from this report.

Property Implications

52. The report is submitted for information as part of the Authority's financial monitoring process. The Strategic Estates Department continues to work with the Finance Department to monitor the ongoing impact of COVID-19 on the Council's estate-related revenue and capital budget. As part of this process, the Strategic Estates Department continues to work with the Finance Department to submit relevant expenditure claims to WG in respect of impacts to the Council's property income.

53. As noted in respect of Capital Receipts, the Annual Property Plan for 2021/22 is due to be presented to Cabinet shortly. There are no further specific property implications to report.

Financial Implications

54. In summary, this report outlines a projected Council overspend of **£1.442 million** at Month 4 of the 2021/22 financial year. This overspend reflects a net directorate overspend of **£4.042** million, coupled with a Capital Financing overspend of £400,000. These overspends are partly offset by the general contingency of £3 million. In the event that an overspend of this level exists at the end of the financial year, it would be offset against the Council Fund Balance. Currently, the Council Fund Balance is £14.255 million and would reduce to £13.871 million in such a circumstance. However, between Month 4 and the financial year end, every effort will be made to reduce the overspend to a balanced position. It is important to note that within the overall position are cautious assumptions in respect of the ongoing level of financial hardship support provided by Welsh Government.

55. Whilst, to date, the Council has been able to recover the majority of COVID-19 expenditure and income losses from Welsh Government, the position is anticipated to 'taper down' from October 2021. This level of risk is evidenced by the scenarios presented in the report, which outline the fact that, based on current estimates, the Council could be exposed to £7 million additional expenditure and income impacts. Because of this risk, it is important that directorates retain a focus on their financial positions and ensure that tight financial control is in place over the remainder of this financial year and that overspends do not worsen and, if possible, are reduced by year-end. This will require a continual review of Council-wide issues and regular monitoring of the Council's balance sheet, including the debtors' position and earmarked reserve levels.

56. In relation to the 2021/22 Capital Programme, a variance of £23.786 million is currently projected against the General Fund element, predominantly in relation to slippage against schemes. In terms of the Public Housing

element of the programme, slippage totalling £21.014 million is currently forecast. Historically, this report has highlighted the issue of slippage and the economic impact of rising material process and contractor availability is contributing to potentially higher rates of slippage than have been experienced before. The increase in material prices could potentially reduce the amount of work being undertaken in asset renewal budgets in individual years in order to ensure capital budgets remain viable over the five year programme. There are large expenditure items planned for the last quarter of the year and it is critical that directorates ensure that the necessary progress is made against schemes, to ensure that slippage is minimised as much as possible. Due diligence needs to be maintained to ensure that the delay of schemes that rely on external funding does not result in the lost opportunity of accessing those funds due to tight terms and conditions dictating any timelines that must be met..

57. For capital expenditure, effective contract management will be required, with a particular focus on the prevailing economic climate causing delays or increased costs. Should such issues continue to emerge during the remaining months of the year it will be necessary for these to be escalated as a matter of priority so that the overall impact on the programme can be assessed and any required actions taken. Such risks also need to be monitored in relation to the generation of capital receipts which underpin the overall affordability of the programme.

RECOMMENDATIONS

58. The Cabinet is recommended to:

1. Note the projected revenue financial outturn based on the projected position at Month 4 of the financial year.

2. Note the capital spend and projected position at Month 4 of the financial year.

SENIOR RESPONSIBLE OFFICER	**CHRISTOPHER LEE** Corporate Director Resources
	DATE: XX September 2021

The following Appendices are attached:

Appendix 1 – Revenue Position
Appendix 2 – Directorate Commentaries
Appendix 3 – 2021/22 Budget Savings Position
Appendix 4 – Capital Programme
Appendix 5 – Capital Schemes Update