

CABINET MEETING: 24 FEBRUARY 2022

BUDGET MONITORING - MONTH 9 REPORT 2021/22

**FINANCE, MODERNISATION & PERFORMANCE (COUNCILLOR
CHRIS WEAVER)**

AGENDA ITEM: 7

Reason for this Report

1. To provide the Cabinet with details of the financial monitoring position for the Council as projected at the end of December 2021(Month 9), adjusted for any significant movements since that date, compared with the budget approved on the 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. Uncertainty remains regarding the future operation of services as this Council responds to the pandemic. 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 evidenced through both additional expenditure pressures and reduced income generation across services as the incidence of Covid cases fluctuates and any interventions determined by the Welsh Government (WG) are adopted. The additional expenditure pressures have varied in nature but have included both the need to change the way services are delivered and the requirement to react to additional and different demand pressures being faced. In relation to income, losses have been experienced in

several directorates and are being continually tracked in terms of delivering against the income levels budgeted for in year.

4. In response to these financial pressures, WG has continued to support COVID-19 impacts this year and has committed to continue funding arrangements across Wales for the remainder of 2021/22 in areas where the pandemic continues to demand additional expenditure or result in lost income. 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 impact reduces. However, at the end of Month 9, the reintroduction of some interventions will have an impact on some services particularly those related to income generation. To reflect the changing levels of Covid, 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 £21.252 million, with the table below providing an overview of claims made to December.

Expenditure claimed by Month	Apr - Sept - £'000	Oct - £'000	Nov - £'000	Dec - £'000	Total - £'000
Adult Services	6,581	741	671	435	8,428
Childrens Services	1,145	234	233	199	1,811
Infection Control	336	68	71	101	576
Free School Meals	2,525	294	22	626	3,467
Homelessness	412	51	476	39	978
Self-Isolation Payments	1,057	526	835	759	3,177
Delegated Schools	1,153	310	419	277	2,159
Other	573	-10	43	50	656
Total	13,782	2,214	2,770	2,486	21,252

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

Expense Claims	Claimed - £'000	Reimbursed - £'000	Held - £'000	Disallowed - £'000
Adult Services	8,428	8,090	338	0
Childrens Services	1,811	1,811	0	0
Infection Control	576	576	0	0
Free School Meals	3,467	3,467	0	0
Homelessness	978	867	111	0
Self-Isolation Payments	3,177	3,177	0	0
Delegated Schools	2,159	2,159	0	0
Other Spend	656	587	52	17
Total	21,252	20,734	501	17

7. Adult Services continues to be a significant recipient of Hardship Support with the majority of COVID-19 related expenditure within this service taking 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. 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. As in previous months, it should 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 December, the Council has submitted three claims for lost income, net of any expenditure savings made. Currently £10.918 million has been reimbursed from claims of £12.955 million for the first three quarters up to December 2021. All claims contained information 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 and Q2 income claim, alongside the claims for Q3 including details of the most significant income losses experienced. As reported previously, the majority of the Q1 claim was agreed. Those areas that are identified as held require additional supporting information and / or will be considered later in the year.

	Claimed £000	Reimbursed £000	Held £000
Parking	-1,144	-1,144	0
Property	-756	-756	0
Schools Income	-261	-261	0
Schools Catering	-2,112	-968	-1,144
Sport & Leisure	-3,165	-2,326	-839
Venues	-3,662	-3,662	0
Other	-1,855	-1,801	-54
Total	-12,955	-10,918	-2,037

10. As reported previously, 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 reflected within the projected directorate outturn positions that are outlined later in the report. As the year progresses and the amount of reimbursement is known there is an opportunity to reduce the level of risk that significant amounts of Hardship claims will not be successfully reimbursed.

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 savings or efficiencies that have been identified during the year.

12. The overall monitoring position, as at Month 9, reflects a total projected net annual Council overspend of £101,000. This position is detailed in Appendix 1 and includes a total directorate net overspend of £2.701 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	(£000)
Corporate Management	0
Economic Development:	
Economic Development	680
Recycling & Neighbourhood	0
Education & Lifelong Learning	948
People & Communities:	
Housing, & Communities	(528)
Performance & Partnerships	0
Adult Services	(100)
Children's Services	950
Planning, Transport & Environment	165
Resources:	
Governance & Legal Services	586
Resources	0
Total Directorate Position	2,701
Capital Financing	400
General Contingency	(3,000)
Summary Revenue Account	0
Total Council Position	101

14. From the table above, it is clear that there continues to be pressure evident in Children's Services, Economic Development and Education & Lifelong Learning.
15. The specific overspends and underspends within each directorate's position are outlined in more detail within Appendix 2. However, the main pressures continue to relate to the additional cost and number of residential and internal fostering placements within Children's Services. In addition, Education is experiencing pressures in relation to both Out of County Placements, in terms of cost of individual placements and the overall number of pupils requiring specialist provision; and underlying pressures evident within School Transport due to the number of pupils with additional learning needs requiring transport. The Economic Development position highlights primarily the level of uncertainty facing income generating services and 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 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 £673,000 (12%) against the target of £5.554 million. For those 2020/21 savings proposals, the position is that 65% of the savings have been achieved

against the £2.147 million carried forward with the remaining proposals being predominantly income related and have faced uncertainty in this current year.

17. The Capital Financing outturn is forecast to be £400,000 over budget which is an increase on the position reported in Month 6. 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 on 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 in a lower borrowing requirement during the year, factors combining in determining the current projection include the 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 least comparable to 2020/21, although they are down against the in year target, offset by a positive tax base position. A prudent view has been adopted in respect of the amount yet to be collected.
19. In addition to the general fund directorate positions, ring-fenced and grant funded accounts 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 with any capital financing cost savings being used to improve the ability to deal with future budget pressures including capital works postponed to future years and to provide more flexibility for any unavoidable commitments in the new financial year. The Civil Parking Enforcement position reflects an in-year surplus of £2.758 million compared to the budgeted surplus of £3.741million. The Harbour Authority is projecting a balanced position.

Response to the Emerging Financial Position

20. As outlined earlier in this report, the financial and economic impact of the pandemic will remain with local authorities for the foreseeable future. There remains a continued need to ensure mitigations are put in place where service demand pressures are identified and do not return to anticipated levels, particularly with respect to income generating services. This combined with the changing nature of support from WG, and the cessation of the Job Retention Scheme highlights the continuing need to ensure that budgets remain tightly managed.

Capital

21. The Council in 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 £287.482 million

to include actual slippage reported at outturn, incorporation of new grant approvals and confirmation of actual grant awards.

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

General Fund

23. The projected outturn for the year is currently £174.340 million against a total programme of £200.742 million with a variance of £26.402 million, which is predominantly slippage. Expenditure at the end of Month 9 was £100.294 million which represents 58% of the projected outturn spent during the first three quarters of the financial year, however there are several large expenditure items which are subject to progress during the latter part of the year.

Capital Schemes Update

24. Delivery of capital projects is complex, may span several years and is influenced by 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.
25. The impact of COVID-19 on the programme has been dependent on the nature of the works being undertaken. In addition, inflation and supply chain challenges represent a significant delivery challenge to projects.
26. 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 to ensure that approved grants can be utilised in full.
27. Further detail on progress against significant capital schemes included in the programme is included in Appendices 4 and 5 to this report.

Capital Receipts

28. 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.
29. The corporate property strategy considered by Cabinet in December 2021 provided an update on the receipts target. External receipts and land appropriations towards the target to date total £688,000, with disposal of land at St Mellons, to Linc Cymru Housing Association to take place in the last quarter along with remaining land appropriations to support the development of affordable housing.
30. Other land appropriations during 2021/22 to the Housing Revenue Account (HRA) include the former Michaelston school site, which was originally anticipated to be appropriated in 2019/20 and land at James Street. 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.

31. The Capital investment programme for 2021/22 also includes several major development projects which assume that capital receipts are earmarked to pay towards expenditure incurred on those projects. Examples include the land acquisition at the International Sports Village 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 only be incurred as part of an approved business case and with Cabinet approval.

Public Housing (Housing Revenue Account)

32. The initial programme for 2021/22 was £86.740 million, with a projected variance of £26.800 million identified.
33. The estate regeneration budget of £3.150 million tackles issues of community safety, defensible space, waste storage and courtyard improvements to blocks of flats. Expenditure for the year includes projects at the Roundwood Estate, Arnold Avenue/Bronte Crescent, Pennsylvania Avenue and Trowbridge Green in addition to the Column Road refurbishment as well as improvements to various garage sites.
34. In respect of planned investment on Council dwellings, the initial budget assumption was £19.250 million. Expenditure is projected to be £16.160 million, with £10.010 million of this spent to date allowing the Major Repairs Allowance grant allocation for 2021/22 of £9.557 to be claimed in full by the third quarter. Areas of expenditure forecast during the year include replacement boilers (£1 million), door and window replacements (£1.200 million) and roof works to both houses and flats (£2.500 million). Slippage of £3.090 million is currently anticipated primarily in relation to flat and house roofs, works to BISF houses and front door upgrades to flats. The delays in relation to COVID-19 and restricted access into houses has also meant 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 blocks has meant that the major work scheme has been delayed by circa six months. Subject to finalisation of contract terms, mobilisation is however likely to take place this financial year.
35. 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 to catch up with demand but the expected underspend during the year is largely due to reduced staff capacity and materials.
36. Expenditure on the development of new housing over several sites during the year is estimated to cost £38.630 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. Following completion of works at Llandudno Road,

only one scheme remains in progress for Phase 1 of Cardiff Living: 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/Narberth 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 is well underway for the low-carbon scheme on the Former Rumney High school site and on the former Howardian school site in Penylan, with all private houses released for sale on Howardian phase 1 having sold off-plan.

37. Progress on other development projects outside of Cardiff Living include the conclusion of the tender exercise and award of JCT contracts 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. 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 has now been completed and the contract has been awarded. Planning permission has been granted for the Channel View masterplan, Riverside/Canton Community Centre and the proposed development of Waungron Road, Llandaff. Phase one of the new older person community living building at Bute Street is due to go to planning committee in February 2022. Work on site commenced 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 Caldicot Road in Caerau was completed and handed over in September.
38. The Council's housing delivery programme has sought within the challenges of the pandemic to continue to deliver schemes to offer long-term and sustainable housing options for homeless families and single people, several projects were agreed, and external grant funding sought. Two sites were identified to deliver such new-build 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 onto site by the middle of August 2021 and the scheme is projected to handover by April 2022. The Council has purchased the YHA Hostel in Butetown for £6.400 million during the year to continue the provision of further accommodation to tackle homelessness within the city.
39. Further to this, specialist supported accommodation for homelessness at Adams Court is being developed via partners 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.
40. 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 has been delayed until early 2022, with

slippage of £22.360 million forecast. The Council continues to seek grants to support the affordability of its development programme, with a range of schemes being successfully approved for Social Housing Grant during the year of £25.540 million up to March 2026.

Reasons for Recommendations

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

Legal Implications

42. 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

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

Property Implications

44. There are no further specific property implications in respect of the Budget Monitoring Month 9 Report. As noted, the Corporate Property Strategy approved at Cabinet in December 2021 set out in detail in year progress against Capital Programme receipts targets and certain anticipated disposals and capital investments. The Covid Pandemic has had an impact on property income and certain transactions and the Strategic Estates team will continue to work closely with Finance to mitigate the impact of these effects on the Budget position as we emerge from the Pandemic restrictions.
45. During the final quarter, the Strategic Estates Department will continue to assist where necessary in supporting delivery in relevant areas such as the Capital Strategy, the Capital Investment Programme and Major Development Projects. Where there are property transactions or valuations required to deliver any proposals, they should be done so in accordance with the Council's Asset Management process and in consultation with Strategic Estates and relevant service areas.

Financial Implications

46. In summary, this report outlines a projected Council overspend of £0.101 million at Month 9 of the 2021/22 financial year. This overspend reflects a net directorate overspend of £2.701 million, coupled with a Capital Financing overspend of £400,000. These overspends are partly offset by the general contingency of £3 million. If an overspend of this level exists at the end of the financial year, it would be offset against the Council Fund Balance.

47. Whilst, to date, the Council has been able to recover the majority of COVID-19 expenditure and income losses from Welsh Government, there has been a level of risk associated with the WG approach to focus on specific areas of hardship only. Whilst it is recognised that there is increased level of clarity of support to the end of the financial year, there has been and will continue to be increased financial stringent challenge from WG in respect to the losses being as a result of the pandemic. 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 additional expenditure and income impacts. Because of this risk and to ensure that the Council is in a robust position to face the challenges of 2022/23 and the medium term, it is important that directorates continue to focus on their financial positions and ensure that tight financial control is in place over the remainder of this financial year. 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.
48. In relation to the 2021/22 Capital Programme, a variance of £26.402 million is currently projected against the General Fund element which represents a change from the position reported in Month 6 position and is predominantly in relation to slippage against schemes. Whilst maintaining a level similar to that reported in Month 6 position, the Public Housing element of the programme is reporting slippage totalling £26.800 million.
49. The slippage is predominantly due to the challenges of the prevailing economic climate in potentially causing both delays and increased costs. As these issues arise, then consideration is required to ensure that the overall affordability of the capital programme is maintained and assessed for any actions required to be taken. Such risks also need to be monitored in relation to the generation of capital receipts which underpin the overall affordability of the programme.
50. There are large expenditure items planned up to the end of the financial year and it remains 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.

RECOMMENDATIONS

The Cabinet is recommended to:

1. Note the projected revenue financial outturn based on the projected position at Month 9 of the financial year.
2. Note the capital spend and projected position at Month 9 of the financial year.

SENIOR RESPONSIBLE OFFICER	CHRISTOPHER LEE Corporate Director Resources
	18 February 2022

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