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: 28 SEPTEMBER 2022

BUDGET MONITORING – Month 4 2022/23

FINANCE, MODERNISATION & PERFORMANCE (COUNCILLOR CHRIS WEAVER)

AGENDA ITEM: X

Reason for this Report

1. To provide the Cabinet with details of the projected 2022/23 financial monitoring position as at the end of July 2022 (Month 4) adjusted for any significant amendments since that date, against the budget approved by Council on 3rd March 2022.

Background

2. Council approved the 2022/23 budget on the 3rd March 2022 with the key sources of funding underpinning the budget being Revenue Support Grant (RSG) from Welsh Government, the amount forecast to be raised by Council Tax, contributions from earmarked reserves and other income sources including fees and various specific grants. RSG increased by 10.7% (£52.6 million in cash terms after adjusting for transfers) in 2022/23 although the context was one of transitioning into a post pandemic period and significant uncertainty and risk evident across many areas.

3. The 2022/23 budget also heralded the end of the Local Authority Hardship Fund which meant that the Council would need to ensure it could cover any ongoing COVID-19 related pressures (both expenditure and income) from within its own budgetary allocation.

4. The legacy of the pandemic and other more recent factors such as energy pricing and the cost of living crisis have significantly increased further the levels of risk. The Council faces unprecedented challenges in terms of financial resilience which will require close monitoring and management during this year

and into the medium term. This monitoring report will set out the current known pressures and risks and any subsequent mitigations being undertaken. The report provides details of the overall revenue position, including performance against budgeted savings targets and a detailed position update on the Capital Programme.

Issues

Revenue Position

5. The overall revenue position reported in the paragraphs that follow comprises of projected variances, including any shortfalls anticipated against 2022/23 budget savings proposals and any savings or efficiencies that have been identified during the year.

6. The overall monitoring position, as at Month 4, reflects a total projected net annual Council overspend of £7.368 million. This position is detailed in Appendix 1. and includes a total directorate net overspend of £11.253 million, a projected underspend of £1.700 million in relation to Capital Financing, a projected underspend against the Summary Revenue Account of £0.185 million partially offset by the £2 million general contingency budget.

7. The table below provides a summary of the overall position:.

Directorate	**Directorate Position (£000)**
Corporate Management	(6,474)
Economic Development:	
Economic Development	2,860
Recycling & Neighbourhood	389
Education & Lifelong Learning	5,424
People & Communities:	
Housing, & Communities	(317)
Performance & Partnerships	(81)
Adult Services	(123)
Children's Services	8,950
Planning, Transport & Environment	430
Resources:	
Governance & Legal Services	400
Resources	(205)
Total Directorate Position	
Capital Financing	(1,700)
General Contingency	(2,000)
Summary Revenue Account	(185)
Total Council Position	**7,368**

8. The Table above indicates that there is already pressure across several service areas in terms of budgetary performance and these are contributing to a significant overall projected overspend at Month 4 that will require corrective action in the remaining months of 2022/23.

9. There are several factors impacting on the bottom-line position, many of which were not evident when budgets were set in March of this year. In financial terms the pressures in Children's Services are the most significant and in the main relate to high numbers and costs of residential placements. Across broader services, post pandemic recovery has been overshadowed by an energy and cost of living crisis that has resulted in significant expenditure pressures in areas such as food costs, fuel and utilities, plus it has dampened down income recovery given the squeeze on household budgets currently.

10. It is important to note that the Month 4 projections do not include any assumptions over and above the already budgeted pay award of 3% for 2022/23. Current pay negotiations are ongoing, and the outcome of any settlement reached will be reflected in future monitoring reports.

11. The specific overspends and underspends within each directorate's position are outlined in more detail within Appendix 2. In summary the three largest variances are noted below:

    a. **Economic Development** (+£2.680M) – Income shortfalls within Culture, Venues and Events are a significant factor contributing to the overspend, as well as the high cost of energy across council buildings. There are also pressures within Property Services and Sport, Leisure and Development.
    b. **Education** (+£5.424M) - A key pressure contributing to this overspend is in relation to School Transport because of rising costs in fuel and driver supply combined with the increased number of pupils with additional learning needs requiring transport. There are significant pressures in respect of out of area placements and school catering services, the latter again being impacted upon by price increases in relation to food and transport costs combined with reduced income from paid school meals.
    c. **Children's Services** (+£8.950M) – The majority of this overspend is attributable to residential and additional bespoke placements that have arisen this year reflecting the complexity of need and the limited spaces available in the residential market.

12. In relation to the above, mitigating actions are being put in place to reduce and offset the impact of these overspends.

13. As part of the Budget Strategy for 2022/23, a COVID recovery budget of £10 million was established to deal with post pandemic issues given the cessation of the Welsh Government Hardship Fund. Current issues around energy costs and the cost of living crisis have meant that this budget is also able currently to offset part of these costs. Within the Corporate Management line of the budget, the assumption is that some £6.463M of this allocation is committed at Month 4. As a response to the economic challenges officers in Education and Economic Development are looking at measures to ensure that the cost impacts are dampened to manageable levels particularly with the threat of increased

headwinds over next few months. It is important to note that by reflecting the partial use of the contingency at month 4 there remains only £3.537 million of this budget allowance to cover any future risks / costs that emerge.

14. The position with respect to Children's Services has resulted in the establishment of an urgent programme of work to seek to reduce spend and deliver improvements across a range of services linked specifically to the issue of external placements. The number and complexity of cases coming through combined with the inability of the market to provide placement solutions is unprecedented at this time. The position stated includes a number of high cost bespoke placements that are currently being reviewed and any step downs or changes once confirmed will be reflected in future monitoring reports. The action being taken to mitigate the position includes focussed work on:

    a. Manging placement requests
    b. Maximising the current placement options
    c. Looking at options for move on
    d. Developing the support market in Cardiff
    e. Developing Foster Care options to meet complex needs
    f. Addressing specific issues around unaccompanied asylum-seeking children
    g. Improving data reporting and financial analysis arrangements
    h. Maximising opportunities for additional grant funding and appropriate partner contributions

15. The position at Month 4 assumes use of £1.180 million of Children's Contingency to deal with the cost differential of agency staff versus full time staff. The success in terms of reducing the reliance on agency has resulted in decreased numbers of agency staff covering vacant posts but the variance in cost between agency and full time staff has increased This is being offset from contingency for 2022/23 given targets are being met as set in the Council's Corporate Plan

16. In terms of further monitoring of the Children's Services financial position, future periods will continue to reflect outcomes from the work being undertaken currently. The position also currently assumes no external grant funding is receivable and again this will be adjusted if, as in previous years, grants are made available by Welsh Government to support pressure in this area.

17. The 2022/23 Budget Report outlined Directorate savings of £7.708 million of which £1 million represented a reduction in General contingency which was actioned as part of the approval process for the Budget. This paragraph will report of the performance of the savings proposals as part of the 2022/23 budget (£6.658 million). As outlined in Appendix 3, there is an overall projected shortfall of £332,000 (5.9%) against the directorate savings target of £5.558 million. The £1.1 million of corporate savings are all projected to be achieved.

18. The Capital Financing outturn is currently forecast to be £1.700 million underspent at the end of the financial year. This forecast is set having regard to assumptions about our levels of actual external borrowing in year and timing of such; movement in bank interest rates (outside our control) and levels of daily cash balance; estimates of how any capital expenditure for the Housing

Revenue Account and General Fund is to be funded as year-end. Treasury assumptions and performance will continue to be monitored closely (the mid year review will be reported to Council in November 2022) and at Month 4, only the underspend with respect to interest receivable has been factored in. The underspend is due to increases in recent Bank of England base rates resulting in higher interest income receivable on temporary cash balances, represented by bank deposits held. There are likely to be further adjustments made in future periods if the fiscal landscape remains unaltered.

19. In considering an appropriate level of bad debt provision in respect of Council Tax and having due regard to the collectability of the Council Tax in the current economic climate, the Council is still able to report an underspend in the region of £0.483 million. This position whilst considered prudent will continue to be closely monitored throughout the financial year.

20. As part of the reported Directorate positions, contributions to and from contingency budgets have been incorporated where appropriate. As fluctuations in the CTRS budget are managed by a corporate contingency, these include a transfer from the Council Tax Reduction Scheme (CTRS) budget, of £0.120 million. The transfer reflects the current projected in year position, which takes into account the impact of the Council tax increase as well as in year demand from residents for financial support. In addition, the Children's Services position currently presumes that £1.180 million has been drawn down from the £2.500 million contingency budget held for meeting the additional costs arising from a reduction in Agency staff as referenced earlier in the report. This leaves £1.320 million for any further demand in Children's Services and the risk of increasing external residential placements for the remainder of this year.

21. Given the overspend position projected at Month 4, all services have been tasked to review opportunities to deliver in year efficiencies. These are being worked through currently to ensure deliverability and no front line service impact and, where appropriate, these will be built into future monitoring reports to further mitigate the bottom line position.

22. 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 currently indicating a potential surplus of £587,000. Underspends on capital financing costs due to the impact on debt repayment and external interest charges of the 2021/22 reduced borrowing requirement are partly offset by increased premises costs reflecting the current utilities market. Any surplus will be used to improve the ability to deal with future budget pressures including capital works delayed to future years and to provide more flexibility for any unavoidable future commitments. The Civil Parking Enforcement position reflects an in-year surplus of £5.455 million compared to the budgeted surplus of £5.696 million reflecting income below Harbour Authority is projecting a balanced position with increased cost pressures for dredging and barrage maintenance offset by other managed underspends. The Asset Renewal budget is anticipated to be fully spent in line with the revised work schedule.

Capital

23. The Council on 3rd March 2022 approved a new Capital Programme of £230.926 million for 2022/23 and an indicative programme to 2026/27. The budget for the General Fund and Public Housing has since been adjusted to £294.713 million to include actual slippage reported at outturn, incorporation of new grant approvals and confirmation of actual grant awards.

24. The sections below indicate a forecast position for 2022/23 for the General Fund and Public Housing.

General Fund

25. The projected outturn for the year is currently £153.626 million against a total programme of £220.103 million with a variance of £66.447 million, which is predominantly slippage. Expenditure at the end of Month 4 was £34.826 million which represents circa 23% of the projected outturn, however there are a number of large expenditure items which are anticipated to progress during the latter part of the year.

Capital Schemes Update

26. 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.

27. 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. Whilst contractors have adapted to work restrictions, construction cost inflation is significant resulting from increased tender activity, material availability, labour shortages. This represents a delivery and affordability risk to projects to remain within estimated budgets following the outcome of tenders. This may require re-prioritisation of schemes to be undertaken including changes in specification where this allows the same outcomes to be met.

28. 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 with a focus on approved schemes within the existing capital investment programme

29. At the end of 2021/22, there were a number of late external grant funding sources made available for aligned Welsh Government outcomes. This is a common theme and whilst positive, the timescales may mean late changes in programme and projections. 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 used in full.

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

Capital Receipts

31. 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 2022, a total of £10.060 million has been received against the overall receipts target.

32. The current forecast of income towards the target whether by external disposal or approved land appropriations to the Housing Revenue Account (HRA) during 2022/23 is £5.5 million as set out in the Annual Property Plan 2022/23. Receipts to date are £2.5 million in relation to the Council's freehold interest of land in St Mellons approved by Cabinet in January 2022. 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.

33. 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 East Cardiff / 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)

34. The Programme for Housing Revenue Account (HRA) is £74.610 million, and expenditure of £80.470 million is forecast, requiring budget of £5.860 million to be brought forward, primarily because of accelerated spend on the re-cladding of Lydstep flats than initially planned. Expenditure at the end of Month 4 was £23.592 million which represents circa 29% of the projected outturn.

35. Against an original allocation of £2.650 million, a total of £3.450 million is due to be spent on estate regeneration, tackling issues of community safety, defensible space, waste storage and courtyard improvements to blocks of flats. Expenditure includes projects at Belmont Walk and Pennsylvania Avenue.

36. Expenditure on building improvements is projected to be £28.245 million for the year, against a budget of £19.150 million. The variance is in large part due to the Lydstep flats recladding scheme, which is now progressing faster than anticipated meaning residents will experience minimal disruption. Following completion of development work, Cabinet will shortly consider the implementation and procurement approach to further sites for over cladding. Other improvements including roofing and central heating upgrades are

progressing at good pace, contributing to the increased spend this financial year.

37. Total expenditure on adaptations for disabled residents of HRA properties for the year is forecast at £2.700 million, with slippage of £300,000 into 2023/24.

38. Expenditure on the development of new housing over several sites during the year is currently projected to total £46.075 million, against an allocation of £49.810 million. In respect of Cardiff Living, only one scheme remains in progress for Phase one, the PassivHaus scheme at Highfields which is expected to complete in the autumn of 2022, with phase two and three schemes in progress. 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.

39. Progress on other development projects outside of Cardiff Living include a start on site for the St. Mellons and Maelfa older person community living buildings as well as development of homes on the former Local Training Enterprise Centre building in St. Mellons. Planning permission has been granted for the Channel View masterplan, Riverside/Canton Community Centre and the proposed development of Waungron Road, Llandaff. The former Iorwerth Jones site, Lansdowne hospital site and Canton Community Centre Site are expected to be well in progress by the end of the year, albeit some projects are delayed compared to initial expectations.

40. The construction market continues to face the impact of supply shortages and rising material prices, resulting in increases in costs for developments. There are also significant pressures and demand for affordable housing as considered by Cabinet in a report in July 2022. The costs of acquiring existing properties and buy backs for HRA housing stock as well as the cost of implementing the meanwhile use temporary housing for the gas works site have been managed within the overall housing programme, with assumptions of £12.750 million of Welsh Government grant at this stage contributing to costs. Given the cost increases, as well as demand pressures, without additional external grant funding sources, the overall HRA programme will need to be reviewed as part of its next iteration in February/March 2023 to ensure expenditure and the timing of expenditure remains affordable and sustainable.

Reasons for Recommendations

41. To consider the report and the actions therein that form part of the Council's financial monitoring process for 2022/23.

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 imps that arise directly from this report.

Property Implications

44. There are no further specific property implications in respect of the Budget Monitoring Month 4 2022/23 Report. During the second quarter, the Strategic Estates Department will continue to assist where necessary in delivering mitigation strategies as part of the organisation's COVID recovery and support delivery in relevant areas such as the Capital Programme, the Capital Investment Programme and Major Development Projects. The report highlights in-year financial pressures within Strategic Estates and the service area is working closely with Finance colleagues to identify mitigations and income generation opportunities which can be put in place and pursued to alleviate the forecasted budget overspend. Where there are property transactions or valuations required to deliver any budget proposals, they will be done so in accordance with the Council's Asset Management process and in consultation with Strategic Estates and relevant service areas

Financial Implications

45. In summary, this report outlines a projected Council overspend of £7.368 million at Month 4 of the 2022/23 financial year. These overspends are after the offset of £2 million general contingency.. If 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 £6.887 million in such a circumstance but this level would be considered unsustainable. However, between Month 4 and the financial year end, every effort will be made to reduce the overspend to a balanced position or identify other sources of funding such as earmarked reserves which will provide some form of financial resilience.

46. 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.

47. In relation to the 2022/23 Capital Programme, a variance of £66.447 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, there has been a need to reprofile the capital programme from later years to fund the £5.680 million required because of the need to accelerate the spend on cladding at Lydstep Flats.

48. 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 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..

49. 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

The Cabinet is recommended to:

1. Note the projected revenue financial outturn based on the projected position at Month 4 2022/23.

2. Note the capital spend and projected position at Month 4 2022/23.

SENIOR RESPONSIBLE OFFICER	**CHRISTOPHER LEE** Corporate Director Resources
	DATE: *22 September 2022*

The following Appendices are attached:

Appendix 1 – Revenue Position
Appendix 2 – Directorate Commentaries
Appendix 3 – 2022/23 Budget Savings Position
Appendix 4 – Capital Programme
Appendix 5 - General Fund Capital Schemes Update