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: 17 NOVEMBER 2022

BUDGET MONITORING – MONTH 6 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 September 2022 (Month 6) 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 of March 2022 with the key sources of funding underpinning the budget being the Revenue Support Grant (RSG) from Welsh Government, the amount forecast to be raised by Council Tax and other income sources including fees and charges 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 Council faces unprecedented challenges to its financial resilience due to a combination of the legacy of the pandemic, energy pricing, pay pressures and the cost-of-living crisis. 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.

5. The Month 4 monitoring position noted that the report did not include any assumptions over and above the already budgeted pay awards of 3% for 2022/23. With the NJC pay negotiations being concluded, the financial impact of the current pay award offer has been included in this Month 6 monitoring report.

6. As reported on the 20 October Cabinet, the 2023/24 Budget Update Report highlighted the possibility of pay inflation exceeding the 2022/23 budgeted levels for pay awards. Across the UK, sustained levels of high inflation have placed upward pressure on pay awards and this has resulted in pay offers in the current financial year that exceed the budgeted level of 3%. The Council is a service-driven organisation and therefore workforce costs are a key cost driver of internally provided services. With the NJC pay award for 2022/23 being agreed, this monitoring report has been updated to reflect the potential impact on the monitoring position based on the latest information.

7. For 2022/23, the National Joint Committee (NJC) collective agreement for pay has now been received (which encompasses most Council staff), is an uplift of £1,925 across all pay scales. In percentage terms, this is a 10.5 % increase at the bottom of the Council's pay spine, 4.3% at the top, and between 1.02% and 3.97% for senior officers. The additional cost of the potential NJC award compared to the 3% budgeted in 2022/23 is £4.961 million for Directorates and £3.20 million for Schools). The Independent Welsh Pay Review Body (IWRPB) has recommended a teachers' pay award of 5% in September 2022. The additional cost of this compared to the 3% that was budgeted is £1.5 million.

Issues

Revenue Position

8. The overall revenue position reported in the paragraphs that follow below comprises of projected variances, including any shortfalls anticipated against the 2022/23 budget savings proposals and any additional savings or efficiencies that have been identified during the year. The financial position also includes an anticipated cost of the pay award negotiations across each directorate. In order to provide a clear comparison between the Month 4 position and the Month 6 forecast, Appendix 1 sets out in detail the variance breakdown due to the pay award and those assumptions comparable to Month 4.

9. The overall monitoring position, as at Month 6, reflects a total projected net annual Council overspend of £7.394 million. The impact of the pay award is £4.961 million and the comparable variance for Month 6 (exclusive of the pay award) is £2.433 million (Month 4 £7.368 million).

10. The Directorate position is an overspend of £11.438 million (£11.253 million at month 4 without the pay award impact reflected). Offsetting this, there is a projected underspend of £1.700 million in relation to Capital Financing, a projected underspend against the Summary Revenue Account of £0.344 million and the £2 million general contingency budget.

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

Directorate	**(£000)**
Corporate Management	(6,424)
Economic Development:	
Economic Development	2,618
Recycling & Neighbourhood	1,358
Education & Lifelong Learning	6,224
People & Communities:	
Housing, & Communities	(764)
Performance & Partnerships	(128)
Adult Services	(495)
Children's Services	8,302
Planning, Transport & Environment	224
Resources:	
Governance & Legal Services	539
Resources	(16)
Total Directorate Position	**11,438**
Capital Financing	(1,700)
General Contingency	(2,000)
Summary Revenue Account	(344)
Total Net Council Position	**7,394**

12. The table above indicates the continued pressure across several service areas in terms of budgetary performance and these are contributing to a significant overall projected overspend at Month 6. However, the overall position is comparable to Month 4 despite an additional cost of £4.961 million due to the impact of the 2022/23 pay award. The corrective action and additional savings identified by directorates has therefore already had an impact on the position. However more will be required over the remaining months of 2022/23 to achieve a balanced budget position.

13. 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 within 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. It has additionally dampened down income recovery given the squeeze on household budgets.

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

a. **Economic Development** (+£2.618M) - The position exclusive of the pay award is an overspend of £1.806 million; an improvement of £1.054 million which includes additional in-year savings of £420,000. 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** (+£6.224M) - The position exclusive of the pay award is an overspend of £5.588 million; a deterioration of £164,000 compared to the month 4 forecast and inclusive of £273,000 additional identified in year savings. A key pressure contributing to this overspend is in relation to School Transport due to rising costs in fuel and driver supply combined with the increased number of pupils with additional learning needs requiring transport. There are also significant pressures in respect of out of area placements and school catering services, the latter being impacted by price increases in relation to food and transport costs combined with reduced income from paid school meals.

c. **Children's Services** (+£8.302M) - The position exclusive of the pay award is an overspend of £7.577 million; an improvement of £1.373 million compared to the month 4 report. The majority of this overspend remains 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.

15. 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 remains that £6.463M of this allocation is committed at Month 6 thus providing a level of resilience (£3.537 million) if further pressures emerge by the end of the financial year.

16. As reported in Month 4, within Children's Services an urgent programme of work has been established to seek to reduce spend and deliver improvements across a range of services linked specifically to the issue of external placements. The work currently undertaken has resulted in a review of higher cost placements and has looked to reduce the period of time those premises are occupied. The number and complexity of cases coming through combined with the inability of the market to provide placement solutions remains unprecedented at this time. The position continues to include 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 actions being taken to mitigate the position include focussed work on the following activities:

a. Managing 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

17. The position at Month 6 assumes use of £1.280 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 staff 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 the Children's Contingency for 2022/23 given targets are being met as set in the Council's Corporate Plan.

18. 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 continues to assume 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.

19. 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 on 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 £240,000 (4.3%) against the directorate savings target of £5.558 million. The £1.1 million of corporate savings are all projected to be achieved.

20. Given the continued pressure on the budget position, all services have reviewed opportunities to deliver further in-year efficiencies. These savings total £3.323 million, and have been taken into account in the overall projected position for Month 6. These savings, which are over and above those budgeted in March 2022, represent a first set of actions, and work will continue to deliver more over the remaining months of the financial year. There remains a focus on avoiding front line impact and taking efficiencies where opportunities arise but the financial challenge over the long term will not be achieved simply by efficiencies alone.

21. 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 the 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 at 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 6, only the underspend with respect to interest receivable has been factored into the position. The underspend continues to be 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. The position will continue to be monitored as the fiscal landscape evolves and further adjustments to forecasts will be made when identified.

22. 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.

23. 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 £1.280 million has been drawn down from the £2.150 million contingency budget held for meeting the additional costs arising from a reduction in agency staff as referenced earlier in the report. This leaves £0.870 million for any further demand in Children's Services and the risk of increasing external residential placements for the remainder of this year.

24. 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 £656,000 despite the potential impact of a higher than anticipated pay award increase of approximately £1 million. 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 unavoidable future commitments. The Civil Parking Enforcement position reflects an in-year surplus of £5.371 million compared to the budgeted surplus of £5.696 million, reflecting income below target. The Cardiff Harbour Authority is projecting a balanced position with increased cost pressures for dredging and barrage maintenance offset by other managed underspends. Within this position, the Asset Renewal budget is anticipated to be fully spent in line with the revised work schedule.

Capital

25. 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 £298.142 million

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

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

General Fund

27. The projected outturn for the year is currently £148.053 million against a total programme of £223.532 million with a variance of £75.479 million, which is predominantly slippage. Expenditure at the end of Month 6 was £57.238 million which represents circa 38% of the projected outturn, however there are several large expenditure items which are anticipated to progress during the latter part of the year.

Capital Schemes Update

28. Delivery of capital projects is complex, they may span a number of years and are 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.

29. 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.

30. It remains important that directorates continue to allocate sufficient capacity and resource to ensuring projects progress in line with the timescales intended and robust business cases continue to be essential with a focus on approved schemes within the existing capital investment programme.

31. 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 and confirmation of terms and conditions may mean late changes in programme and projections.

32. The impact on the capital programme of relevant proposals agreed will be updated in the next monitoring report. 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 the switching of Council resources and early discussion with grant funding bodies should be undertaken to ensure that approved grants can be used 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 2022, a total of £10.060 million has been received against the overall receipts target.

35. 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. In respect of Earmarked Receipts, a deposit has been received for the disposal of Merchant House/Cory's buildings.

36. The Capital investment programme also includes several major development projects which assume that capital receipts are earmarked to pay towards initial 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 significant risk of both abortive costs and to the level of borrowing and should be incurred on certainty of receipts and an approved business case.

Public Housing (Housing Revenue Account)

37. The Programme for the Housing Revenue Account (HRA) is £74.610 million, and expenditure of £76.150 million is forecast, requiring budget of £1.540 million to be brought forward, primarily because of accelerated spend on the re-cladding of Lydstep Flats. Expenditure at the end of Month 6 was £35.849 million which represents circa 47% of the projected outturn.

38. Against an original allocation of £2.650 million, a total of £2.700 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 is dependent on progress on site and receipt of acceptable tenders on schemes such as Trowbridge Green.

39. Expenditure on building improvements is projected to be £26.975 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.

40. 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.

41. Expenditure on the development of new housing over several sites during the year is currently projected to total £43.775 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.

42. 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. However, progress on these sites is currently stalled as a result of the appointed contractor falling into administration. Alternative options to ensure the sites are re-started and completed at pace are being considered in parallel with legal requirements. 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.

43. Cabinet considered a report in July 2022 for a scheme to meet urgent housing need and meanwhile use of the Gas Works site in Grangetown, prior to its permanent redevelopment. In advance of entering into a construction contract, a letter of intent has been approved by delegation to avoid delay and secure modular home supplies and services. With a revised and increased cost estimate of £37 million since the Cabinet Report, the costs of the scheme are to be updated further prior to entering into a full contract. Whilst Welsh Government grant has been approved in principle, formal confirmation is awaited, with all external grants expected to meet at least 50% of the initial estimated cost and the balance assumed from Council borrowing. The expenditure projection for 2022/23 initially assumes £13 million of expenditure in the year.

44. The construction market continues to face the impact of supply shortages, financial difficulties and rising material prices, resulting in increases in costs for developments and challenges finding suitable suppliers. There are also significant pressures and demand for affordable housing as considered by Cabinet in the July report. Cabinet will also consider options for a new Housing Partnership to mitigate some of these risks and to speed up development of future sites.

45. 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. Given cost increases across other planned sites, external grant funding sources are being actively pursued to make developments viable and to ensure commitments funded by borrowing in the HRA remain affordable and sustainable given wider revenue budget pressures as a result of inflation impacts. Grant awards and agreed changes in terms and conditions to allow flexible use of funding to meet emerging priorities will be updated as part of future monitoring reports and in the update of the 2023/24 HRA Business Plan and Medium-Term Financial Plan.

Reasons for Recommendations

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

Legal Implications

47. 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

48. There are no HR imps that arise directly from this report. However, the HR implications that were set out in the Budget 2023/24: Update Report of 20th October 2022 continue to apply to any in year savings that may be required.

Property Implications

49. There are no further specific property implications in respect of the Budget Monitoring Month 6 2022/23 Report. During the second quarter, the Strategic Estates Department continued 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.

50. The report highlights in-year financial pressures within Strategic Estates and the service area continues to work closely with Finance colleagues to identify in-year and future mitigations, as well as 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 relevant service areas.

Financial Implications

51. In summary, this report outlines a projected Council net overspend of £7.394 million at Month 6 of the 2022/23 financial year. The overspend has incorporated pay award implications which were not considered for the reported Month 4 position. If the pay award was not added to the position, the overspend from Month 4 to Month 6 would have reduced by £4.935 million.

52. The overspend of £7.394 million is after the offset of £2 million General Contingency. If an overspend at 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 £6.861 million in such a circumstance but this level would be considered unsustainable. However, between Month 6 and the financial year end, every effort will continue to be made to reduce the overspend to a balanced position or to identify other sources of funding such as earmarked reserves which will provide some form of financial resilience. In addition, £3.537 million of the £10 million Covid Recovery budget has been retained in the event of any further financial pressures appearing. This position will be reviewed and updated in later monitoring reports.

53. Because of this risk, it remains important that directorates retain a focus on their financial positions and ensure that tight financial controls are in place over the remainder of this financial year, that overspends do not worsen and, if possible, are further 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 levels of earmarked reserves.

54. In relation to the 2022/23 Capital Programme, a variance of £75.479 million is currently projected against the General Fund element, predominantly in relation to slippage against schemes. In terms of the Public Housing programme, whilst some projects are spending in advance of expectations such as Lydstep Flats, delays in planned new build housing sites are offset by approvals by Cabinet for short term meanwhile use to meet housing demand. Overall, funding from later years of £1.540 million is assumed to be brought forward.

55. 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. 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.

56. 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 any commitments which would continue to increase the Council's borrowing requirement and 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 6 2022/23.

2. Note the capital spend and projected position at Month 6 2022/23.

SENIOR RESPONSIBLE OFFICER	**CHRISTOPHER LEE** Corporate Director Resources
	DATE: *2 November 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 Summary
Appendix 5 - General Fund Capital Schemes Update