CARDIFF COUNCIL
CYNGOR CAERDYDD

CABINET MEETING: 2 MARCH 2023

BUDGET MONITORING – MONTH 9 2022/23

FINANCE, MODERNISATION & PERFORMANCE (COUNCILLOR CHRIS WEAVER)

AGENDA ITEM: 6

Reason for this Report

1. To provide the Cabinet with details of the projected 2022/23 financial monitoring position as at the end of December 2022 (Month 9) 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 within the context of transitioning into a post pandemic period with significant uncertainty and risk evident across many areas.

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

4. The Council continues to face significant 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 sets 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 6 monitoring position considered the impact of the concluded pay negotiations. The Month 6 report projected an overspend of £7.394 million in the absence of any further mitigations. This report updates that position and sets out the impact of any implemented mitigations.

6. As reported in the Month 6 position, for 2022/23, the agreed National Joint Committee (NJC) collective agreement for pay resulted in 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 was £4.961 million for Directorates and £3.20 million for Schools). In addition, the Independent Welsh Pay Review Body (IWRPB) recommended a teachers' pay award of 5% in September 2022. This position continues to be subject to negotiations that may result in a settlement in excess of that. The additional cost of 5% compared to the 3% budgeted is £1.5 million.

Issues

Revenue Position

7. The overall revenue position reported in the following paragraphs 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. Appendix 1 sets out in detail the variance breakdown.

8. The overall monitoring position, as at Month 9, reflects a total projected net annual Council overspend of £3.040 million in comparison to the £7.394 million overspend at Month 6.

9. The Directorate position is an overspend of £7.084 million (£11.438 million at month 6). Offsetting this, there is a projected underspend of £**1.700** million in relation to Capital Financing, a projected overspend against the Summary Revenue Account of £**0.139** million, an over recovery of Council Tax at £**0.483** million and the £2 million general contingency budget.

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

Directorate	**(£000)**
Corporate Management	(3,377)
Economic Development:	
Economic Development	1,646
Recycling & Neighbourhood	1,756
Education & Lifelong Learning	4,582
People & Communities:	
Housing, & Communities	(2,378)
Performance & Partnerships	(464)
Adult Services	(1,820)
Children's Services	6,577
Planning, Transport & Environment	(2)
Resources:	
Governance & Legal Services	620
Resources	(56)
Total Directorate Position	**7,084**
Capital Financing	(1,700)

General Contingency	(2,000)
Summary Revenue Account / Council Tax	(344)
Total Net Council Position	**3,040**

11. The table above indicates that financial pressure remains across several service areas in terms of budgetary performance but there is an overall improvement in the financial position compared to Month 6. However, the overall position albeit improved still remains at an overspend level of £3.040 million and will require continued focus on corrective action and vigilance in order to achieve a balanced position for the year 2022/23.

12. 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** (+£1.646M) - The position is an improvement of £974,000 compared to Month 6 which is primarily due to improved income projections and additional in year cost savings. Income pressures remain across the functions particularly within Culture, Venues and Events and Sport, Leisure and Development where customer levels are still below pre pandemic levels. There are other pressures within Property Services and Major Projects.

    b. **Education** (+£4.582M) – The position is an improvement of £1.642 million which is primarily due to reduced cost projections in Home to School Transport and the use of earmarked reserves set up for inflationary pay pressures in schools catering. Despite this improvement in the financial position, there continues to be significant pressure in Home to School Transport, Catering and Out of County Placements. The pressures in transport range from 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** (+£6.577M) - The position inclusive of the pay award is an improvement of £1.762 million compared to the month 6 report. The 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.

    d. **Recycling and Neighbourhood Services** (+£1.756M) - The service is forecasting a net overspend of £1.757 million representing an increase of £398,000 compared to Month 6. This is caused by increased agency costs, due to a rate increase in line with the pay award and higher vehicle recharges. These additional pressures are partly mitigated by a reduction in net waste processing costs and an additional grant allocation.

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, loss of income and the cost-of-living crisis have meant that this budget is also able currently to offset part of these costs and there has been a need ot consider the impact of significantly higher than anticipated pay awards. As a response in school budgets to the difference between the original estimate for the pay award and the likely agreed pay award impact, £2.5 million has been provided to schools for the year 2022/23 only. In addition, further commitments have been allocated to cover any further pay inflation or loss of income pressures arising until the end of the financial year.

14. As reported previously, a programme of work within Children's Services was initiated as a response to the indicative cost pressures within the directorate. This programme continues to focus on reducing spend and delivering improvements across a range of services linked specifically to the issue of external placements. The work continues to focus on reviewing the duration and higher cost of placements and the whole team approach to new placement decisions. The number and complexity of cases coming through combined with the inability of the market to provide placement solutions continues to be a challenge.

15. The position at Month 9 continues to assume the use of £1.268 million of Children's Contingency to deal with the cost differential of agency staff versus full time staff in high priority service areas. This is being offset from the Children's Contingency for 2022/23 given targets are being met as set out in the Council's Corporate Plan. 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.

16. 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 £1.15 million of corporate savings are all projected to be achieved.

17. The Capital Financing outturn continues to forecast a £1.700 million underspend at the end of the financial year. This forecast is set having regard to assumptions about 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. At Month 6, only the underspend with respect to interest receivable has been factored into the position. The underspend is primarily 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.

18. 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 particularly with regard to expected levels of activity with the Court.

19. As part of the reported directorate positions, contributions to and from contingency budgets have been incorporated where appropriate. As fluctuations in the Council Tax Reduction Scheme (CTRS) budget are managed by a corporate contingency, these include a transfer from the 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 £1.268 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 £0.862 million for any further demand in Children's Services and the risk of increasing external residential placements for the remainder of this year.

20. Given the continued pressure of the budgeted position, all services have reviewed opportunities to deliver in year efficiencies and work continues to be undertaken in order to contribute more and deliver a balanced position at outturn. There remains a focus on avoiding front line impact and taking efficiencies where the opportunities arise but the financial challenge over the long term will not be achieved simply by efficiencies alone.

21. 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 £1.908 million which is primarily due to reduced forecasts for capital financing charges and vacant posts across the functions. Underspends on capital financing costs reflect the impact on debt repayment and external interest charges of the 2021/22 reduced borrowing requirement. These variances 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.

22. The Civil Parking Enforcement position reflects an in-year surplus of £5.315 million compared to the budgeted surplus of £5.696 million, reflecting income below target. This surplus transfers to the Parking and Enforcement reserve to support highway, transport and environmental improvements.

23. 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

24. 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 £312.165 million to include actual slippage reported at outturn, incorporation of new grant approvals and confirmation of actual grant awards.

25. The sections below set out the forecast position for 2022/23 for the General Fund and Public Housing.

<u>General Fund</u>

26. The projected outturn for the year is currently £156.303 million against a total programme of £237.555 million with a variance of £81.232 million, which is predominantly slippage. Expenditure at the end of Month 9 was £95.474 million which represents circa 61% of the projected outturn.

<u>Capital Schemes Update</u>

27. 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.

28. Construction cost inflation is significant resulting from increased tender activity, material availability and 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. 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 and confirmation of terms and conditions 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 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.

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

<u>Capital Receipts</u>

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 £3.3 million. Receipts in the year 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. In respect of Earmarked Receipts, a deposit has been received for the disposal of Merchant House/Cory's buildings.

33. 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 land acquisition at the International Sports Village, 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)

34. The Programme for the Housing Revenue Account (HRA) is £74.610 million, and expenditure of £74.410 million is forecast, a variance of £200,000 for the year. Expenditure at the end of Month 9 was £53.775 million which represents circa 72% of the projected outturn.

35. Against an original allocation of £2.650 million, a total of £2.950 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.

36. Expenditure on building improvements is projected to be £26.555 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 due to complete in the Summer of 2023. All internal works associated with the project have now been completed, leaving only the external recladding work to finish and therefore disruption to residents should be minimal. Following completion of development work, Cabinet will shortly consider the implementation and procurement approach to further sites at Nelson and Loudoun House for over cladding. Opportunities for external grant funding are being investigated to support the cost of works towards eligible costs for the schemes. Other improvements including roofing, central heating upgrades as well as kitchen and bathroom works are progressing at good pace.

37. Total expenditure on adaptations for disabled residents of HRA properties for the year is assumed to be in line with the budget of £3.000 million.

38. Expenditure on the development of new housing over several sites during the year is currently projected to total £41.905 million, against an allocation of £49.810 million. In respect of Cardiff Living, the PassivHaus scheme at Highfields was the only remaining scheme in phase one and completion was

achieved in December 2022. Phases two and three of Cardiff Living, are now in progress including early-stage master-planning 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. A planning application for the scheme is due to be submitted this summer. Work is well underway for the low-carbon scheme on the former Rumney High School site with 13 new council properties handed over to date. The 44 flats which make up Addison House, the first new-build older person community living project, is due to be completed and handed over in August 2023.

39. Progress is being made on other development projects outside of Cardiff Living, including 13 new houses at Wakehurst Place and 20 new family homes on the Iorwerth Jones site. Work commenced on both the St. Mellons and Maelfa older person community living schemes, however, these are paused as a result of the appointed contractor falling into administration. Alternative options to ensure the sites are re-started are being considered in parallel with legal requirements. Procurement of a main contractor for the Channel View redevelopment will commence in February 2023. Contractors have been appointed for the Riverside/Canton Community Centre redevelopment and the Bute Street Community Living projects and a start on site for these sites is anticipated by April 2023. Work on the retaining wall needed at the Waungron Road site in Llandaff has now started ahead of the main project commencing.

40. 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 £10 million of expenditure in the year.

41. 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. Cabinet approved a proposal to take forward a new Housing Partnership to mitigate some of these risks and to speed up development of future sites.

42. 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.

43. Given cost increases across other planned sites, external grant funding sources are being actively pursued, with a high success rate, 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. Additional grants which displace Council funding, will be utilised to secure the purchase of private dwellings on the market to meet urgent housing pressures. 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

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

Legal Implications

45. 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

46. 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

47. There are no further specific property implications in respect of the Budget Monitoring Month 9 2022/23 Report. During the fourth quarter, the Strategic Estates Department will focus on completion of in-year targeted Annual Property Plan transactions and continue to assist where necessary in delivering budget deficit mitigation strategies. The report highlights in-year financial pressures within Strategic Estates and the service area continues to work 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. Issues around additional Energy costs are noted and strategies for mitigation of these are being considered by the Asset Management Energy team.

48. Support will continue for delivery in other relevant areas such as the Capital Investment Programme and Major Development Projects. 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

49. In summary, this report outlines a projected Council net overspend of £3.040 million at Month 9 of the 2022/23 financial year. The overspend of £3.040 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 £10.972 million in such a circumstance. This is an improvement on the position reported at Month 6 but, even at this reduced level, it would still be considered unsustainable. However, between Month 9 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.

50. 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.

51. In relation to the 2022/23 Capital Programme, a variance of £81.232 million is currently projected against the General Fund element, predominantly in relation to slippage against schemes. In terms of the Public Housing programme, there is a small underspend of £200,000 that will carry forward into next year. The Month 6 report anticipated a potential overspend which would have required capital resources from future years to be brought forward but, as set out in the body of the report, the number of projects spending in advance of expectations has reduced compared to those schemes suffering delays so the overall cost of the Housing Programme for 2022/23 is only £200,000 away from planned spend.

52. 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.

53. 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 9 2022/23.

2. Note the capital spend and projected position at Month 9 2022/23.

SENIOR RESPONSIBLE OFFICER	**CHRISTOPHER LEE** Corporate Director Resources
	24 February 2023

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