

CABINET MEETING: 22 JUNE 2023

BUDGET MONITORING – OUTTURN 2022/23

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

AGENDA ITEM:

Appendix 7 of this report is not for publication as it contains exempt information of the description in paragraphs 14 and 21 of Schedule 12A of the Local Government Act 1972.

Reason for this Report

1. To provide the Cabinet with details of the Council's 2022/23 financial outturn position compared with 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 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, but this was 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 issues, including the legacy of the pandemic, energy pricing, pay pressures and the cost-of-living crisis. The monitoring reports provided to Cabinet during the year set out (at respective points in time) the current known pressures and risks and any subsequent mitigations being undertaken. This monitoring report provides the outturn report for 2022/23 and 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 9 report projected a net revenue overspend of £3.040 million in the absence of any further mitigations.

6. As reported in regular 2022/23 monitoring reports, 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 was 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 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 outturn position reflects a balanced budget in comparison to the £3.040 million overspend reported at month 9
9. The Directorate position is an overspend of **£0.464** million (£7.084 million at month 9). Offsetting this, there is an underspend of **£3.289** million in relation to Capital Financing, a projected overspend against the Summary Revenue Account of **£6.801** million, a better than anticipated position on Council Tax at **£1.957** million and use of the £2 million general contingency budget.
10. The table below provides a summary of the overall position:

Directorate	(£000)
Corporate Management	(7,850)
Economic Development:	
Economic Development	1,063
Recycling & Neighbourhood	2,213
Education & Lifelong Learning	3,501
People & Communities:	
Housing, & Communities	(2,904)
Performance & Partnerships	(527)
Adult Services	(1,531)
Children's Services	6,596
Planning, Transport & Environment	0
Resources:	
Governance & Legal Services	669
Resources	(766)
Total Directorate Position	464
Capital Financing	(3,289)

General Contingency	(2,000)
Summary Revenue Account / Council Tax / Discretionary Rate Relief	4,825
Total Net Council Position	0

11. The table above indicates that financial pressure remained across several service areas in terms of budgetary performance but there was an overall improvement in the final position compared to Month 9
12. The specific overspends and underspends within each directorate's position are outlined in more detail within Appendix 2. In summary, the four most significant adverse variances are noted below:
 - a. **Economic Development** (+£1.063M) - The position is an improvement of £583,000 compared to Month 9 which is primarily due to improved income projections and additional in year cost savings. Income pressures remain across the functions budgets 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** (+£3.501M) – The position is an improvement of £1.381 million which is primarily due to increased grant allocations in respect of Universal Free School Meals 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** (+£6.596M) - The outturn position is slightly higher than anticipated at Month 9 (£6.577 million) and continues to be is primarily due to placement costs for the authority's children looked after cohort as sustained demand pressures and price increases resulted in costs exceeding budget. This reflects the complexity of need and the limited spaces in the residential market and has required the full use of the £2.175 million contingency budget..
 - d. **Recycling and Neighbourhood Services** (+£2.213M) - 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. The financial position is an increase of £457,000 compared to Month 9 and is primarily due to increased costs

in staffing and vehicles partly mitigated by the retention of a proportion of the surplus generated in the Trade Waste Service.

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 to consider the impact of significantly higher than anticipated pay awards. As a response 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. The underspend reported in Corporate management reflects the level of contingency that has assisted in partially offsetting overspend pressures detailed in the individual directorate pressures.
14. 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 shortfall of £632,000 (11.4%) against the directorate savings target of £5.558 million. This position reflects a worse position compared to Month 9 with the Children's Services saving in respect to shifting the balance of Care reporting a final position of £400,000 adrift of the £2.240 million budget saving proposal. The £1.150 million of corporate savings are all projected to be achieved.
15. The Capital Financing outturn is a £3.289 million underspend which is primarily due to the significant increases in recent Bank of England base rates resulting in higher interest income receivable on temporary cash balances, represented by bank deposits held throughout the course of the year.
16. 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 able to report an underspend of £1.957 million.
17. As part of the reported directorate positions, contributions to and from contingency budgets have been incorporated where appropriate. Fluctuations in the Council Tax Reduction Scheme (CTRS) budget are managed by a corporate contingency. After taking into account the 2022/23 Council Tax increase together with in-year fluctuations in demand for support, the final position enables a transfer to the contingency budget of £0.469 million. In addition, the Children's Services position reflects that the full £2.150 million contingency budget held for meeting the additional costs arising from a reduction in agency staff as referenced earlier in the report has been used.
18. Given the continued pressure of the budgeted position, all services reviewed opportunities to deliver in year efficiencies and work continued to be undertaken in order to contribute more and deliver a balanced position at outturn. There remained a focus on avoiding front line impact with efficiencies being taken where opportunities arose but the financial challenge over the long term is such that this will not be achieved simply by efficiencies alone.

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 reported as a surplus of £2.469 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 2022/23 reduced borrowing requirement. These variances are partly offset by increased premises costs reflecting the current utilities market. The 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.
20. The Civil Parking Enforcement position reflects an in-year surplus of £5.429 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.
21. The Cardiff Harbour Authority achieved an overall underspend of £116,000. Income above target from harbour dues, site fees and car parking were partly offset by additional costs within dredging, barrage maintenance and groundwater control, resulting in an underspend of £29,000 against the Fixed Costs budgets. In addition, delays to the final phase of the Senedd Boardwalk scheme resulted in an £87,000 underspend against the Asset Renewal allocation with negotiations ongoing with WG as to the 2023/24 funding for this scheme.

Capital

22. Expenditure of £216.208 million was incurred across a range of services with £76.352 million of this in relation to Public Housing (HRA).
23. The delivery of capital projects is complex and influenced by several external and internal factors. Some slippage is unavoidable because of delays in projects but can also be as a result of displacement of Council funding for projects to secure in year additional Welsh Government grant. Directorates are regularly reminded of the need to set achievable expenditure profiles and to identify potential slippage of projects at an early stage.
24. The paragraphs below summarise the outturn position of the Capital Programme for both the General Fund and Public Housing, with further detail on schemes provided in Appendix 5 and 6.

General Fund Expenditure and Funding

25. Expenditure was £139.856 million, with a variance of £101.522 million against the initial programme assumptions. These variances related primarily to major highways and transport schemes, Arena and School Organisation Plan. The main items of expenditure during the year are set out in the table below:

Schemes	Detail	£m
Business and City Development	Town Centre Loans; acquisition of regeneration sites at international sports village, Indoor Arena enabling land acquisitions and Llanrumney sports complex grant.	13.3
Parks, Leisure and Venues	Parks play areas, open space and infrastructure; Leisure and venues buildings maintenance; Roath Park dam scheme design, Pentwyn Leisure Centre Design and Harbour asset renewal.	4.5
Education & Lifelong Learning	21 st Century schools Band B including new Fitzalan High School construction. investment in the condition and suitability of school buildings and ICT.	61.0
Neighbourhood Regeneration and Private Housing	Disabled adaptation grants, allowing people to live independently in their homes; environmental and shop front improvements at Tudor Street, Rhiwbina Hub estate environmental improvements, Splott Park 3G Pitch and neighbourhood regeneration schemes, acquisition of property on Cowbridge Road West for Youth Hub options	12.1
Highways & Transportation	Road and footpath resurfacing; LED lighting in residential areas; Coastal erosion and flood mitigation; public transport and road safety improvements; cycling strategy implementation; investment in active travel and safe routes in communities; city centre air quality measures including Wood Street and Canal Quarter.	32.8
Corporate, Technology and Vehicles	Works to relinquish leased buildings; Modernising ICT; Replacement vehicle fleet including electric refuse collection vehicles and charging points.	7.7
Energy Projects and Sustainability	Energy retrofit of buildings and contribution to Cardiff Heat Network.	4.6
Other	Recycling depot infrastructure, Bereavement, Property and Asset Management, Investment Property Strategy	3.9
Total		139.9

26. The expenditure was paid for from several sources as shown in the table below and included external grants and contributions, proceeds from the sale of assets and by borrowing. Expenditure incurred without a specific funding source increases the Capital Financing Requirement and must ultimately be paid for by borrowing. This and any associated interest costs must be repaid from the existing and future income of the Council.

General Fund - Funding Source for 2022/23 Capital Expenditure	Amount £000	Percentage of Funding (%)
WG General Capital Funding - Supported Borrowing	8,901	6.36
WG General Capital Funding - Grant	6,135	4.39
WG and other external grants	64,630	46.21
Additional Unsupported Borrowing	10,586	7.57
Invest to Save Unsupported Borrowing	38,914	27.82
Revenue and Reserves	959	0.69
Capital Receipts	7,022	5.02
External Contributions	2,709	1.94
Total	139,856	100.00

27. The Council received a base allocation of General Capital Funding from Welsh Government of £15.036 million at the start of 2022/23. This was made up of capital financing support within the revenue budget settlement to undertake £8.901 million of supported borrowing and a cash grant of £6.135 million.
28. In addition to the above, the Council has undertaken unsupported borrowing which has to be fully met through the revenue budget in future years. In 2022/23, the Council used unsupported borrowing of £49.500 million to support General Fund expenditure. Of this, £10.586 million of borrowing was required to balance Capital Programme commitments and £38.914 million was for investment assumed to be repayable from future Directorate revenue budgets. The timing and availability of external grants remained uncertain, with approvals received late during the year, continuing to make long-term planning difficult.

General Fund Capital Receipts

29. 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. The Annual Property Plan considered by Cabinet in September 2022 provided an update on the receipts target.
30. The timing of actual completion of receipts is uncertain and subject to ensuring legal processes are in place. Actual disposals represented by external sale capital receipts (£2.856 million) and land appropriations to the Housing Revenue Account (£0.265 million) which form part of the above target in 2022/23, total £3.121 million. Accordingly, total receipts against the target up to 31 March 2023 are £13.181 million.
31. Other land appropriations during 2022/23 to the Housing Revenue Account are £1.1 million for the Canton Community Centre site and adjoining land for the development of new Community space as part of the new housing development.
32. Capital investment for 2022/23 also includes several major development projects which assume that future capital receipts will be received to pay towards expenditure incurred on those projects such as completion of land acquisition at the International Sports Village and grant to Llanrumney Sports complex. Expenditure incurred in advance of realisation of receipts represents a risk of both abortive costs and to the level of borrowing and should be reviewed regularly as part of the overall annual property plan and relevant project governance processes.

Public Housing (HRA) Expenditure and Funding

33. Expenditure in 2022/23 on Public Housing schemes was £76.352 million. During the year additional grant was bid for and awarded by Welsh Government in relation to various funding streams such as Building Safety for Council high rise buildings, Housing with Care, Transitional Accommodation and Energy Retrofit. With many new build sites being on site in the latter part of the year, slippage because of delay in respect of these projects is re-prioritised as part of the 2023/24 investment programme.
34. Investment during the year was made in estate regeneration, housing stock remodelling, the fabric of dwellings, disabled adaptations and in the acquisition and development of new Council housing.
35. The table below shows how HRA capital expenditure was paid for:-

Public Housing - Funding Source for 2022/23 Capital Expenditure	Amount £000	Percentage of Funding (%)
Major Repairs Allowance (WG grant)	9,568	12.53
Additional Unsupported Borrowing	21,465	28.11
WG and other external grants	38,726	50.72
Revenue and Reserves	3,036	3.98
Capital Receipts	3,357	4.40
External Contributions	200	0.26
Total	76,352	100.00

Public Housing Capital Receipts

36. Capital Receipts of £1.534 million were generated from the sale of various freeholds, retained equity held from previous Council and developer home ownership support schemes as well as share of land sale proceeds from the Cardiff Living scheme.

Treasury Management Outturn 2022/23

37. The Council's Treasury Management activities were undertaken in accordance with the strategy approved at Council in March 2022. During the year, periodic reports on Treasury Management were submitted and reviewed by the Council's Governance and Audit Committee as well as at Cabinet and Council meetings. Attached at confidential Appendix 7 is the Treasury Management Performance Report as at 31 March 2023.

Investments

38. At 31 March 2023, investments arising from temporary cash balances stood at £160.6 million. This includes £61 million in respect to City Deal deposits held. The balance of investments is at a point in time and will fluctuate daily depending on the timing of receipts and payments in the Council's bank account e.g., payments to suppliers, receipt of grants and capital receipts. The organisations with whom the Council invests were set out in the

Council's Investment Strategy for 2022/23 and where possible, investments were diversified across organisations.

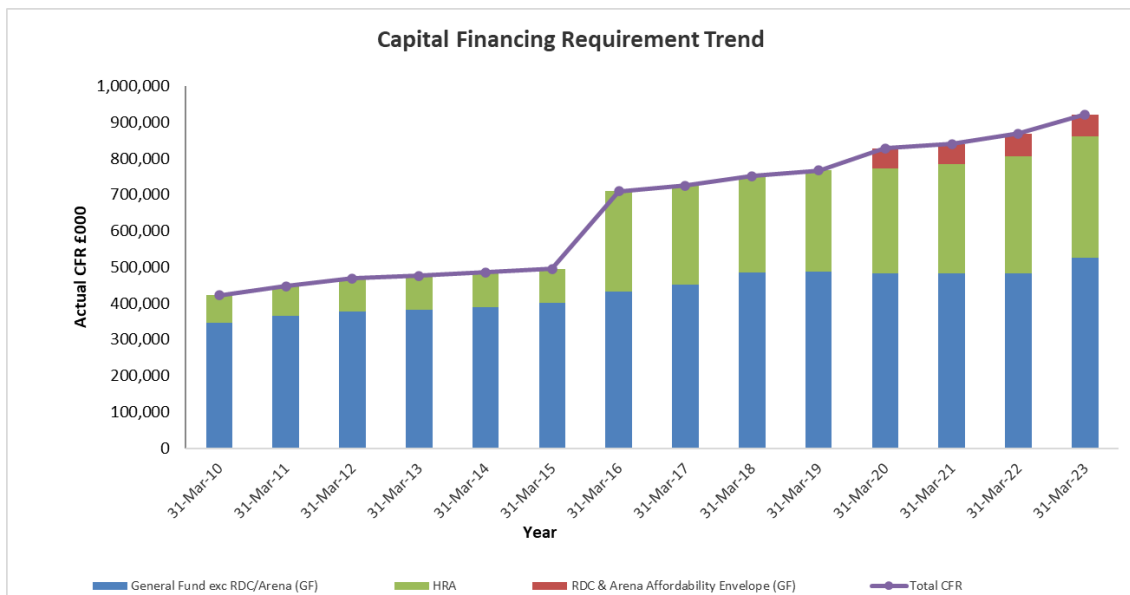
39. The overall level of interest receivable from treasury investments reflected increasing Bank Rate interest through the year from 0.75% at the start of the year to 4.25% by the year end. After allowing for interest on balances held on behalf of others, interest receivable for the general fund totalled £2.650 million with the average rate achieved during 2022/23 being 1.74%.

Borrowing

40. At the 31 March 2023 the Council's total external borrowing was £855.1 million. This was predominantly made up of fixed interest rate borrowing from the Public Works Loan Board (PWLB) payable on maturity.

31 March 2022			31 March 2023	
£m	Rate (%)		£m	Rate (%)
763.1		Public Works Loan Board	759.7	
51.0		Market (Lender Option Borrower Option)	51.0	
23.2		Welsh Government	44.4	
18.3		Local Authority	0	
855.6	4.01	Total External Debt	855.1	3.96

41. As a result of repayments and new borrowing undertaken in year, the average rate on the Council's borrowing reduced during the year from 4.01% to 3.96%. Total interest payable was £34.1 million, of which £13.5 million was charged to the Housing Revenue Account (HRA). All borrowing is in the name of the Council and a single pool of debt is maintained rather than having separate loans for the HRA.
42. The Council's Capital Financing Requirement (CFR) at 31 March 2023 i.e., capital expenditure incurred but not yet paid for (Borrowing Requirement) is estimated at £921 million subject to audit, £586 million for the General Fund and £335 million for the Housing Revenue Account. The trend in the CFR since 2004 is shown in the following chart, with the increase in 2015/16 including the subsidy exit payment of £187 million made by the Housing Revenue Account. As highlighted in the March 2023 budget report the CFR is assumed to increase significantly in future years.



43. Whilst borrowing rates remained higher than investment rates in 2022/23, the Council was internally borrowed which means it was using temporary cash balances in the short term rather than undertaking external borrowing. In addition to the short-term financial savings, this approach reduced exposure to credit risk.
44. During 2022/23 the Council repaid £22.8 million of maturing loans. New interest free loans totalling £22.3 million were received from the Welsh Government in respect of energy efficiency schemes and towards a Welsh Buildings Safety Loan Scheme.
45. Subject to external audit, the outcome of the above transactions, coupled with the performance of expenditure during the year on capital programme indicates that the Council's total external borrowing (£855 million) is lower than the borrowing requirement as defined by the Capital Financing Requirement (£921 million). Accordingly, at 31 March 2023, the level of internal borrowing is £66 million.
46. A full Treasury Management Outturn Report will be considered by Council in October 2023.

Reason for Recommendations

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

Legal Implications

48. 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

49. 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

50. There are no further specific property implications in respect of the Budget Monitoring Outturn Report 2022/23. During the year, the Strategic Estates Department continued to assist where necessary in delivering mitigation strategies as part of the organisation's post-pandemic recovery and support delivery in relevant areas such as the Capital Programme, the Capital Investment Programme and Major Development Projects.
51. The report various highlights in-year financial pressures within Strategic Estates and contributors to the departmental budget deficit. It is expected that certain assets which contributed towards significantly to the 2022/23 deficit will be subject to disposal events in 2023/24, significantly relieving these short-term pressures on the Strategic Estates budget. The service area continues to work closely with Finance colleagues to identify future mitigations, as well as income generation opportunities, which can be put in place and pursued to further improved the departmental budget position.
52. 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

53. In summary, this report outlines a balanced revenue outturn position for the financial year 2022/23. This represented an improvement on the net overspend positions reported throughout the year and was largely due to the receipt of additional external grant funding, the release of contingencies and reduction in spending. The final net directorate position reflected a net overspend of £464,000 with an overspend against the Summary Revenue Account been fully offset by the underspend in Capital Financing, full use of the general contingency budget and a surplus in relation to Council Tax collection.
54. The final overall balanced position means that the level of General Fund Balance remained at £14.255 million. In addition, mainly because of planned transfers to and from Summary Revenue Account, total general fund earmarked (excluding Schools) have increased by £10.803 million. School Balances which are the responsibility of each individual school reduced by £11.791 million but still stand as at 31 March 2023 at £22.704 million. Housing Revenue Account Earmarked Reserves increased by £1.857 million (See Appendix 4).
55. Welsh Government have expressed their concerns that schools should not hold excessively high balances. As of 31 March 2022, Cardiff Individual School balances were at £33.470 million and there has been a reduction of £11.920 million for the year 2022/23. The 2023/24 Budget has been challenging and it is

envisaged that there will be a continuing downward trend of the amount held by individual school balances.

56. The increase in non- school earmarked reserves reflects the need to increase the Council's financial resilience against the backdrop of the continued financial challenge of economic uncertainty, both in the immediate future and over the medium term. There remain areas of significant concern and risk going forward in the short / medium term with some continuing to operate below anticipated pre-pandemic income levels whilst other services have had to deal with unprecedented increases in demand. This is against the backdrop of increasing cost pressures through inflation in areas such as pay, energy, food and fuel amongst other things.
57. In relation to the 2022/23 Capital Programme, a variance of £101.510 million is reported against the General Fund element, predominantly in relation to slippage against schemes. This final position represents an increase on the figure reported at Month 9, both in respect to slippage but also in respect to Grants from Welsh Government being received late in the financial year. There does remain a significant challenge during 2023/24 for the Council to be able to deliver its full programme, when considering the level of catch up required in relation to schemes originally planned for 2022/23. To achieve this, directorates will need to ensure a focus on project delivery but also the cost challenges of supplier availability and inflationary pressures, ensuring that issues arising are escalated as a priority. In addition, programme-related risks will need to be identified and managed, including those relating to funding streams underpinning the programme, such as capital receipts, if the overall affordability of the programme is to be maintained.
58. In terms of the Public Housing programme, there is an overall overspend of £1.488 million which has required capital resources from future years to be brought forward. However, as detailed in Appendix 5 and 6, whilst there has been greater than expected progress in improvements (£8.606 million) in buildings (particularly Lydstep Flats cladding scheme) there has also been slower than anticipated spending (£8.607 million) on new development sites.

RECOMMENDATIONS

The Cabinet is recommended to:

1. Note the report and actions taken in respect of the Council's Revenue and Capital Outturn position for 2022/23
2. Note that this report will form an appendix to the Financial Statements report to be considered at a Council meeting in the Autumn of 2023.

SENIOR RESPONSIBLE OFFICER	CHRISTOPHER LEE Corporate Director Resources
	DATE: 22 June 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 - Capital Monitoring Outturn 2022/23

Appendix 6 - Capital Schemes Update 2022/23

Appendix 7 - Confidential - Treasury Management Performance Report 2022/23