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: 21 SEPTEMBER 2023

BUDGET MONITORING – Month 4 2023/24

FINANCE, MODERNISATION & PERFORMANCE (COUNCILLOR CHRIS WEAVER)

AGENDA ITEM: X

Reason for this Report

1. To provide the Cabinet with details of the projected 2023/24 financial monitoring position as at the end of July 2023 (Month 4) adjusted for any significant amendments since that date, against the budget approved by Council on 9th March 2023.

Background

2. Council approved the 2023/24 budget on 9th March 2023 with the key sources of funding underpinning the budget being Revenue Support Grant (RSG) from Welsh Government, the amount forecast to be raised by Council Tax, contributions from earmarked reserves and other income sources including fees and various specific grants. Cardiff Aggregate External Finance increased by 9.0% (£48.165 million in cash terms after adjusting for transfers) in 2023/24 although the context was one of a period with significant uncertainty and risk evident across many areas.

3. The factors of energy, food, fuel and pay award inflation combined with increasing demand for services due to legacy of the pandemic and the cost-of-living crisis have significantly increased further the levels of risk. The Council continues to face unprecedented challenges in terms of financial resilience which will require close monitoring and management during this year and into the medium term. Within this context, this monitoring report will set out the current known pressures and risks and any subsequent mitigations being undertaken. The report provides details of the overall revenue position, including performance against budgeted savings targets and a detailed position update on the Capital Programme.

Issues

Revenue Position

4. The overall revenue position reported in the paragraphs that follow comprises of projected variances, including any shortfalls anticipated against 2023/24 budget savings proposals and any savings or efficiencies that have been identified during the year.

5. The overall monitoring position, as at Month 4, reflects a total projected net annual Council overspend of £6.457 million. This position is detailed in Appendix 1 and includes a total directorate net overspend of £7.457 million, partly offset by an underspend against the capital financing budget of £1 million.

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

Directorate	**Directorate Position (£000)**
Corporate Management	(40)
Economic Development:	
Economic Development	1,800
Recycling & Neighbourhood	200
Education & Lifelong Learning	1,900
People & Communities:	
Housing, & Communities	0
Performance & Partnerships	(50)
Adult Services	0
Children's Services	2,975
Planning, Transport & Environment	200
Resources:	
Governance & Legal Services	537
Resources	(65)
Total Directorate Position	**7,457**
Capital Financing	(1,000)
General Contingency	0
Summary Revenue Account	6,457
Total Council Position	

7. The Table above indicates that there is already pressure across several service areas in terms of budgetary performance and these are contributing to a significant overall projected overspend at Month 4 that will require corrective action in the remaining months of 2023/24.

8. It is important to note that the Month 4 projections do not include any assumptions over and above the already budgeted pay award of 6% average (NJC) for 2023/24. Current pay negotiations are ongoing, and the outcome of any settlement reached will be reflected in future monitoring reports. For this reason, the £1 million general contingency has not been used and is held back

in the event of any additional pressures resulting from pay award negotiations being completed.

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

   a. **Economic Development** (+£1.800M) – Income shortfalls within Culture, Venues and Events are a significant factor including City Hall Functions and Functions Catering with the planned closure of core office buildings impacting on these services in year. There are also pressures within Property Services and Sport, Leisure and Development with variances assumed to be partly offset by a surplus for the Building Services trading unit.
   b. **Education** (+£1.900M) – There are pressures within Home to School Transport, Out of County placements and Catering. Welsh Government have not yet determined the price for each Universal Free School Meal (UFSM). To mitigate the uncertainty for this service, a drawdown of £1 million from earmarked reserves has been assumed. This holding position of using reserves will be reviewed once the confirmation of USFM is received but that decision is not anticipated until much later in the year. School Transport pressures continue due to increasing supplier costs combined with an increase in the requirement for transport for pupils with additional learning.
   c. **Children's Services** (+£2.975M) – The overspend is primarily due to placement costs for the authority's children looked after cohort with sustained demand pressures and price increases resulting in costs exceeding budget.

10. In relation to the above, mitigating actions are being put in place to reduce and offset the impact of these overspends with further detail set out in Appendix 2 (Directorate Commentaries).

11. The position at Month 4 assumes use of £2.175 million of Children's Contingency to deal with the cost differential of agency staff versus full time staff. The success in terms of reducing the reliance on agency has resulted in decreased numbers of agency staff covering vacant posts but the variance in cost between agency and full-time staff has increased. This is being offset from contingency for 2023/24 given that the targets set in the Council's Corporate Plan are being met.

12. The 2023/24 Budget Report outlined an overall savings target of **£17.666 million**. **£1.8 million** of this target was a reduction of the FRM budget (for one year) and **£3 million corporate savings** (£1 million reduction in General Contingency, £1m reduction in Adult Services Contingency and £1 million reduction in budgets including CTRS and Insurance). All Corporate and FRM budget savings have been fully achieved. With reference to **Efficiency savings (£10.090 million)** and **Service Change proposals (£2.776 million)** the performance of each proposal is outlined in Appendix 3. The performance against savings proposals for both efficiency and service change are below that required with Efficiency Proposals currently projecting £7.953 million being delivered (78.8%) and Service Change currently projecting at £1.705 million

(61.4%) being delivered. The improvement in this position is seen as a key deliverable along with controlled spending measures over the next few months in order to improve the overall monitoring position.

13. The capital financing outturn is currently forecast to be £1 million underspent at the end of the financial year. This forecast is set having regard to assumptions about our levels of actual external borrowing in year and timing of such for the remainder of the year; movement in bank interest rates (outside our control); levels of daily cash balance and estimates of how any capital expenditure for the Housing Revenue Account and General Fund is to be funded at the year end. Treasury management assumptions and performance will continue to be monitored closely, with the mid-year review to be reported to Council in November 2023. The forecast underspend is primarily due to delays in the timing of capital expenditure outflows and, also, new external borrowing assumed to be deferred as long as possible to the latter part of the year, in accordance with the Treasury Management Strategy set at the start of the year. The underspend also includes the impact of recent increases in Bank of England base rates to over 5%, resulting in higher interest income receivable on temporary cash balances, represented by bank deposits held. With borrowing rates currently elevated, it is recognised that any underspend is transitionary and subject to the Council's overall cashflows during the year. Accordingly, subject to the Council's overall revenue budget position in 2023/24, opportunities will be considered to transfer underspend to the Treasury Management earmarked revenue reserve as a mitigation for short term treasury and capital risks across financial years.

14. 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 reporting a balanced position. At this early stage the information held is signalling an underspend (£200,000) but this needs further review in the coming months to give confidence that any underspend can be brought into the overall position.

15. 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 £0.726 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 the full available contingency of £2.175 million will be required to be drawn down, leaving no residual contingency for any further demand in Children's Services and the risk of increasing external residential placements for the remainder of this year.

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

17. 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 balanced position after an assumed unbudgeted drawdown of £1.190 million from the Housing Repairs and Building Maintenance earmarked reserve. The position includes a net overspend of £1.445 million for the Housing Repairs Account largely due to responsive repairs spend above budget. Partly offsetting this, rent and service charge income above target based on week 13 statistics indicate lower than budgeted void rent loss. The Civil Parking Enforcement position reflects an in-year surplus of £6.674 million compared to the budgeted surplus of £7.019 million reflecting income below target from resident parking permits and on-street parking fees. The Harbour Authority is projecting a balanced position with increased cost pressures for barrage maintenance offset by income above target and other managed underspends. The Asset Renewal budget is anticipated to be fully spent in line with the revised work schedule.

Capital

18. The Council on 9th March 2023 approved a new Capital Programme of £240.526 million for 2023/24 and an indicative programme to 2027/28. The budget for the General Fund and Public Housing has since been adjusted to £350.352 million to include actual slippage reported at outturn, incorporation of new grant approvals and confirmation of actual grant awards to date.

19. The sections below indicate a forecast position for 2023/24 for the General Fund and for Public Housing.

<u>General Fund</u>

20. The projected outturn for the year is currently £223.274 million against a total programme of £239.352 million with a variance of £16.078 million, which is predominantly slippage. Expenditure at the end of Month 4 was £46.690 million which represents circa 21% of the projected outturn, however there are a number of large expenditure items which are anticipated to progress during the latter part of the year.

<u>Capital Schemes Update</u>

21. Delivery of capital projects is complex, may span a number of years and is influenced by several 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.

22. The Council's capital investment programme plays an essential role in both stimulating the local economy and delivering local services. Construction cost inflation has increased significantly resulting from increased tender activity, material availability, labour shortages. This represents a delivery and an 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 and a re-assessment of whether the value of the intended outcomes continues to be met.

23. It remains important that directorates continue to allocate sufficient capacity and resource to ensuring projects progress in the timescales intended and consider opportunities to bring forward expenditure where possible but within the overall budget framework. Option appraisal, robust business cases and due diligence continue to be essential with a focus on delivery of approved schemes within the existing capital investment programme.

24. Previous years have seen a number of late external grant funding sources made available with aligned Welsh Government outcomes. This is a common theme and, whilst positive, the timescales may mean late changes in programme and projections. Utilising and making assumptions of grants bid for and awarded in approved timescales is a risk to be managed by directorates in the remainder of the year. Consideration of switching of Council resources and early discussion with grant funding bodies should be undertaken to ensure that approved grants can be used in full.

25. 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>

26. Capital receipts are an important means of increasing the affordability of the capital programme. The generation of capital receipts is also consistent with the need to accelerate a reduction in the Council's asset base where this can support savings requirements or reduce maintenance liabilities.

27. The Annual Property Plan considered by Cabinet on 13 July 2023 provided a detailed update on targets set in respect of capital receipts and planned property transactions in 2023/24. Close monitoring needs to be undertaken of the overall target and a circa £3 million target of non-earmarked General Fund receipts for the current year. The value of such receipts generated in the first 4 months of the year is currently £85,000. The remaining transactions will include approved land appropriations to the HRA where due diligence determines such transactions are viable and via open market sales. Each of these transactions will need to be subject to the Council's relevant governance processes and should be progressed promptly to ensure, where required, these are completed by the end of the financial year. Where any proceeds are deemed required to be earmarked for specific purposes, this should be done having regard to the overall target and affordability of the capital programme.

28. The capital investment programme also includes several major development projects which assume that capital receipts are earmarked to pay towards expenditure incurred on those projects. Examples include the development strategy at the International Sports Village and commitments agreed as part of proposals in respect to East Cardiff / Llanrumney Development. Expenditure incurred in advance of realisation of receipts represents a risk of both abortive costs and to the level of borrowing. At its meeting in July 2023, Cabinet approved a disposal strategy for retail and commercial plots at the International Sports Village. The timing of earmarked receipts should be monitored closely to ensure site value and timing is consistent with the respective Cabinet approved business cases.

Public Housing (Housing Revenue Account)

29. The programme for the Housing Revenue Account (HRA) is £111.000 million, with expenditure of £107.875 million currently forecast for the year. Expenditure at the end of Month 4 was £25.038 million which represents circa 23% of the projected outturn.

30. Against an original allocation of £2.150 million, full expenditure is projected to be spent on estate regeneration, tackling issues of community safety, defensible space, waste storage and courtyard improvements to blocks of flats. Expenditure includes projects at Trowbridge Green, Caerwent Road and Penmark Green.

31. Expenditure on building improvements is projected to be £15.850 million for the year, in line with the budget. Projected spend includes ongoing upgrades to high rise flats with £2 million expected to complete cladding works on Lydstep flats. Refurbishment expenditure of £800,000 is projected for Nelson and Loudoun including bin chutes and electric doors. Survey work is currently being undertaken at Beech and Sycamore flats for an estimated cost of £630,000 to upgrade sprinklers. All of the above-mentioned works to high rise buildings will be funded from Welsh Government Social Landlord Building Fire Safety grants. Other improvements for the year include roofing works to both houses and flats (£1.960 million), central heating upgrades (£1.500 million) and kitchen and bathroom upgrades (£2.971 million). There is also projected expenditure of £900,000 on energy efficiency schemes, with a number of projects in the pipeline to be funded by Welsh Government's Optimised Retrofit Programme. Opportunities for additional grants which will support future cladding and building safety schemes in the Council's future expenditure plan are also being explored and will need to be the subject of future reports to Cabinet. It is essential that progress on developing such projects is prioritised in line with such approvals to ensure that external funding can be maximised in line with any terms and conditions of grant.

32. The budget for adaptations for disabled residents of HRA properties is £3 million for the year. Expenditure as at month 4 is £1.700 million as a result of increased applications to support independent living in the community. All future applications must be managed within the existing budget for the remainder of the year.

33. Expenditure on the development of new housing across several sites during the year is currently projected to total £86.875 million, against an initial assumption totalling £90 million. In respect of Cardiff Living, total expenditure of £19.265 million is projected this financial year. Phase 1 which includes projects such as Willowbrook West, Highfields, Briardene, Braunton and Clevedon will all be completed in 2023/24, with all remaining retentions due to be paid. Phase 2 projects due to start this financial year include Narberth Road (83 units), Llanrumney High School site (28 units), Waungron (21 temporary and 23 permanent units) and Citadel (12 units). Brookfield Drive and the Addison House element of the Eastern High site are also due to complete this year. Whilst delayed compared to initial timeframes, total expenditure projected for the Gasworks site in Grangetown this financial year is £33.300 million with

phase one of the project for this temporary housing scheme due to arrive on site in August and occupied by October. Expenditure in year will be partly grant funded with £10.608 million from the Welsh Government's Transitional Accommodation Capital Programme (TACP) and £1.430 million from the Cardiff Capital Region Viability Fund, with potentially an additional £3 million to claim later in the year from the latter. It should be noted that the permanent scheme at the Gasworks site is to be developed as part of a new partnering scheme, with the existing modular homes to be relocated to other sites to be identified.

34. Progress on other development projects outside of Cardiff Living is expected to total £24.110 million and includes projections for a recommencement on site for St. Mellons (£4.695 million) and the Maelfa independent living scheme (£2.000 million). Work paused at the end of 2022/23 as a result of the appointed contractor falling into administration, but both have either been or are in the process of being retendered to a new contractor, resulting in a significant increase in costs, which is being experienced on all housing schemes. Phase 1 of the Channel View development is currently the subject of a tender exercise and depending on the scope and affordability within budgets, is expected to start on site at the end of the financial year. The former Iorwerth Jones site is expected to be completed in March 2024 with projected expenditure of £2.445 million. Canton Community Centre and Bute Street Community Living are both expected to be on site in August 2023 with combined projected costs of £9.300 million for the year.

35. Additional external grant funding is also currently being explored for many sites, which is welcome due to significant increases in costs across all schemes. It remains essential that robust viability assessments are undertaken in line with best practice at various stages of decision making in respect to schemes before they proceed.

36. Expenditure of £10.200 million has already been committed, utilising budget allocated by the Council across two financial years for private market acquisitions in 2023/24 to meet the immediate demand for housing. Opportunities for Welsh Government grant funding to increase the volume of purchases to meet pressures is being explored, however expenditure needs to be managed and approved within the Council's budget and control framework and be the subject of the same viability assessment processes.

Reasons for Recommendations

37. To consider the report and the actions therein that form part of the Council's financial monitoring process for 2023/24.

Legal Implications

38. 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

39. There are no HR imps that arise directly from this report.

Property Implications

40. There are no further specific property implications in respect of the Budget Monitoring Month 4 2023/24 Report. During the second quarter, the Strategic Estates Department will continue to assist where necessary in delivering mitigation strategies as part of the organisation's recovery and support delivery in relevant areas such as the Capital Programme, the Capital Investment Programme and Major Development Projects. The report highlights in-year financial pressures within Strategic Estates and the service area is working closely with Finance colleagues to identify mitigations and income generation opportunities which can be put in place and pursued to alleviate the forecasted budget overspend. Where there are property transactions or valuations required to deliver any budget proposals, they will be done so in accordance with the Council's Asset Management process and in consultation with Strategic Estates and relevant service areas.

Financial Implications

41. In summary, this report outlines a projected Council overspend of £6.457 million at Month 4 of the 2023/24 financial year. These overspends are after the use of specific contingencies and earmarked reserves.. If an overspend of this level exists at the end of the financial year, it would be offset against the Council Fund Balance. Currently, the Council Fund Balance is £14.255 million and would reduce to £7.798 million in such a circumstance but this level would be considered unsustainable. However, between Month 4 and the financial year end, every effort will be made to reduce the overspend to a balanced position or identify other sources of funding such as further use of earmarked reserves. At this time, the General contingency of £1 million has not been used because of the continued uncertainty in relation to NJC pay award.

42. Because of this risk, it is important that directorates retain a focus on their financial positions (including savings proposals reporting shortfalls) and ensure that tight financial control is in place over the remainder of this financial year to ensure that the projected financial position is reduced considerably by the year-end. In tandem, there will continue to be a review of Council-wide issues and regular monitoring of the Council's balance sheet, including the debtors' position and earmarked reserve levels.

43. In relation to the 2023/24 Capital Programme, a variance of £16.078 million is currently projected against the General Fund element, predominantly in relation to slippage against schemes. In terms of the Public Housing element of the programme, there is currently a variance of £3.125 million slippage. However, as outlined in the above report and Appendix 5 there are considerable cost pressures within the Housing Programme which are currently relying on

significant grant funding and this drive continues to need to be underpinned by a robust viability assessment process in place.

44. 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. It is critical that directorates ensure that the necessary progress is made against schemes, to ensure that cost overruns do not occur. 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..

45. 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 rest of the year it will be necessary for these to be escalated as a matter of priority so that the overall impact on the programme can be assessed and any required actions taken. Such risks also need to be monitored in relation to the generation of capital receipts which underpin the overall affordability of the programme.

RECOMMENDATIONS

The Cabinet is recommended to:

1. Note the projected revenue financial outturn based on the projected position at Month 4 2023/24.

2. Note the capital spend and projected position at Month 4 2023/24.

SENIOR RESPONSIBLE OFFICER	**CHRISTOPHER LEE** Corporate Director Resources
	DATE: *21 September 2023*

The following Appendices are attached:

Appendix 1 – Revenue Position
Appendix 2 – Directorate Commentaries
Appendix 3 – 2023/24 Budget Savings Position
Appendix 4 – Capital Programme
Appendix 5 - General Fund Capital Schemes Update