CARDIFF COUNCIL
CYNGOR CAERDYDD

CABINET MEETING: 29 FEBRUARY 2024

BUDGET MONITORING – MONTH 9 2023/24

FINANCE, MODERNISATION & PERFORMANCE (COUNCILLOR CHRIS WEAVER)

AGENDA ITEM: 3

Reason for this Report

1. To provide the Cabinet with details of the projected 2023/24 financial monitoring position as at the end of December 2023 (Month 9) 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's overall 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 the legacy of the pandemic and the cost-of-living crisis have significantly further increased 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 9, reflects a total projected net annual Council overspend of £2.732 million. This is an improvement on the £5.388 million overspend reported in Month 6. This projected position is detailed in **Appendix 1** and includes a total directorate net overspend of £7.482 million (Month 6 £7.688 million), partly offset by an underspend against the Capital Financing budget of £2.200 million, use of the £1 million General Contingency budget and release of contingency for the Council Tax Reduction Scheme.

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

Directorate	**Directorate Position (£000)**
Corporate Management	(23)
Economic Development:	
Economic Development	2,234
Recycling & Neighbourhood	294
Education & Lifelong Learning	1,746
People & Communities:	
Housing, & Communities	(480)
Performance & Partnerships	(106)
Adult Services	0
Children's Services	3,633
Planning, Transport & Environment	106
Resources:	
Governance & Legal Services	624
Resources	(546)
Total Directorate Position	**7,482**
Capital Financing	(2,200)
General Contingency	(1,000)
Council Tax Reduction Scheme contingency	(1,400)
Council Tax Collection	(150)
Total Council Position	**2,732**

7. The Table above indicates that there continues to be pressure across several service areas in terms of budgetary performance, at a broadly similar level compared to the overall projected overspend reported at Month 6. The Month 6 Cabinet Report noted that the £1 million General Contingency was held back in the event of potential future pressures on the financial position for the second half of the financial year. This was due to the uncertainties and risk around inflation and demand/supply issues across services. The Month 9 position now indicates that use of the General Contingency will be required to partly offset the directorate pressures and net overspends.

8. 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. **Children's Services** (+£3.633 million) – The overspend is primarily due to residential placement costs for the authority's children looked after cohort with sustained demand pressures and price increases resulting in costs exceeding budget. Ongoing placement numbers have increased over the year from 106 active placements at the start of the year to 116 current active placements with the average price of ongoing placements currently 17% higher than at 1/4/23. External fostering budgets are reporting a £1.780 million underspend with placement numbers less than planned.

   b. **Economic Development** (+£2.234 million) – Income shortfalls within Culture, Venues and Events are a significant factor, including St David's Hall, City Hall Functions and Functions Catering with the closure of buildings impacting on these services and related income generation targets 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 and underspends within FM buildings.

   c. **Education** (+£1.746 million) – There are pressures within Out of County Educational placements, Home to School Transport and Catering but there are planned in year mitigations for only the latter two issues. There are planned reserve drawdowns of £1.1 million in respect to catering and £0.7 million for Home to School Transport respectively. The significant overspend pressure in the directorate relates to Out of Maintained Schools educational placements forecasting a £1.25 million overspend due to increased pupil requirements with additional financial pressures on Education Other than at School tuition costs not being able to be recovered.

9. Further detail on the above monitoring positions along with the other directorate positions can be found in **Appendix 2 (Directorate Commentaries)**.

10. As reported at Month 6, the position at Month 9 continues to assume use of £2.175 million of the 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 Children's Contingency for 2023/24 given that the targets set in the Council's Corporate Plan are being met.

11. 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 Council Tax Reduction Scheme 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 directorate proposal is outlined in **Appendices 3A and 3B** respectively. The performance against savings proposals for both Efficiency and Service Change continue to be below the level required with Efficiency proposals currently projecting £8.502 million (Month 6 - £8.561 million) being delivered (84.21%) and Service Change currently projecting at £1.504 million (Month 6 - £1.648 million) being delivered (54.18%). This is a reduction of £59,000 for the Efficiency savings and an increased reduction of £144,000 in the Service Change delivery of proposals. Whilst there is only one quarter of the year remaining, work continues to take place in delivering more of the budget proposals and this remains a key priority along with spending controls that will need to be applied in the remaining months of this financial year.

12. The capital financing outturn is currently forecast to be £2.200 million (net of any transfers) 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. The forecast underspend is primarily due to delays in the timing of capital expenditure outflows and, also, new external borrowing assumed to be deferred 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 a level of the underspend to the Treasury Management earmarked revenue reserve as a mitigation for short term treasury and capital risks across financial years.

13. 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 an improved position of £150,000. It had been noted in previous reports that there was a likely underspend and at this time of the year having considered potential future events there is confidence that £150,000 can be brought into the overall financial position.

14. 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. Current projections suggest that £1.400 million of the CTRS Contingency will not be required and that this amount has been released thus contributing to an improved overall budget

monitoring position. 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.

15. The overall directorate Month 9 overspend position is at a similar level to the Month 6 forecast. This highlights that there remains a priority need for all services to ensure that at the very least this outturn position is balanced by the end of the financial year. All directorates of the Council have sought and implemented opportunities to deliver in year efficiencies. This Month 9 position continues to reflect the impact of some early decisions that have delivered with no front-line impact, but more will be required.

16. 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 Housing Revenue Account (HRA) is currently indicating a balanced position after an assumed net drawdown of £1.119 million from HRA earmarked reserves, primarily the Housing Repairs and Building Maintenance earmarked reserve (£0.869 million). The position includes a net overspend of £1.809 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 26 statistics indicate lower than budgeted void rent loss. The Civil Parking Enforcement position reflects an in-year surplus of £6.695 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 continues to project 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 Position

17. 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 £352.464 million to include actual slippage reported at outturn, incorporation of new grant approvals and confirmation of actual grant awards to date.

18. The sections below set out the forecast position for 2023/24 for the General Fund and for Public Housing.

<u>General Fund</u>

19. The projected outturn for the year is currently £185.905 million against a total programme of £241.329 million, with a variance of £55.424 million, which is predominantly slippage. Expenditure at the end of Month 9 was £112.254 million which represents circa 60% 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.

Public Housing (Housing Revenue Account)

20. The projected outturn for the year for the Housing Revenue Account is currently £118.867 million against a total programme of £111.000 million. The variance of £7.732 million is predominantly slippage brought forward from 2024/25 for new build housing and acquisitions as the Council work to address the housing crisis. Expenditure at the end of Month 9 was £75.720 million which represents circa 64% of the projected outturn.

Capital Schemes Update

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 and labour shortages. This represents a delivery and an affordability risk to projects to remain within estimated budgets following the outcome of tenders. Economic factors also mean interest rates have increased significantly over the past year. As part of the annual process of updating capital expenditure plans, this will require re-prioritisation of schemes to be undertaken including changes in timing, specification and a re-assessment of the intended outcomes. The overall Capital Programme has been updated in the 2024/25 budget proposals.

23. It remains important that directorates continue to allocate sufficient capacity and resource to ensuring projects progress in the timescales intended. 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 where work is aligned with 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 may 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.

Capital Receipts

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. A sum of £2.6 million of non-earmarked General Fund receipts are assumed to be receivable by the end of the financial year. The value of such receipts generated in the first 9 months of the year is £183,000. The remaining transactions will include approved land appropriations to the Housing Revenue Account, where due diligence determines such transactions are viable, and via open market sale. Each transaction 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 receipts 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 land acquisition at the International Sports Village which is subject to a disposal strategy agreed by Cabinet in July 2023 and commitments agreed as part of proposals in respect to East Cardiff / Llanrumney Development. Any delay in such land sales prolongs the level of borrowing and extends the financial interest opportunity cost. Therefore, the timing and value of earmarked receipts should be monitored closely to ensure they remain consistent with the respective Cabinet approved business cases.

Reason for Recommendations

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

Legal Implications

30. 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

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

Property Implications

32. There are no further specific property implications in respect of the Budget Monitoring – Month 9 2023/24 Report. During the final quarter, the Strategic Estates Department will focus on completion of in-year targeted Annual Property

Plan transactions, including appropriations, and continue to assist in delivering budget deficit mitigation strategies.

33. The highlighted in-year financial pressures are noted 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. Property specific issues in respect of the Tennis Centre are acknowledged and specific strategies for mitigation of these are being considered and actively managed.

34. 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

35. In summary, this report outlines a projected Council overspend of £2.732 million that represents an improvement of £2.656 million from the position reported at month 6 (£5.388 million) for the 2023/24 financial year. The overspend reported is after the use of specific amounts of 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 £11.523 million in such a circumstance but this level would be considered unsustainable despite an improved position from Month 6. However, between Month 9 and the financial year end, every effort will continue to be made to build on the improvements already achieved to reduce the overspend further to a balanced position or to identify other sources of funding such as further use of earmarked reserves.

36. Because of the risk of an end of year overspend, it remains essential that directorates retain a focus on their financial positions (including savings proposals reporting shortfalls) and ensure that tight financial control continues to be in place over the remainder of this financial year in order that the projected financial position is further reduced 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.

37. In relation to the 2023/24 Capital Programme, a variance of £55.424 million is currently projected against the General Fund element, predominantly in relation to slippage against large schemes such as Indoor Arena, Band B New Schools and Coastal Erosion. These large schemes are still scheduled to be spent but are likely to be incurred in the following year (later than planned). In terms of the Public Housing element of the programme, there is currently a variance of £7.732 million in excess of the planned 2023/24 spend due to the accelerated response to the need for new housing. There will continue to be considerable cost pressures within the Housing Programme which are currently relying on significant grant funding with a need to be underpinned by a robust viability assessment process.

38. Historically, this report has continued to highlight the issue of slippage and the economic impact of rising materials, process and contractor availability is contributing to potentially higher rates of slippage than have been experienced before. The increase in material prices remains a threat to potentially reducing 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 remains critical that directorates ensure that the necessary progress is made against schemes, to ensure that cost overruns do not occur. Due diligence continues to be required and maintained to ensure that the delay of schemes that rely on external funding does not result in any lost opportunity of accessing those funds due to tight terms and conditions dictating any timelines that must be met.

39. For capital expenditure, effective contract management continues to 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

Cabinet is recommended to:

1. Note the revenue financial outturn based on the projected position at Month 9 2023/24.

2. Note the capital spend and projected position at Month 9 2023/24.

SENIOR RESPONSIBLE OFFICER	**Christopher Lee** Corporate Director Resources
	23 February 2024

The following appendices are attached:

Appendix 1: Revenue Position
Appendix 2: Directorate Commentaries
Appendix 3A: 2023/24 Efficiency Savings Position
Appendix 3B: 2023/24 Service Change Savings Position
Appendix 4: Capital Programme
Appendix 5: General Fund Capital Schemes Update