

To: Finance & Performance Committee, 5 October 2022

From: Jo Williams, Finance Manager/S151 Officer

Budget Monitoring Report

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| Decision Required | YES <input type="checkbox"/> / NO <input checked="" type="checkbox"/> | Agenda Item | 5 |
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Recommendation

Note the contents of this report

Key Messages

To inform Members of performance against budget for the period of April 2022-June 2022.

Introduction and Approach

The authority is facing a number of significant financial pressures, some of which have become clearer in the last two months as pay negotiations have progressed and wider economic forecasts announced. The general reserve balance is in danger of being reduced to an unsustainably low level if additional funding is not obtained. This is expanded upon below.

The variances reported in Appendices One and Two are calculated by comparing revenue account expenditure (including commitments) and income with profiled budgets for the quarter. Considerable work was done by budget managers and the Finance Team on the profiling exercise in June and early July when annual budgets were analysed and refined across the twelve months and updated in the finance system. An equal monthly spread of budgets was deemed appropriate in many cases whilst in others a more tailored analysis was needed to reflect seasonal and other effects.

A number of directorate meetings took place between budget managers and the Finance Team to discuss the position at the quarter end, identify material variances and undertake joint investigative and interpretative work to explain them and make corrections in the ledger as necessary.

As is customary with management accounts there are a number of amendments needed to system produced data so that the results are reasonably accurate and that they contain amounts for transactions not yet entered in the revenue account of the authority. These adjustments have been separately calculated for each cost centre in Appendix 2 and can be explained in detail if required. The need for some adjustments has only become apparent after detailed discussions with budget managers.

Q1 Directorate Variance report (Appendix One)

This is a summary of the position for the five directorates. The overall position is an overspend variance of £54214(Column U). Material variances are explained below and in more detail in the appendices.

This report also shows the unspent annual budget for completeness.

Q1 Cost Centre Variance Report (Appendix Two)

This report provides the main reasons for the variances for all 40 plus cost centres across the five directorates. Key underspends and overspends comprise:

- Salary underspends in many cost centres due to vacant posts -remaining at the end of the quarter or only part-filled during the period.
- Consultant expenditure, connected with the above, for statutorily required Planning services and the production of the 2021/22 Statement of Accounts.
- Advertising and agency recruitment costs arising from the above.
- Some under-recovery of car park income

This report also shows the % variance for each cost centre and directorate.

Outlook for remainder of the financial year

Risks and uncertainties

There are five key financial risks facing the authority in 2022/23:

- The impact of the salary award proposal if implemented. The financial cost of this is expected to be in the £200k-300k range whilst only circa £40k was included in our budget as a salary increase on the 2021-22 level. A hidden financial cost will also arise from an offer of extra leave for employees in the proposal. The pay increase which mainly takes the form of a lump sum per employee will be backdated to April 2022. This level of increase in the authority's main expenditure category is entirely unplanned and unprecedented as compared with pay increases in recent years.
- Non pay cost inflation. The financial impact of this is uncertain currently but it is fully expected in the second half of the year as energy prices increase significantly with knock-on effects on the cost of several other bought in goods and services. The financial impact could be very significant and will be clearer for committee members at the Quarter 2 reporting stage.
- The need to engage external consultants for Planning services is expected to continue for another quarter at least until new appointments are made. Whilst there is some salary underspend to finance this cost it is estimated that a net overspend of some £7k per month will arise. This will become a longer pressure if there is difficulty recruiting the required staff.
- The Authority is facing significant capacity and capability gaps as detailed in the Chief Executive's review paper (Taken to meeting of the Authority held 30 September 2022). The current resource position severely limits the Authority's ability to address those effectively and therefore to deliver on our future strategy.
- Given the challenging macro-economic environment and inflation forecasts for the current and medium term we are unlikely to meet our set income budgets this year. This will very likely affect our car park and visitor centre income and may affect our planning fees level-which is an uncertain income stream in any event.

General reserve funding

With all unitary authorities facing similar financial pressures and risks as above it is highly unlikely that Welsh Government will be able to significantly increase its funding for the authority and will expect it to use reserves to meet its needs.

The authority's General Reserve balance at the end of 2021/22 is just above £1.5m- subject to audit. £400k of this is planned for use in this financial year -2022/23- leaving an expected balance of £1.1m at the year-end. Without additional funding this year therefore, the pressures outlined above will have to be funded with further contributions from the Reserve which could reduce to around £800k. One further year with a similar financial funding gap could lead to the Reserve balance becoming below the minimum advisable-£500k. With a projected salary cost alone of over £300k per month this is clearly an unsustainable position.

Appendix One: Name of Supporting Report Goes Here
