

**2022-23 HIGH-RISK BUDGETS, FINANCIAL REPORTING PLAN
AND BUDGET MONITORING PROCESS**

SUMMARY:

This report contains an assessment of the Council's high-risk budgets, outlines the high-level plan for financial reporting to Cabinet for the year and the budget monitoring process to be followed as part of the Finance Improvement Plan.

RECOMMENDATIONS:

CABINET is recommended to:

- i. Note the high-risk budgets and pressures as reviewed and agreed by the Executive Leadership Team (as detailed in Section 2).
- ii. Note and approve the high-level financial reporting timetable for completion and presentation to Cabinet for 2022-23 (as detailed in Section 3).
- iii. Note and approve the budget monitoring process with early service management action to ensure timely completion and to enable robust forecasting for presentation to Cabinet on 2022-23 revenue and capital budget monitoring reports (as detailed in Section 4).

1 INTRODUCTION

- 1.1 As part of the Finance Improvement Plan this report sets out for Cabinet the intended budget monitoring process for 2022-23 that will be undertaken, with Heads of Service and their management teams leading and owning the forecasts for the budgets they are responsible for.
- 1.2 Heads of Service, cost centre managers and the Finance Team will continue to work collaboratively, with Finance increasingly adopting a finance business partnering approach to support, advise, and provide a 'check and challenge'

service managers to validate forecast assumptions and to enable managers to deliver the Council's services within the approved budget.

- 1.3 The high-risk budgets have been identified and discussed by ELT and CMT and a rolling record will be maintained of these throughout the year. The known pressures and estimated risks will be updated as additional information becomes available and will be expanded as necessary to include new pressures and risks as there are identified.

2 HIGH-RISK BUDGET ASSESSMENT AND PRESSURES

- 2.1 The high-risk budgets and known pressures record has been updated from 2021-22 following on from the latest information obtained through the draft outturn and closing processes. The updated and current position for new and existing risks and pressures going into 2022-23 are:

- 2.1.1 **£0.500m to £0.750m risk Interest Payable Risk** – there is a risk that Treasury Management Interest Payable costs result in higher debts costs than the MTFS projection due to:

- Up to £0.750m potential risk due to movement in both short-term and long-term interest rates since the MTFS forecast in January 2022. This assumes that the Council takes out an additional £35m of borrowing as per Capital Programme with a mix of short-term and long-term rates.
- The MTFS assumed short-term rates of around 0.75% to 0.80% and PWLB at around 2.10%. However, since then the Bank of England base rate increases mean that current rates are around 1.80% for short-term rates (lending from other Local Authorities) and 3.50% for PWLB. PWLB rates continue to change and as at the final report are moving towards 4% level of long-term borrowing following Bank of England latest base rate increase on 10th June 2022 to 1.25%.
- With the increased interest rates the Council will need to ensure adequate mitigation is in place. The cost of borrowing is above the estimates included in the MTFS and as rates are likely to continue to fluctuate, the timing a scale of any further borrowing must be reviewed. Mitigation is likely to be looking at the availability of alternative funding sources (Capital Receipts), borrowing is delayed/revised, or through the review of longer-term investments and other assets that the Council holds. Treasury Management investment

income may improve (although this is unlikely to have a material impact) and will therefore become a pressure within the year to fund.

2.1.2 Annual pay award risk – there is very real risk that the Pay Award is above the MTFS budgeted level of 2%, which will place additional pressure on the General Fund. The Unions have advised Local Government employers that a pay award in-line with the current inflation rate is being sought.

- Every 1% increase in the Pay Award over the budgeted increase of 2% will increase costs by £138k (based on an annual salary budget of £13.8m). The 2022/23 increase will increase the base salary costs, which in turn will be carried through and compounded into subsequent years.
- Management actions to mitigate the in-year and future years impact include vacancy management; to reduce Head Count; to reduce the use of Agency Staff and Consultants; and/or to stop other discretionary expenditure.

2.1.3 Up to £0.250m Crematorium income risk – there is risk that the Crematorium is unable to mitigate the impact of reduced income from local competition within its market. Service management is seeking to address this including engaging with local funeral directors to maintain and increase income. However, the budgeted income trend continues and there are currently no firm short-term measures to mitigate the estimated £250k income risk.

2.1.4 Energy cost pressures £0.100m to £0.250m – there is an ongoing risk due to rising energy prices. The MTFS budget included an assumption for a 30% to 40% increase on Energy costs during year. However, the increase in the cost floor for April 2022 was already above this MTFS assumption and with a further increase expected in October 2022. This is highly likely to result in a significant pressure within the 2022-23 financial year, which will need to be adjusted in the MTFS energy cost estimates for future years.

2.1.5 Levelling-up Fund (LUF) Bid costs pressure of £50k – Grant Thornton (GT) have been commissioned to inform the Council's LUF Bid with 50k expenditure approved. Currently there is no funding for this but has been approved as the GT work will help the Council to construct a bid to the LUF that is more likely to achieve success in the bidding process and to bring in additional DLUHC funding.

2.2 In addition to the above, there are several areas where a reasonable risk or pressure estimate could not be established. These include:

- **Inflationary risk** – There is likely to significant inflationary pressure on costs with CPI currently at 9.1% and likely to increase further with the Bank of England estimating CPI to be 11% by end of October 2022. This inflationary pressure on expenditure applies to both capital and revenue expenditure and cannot be mitigated.
- **Property Income risk** – there is an ongoing risk of further deterioration of commercial property income, which is an inherent risk with holding a property portfolio, although with an increased risk due to the current wider economic climate. Overall, the portfolio is reasonably stable and will continue to be reported on via the Property Investment Advisory Group.

2.3 The above risks and pressures will be kept under review by Heads of Service and reported on throughout the year. Budget monitoring reports, as detailed in Section 3, will report quarterly to Cabinet with updates on the current risks and pressures as at the time of reporting.

3 FINANCIAL REPORTING TO CABINET PLAN FOR 2022-23

- 3.1 The financial reporting plan for the year is show below for the Cabinet meetings that the reports are planned to be presented at. This covers the full financial cycle from Period 1 Budget monitoring for 2022-23, through to the final outturn report for 2022-23.
- 3.2 Planning for financial reporting to Cabinet provides a clear timetable for all involved in the process with deadlines set for each stage, which will ensure that reports can be completed in suitable time for the agenda dispatch.

Cabinet Item	Agenda dispatch	Cabinet Date
P1 Budget Monitoring 2022/23 - Revenue and Capital	Fri, 29/07/2022	Tue, 09/08/2022
Regeneration and Capital Projects Investment Strategy (K)	Fri, 29/07/2022	Tue, 09/08/2022
Final Outturn Report for 2021/22 Financial Year	Fri, 02/09/2022	Tue, 13/09/2022
2023/24 Budget Strategy and MTFS update	Fri, 30/09/2022	Tue, 11/10/2022
P2 Budget Monitoring 2022/23 - Revenue and Capital	Fri, 04/11/2022	Tue, 15/11/2022
Council Tax Support Scheme (may need to be earlier)	Fri, 02/12/2022	Tue, 13/12/2022
Budget Strategy Working Group recommendations to Cabinet	Fri, 06/01/2023	Tue, 17/01/2023
2023/24 Revenue Budget, Capital Programme, MTFS & Council Tax	Fri, 27/01/2023	Tue, 07/02/2023
P3 Budget Monitoring 2022/23 - Revenue and Capital	Fri, 03/03/2023	Tue, 14/03/2023
P4 Budget Monitoring and Draft Outturn Report for 2022/23	Fri, 23/06/2023	Tue, 04/07/2023
Final Outturn Report for 2022/23 Financial Year	Fri, 01/09/2023	Tue, 12/09/2023

- 3.3 The timetable has been worked back further from here to ensure that the draft reports can be published internally for review at both the Cabinet Reports Meeting and Cabinet Reports briefing prior to the information being finalised and made part of the public record when the Cabinet Agenda and papers are published (see Appendix 1).

4 BUDGET MONITORING 2022-23

- 4.1 Budget monitoring reports to Cabinet will continue to be quarterly for 2022-23 as per the reporting timetable detailed in Section 3. Finance, Heads of Service, and budget holders across the Council will work together collaboratively throughout the budget monitoring process to complete the detailed reporting that sits which underpins the final, summarised report that is presented to Cabinet.
- 4.2 The core principles that the new budget monitoring process will follow include the following:
- 4.2.1 **Heads of Service and cost centre managers (CCMs) will review their budgets prior to the financial system close date for the quarter.** This will be via self-service use of Integra reports that cost centre managers have access to and which provide the key information that budget holders require to review their actual expenditure and income to date, to compare this to the budget and to arrive at a forecast for the year. Finance will provide training and support where cost centre managers require this to be able to run their cost centre reports on Integra, and to complete their forecasts.
- 4.2.2 **It is imperative that CCM as budget holders complete their forecasts in a timely manner and have these available to submit to finance when the Council-wide corporate report is run for each quarterly budget monitoring report.** CCMs should be prepared to give a full account for the management of their budgets and will be expected to provide narratives to their Head of Service and Finance for any material variances that are 20k more or less than the approved budget. This will be applied at both cost centre level as well as at individual cost centre and account code combination level.
- 4.2.3 All of the above is necessary for a quality report to be built upon reliable data and with sufficient time for Finance to sense-check and challenge, where necessary, the service forecasts (rather than doing the Finance completing forecasts for cost centre managers).
- 4.3 There will be no supplementary estimates process this year as this is a time consuming, low value adding and not part of a best practice finance approach. Instead, **any changes to budgets that are identified throughout the year will be routinely addressed through the budget monitoring**

process on a quarterly basis and with explicit Cabinet approval sought for any requested budget changes within the year.

5 CONCLUSIONS

- 5.1 This report highlights some of the financial risks that are expected to materialise in the coming months and Members will continue to be updated on these throughout the year.

BACKGROUND DOCUMENTS:

None

CONTACT DETAILS:

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APPENDIX 1

FINANCIAL REPORTING TO CABINET PLAN FOR 2022-23

Cabinet Item	Draft report to CT (by 5pm)	Cabinet Reports Meeting (at 1pm)	Cabinet Reports Briefing (at 7pm)	Finalised report to CT (by 5pm)	Agenda dispatch	Cabinet Date
P1 Budget Monitoring 2022/23 - Revenue and Capital	Thu, 21/07/2022	Mon, 25/07/2022	Tue, 26/07/2022	Thu, 28/07/2022	Fri, 29/07/2022	Tue, 09/08/2022
Regeneration and Capital Projects Investment Strategy (K)	Thu, 21/07/2022	Mon, 25/07/2022	Tue, 26/07/2022	Thu, 28/07/2022	Fri, 29/07/2022	Tue, 09/08/2022
Final Outturn Report for 2021/22 Financial Year	Thu, 25/08/2022	Tue, 30/08/2022	Tue, 30/08/2022	Thu, 01/09/2022	Fri, 02/09/2022	Tue, 13/09/2022
2023/24 Budget Strategy and MTFS update	Thu, 22/09/2022	Mon, 26/09/2022	Tue, 27/09/2022	Thu, 29/09/2022	Fri, 30/09/2022	Tue, 11/10/2022
P2 Budget Monitoring 2022/23 - Revenue and Capital	Thu, 27/10/2022	Mon, 31/10/2022	Tue, 01/11/2022	Thu, 03/11/2022	Fri, 04/11/2022	Tue, 15/11/2022
Council Tax Support Scheme (may need to be earlier)	Thu, 24/11/2022	Mon, 28/11/2022	Tue, 29/11/2022	Thu, 01/12/2022	Fri, 02/12/2022	Tue, 13/12/2022
Budget Strategy Working Group recommendations to Cabinet	Tue, 03/01/2023	Wed, 04/01/2023	Wed, 04/01/2023	Thu, 05/01/2023	Fri, 06/01/2023	Tue, 17/01/2023
2023/24 Revenue Budget, Capital Programme, MTFS & Council Tax	Thu, 19/01/2023	Mon, 23/01/2023	Tue, 24/01/2023	Thu, 26/01/2023	Fri, 27/01/2023	Tue, 07/02/2023
P3 - Budget Monitoring 2022/23 - Revenue and Capital	Thu, 23/02/2023	Mon, 27/02/2023	Tue, 28/02/2023	Thu, 02/03/2023	Fri, 03/03/2023	Tue, 14/03/2023
P4 Draft Outturn Report for 2022/23	Thu, 15/06/2023	Mon, 19/06/2023	Tue, 20/06/2023	Thu, 22/06/2023	Fri, 23/06/2023	Tue, 04/07/2023
Final Outturn Report for 2022/23 Financial Year	Thu, 24/08/2023	Mon, 28/08/2023	Tue, 29/08/2023	Thu, 31/08/2023	Fri, 01/09/2023	Tue, 12/09/2023