

Report 2: First Quarter Financial Performance and Medium-Term Budget Update

1. Purpose of Report

The purpose of this report is to update Members on the first quarter's financial performance and Medium-Term Budget Plan.

2. Recommendations

The Authority is recommended to note the contents of the report.

3. Implications

- a. Financial: The recent LGA Pay Offer can be funded in 2022/23 from the additional general reserves set aside from the positive 2021/22 financial outturn. Beyond that a significant additional budget pressure has been added to 2023/24 and 2024/25 to account for in the preparation of the next 3 year budget plan.
- b. Equalities: None
- c. Link to Business Plan: Financial performance and budget management are an integral part of resourcing all aspects of the Business Plan and of maintaining an organisation that is fit for the future (Aim 6 of the Business Plan).

4. First Quarter 2022/23: Financial Performance

- a. The first quarter deficit as shown in Table 1 below was £287,600, this is compared to a planned deficit of £410,500 a positive overall variance of £122,900.

June 2022 YTD	Budget	Actual	Variance
National Park Grant	-	-	-
Operating Salary & Related Costs	(£553,500)	(£515,200)	£38,300
Operating Expenditure	(£256,200)	(£199,400)	£56,800
Operating Income	£245,500	£232,300	(£13,200)
Operating Deficit	(£564,200)	(£482,300)	£81,900
Sill Business Plan Expenditure	(£196,600)	(£160,200)	£36,400
Sill Business Plan Income	£182,300	£163,100	(£19,200)
Net Sill Business Plan Surplus/ (Deficit)	(£14,300)	£2,900	£17,200
Project Expenditure	(£182,800)	(£133,900)	£48,900
Project Income	£350,800	£325,700	(£25,100)
Net Project Surplus	£168,000	£191,800	£23,800
Net overall Deficit	(£410,500)	(£287,600)	£122,900

First Quarter Operating Performance

- b. The National Park Grant has been profiled in quarter 2, as approval to sign the revised grant agreement was only obtained from members in June.
- c. The operating budget surplus of £81,900 has arisen across a number of budget headings. The only significant variance is a surplus of £30,000 within Operating Salary and Related costs and is the result of timing only, whereby some posts have been or will be appointed later in the year.

First Quarter Sill Business Plan Performance

- d. Overall a surplus budget variance of £17,200 is reported as at the end of June 2022. The breakdown of this surplus and key highlights are as follows:
 - i. Retail budget deficit £1,200. Overall the shop retail profit is on target. The spend per head achieved is £1.73 against a target of £1.75 and the profit margin is virtually on target at 44.7% against a target of 45%. A 2% overachievement of visitors has offset any losses from the slight target variations.
 - ii. Car park budget surplus of £5,800. Mainly due to a budget expenditure surplus due to the late arrival of an invoice. Car Park income is ahead of budget by 5% (£600).
 - iii. Sill Café budget surplus £10,100. £5,000 of this is due to the timing of expenditure on running costs. Net profit from café sales is up 8% on target (£3,800). A stocktake will be done at the end of quarter 2 to verify the cost of sales. The external catering target for the full year is 75% achieved at the end of quarter 1.
 - iv. Other variances within The Sill Business Plan for information are: Rental budget surplus of £700; Sill Promotion budget deficit £2,900; and Sill Operating budget surplus of £4,700.

First Quarter Project Performance

- e. Projects are showing a budget surplus of £23,800 there are no variances of significance to report to members.

5. Medium Term Budget Update

- a. The budget deficit for 2022/23, after carry-forwards and year-end adjustments was reported to the Authority as £459,900 in June 2022. However, of the £392,400 of carry forward adjustments, £25,000 related to the financial year 2023/24. This has been corrected in Table 2 below.
- b. In addition there have been two releases for members to note from earmarked reserves, to the current financial year 2022/23 budget. £36,200 from the HW National Trail Capital Projects reserve to match fund Landscape Enhancement Initiative funding of £143,700 for enhancements to the Hadrian's Wall Trail and surrounding area and £10,000 from the Exhibition Maintenance Reserve for projector maintenance in the main Sill exhibition.

- c. The revisions to budget as a result are shown in Table 2 summary of budget changes.

Table 2 Summary of Budget Changes	2022/23	2023/24	2024/25
June 2022 Reported Budget (Deficit)	(£459,900)	(£46,700)	(£82,600)
Correction of 2021/22 carry forward	£25,000	(£25,000)	–
Release of HWNT Capital Improvement earmarked reserve	(£36,200)	–	–
Release of Exhibition Maintenance earmarked reserve	(£10,000)	–	–
September 2022 reported Budget (Deficit)	(£481,100)	(£71,700)	(£82,600)

- d. A revised reserves summary is shown in Table 3.

Table 3 Reserves Summary	2022/23	2023/24	2024/25
Opening Reserves	£1,454,700	£973,600	£901,900
Budget Plan Surplus/ (Deficit)	(£481,100)	(£71,700)	(£82,600)
Closing Reserves	£973,600	£901,900	£819,300
Earmarked Reserves:	(£10,000)	(£20,000)	(£30,000)
IT Capital Replacement Reserve			
Planning Contingency	(£75,000)	(£75,000)	(£75,000)
Legacy Reserve	(£5,100)	(£5,100)	(£5,100)
Exhibition Maintenance Reserve	(£5,100)	(£5,100)	(£5,100)
Sill Cyclical Maintenance Reserve	(£29,900)	(£29,900)	(£29,900)
Climate Change Action Plan Reserve	(£26,000)	(£26,000)	(£26,000)
HW National Trail Capital Projects Reserve	(£92,900)	(£92,900)	(£92,900)
Major Repairs Reserve	(£47,000)	(£57,000)	(£67,000)
Northern Upland Chain Local Nature Partnership Reserve	(£19,400)	(£19,400)	(£19,400)
Total Earmarked Reserves	(£310,400)	(£330,400)	(£350,400)
Total General Reserves	£663,200	£571,500	£468,900

- e. The changes affect timing only and do not affect the level of overall General Reserves.

6. Impact of LGA Pay Offer

- a. Members will recall a key financial risk in the current Medium Term Budget Plan was the inflation figure included for the staff pay award. This is set nationally and is beyond the control of NNPA. The budget allowed for 2% in each year of the plan.
- b. The LGA have published their pay offer and it is being discussed by the unions at this time. This is for a flat increase of £1,905 on all pay points. This results in a 10.5% pay increase for those at the bottom of the scale and 4.04% for those at the top.

- c. The impact assuming the pay award reverts back to the currently planned 2% level in 2023/24 and 2024/25 would be an additional budget requirement over the course of the current Medium Term Budget Plan of £314,400, affecting each financial year as follows:
- 2022/23 - £112,400 (this includes café staff not included beyond year 1 as permanent decision on future running of the café not yet proposed).
 - 2023/24 - £101,200
 - 2024/25 - £100,800
- d. The 2021/22 budget surplus of £116,900 was returned to the general reserve in mitigation of the risk of increasing salary and other costs results from the current economic climate. There is sufficient contingency to cover the increased cost arising from the pay offer for the first year. The amount will be released from reserves when the final pay award is agreed and members will be informed. Beyond year 1 we have a significant budget challenge arising. The Chief Executives and Chairs of NPAs have raised the issue with Defra as a matter of priority.
- e. The level of pay inflation that should be budgeted for beyond the current year will be the subject of further discussion, however, it is unlikely to drop down to 2% on the short term. For illustrative purpose the impact on the current Medium Term Budget Plan, if we were to allow for the first year pay offer and then 4% for the final two years would be £465,700, affecting each of the financial years as follows:
- 2022/23 - £112,400 (same as above)
 - 2023/24 - £152,300
 - 2024/25 - £201,000
- f. The estimates shown in this report allow members to see the scale of the challenge we face going forward in these uncertain economic times. This was discussed by Finance and Audit group on 31 August, and members should note that as well as lobbying government for increased funding to meeting these additional costs, the Authority will be considering options to balance its budget as part of the upcoming budget planning process.

7. Conclusions

- a. The quarter 1 financial performance is reassuring. Members were concerned we had perhaps been too prudent in some of our targets based on last years exceptional performance, however, the quarter 1 results show most areas are on or close to the target set.
- b. The impact of inflation, the LGA pay offer and future assumptions around the pay award are a cause for concern, but we have contingency in the short term that will allow the necessary conversations to happen with Defra and a strategy to be considered to mitigate this.

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