

TITLE OF REPORT: SECOND QUARTER REVENUE MONITORING 2016/17

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE
EXECUTIVE MEMBER: COUNCILLOR T.W. HONE

1. SUMMARY

- 1.1 The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure forecasts for 2016/17, as at the end of the second quarter (30 September 2016). The report details expected variances from the working budget, and provides explanations and details of any future year impacts where these are significant (+/- £25k or +/- 25%). This is shown in **table 2** and shows a forecast variance of **£19k** from the working budget, with an expected impact on next year's budget (2017/18) of **(£172k)**. There are **6** budget areas with significant variances. The three most significant variances relate to:
- The cost of redundancy, pay in lieu and pension strain following the restructure of senior management. These are partially offset by the salary cost savings realised in the remainder of the year. **211k**
 - Increased revenue from parking income as activity in the first half of the year is higher than budgeted. **(£180k)**
 - Cost of commissioning a consultant to undertake the review of the Parking Strategy and a parking survey. **£80k**
- 1.2 In general under or over delivery of efficiencies will be picked up by any budget variances (as above). One such variance highlighted in table 2 is **(£25K)** for additional income generated from the Legal Services project. All other efficiencies are expected to be delivered in 2016/17 (**paragraph 7.4**).
- 1.3 Carry-forwards are incorporated in the working budget total. As at the end of September, there are two carry forwards that have been identified as not being required in full or in part for their intended purpose (**paragraph 7.5**).
- 1.4 5 key corporate 'financial health' indicators have been identified in relation to key sources of income for the Council. **Table 3** shows the income to date and forecasts for the year. The current forecast is that they will all match or exceed the budgeted level of income.
- 1.5 This report also highlights any factors that may affect the funding that the Council receives. When combined with service income and expenditure forecasts (as above), this provides an overall estimate of the impact on the General Fund balance. This is detailed in **section 8** and there is nothing significant to report.

2. RECOMMENDATIONS

- 2.1 Cabinet is requested to ask any questions which may arise from the report's contents and note this report.

- 2.2 Cabinet is requested to approve the changes to the 2016/17 General Fund budget identified in **table 2** and **paragraph 7.3**, a **£19k increase** in net expenditure.
- 2.3 Cabinet is requested to note the forecast changes to the 2017/18 General Fund budget identified in **table 2** and **paragraph 7.3**, a **£172k decrease** in net expenditure. These will be incorporated into the 2017/18 budget setting papers to be approved by Council in February 2017.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Members are able to monitor and request appropriate action of Directorates who do not meet the budget targets set as part of the Corporate Business Planning process.
- 3.2 Changes to the Council’s balances are monitored and approved.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Budget holders have considered the options to live within the existing budget but consider the variances reported here necessary and appropriate.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the budget monitoring is not required. Members will be aware that there is wider consultation on budget estimates during the corporate business planning process each year.

6. FORWARD PLAN

- 6.1 This Report does contain a recommendation on a key decision that was first included in the Forward Plan on 17 October 2016.

7. REVENUE INCOME AND EXPENDITURE FORECASTS

- 7.1 Council approved the revenue budget in February of **£16.553 million**. As at quarter 1 the working budget was increased to £17.325 million. Table 1 below details changes to this budget to get to the current working budget:

Table 1- Current working budget

	£k
Quarter 1 working budget	17,325
Quarter 1 2016/17 Revenue Monitor - variances approved by Cabinet	122
Current working budget	17,447

- 7.2 Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 2 below highlights those areas where there are forecast to be differences. For significant variances (+/- £25K or +/- 25%), an explanation is provided. The final column details if there is expected to be an impact on next year’s (2017/18) budget:

Table 2- Summary of forecast variances

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Estimated impact on 2017/18 £k
Corporate Restructure					
Redundancy, Pay in Lieu and Pension Strain Costs	0	308	308	Redundancy and Pay in Lieu costs follow the voluntary redundancies agreed by Council for the Customer Services Strategic Director and the Head of Policy and Community Services as part of the restructure of senior management. These costs are partially offset by the salary cost savings in the remainder of the year, which will be reflected in an increased contribution to the vacancy control savings target. Costs from restructuring were identified as a financial risk in 2016/17.	0
Vacancy Control Savings Target	(200)	(297)	(97)		0
Total	(200)	11	211		0
Parking Income					
Season Tickets	(228)	(266)	(38)	The trend of increasing demand for season tickets over recent years has continued in the first half of the year. The increase in tariffs for pay-as-you-use parking over the same period has increased the value offered from a season ticket for regular users.	(26)
Parking Machine Transactions	(1,523)	(1,551)	(28)	The revised estimate for parking machine income reflects current levels of parking activity.	0
Pay by Phone Income (RingGo)	(93)	(143)	(50)	Usage of the pay by phone facility continues to increase year on year. An income total of £130k for 2015/16 was 45% higher than the previous financial year and further growth is apparent in the year to date.	(50)
PCN Income	(410)	(444)	(34)	The increase in forecast reflects PCN income recorded over and above the budgeted level for the first half of 2016/17.	0
Resident Permits	(136)	(166)	(30)	The Introduction of new Controlled Parking Zones in the Hitchin area has contributed to an increase in the numbers of applications for resident permits.	0
Total	(2,390)	(2,570)	(180)		(76)
Parking Strategy Review	0	80	80	The commissioning of a Consultant to undertake a review of the Council's Parking Strategy and a parking survey.	0
Income from the sale of paper collected for recycling	(372)	(396)	(24)	A recent procurement process secured a higher price per ton received for paper collected. The new price will commence from December 2016. The trend in paper tonnages for a number of years has however been one of steady decline. This decline could be attributed to the reduction in use of print media as consumers and businesses switch to electronic devices.	(63)
Income from the sale of legal services to other public authorities	(10)	(35)	(25)	Income forecast reflects progress in the implementation of the efficiency initiative. The success of the project in generating additional income going forward will be affected by both the consistency of demand from other authorities and the capacity of the team to carry out the work, which is dependent on the level of internal demand.	(25)

Budget Area	Working Budget £k	Forecast £k	Difference £k	Reason for difference	Estimated impact on 2017/18 £k
Planning Control Pre-application fees income	(33)	(60)	(27)	The increase in forecast income reflects the continuation in 2016/17 of higher levels of demand for pre-application advice.	0
Total of explained variances	(3,005)	(3,088)	35		(164)
Other minor variances	20,452	20,436	(16)		(8)
Overall total	17,447	17,466	19		(172)

- 7.3 Cabinet are asked to approve the differences highlighted in the table above (a **£19k increase** in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2017/18 budget (a **£172k decrease** in budget), which will be incorporated in to the 2017/18 budget setting process (recommendation 2.3).
- 7.4 The original approved budget (and therefore working budget) includes efficiencies that were agreed by Council in February. Therefore any under or over delivery of efficiencies will be picked up by any budget variances (table 2 above). There can be off-setting variances which mean that is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The current forecast is that total efficiencies delivered will exceed the total incorporated in the original budget by **£25K**, which relates to the additional income generated from the Legal Services initiative, as recorded in table 2. This efficiency was recorded as "TBC" when the original budget 2016/17 was approved in February 2016. All other efficiencies are expected to be delivered.
- 7.5 The working budget includes budgets that have been carried forward from the previous year. These are generally carried forward so that they can be spent for a particular purpose which had been due to happen in 2015/16 but was delayed into 2016/17. As at quarter 2 there are two carry forwards that have been identified as not being required in full or in part for their intended purpose. The 'other minor variances' total in table 2 includes a £13k reduction in forecast spend relating to the carry forward requested by the Planning Control service of £23k to meet legal fees for a public enquiry in June 2016. Actual costs for this totalled £10k. The £32k carry-forward of waste minimisation (AFM funded) expenditure budget is no longer required for the original project planned but has been needed to absorb other pressures within Waste Services that have arisen in 2016/17.
- 7.6 5 key corporate 'financial health' indicators have been identified in relation to key sources of income for the Council. Table 3 below shows the income to date and forecasts for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber or green. A green indicator means that they are forecast to match or exceed the budgeted level of income. An amber indicator means that there is a risk that they will not meet the budgeted level of income. A red indicator means that they will not meet the budgeted level of income. Currently all the indicators are green.

Table 3- Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income to date £k	Forecast income for the year £k	Projected Variance £k
Building Control Fees	Green	(342)	(114)	(342)	0
Planning Application Fees	Green	(600)	(296)	(600)	0
Land Charges	Green	(174)	(96)	(174)	0
Car Parking Fees	Green	(1,616)	(870)	(1,694)	(78)
Parking Penalty Charge Notices	Green	(410)	(242)	(444)	(34)

8. FUNDING, RISK AND GENERAL FUND BALANCE

- 8.1 The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus, Retained Business Rates and Revenue Support Grant. The Council was notified by Central Government in February of the respective amounts of New Homes Bonus and Revenue Support Grant funding it can expect to receive in 2016/17 and has planned accordingly.
- 8.2 Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of others (e.g. County Council). Each organisation has a share of the balance on the Collection Fund account. Both are affected by collection rates, which is the proportion of what is billed that is actually received. Business Rates are heavily affected by appeals and reliefs. Business rates are based on a rateable value that is calculated by the Valuation Office Agency and some businesses have been able to show that this value is incorrect and appeal against it. The amount that is refunded as a result of a successful appeal can go back a number of years. Central Government have implemented a number of reliefs to reduce the burden of business rates and therefore promote business growth. The Council receives compensation for these reliefs in the form of a grant, which goes in to our funds rather than the Collection Fund. We are holding this amount in a reserve.
- 8.3 The deficit incurred on the Collection Fund for 2015/16 was £573k. A contribution to the Collection Fund from the General Fund will be made in 2016/17 to fully cover this deficit. This payment will be funded from the grant held in reserve.
- 8.4 Current forecasts for 2016/17 are that there will be a surplus on our share of Council Tax of approximately £200k and a deficit on Business Rates of around £700k. Use of the amount held in the reserve, currently projected to be £571k at the end of the year, should significantly reduce the impact on the General Fund balance in 2017/18 of the contribution to the Collection Fund to cover the Business Rates deficit recorded for 2016/17.
- 8.5 The Council is also subject to a business rates levy from Central Government as it is expected that NHDC will collect more in business rates than the baseline need determined by Central Government. NHDC remains in the Hertfordshire Business Rate pool for 2016/17 with the expectation that this should reduce the levy amount required. This was the case in 2015/16, with the Council benefiting from a pooling gain of £91k in the form of a reduced levy contribution. Hertfordshire County Council have calculated

the estimated impact in 2016/17 for NHDC from remaining in the Hertfordshire pool to be a pooling gain of approximately **£200k** based on current forecast outturns.

- 8.6 The minimum level of General Fund balance is determined based on known and unknown risks. Known risks are those things that we think could happen and we can forecast both a potential cost if they happen, and percentage likelihood. The notional amount is based on multiplying the cost by the potential likelihood. The notional amount for unknown risks is based on 5% of net expenditure. There is not an actual budget set aside for either of these risk types, so when they occur they are reflected as budget variances (see table 2). We monitor the level of known risks that actually happen, as it highlights whether there might be further variances. This would be likely if a number of risks come to fruition during the early part of the year. We also use this monitoring to inform the assessment of risks in future years. The notional amount calculated at the start of the year for known risks was **£866k**, and as at the second quarter a total of **£265k** of these have come to fruition. The one risk (£211k) realised in the second quarter relates to the restructuring of senior management and is detailed in table 2.

Table 4 – Known financial risks

	£'000
Original allowance for known financial risks	866
Known financial risks realised in quarter 1	(54)
Known financial risks realised in quarter 2	(211)
Remaining allowance for known financial risks	601

- 8.7 Table 5 below summarises the forecast impact on the general fund. The change in the brought forward balance reflects the increase in the revenue underspend between the forecast at period 8 (November) and the actual position at the end of March. Some of this (£398k) is off-set by amounts that have been carried forward in to 2016/17 and therefore is part of the increase in projected net spend.

Table 5- Forecast General Fund impact

	Budget agreed by Council £k	Current Forecast £k	Difference £k
Brought Forward balance (1st April 2016)	(6,216)	(7,085)	(869)
Projected Net Spend	16,553	17,466	913
Funding (Council Tax, Business Rates, RSG)	(16,300)	(16,300)	0
Contribution to Collection Fund	0	0	0
Funding from Reserves (including Business Rate Relief Grant)	0	0	0
Carried Forward balance (31st March 2017)	(5,963)	(5,919)	44

9. LEGAL IMPLICATIONS

- 9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget and to maintain a prudent balance.

10. FINANCIAL IMPLICATIONS

- 10.1 Members have been advised of any variations from the budgets in the body of this report and of any action taken by officers.

11. RISK IMPLICATIONS

- 11.1 As outlined in the body of the report. The process of quarterly monitoring to Cabinet is a control mechanism to help to mitigate the risk of an unplanned overspend of the overall Council budget.

12. EQUALITIES IMPLICATIONS

- 12.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.3 For any individual new revenue investment proposal of £50k or more, or affecting more than two wards, a brief equality analysis is required to be carried out to demonstrate that the authority has taken full account of any negative, or positive, equalities implications; this will take place following agreement of the investment.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12. Any individual award of a public service contract will be evaluated in terms of its social value through the Council's procurement processes.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 Although there are no direct human resource implications at this stage, care is taken to ensure that where efficiency proposals or service reviews may effect staff, appropriate communication and consultation is provided in line with HR policy.

15. APPENDICES

- 15.1 None.

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