

TITLE OF REPORT: FIRST QUARTER REVENUE MONITORING 2015/16

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 General Fund income and expenditure for the period April to June 2015.
- 1.2 This report will highlight significant variances (+/- £25K or +/- 25%) on the working budget with explanations and impact upon next year's base budget.
- 1.3 The report also highlights, with the use of a traffic light system, the position with regard to the carry forward balances and efficiencies approved for the year.
- 1.4 Key items that greatly influence the 'financial health' of the Council are monitored and reported here as key Corporate Health indicators.

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 2015/16 General Fund budget identified in paragraph 8.1, table 1, a £216k increase in net expenditure.
- 2.3 Cabinet is requested to approve the changes to the 2016/17 General Fund budget identified in paragraph 8.1, table 1, a £110k increase in net expenditure.

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 27 February 2015.

7. BACKGROUND

- 7.1 Council approved the General Fund 2015/16 estimates in February 2015 and approved General Fund net expenditure of £16.061million.
- 7.2 In addition to the 2015/16 original budget, Councillors subsequently approved further budget adjustments to a net total of £277k, resulting in a total working budget for 2015/16 of £16.278million. Full details of the adjustments are contained within the respective 2014/15 Third Quarter and Final Outturn revenue monitoring reports and appendices. These were approved at the March and June meetings of Cabinet respectively.

8. ISSUES

Executive Summary

Issue & Relevant Table	Comment
Net general fund expenditure for 2015/16 (Table 1)	Forecast net expenditure at 1 st Qtr is £16.494million. This is a £216k (or 1.3%) increase in the working budget and is £433k (or 2.7%) higher than the original budget.
Budgets Carried Forward from 2014/15 (Table 2)	Of the £464k of carry forward budgets into 2015/16 £139k (30%) has been spent by the end of the first quarter. There are two carry forwards at amber status that may not be spent by the end of the year.
Achievement of Efficiencies (Table 3)	It is expected that the £185k of agreed efficiency proposals will be achieved.
Key Financial Indicators (Table 4)	All five indicators are at green status.
General Fund Reserve Balance (Table 5)	The general fund reserve is now forecast to have a balance of £6.112million at 31 March 2016. This is £4.439million higher than the originally approved minimum balance of £1.673million.
Allowance for financial risks (Table 6)	The budgeted minimum general fund balance of £1.673million included an allowance of £873k for known financial risks. As at the end of the first quarter £381k of these risks had been realised.
Earmarked Reserves (Table 7)	As at 1 April 2015 there was a balance of £4.938million in other useable earmarked reserves. The balance is forecast to be £4.290million at 31 March 2015.

General Fund – Income and Expenditure

- 8.1 The projected expenditure on the General Fund is now estimated to be £16.494million. This is a net increase of £216k on the working budget of £16.278million. The significant changes (+/- £25K or +/- 25% of the working budget) to the General Fund expenditure are detailed in table 1. There is an increase in estimated spend in 2016/17 of £110k as a result of the ongoing impact of the variances reported in 2015/16.

Table 1: Significant changes to the General Fund

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2016/17 Budget £'000
Bank Charges	+81	+150	+69	The introduction of standardised charging methodology across the EU has changed the charges incurred for debit and credit card transactions. The total transaction fee now includes a percentage of the transaction value. With the average NHDC debit card transaction in 2015/16 totalling £136.14, it is estimated that the changes will increase NHDC transaction costs.	+70
Investment Interest	-364	-413	-49	Land sale proceeds in June resulted in a higher level of cash balances. This meant that investments could be placed for longer periods at a better rate of interest.	0
Monitoring Officer Consultant Costs	0	+50	+50	The Monitoring Officer received a complaint regarding the conduct of a Councillor. Due to the nature of the complaint, it was deemed appropriate that an external investigator be appointed. The Chief Finance Officer approved this approach and the Council has a legal duty (under s5 of the Local Govt & Housing Act 1989) to provide the Monitoring Officer with such resources that, in his opinion, are sufficient to allow the duties to be performed. £50k is an estimate at this stage of the final cost. Such investigations were earmarked as a financial risk.	0
Planning Income	-355	-430	-75	An increase in the number of fee-paying applications, including major developments, as compared to recent years, has resulted in the increase in the receipt of fees.	0
Premises Licence Income	-116	-106	+10	A reduction in premises licence income was earmarked as a financial risk. The revised estimate is due to the non-renewal of a major events licence.	+10

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2016/17 Budget £'000
Housing Benefits Overpayments Income	-488	-650	-162	Increased data mapping between HMRC & the DWP has resulted in a large increase in the number of overpayments identified.	0
Overpayments bad debt provision	<u>+100</u>	<u>+421</u>	<u>+321</u>	An increased contribution to the Bad Debt provision was earmarked as a financial risk and is due to a combination of; the increase in overpayments activity over the last two years; the value of debts deemed unrecoverable and written off in this year; the greater proportion of older debt within the age profile of existing debt outstanding due to repayment plans being agreed over a long period of time. A greater percentage is provided for as the age of the outstanding debt increases.	<u>0</u>
Net Cost	-388	-229	+159		0
Council Tax & NNDR Consultants	0	+17	+17	Work was commissioned last year to review properties classified as empty and verify that this status was correct. The benefit from the exercise should be reflected in increased New Homes Bonus, as an empty property brought back into occupation is eligible for this funding. General Fund resource is requested to meet the cost of the activity, of which 20% is being funded by Hertfordshire CC.	0
Other minor variances			+35		+30
Total change in General Fund expenditure			+216		+110

Carry Forward of Budgets from 2014/15 to 2015/16

- 8.2 There was a total of £464k of budgets carried forward from 2014/15 into 2015/16. As at the end of the first quarter £139k of these budgets had been spent.
- 8.3 A condition of carry forwards is that there is a clear plan for spending the budget. The carry forward budgets are given a traffic light code to signify whether there is a problem with spending or completing the project within the timeframe. There are two carry forwards at amber status and the remainder are at green status at the end of June 2015. This indicates there are two carry forward budgets that are still anticipated will be spent but there is a risk this may not be achieved in the normal timeframe.

Table 2 - Progress of carry forward budgets

Carry Forward	Amber / Red	Budget £'000	Projected Variance £'000	Explanation
Strategic Priorities Fund	A	63	0	Approximately £51k of the budget carried forward remains uncommitted. The Senior Management Team are requested to bring forward bids.
Extending boundary of Chiltern Area of Natural Beauty	A	20	0	The decision on whether this work takes place is with Natural England, the application has been submitted by the Chilterns Conservation Board on behalf of NHDC and the Board is waiting to hear their decision on whether the application has been successful. Officers will continue to track progress and engage positively with the Chilterns Conservation Board and Natural England on how this proposal is progressed.

Efficiency Proposals Incorporated in the 2015/16 Budget

8.4 In addition to the £256k of budget scrutiny savings identified, a total of £185k of efficiency proposals were approved within the 2015/16 budget and, as at the end of the first quarter, it is anticipated that these efficiencies will be achieved in this financial year. The efficiencies are summarised in table 3.

Table 3: Summary of all 2015/16 efficiency proposals

	Original Budgeted Saving in 2015/16	Projected Saving as at end of 1 st Qtr	Variance
	£'000	£'000	£'000
Staff structure changes	66	66	0
Premises Costs savings	52	52	0
New website and intranet provider	16	16	0
Other	13	13	0
Sub-total	147	147	0
Increase in parking income following review of tariffs.	29	29	0
Other	9	9	0
Grand Total	185	185	0

Key Corporate 'Financial Health' Indicators

8.5 There are 5 key corporate 'financial health' indicators identified and listed in table 4 below. These indicators reflect specific aspects of the budget which have a significant impact on the overall Council's net budget and are likely to be influenced by changes in the external environment. Activity data of these indicators is maintained on the Council's performance system, Covalent.

Table 4 – Key Corporate ‘Health’ Indicators

Indicator	Original Budget	Working Budget	Actual to date	Projected Variance to Original Budget
	£'000	£'000	£'000	£'000
Building Control Fees – Green	-355	-355	-95	0
Planning Application Fees - Green	-431	-431	-150	-75
Land Charges - Green	-170	-170	-64	0
Car Parking Fees - Green	-1,535	-1,563	-346	-28
Parking Penalty Charge Notices - Green	-410	-410	-126	0

- 8.6 The number of building control fee earning applications are up on the same period last year (241 in 2015/16 compared to 223 in 2014/15), while the number of non-fee earning applications has continued to increase (2,217 in 2015/16 compared to 2,003 in 2014/15). At this early stage in the year the projected income budget has not been adjusted.
- 8.7 The number of development control fee earning applications are also up on the same period last year (432 in 2015/16 compared to 411 in 2014/15) and the number of non-fee earning applications are also higher (322 in 2015/16 compared to 254 in 2014/15). This increase in activity, which includes some applications for major developments, has led to a £75k increase in the level of income anticipated in this financial year.
- 8.8 The number of local land charges searches completed in the first quarter was lower than the same period in the last two years. For example, the number of full residential searches was 488 compared to 576 in 2014/15 and 498 in 2013/14. The amount of income received however is ahead of profile.
- 8.9 The number of car park tickets purchased in car parks in Hitchin in the first quarter is higher than the past two years. Parking activity to date in Letchworth and Royston is lower than 2014/15, though still above the level reported in 2012/13. Actual income receipted to date overall is slightly ahead of profile. The projected variance to original budget reflects the continuing increase in the level of parking fee transactions made using RingGo, as highlighted in the 2014/15 Revenue Outturn report.
Hitchin: 172,738 (167,245 in 2014/15, 163,984 in 2012/13)
Letchworth: 49,532 (55,058 in 2014/15, 52,884 in 2012/13)
Royston: 67,882 (73,714 in 2014/15, 64,057 in 2012/13)
- 8.10 The number of penalty charge notices issued for car parking was 2,927 in the first quarter of 2015/16. This compares to 3,554 in the same quarter of 2014/15 and 3,791 in 2013/14.

General Fund Balances Projected for 2015/16

- 8.11 The revision to the 2015/16 General Fund working budget has increased projected net expenditure by £216k, while £330k has been transferred into the General Fund from the Section 31 Business Rates reserve to fund the Business Rates levy payment to the DCLG. The total net effect is therefore an increase in the projected General Fund balance of £91k.

8.12 Three known financial risks have been realised in the first quarter of 2015/16 resulting in additional unbudgeted expenditure of £381k. These were in respect of costs incurred in the investigation of a complaint, the movement in the Housing Benefit overpayments bad debt provision and a reduction in projected premises license income (further detail and explanation can be found in table 1). A summary of the transactions to the projected year end General Fund balance is shown in table 5 and the realisation of known financial risks is shown in table 6. The projected General Fund balance is in excess of the minimum balance of £1.673million approved by Council in February 2015.

Table 5: Projected General Fund Balances

Projected General Fund Balances	£'000
Balance Brought Forward (1/4/2015)	6,021cr
Projected Net Spend (including precepts)	17,527dr
Precept Receipts & Government Grants	17,288cr
Contribution to/from Special Reserve	0
Contribution to Collection Fund	1,227dr
Section 31 Business Rate Relief Grants	1,632cr
Balance Carried Forward (31/3/2016)	6,112cr

Table 6: Known Financial Risks

	£'000
Original allowance for known financial risks	873cr
Known financial risks realised in quarter 1	381dr
Remaining allowance for known financial risks	492cr

Earmarked Reserves

8.13 The Council has a number of earmarked reserves which can be used to fund revenue expenditure; these are detailed in Table 7. A total of £1.170million is projected to be contributed to the reserves in 2015/16 and a total of £1.818million is expected to be used to fund expenditure. This will leave a projected amount in earmarked reserves at 31 March 2015 of £4.29million.

8.14 The reported reduction in earmarked reserve balances is largely due to a net £522k drawdown from the DCLG grants reserve. This is the section 31 grant from DCLG to fund the extension to the Small Business Rate Relief Scheme. This is used to fund the Council's share of the deficit in the Collection Fund and any levy payments due.

Table 7 – Earmarked Reserves 2015/16

	Balance at 1 April 2015	Contributions	Payments to Fund expenditure	Balance at 31 March 2016
	£'000	£'000	£'000	£'000
Cemetery Mausoleum	103cr	16cr	0	119cr
Children's Services	13cr	0	0	13cr
Climate Change Grant	49cr	0	4dr	45cr
Community Development	1cr	0	0	1cr
Community Right to Bid	45cr	0	0	45cr
DCLG Grants	1,045cr	1,087cr	1,609dr	523cr
DWP Additional Grants	42cr	0	11dr	31cr
Environmental Warranty Reserve	209cr	0	0	209cr
Growth Area Fund	53cr	0	0	53cr
Homelessness	22cr	0	0	22cr
Housing Planning Delivery Reserve	259cr	0	0	259cr
Information Technology Reserve	152cr	0	0	152cr
Insurance Reserve	38cr	0	0	38cr
Leisure Management Reserve	69cr	20cr	0	89cr
Local Authority Mortgage Scheme	56cr	0	0	56cr
Museum Exhibits Reserve	13cr	0	0	13cr
Neighbourhood Plan Reserve	40cr	15cr	0	55cr
Office Move IT Works	7cr	0	0	7cr
Paintings Conservation	15cr	0	0	15cr
Performance Reward Grant Reserve	50cr	0	22dr	28cr
Personal Search Fees	185cr	0	140dr	45cr
Property Maintenance	58cr	10cr	15dr	53cr
S106 Monitoring	95cr	3cr	16cr	82cr
Special Reserve	1,720cr	0	0	1,720cr
Street Furniture	3cr	0	0	3cr
Taxi Licences Reserve	2cr	0	0	2cr
Town Centre Maintenance	37cr	0	1dr	36cr
Town Wide Review	169cr	0	0	169cr
Waste Reserve	387cr	19cr	0	406cr
Total Revenue Reserves	4,938cr	1,170cr	1,818dr	4,290cr

Funding of Net Expenditure

- 8.15 The Council's General Fund net expenditure is funded by the Council Tax precept, Revenue Support Grant, New Homes Bonus and the retained Business Rates. These are budgeted as follows:

Funding Source	2015/16 Working Estimate £'000	%
Revenue Support Grant	1,923	12%
Retained Business Rates	2,144	13%
New Homes Bonus	2,401	15%
Council Tax Precept	9,854	60%
Total Funding	16,322	100%

- 8.16 The Revenue Support Grant and New Homes Bonus received should be consistent with the numbers above and should not change during the year. However, funding from Council Tax and Business Rates is dependent on the overall collection rates and in the case of Business Rates is dependent on the amount of appeals that are ultimately successful. Council Tax and Business Rates are accounted for separately in the Collection Fund. The Council had a £1.3million share of the Collection Fund deficit position at the 31 March 2015 and there will be a contribution of £1.3million from the General Fund to the Collection Fund in 2015/16 to make good this deficit.
- 8.17 Over the past year the Government has announced a number of business rate relief measures and has announced that compensation will be provided to local authorities for the loss of income. This compensation will come in the form of a section 31 grant and will be payable direct to the General Fund, rather than into the Collection Fund. The Council received a section 31 grant of £647k in 2014/15 in compensation for the small business rate relief scheme. £153k of this was used to offset the levy payment that was due to the DCLG in 2014/15. The remaining £494k was transferred to an earmarked reserve. The current total in the S31 Grant reserve is £940k. The Council will receive a further £854k in 2015/16 for the following measures:
- 2% cap in the inflation increase for 2015/16
 - Doubling of small business rate relief
 - Relief provided to retail properties
- The S31 Grants will fund the Collection Fund deficit and any levy payments due in 2015/16. The remainder will be transferred to an earmarked reserve to help fund the 2015/16 deficit on the Collection Fund.
- 8.17 In 2015/16 North Herts has joined a Business Rates Pool along with four other Herts District and Borough councils and Herts County Council. This will have an impact on the amount of levy payment North Herts would be required to pay to the DCLG. A levy payment is due because the collection of Business Rates in 2015/16 is estimated to be higher than the baseline need. It would ordinarily be necessary to pay a levy of 50% to Government for every additional £1 collected. The levy at Quarter One would equate to approximately £307,000. However as North Herts is now part of the Business Rates Pool, the actual amount of levy payable will be much lower. Herts County Council, as pool lead, is due to give an estimate of the amount of levy due.
- 8.18 The Collection Fund is anticipated to move further into deficit in relation to Business Rates in 2015/16, mainly as a result of successful appeals. However, the Collection Fund is anticipated to move further into surplus in relation to Council Tax. This is demonstrated in table 8 below. After the payment of a levy and receipt of the S31 grant is considered the Council will have retained a net total of £2.144million of business rates in the General Fund in 2015/16.

Table 8: Collection Fund Monitoring

	Business Rates		Council Tax	
	2014/15	2015/16	2014/15	2015/16
Collection Rate of in year debt	31.75%	30.93%	29.61%	29.59%
Forecast year end share of (Surplus) / Deficit	£1,302,000	£700,000	(£75,000)	(£90,000)
Net Retained Business Rates in the General Fund	£2,408,000	£2,144,000		

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.
- 10.2 The projected general fund balance of £4.597million meets the recommended minimum balance of General Fund reserves agreed when the budget was set and is consistent with the planned intention to increase balances in the short term in order to allow a lead in time for the delivery of projects needed to balance the budget over the medium to longer term. The minimum balance for 2014/15 contains a 5% tolerance on original net expenditure for unknown risks and an allowance of £1.2million for identified key financial risks which had a total potential risk value of £6.2million.

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 against 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 Appendix A - General Fund Summary.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

- 17.1 Estimate Book 2015/16.
17.2 Statement of Accounts 2014/15.