

TITLE OF REPORT: SECOND QUARTER REVENUE MONITORING 2015/16

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE
PORTFOLIO HOLDER: 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 July to September 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 £8k 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 £205k 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 12 August 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 £217k, 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.
- 7.3 At 1st Qtr the projected net expenditure on the General Fund was estimated to be £16.494million, this was a net increase on the working budget of £216k. A £110k increase to the base budget for 2016/17 was also reported.
- 7.4 Subsequent to the approval of the working budget at first quarter, a further adjustment to the working budget has been made to incorporate Council approval of provision for a total of £70k revenue costs in relation to the Churchgate project. Expenditure provision of £40k was approved at full council on the 12th February 2015 and an additional £30k was approved at full council on the 16th July 2015. This increased the working budget to £16.564million.

8. ISSUES

Executive Summary

Issue & Relevant Table	Comment
Net general fund expenditure for 2015/16 (Table 1)	Forecast net expenditure at 2nd Qtr is £16.572million. This is a £8k (or 0.05%) increase in the working budget and is £511k (or 3.2%) higher than the original budget.
Budgets Carried Forward from 2014/15 (Table 2)	Of the £464k of carry forward budgets into 2015/16 £161k (35%) has been spent by the end of the second quarter. There are three 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 £6.034million at 31 March 2016. This is £4.361million higher than the originally approved minimum balance of £1.673million, although remains within the limits set in the MTFS.

Issue & Relevant Table	Comment
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 second quarter £403k 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 £4.438million at 31 March 2015.

General Fund – Income and Expenditure

- 8.1 The projected expenditure on the General Fund is now estimated to be £16.572million. This is a net increase of £8k on the working budget of £16.564million. 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 £205k 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
Parking Services:					
Off-street Car Parking charges	-1,563	-1,632	-69	The increase in the projected budget for parking charge income is due to the level of activity being greater than that assumed in the budget. The parking tariff structure changes introduced in January 2015 and later increases to the Long Stay Car Park Tariffs in May 2015 have contributed to increased income receipts for pay and display parking, with an increase in revenue of 13% compared to sales between April and September 2014.	
Penalty Charge Notices	-410	-448	-38	Estimated PCN income has increased to reflect greater than budgeted income levels recorded in the first half of 2015/16. .	
Residents Parking Permits	-133	-150	-17	The Introduction of a Controlled Parking Zone in Knebworth at the beginning of April has contributed to the rise in sales.	
Car Park Season Tickets	-223	-250	-27	Car park season ticket income has increased due to both an increase in the total number of season tickets sold and a change in the profile of sales recorded, with longer period (6month and annual) tickets representing a greater percentage of tickets sold.	

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2016/17 Budget £'000
Total Parking Income	-2,329	-2,480	-151	Increases to tariffs for pay and display parking have enhanced the possible saving from purchasing a car season ticket and is likely to explain the apparent trend in sales.	
Recycling:					
Comingled Dry Recyclates – processing costs	+106	+181	+75	Notification has been received from the consortium that the contractor is to introduce a temporary gate fee of £15 per tonne from the 20 th September for NHDC comingled materials. The combination of both falling market prices, due to the slowdown in global demand, and the cost of complying with Material Recovery Facility legislation recently introduced, has squeezed the margin for the contractor appointed to transport and dispose of NHDC recyclates. Officers are actively negotiating with the contractor and are exploring all options. While the gate fee is temporary the downturn in market prices is considered to be longer term, so the gate fee is likely to remain for the next year. Further increases in costs of processing and disposal have been identified as a financial risk going forward in 2016/17.	+145
Comingled Dry Recyclates – Sales Income	-134	-39	+95		+134
Total	-28	+142	+170		+279
Homelessness:					
Temporary Accommodation	+100	+200	+100	Budget increased by £100k as the use of B&B accommodation by the Council to house homeless households continues, primarily due to difficulties in accessing the private rented sector. This increase arises as a result of the impact on Housing Benefit payments. There is a cap on the amount of subsidy that can be claimed back and overall there is a £100k shortfall.	
Planning Control:					
Legal Fees	+1	+23	+22	The increase in legal fees primarily arose as a result of the Secretary of State calling in two solar farm applications; these costs are covered by a financial risk.	

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2016/17 Budget £'000
Planning Fees	-506	-556	-50	Increase in planning fees through the receipt of major applications. The budget for 2016/17 is proposed to be increased and has been shown in the budget estimates as a budget scrutiny saving.	
Total	-505	-533	-28		
Highways Grounds Maintenance Contract	+283	+254	-29	Underspend on Grounds Maintenance Contract for the delivery of maintenance to highway verges under the existing agency agreement. This underspend is a consequence of increased contributions from HCC following the recent negotiation of the current agreement.	-29
Document Centre					
MFD Rental and Service	+27	+19	-8	The projected underspends follow the further 12 month extension of the contract for the existing fleet of corporate and print room copiers and the continuation of discounts previously negotiated with the supplier.	
Photocopying equipment leasing	+32	+20	-12		
Total	+59	+39	-20		
Careline Surplus	-83	-65	+17	Careline projected surplus has reduced to £65k. The general fund gave a temporary loan to Careline for additional resources which needed to be paid back once surpluses were generated.	
Other minor variances			-51		-45
Total change in General Fund expenditure			+8		+205

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 second quarter £161k 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 three carry forwards at amber status and the remainder are at green status at the end of September 2015. This indicates there are three 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	The entire budget carried forward is committed to projects; however some of the projects such as scanning projects will not be completed until 2016/17.
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.
E Billing Software	A	5	0	E billing cannot move forward until the mail project outcome is decided. Hybrid Mail options are still being explored, therefore there is a possibility that this project may not be completed until 2016/17.

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 second quarter, the efficiencies have been overachieved by £69k due to overachievement of off street car parking charges income. 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 2 nd 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	98	69
Other	9	9	0
Grand Total	185	254	69

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	-192	0
Planning Application Fees - Green	-431	-506	-321	-125
Land Charges - Green	-170	-170	-120	0
Car Parking Fees – Green	-1,535	-1,563	-826	-97
Parking Penalty Charge Notices – Green	-410	-410	-226	-37

- 8.6 The number of building control fee earning applications are up on the same period last year (442 in 2015/16 compared to 435 in 2014/15), while the number of non-fee earning applications has decreased (4,108 in 2015/16 compared to 4,142 in 2014/15). The amount of income received is still slightly ahead of profile.
- 8.7 The number of development control fee earning applications are also up on the same period last year (810 in 2015/16 compared to 791 in 2014/15) and the number of non-fee earning applications are also higher (624 in 2015/16 compared to 544 in 2014/15). This increase in activity, which includes some applications for major developments, has led to a £125k increase in the level of income anticipated in this financial year.
- 8.8 The number of residential searches completed in the second quarter was lower than the same period in the last two years. (970 compared to 1,032 in 2014/15 and 990 in 2013/14). The other types of searches are slightly up from 2014/15. The amount of income received is ahead of profile.
- 8.9 The number of car park tickets purchased in car parks in Hitchin in the second quarter is higher than the past two years. Parking activity to date in Letchworth and Royston is lower than 2014/15, though for Royston still above the level reported in 2013/14.
Hitchin: 357,032(346,509 in 2014/15, 332,778 in 2013/14)
Letchworth: 100,411 (111,778 in 2014/15, 111,706 in 2013/14)
Royston: 138,884 (148,708 in 2014/15, 135,568 in 2013/14)
Actual income receipted to date overall is ahead of profile. The projected variance to original budget reflects the continuing increase in the total value of parking fee transactions
- 8.10 The number of penalty charge notices issued for car parking was 6,113 in the second quarter of 2015/16. This compares to 7,199 in the same quarter of 2014/15 and 7,619 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 £8k to a £157k deficit, while £169k has been transferred into the General Fund from the Section 31 Business Rates reserve to fund the Business Rates levy payment to HCC. The total net effect is therefore an increase in the projected General Fund balance of £12k.

- 8.12 One of the known financial risks has been realised in the second quarter of 2015/16 resulting in additional expenditure of £22k. This was in respect of legal costs incurred due to the Secretary of State calling in Solar farm planning applications. 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 are 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. For information, it is also consistent with the limits that will apply for 2016/17, i.e. revised minimum of £1.719million approved by Council in September 2015, when considering the Medium Term Financial Strategy. The MTFS (Reserves Policy) for 2016/17 onwards also established a maximum level that GF balances would not be expected to exceed, i.e. £6.494million.

Table 5: Projected General Fund Balances

Projected General Fund Balances	£'000
Balance Brought Forward (1/4/2015)	6,021cr
Projected Net Spend (including precepts)	17,605dr
Precept Receipts & Government Grants	17,449cr
Contribution to/from Special Reserve	0
Contribution to Collection Fund	1,301dr
Section 31 Business Rate Relief Grants	1,470cr
Balance Carried Forward (31/3/2016)	6,034cr

Table 6: Known Financial Risks

	£'000
Original allowance for known financial risks	873cr
Known financial risks realised in quarter 1	381dr
Known financial risks realised in quarter 2	22dr
Remaining allowance for known financial risks	470cr

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 £1.203million is projected to be contributed to the reserves in 2015/16 and a total of £1.703million is expected to be used to fund expenditure. This will leave a projected amount in earmarked reserves at 31 March 2015 of £4.437million.
- 8.14 The reported reduction in earmarked reserve balances is largely due to a net £423k 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	7dr	6cr
Climate Change Grant	49cr	0	20dr	29cr
Community Development	1cr	0	0	1cr
Community Right to Bid	45cr	0	0	45cr
DCLG Grants	1,045cr	879cr	1,302dr	622cr
DWP Additional Grants	42cr	29cr	61dr	10cr
Environmental Warranty Reserve	209cr	0	0	209cr
Growth Area Fund	53cr	0	0	53cr
Homelessness	22cr	0	22dr	0
Housing Planning Delivery Reserve	259cr	129cr	0	388cr
Information Technology Reserve	152cr	0	70dr	82cr
Insurance Reserve	38cr	0	0	38cr
Leisure Management Reserve	69cr	20cr	0	89cr
Local Authority Mortgage Scheme	56cr	25cr	0	81cr
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	42dr	8cr
Personal Search Fees	185cr	0	140dr	45cr
Property Maintenance	58cr	10cr	15dr	53cr
S106 Monitoring	95cr	4cr	16cr	83cr
Special Reserve	1,720cr	0	0	1,720cr
Street Furniture	3cr	4cr	1dr	6cr
Taxi Licences Reserve	2cr	0	0	2cr
Town Centre Maintenance	37cr	8cr	7dr	38cr
Town Wide Review	169cr	45cr	0	214cr
Waste Reserve	387cr	19cr	0	406cr
Total Revenue Reserves	4,938cr	1,203cr	1,703dr	4,438cr

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	2,305	13%
New Homes Bonus	2,401	15%
Council Tax Precept	9,854	60%
Total Funding	16,483	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 has been 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 current total in the S31 Grant reserve is £65k, after funding the £1.3million collection fund deficit. The Council will receive a further £427k 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 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.
- 8.18 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. Legislation required that, for any appeal to be backdated it had to be lodged by 31st March 2015 and this led to a spike in appeals received. The appeals provision was also increased for 2015/16 in anticipation of this to cover the backdated appeal. However reduction in rateable value going forward in 2015/16 onwards, as a result of a successful appeal, is a hit to business rates income. 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 £2.305million 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	56.63%	56.48%	57.88%	57.49%
Forecast year end share of (Surplus) / Deficit	£1,302,000	£291,000	(£75,000)	(£160,000)
Net Retained Business Rates in the General Fund	£2,408,000	£2,305,000		

- 8.19 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. However by the authorities pooling their income together, the amount of levy that would need to be paid is reduced. The levy at second quarter would equate to approximately £369,000. However this will be offset by the pooling gain, which Herts County Council as pool lead, has estimated at £200k to North Herts. So the total net levy would be £169k. The impact of this is that £200k of

S31 grant does not need to be drawn down from the reserve, and therefore there is a greater amount in the reserve to cover any future deficits in the collection fund. It would not impact therefore on the general fund.

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 £6.034million 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 2015/16 contains a 5% tolerance on original net expenditure for unknown risks and an allowance of £873k for identified key financial risks which had a total potential risk value of £5.7million.

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 militate 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