*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 13

TITLE OF REPORT: FIRST 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 first quarter (30 June 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 **£122k** from the working budget, with an expected impact on next year's budget (2017/18) of **£77k**. There are **6** budget areas with significant variances. The three most significant variances relate to:

- North Herts Leisure Centre- the delay in completion of the capital works means that the increased revenue income from the learner pool will also be delayed **£78k**
- An increase in the levy that we are required to pay in relation to Municipal Mutual Insurance **£52k**
- Increased interest income from investments that is mainly due to investing for longer periods and the corresponding higher interest rate that is received **(£55k)**

1.2 In general under or over delivery of efficiencies will be picked up by any budget variances (as above). Where there are off-setting variances within a budget area that means that this is not clear, then these will be separately highlighted. There are currently no budget areas where this is the case (**paragraph 7.3**).

1.3 Carry-forwards are incorporated in to the working budget. Any known under or over usage of carry-forwards should therefore be picked up as part of any budget variances.

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 **£122k 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 **£77k increase** in net expenditure. These will be incorporated in to 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 13 May 2016.

7. REVENUE INCOME AND EXPENDITURE FORECASTS

7.1 Council approved the revenue budget in February of **£16,553k**. Table 1 below details changes to this budget to get to the current working budget:

Table 1- Current working budget

	£k
Original approved budget	16,553
Quarter 1 2015/16 Revenue Monitor - 2016/17 bank charges budget adjustment approved by Cabinet (September 2015)	70
Quarter 3 2015/16 Revenue Monitor- 2016/17 budget changes approved by Cabinet (March 2016)	295
Quarter 4 2015/16 Revenue Monitor- 2016/17 budget changes approved by Cabinet (July 2016)	225
Quarter 4 2015/16 Revenue Monitor- transfer of underspend in to the Strategic Priorities fund (July 2016)	44
North Hertfordshire Leisure Centre (NHLC) Capital Project Report – approved by Full Council 21st January 2016	138
Current working budget	**17,325**

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
Investment Interest	(372)	(427)	(55)	Three long-term investment deals were placed in the first quarter. Also higher than expected balances available for investment.	0
North Herts Leisure Centre	(680)	(602)	78	The delay in the completion of the North Herts Leisure Centre Capital project will result in the additional income from the Learner Pool not being received until the end of June 2017. Stevenage Leisure Limited has agreed to make a contribution towards the impact of this delay that is made up of a fixed amount and an element of profit share. The amount of this contribution needs to be determined and then a decision made as to whether it will be applied to revenue or capital costs.	46
Insurance Premiums	125	177	52	Levy payment in relation to Municipal Mutual Insurance. This took the levy up to 25%. This was highlighted in the financial risks for 2016/17.	0
Legal agency staff	17	34	17	Temporary member of staff has been recruited whilst the contracts lawyer is dedicated to the procurement of the new waste contract.	0
Homelessness - Payments for temporary accommodation	0	20	20	Forecast of £100k for B&B usage. £80k of this will be covered by Housing Benefit income.	0
Careline-Transfer of Total Surplus/Deficit from trading account	(66)	(49)	17	The adjustment to the original projection for 2016/17 reflects the impact on the trading position of the approved staff restructure implemented in April.	0
Total of explained variances	**(976)**	**(847)**	**129**		**46**
Other minor variances	18,301	18,294	(7)		31
Overall total	**17,325**	**17,447**	**122**		**77**

7.3 Cabinet are asked to approve the differences highlighted in the table above (a **£122k 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 **£77k increase** 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 been 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 all efficiencies will be fully 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. Any variance on any carry-forwards would be picked up in table 2. More detailed analysis of the position on carry-forwards will be provided at mid-year (quarter 2).

7.6 5 key corporate 'financial health' indicators have been identified in relation to key sources of income for the Council. Table 4 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)	(77)	(342)	0
Planning Application Fees	Green	(600)	(104)	(600)	0
Land Charges	Green	(174)	(57)	(174)	0
Car Parking Fees	Green	(1,616)	(402)	(1,616)	0
Parking Penalty Charge Notices	Green	(410)	(93)	(410)	0

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 small surplus on our share of Council Tax and a deficit on Business Rates. However we will again use the amount held in the reserve to fund this deficit so there will not be an impact on the General Fund balance.

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. The estimated impact in 2016/17 from remaining in the Hertfordshire pool will be better known at quarter 2.

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 first quarter **£54k** of these have come to fruition. The risk around the MMI levy is detailed in table 2, and there were also £2k of costs in relation to traveller evictions. This is not a significant variation from expectations.

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 are 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)	**(6,201)**	**(7,085)**	**(884)**
Projected Net Spend	16,553	17,447	894
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)	**(5,948)**	**(6,076)**	**(10)**

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 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 None.

16. CONTACT OFFICERS

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