

**TITLE OF REPORT: THIRD 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 third quarter (31 December 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 **£270k increase** from the working budget in 2016/17, requests to carry forward budget totalling **£197k** to fund specific projects in 2017/18 and an ongoing impact in future years of **£3k**. There are several budget areas with significant variances. The two most significant variances relate to;
- The lower level of housing benefit overpayments identified in this year and the difficulty in recovering outstanding debt from large benefit overpayment invoices raised in recent years. **£330k**
  - The transfer of the building control service to the new trading company, including compensation for the value of work outstanding at the time of the transfer. **£159k**
- 1.2 In general under or over delivery of efficiencies will be picked up by any budget variances (as above). There is no change in the position as reported at Q2, with total efficiencies delivered in 2016/17 expected to exceed the original estimate by £25k (**paragraph 7.4**).
- 1.3 Carry-forwards are incorporated in the working budget total. As at the end of December, there are five carry forwards that have been identified as not being required in full or in part for their intended purpose in this financial year. (**paragraph 7.5**).
- 1.4 4 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 **£270k increase** in net expenditure.
- 2.3 Cabinet is requested to approve the changes to the 2017/18 General Fund budget identified in **table 2** and **paragraph 7.3**, a **£200k 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 17 October 2016.

### 7. REVENUE INCOME AND EXPENDITURE FORECASTS

- 7.1 Council approved the revenue budget in February 2016 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**

|                                                                                                              | <b>£k</b>     |
|--------------------------------------------------------------------------------------------------------------|---------------|
| Quarter 1 working budget                                                                                     | 17,325        |
| Quarter 1 2016/17 Revenue Monitor - variances approved by Cabinet                                            | 122           |
| Quarter 2 2016/17 Revenue Monitor - variances approved by Cabinet                                            | 19            |
| High level revenue monitoring included in 2017/18 budget report – variances approved by cabinet January 2017 | (468)         |
| <b>Current working budget</b>                                                                                | <b>16,998</b> |

- 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 columns details if a carry forward into 2017/18 is requested and the impact on base budget for next year:

**Table 2- Summary of forecast variances**

| Budget Area                                                | Budget<br>£k | Forecast<br>£k | Variance<br>£k | Reason for difference                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Carry-<br>forward<br>requested<br>£k | 2017/18<br>Impact<br>£k |
|------------------------------------------------------------|--------------|----------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------|
| <b>Revenues &amp; Benefits</b>                             |              |                |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                      |                         |
| Benefits Overpayments – Contribution to Bad Debt Provision | 100          | 300            | 200            | The initial impact of the introduction in October 2014 of bulk data matching between HMRC & the DWP, known as the Real Time Initiative (RTI), was a significant increase in the number of invoices raised for large benefit overpayments, as previously unknown income streams undeclared by claimants were identified. With 16/17 being year 3 of the initiative, the number of large overpayments identified from each tranche of data analysed has reduced. The estimated contribution to the corresponding bad debt provision has increased as the debts identified through RTI are often large and difficult to recover, while the use of re-payment plans means that debt raised is being recovered over a longer period of time. This has increased the proportion of older debt, of which a greater percentage is provided for. | 0                                    | 0                       |
| Benefits Overpayments Income                               | (488)        | (358)          | 130            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 0                                    | 0                       |
| <b>Total</b>                                               | <b>(388)</b> | <b>(58)</b>    | <b>330</b>     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>0</b>                             | <b>0</b>                |
| Commercial Properties Rental Income                        | (536)        | (568)          | (32)           | Increase in income follows rent reviews undertaken. The reported variance is additional to the target of £52k growth in this income stream, which has already been achieved this year.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 0                                    | (20)                    |
| Revenues & Benefits NNDR analysis                          | 82           | 50             | (32)           | This expenditure, a third of which is being funded by HCC, relates to specialist software that identifies businesses that are not paying the correct level of NNDR. The Council is invoiced by the developer each time an adjustment to the rate charged is identified through the software. The number of discrepancies identified has reduced significantly in 2016/17 compared to 2015/16, when the software was first employed.                                                                                                                                                                                                                                                                                                                                                                                                     | 0                                    | 0                       |
| Hitchin Town Hall Hall and Room Lettings                   | (74)         | (33)           | 41             | The delayed opening of the Café and Museum has contributed to the lower than expected income from the facility in this year. The opening of the museum and café was expected to increase the footfall around the facility and so help in raising awareness of what services and activities are available. Lower than expected income from the facility was identified as a financial risk in 2016/17.                                                                                                                                                                                                                                                                                                                                                                                                                                   | 0                                    | 0                       |
| On Street Parking Lines and Signs                          | 76           | 34             | (42)           | Progress in commissioning works identified from the lines and signs audit has not been as expected this year due to the long term absence of the officer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | 42                                   | 0                       |

| Budget Area                                                | Budget<br>£k | Forecast<br>£k | Variance<br>£k | Reason for difference                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Carry-<br>forward<br>requested<br>£k | 2017/18<br>Impact<br>£k |
|------------------------------------------------------------|--------------|----------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------|
|                                                            |              |                |                | responsible and other staff resources in the Strategic Planning Team being focused on progressing the Local Plan. It is therefore requested to carry this resource forward into next year to fund the works that remain.                                                                                                                                                                                                                                                                           |                                      |                         |
| Building Control<br>IT Procurement                         | 50           | 30             | (20)           | Following a successful migration by one authority, the migration of the 6 remaining authorities onto the single IT platform has commenced. NHDC's building control service migration aims to be complete by May 2017. A carry forward of £20k is requested to facilitate the migration.                                                                                                                                                                                                            | 20                                   | 0                       |
| Building Control<br>Transfer to<br>Trading<br>Company      | (52)         | 107            | 159            | Adjustment to forecast follows the review of current year budgets in light of the finalising of arrangements in relation to the new building control company, Broste LA7 Ltd. The forecast includes the transfer of £120k to the building control company for the completion of work outstanding at the time the service was transferred. The Council would have received payment for this work upfront from the client. The estimated impact has already been incorporated in the 2017/18 budget. | 0                                    | 0                       |
| Careline<br>Marketing<br>Expenditure                       | 19           | 9              | (10)           | The redevelopment of the Herts Careline website was scheduled to take place in Qtr. 4 of 2016/17. However, this has been delayed until Qtr. 1 of 2017/18 in order to reflect the emergent Hertfordshire County Council Assistive Technology Strategy, which is expected to be ratified by HCC in April 2017                                                                                                                                                                                        | 10                                   | 0                       |
| Planning &<br>Policy<br>Economic<br>Development<br>Officer | 61           | 9              | (52)           | The Council appointed its Economic Development officer on 1 <sup>st</sup> December 2016. The requested carry forward, together with drawdown from the earmarked reserve, will be used to continue to fund this post to deliver the adopted Economic Development Action Plan.                                                                                                                                                                                                                       | 52                                   | 0                       |
| Churchgate<br>Development                                  | 53           | 0              | (53)           | The budget has not been called upon in this year but it is requested to be carried forward into 2018/19, as the Council remains willing to consider new proposals for the site.                                                                                                                                                                                                                                                                                                                    | 53                                   | 0                       |
| Running costs<br>of new Storage<br>Unit facility           | 0            | 23             | 23             | The forecast reflects the ongoing cost of the communications link, fire protection, air conditioning and UPS maintenance at the new facility. The equipment at the new premises was previously based at Town Lodge. The move to Works Road will therefore facilitate the complete vacation of the Town Lodge building when the                                                                                                                                                                     | 0                                    | 23                      |

| Budget Area                         | Budget<br>£k  | Forecast<br>£k | Variance<br>£k | Reason for difference                                                                                                                                                                                                                                                                                             | Carry-<br>forward<br>requested<br>£k | 2017/18<br>Impact<br>£k |
|-------------------------------------|---------------|----------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------|
|                                     |               |                |                | refurbishment of the DCO is complete.                                                                                                                                                                                                                                                                             |                                      |                         |
| Document Management Scanning        | 147           | 127            | (20)           | The back scanning of legal title deeds is almost complete, with the last batch of legal deeds to be digitally archived before the end of the financial year. The carry forward requested is to fund the digitalisation of historic contract documentation, which is due to be sent for scanning in April and May. | 20                                   | 0                       |
| <b>Total of explained variances</b> | <b>(562)</b>  | <b>(270)</b>   | <b>292</b>     |                                                                                                                                                                                                                                                                                                                   | <b>197</b>                           | <b>3</b>                |
| Other minor variances               | 17,560        | 17,538         | (22)           |                                                                                                                                                                                                                                                                                                                   | 0                                    | 0                       |
| <b>Overall total</b>                | <b>16,998</b> | <b>17,268</b>  | <b>270</b>     |                                                                                                                                                                                                                                                                                                                   | <b>197</b>                           | <b>3</b>                |

- 7.3 Cabinet are asked to approve the differences highlighted in the table above, a **£270k increase** in spend, as an adjustment to the working budget for 2016/17 (recommendation 2.1). Cabinet are asked to approve the estimated impact on the 2017/18 budget, a **£200k increase** in budget (recommendation 2.2), which includes the request to carry forward £197k of budgets from 2016/17 to 2017/18 for projects that are not expected to be completed by the end of the financial year
- 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 reported at quarter 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. At quarter 3 there are five carry forwards identified as not being required in full or in part for their intended purpose in 2016/17. The five carry forwards relate to; the Churchgate Development; the Economic Development Officer appointment; On Street Parking Lines and Signs; the Building Control IT procurement; the Document Scanning project; all the variances are detailed and explained in table 2. All five carry forward budgets are requested to be carried forward, in part or in full, into 2017/18 as the projects have not been completed in 2016/17.

- 7.6 There are 4 key corporate 'financial health' indicators 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**

| <b>Indicator</b>               | <b>Status</b> | <b>Original Budget<br/>£k</b> | <b>Actual income to date<br/>£k</b> | <b>Forecast income for the year<br/>£k</b> | <b>Projected Variance<br/>£k</b> |
|--------------------------------|---------------|-------------------------------|-------------------------------------|--------------------------------------------|----------------------------------|
| Planning Application Fees      | Green         | (600)                         | (497)                               | (600)                                      | 0                                |
| Land Charges                   | Green         | (174)                         | (136)                               | (174)                                      | 0                                |
| Car Parking Fees               | Green         | (1,616)                       | (1,317)                             | (1,707)                                    | (92)                             |
| Parking Penalty Charge Notices | Green         | (410)                         | (384)                               | (452)                                      | (42)                             |

## **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 £650k. 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. The most recent estimate from Hertfordshire County Council calculated the estimated impact in 2016/17 for NHDC from remaining in the Hertfordshire pool at that time to be a pooling gain of approximately £200k. An updated assessment, following the submission to Central Government of Collection Fund estimates, is expected to be circulated shortly.
- 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 third quarter a total of **£327k** of these have come to fruition. The two risks realised in the third quarter relate to;
- Lower than anticipated income from Hitchin Town Hall increasing the net cost of the facility (as detailed in table 2). £41k
  - Lower than budgeted income from waste paper recyclables due to a decrease in collected tonnages (included within other minor variances total in table 2). Total tonnage collected in the year to date is 3% lower than the previous year. £21k

**Table 4 – Known financial risks**

|                                                      | £'000      |
|------------------------------------------------------|------------|
| <b>Original allowance for known financial risks</b>  | <b>866</b> |
| Known financial risks realised in quarter 1          | (54)       |
| Known financial risks realised in quarter 2          | (211)      |
| Known financial risks realised in quarter 3          | (62)       |
| <b>Remaining allowance for known financial risks</b> | <b>539</b> |

- 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**

|                                                              | <b>Budget<br/>agreed by<br/>Council<br/>£k</b> | <b>Current<br/>Forecast<br/>£k</b> | <b>Difference<br/>£k</b> |
|--------------------------------------------------------------|------------------------------------------------|------------------------------------|--------------------------|
| <b>Brought Forward balance (1<sup>st</sup> April 2016)</b>   | <b>(6,216)</b>                                 | <b>(7,085)</b>                     | <b>(869)</b>             |
| Projected Net Spend                                          | 16,553                                         | 17,268                             | 715                      |
| Funding (Council Tax, Business Rates, RSG)                   | (16,300)                                       | (16,300)                           | 0                        |
| Contribution to Collection Fund                              | 0                                              | 573                                | 573                      |
| Funding from Reserves (including Business Rate Relief Grant) | 0                                              | (573)                              | (573)                    |
| <b>Carried Forward balance (31<sup>st</sup> March 2017)</b>  | <b>(5,963)</b>                                 | <b>(6,117)</b>                     | <b>(154)</b>             |

## **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.

### **16. CONTACT OFFICERS**

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