CABINET
24 MARCH 2020

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: THIRD QUARTER REVENUE MONITORING 2019/20

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

NEW COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

1.1. The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure forecasts for financial year 2019/20, as at the end of the third quarter. The forecast variance is a £262k decrease on the net working budget of £15.083million for 2019/20, with an ongoing impact in future years of a £33k increase and requests to carry forward budget totalling £254k to fund specific projects in 2020/21. Within these summary totals there are several budget areas with more significant variances, which are detailed and explained in table 3. The report also provides an update on;
- the progress with the delivery of planned efficiencies (paragraph 8.3)
- the use of budget approved to be carried forward from 2018/19 (paragraph 8.4)
- performance against the four key corporate 'financial health' indicators (paras 8.5-8.7)
- the overall forecast funding position for the Council and factors that may affect this (paras 8.8 - 8.13)

2. RECOMMENDATIONS

2.1. That Cabinet note this report.

2.2. That Cabinet approves the changes to the 2019/20 General Fund budget, as identified in table 3 and paragraph 8.2, a £262k decrease in net expenditure.

2.3. That Cabinet approves the changes to the 2020/21 General Fund budget, as identified in table 3 and paragraph 8.2, a £287k increase in net expenditure (ongoing + Carry Forwards).

3. REASONS FOR RECOMMENDATIONS

3.1. Members are able to monitor, make adjustments within the overall budgetary framework and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1. Budget holders have considered the options to manage 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 report 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. The report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 6th December 2019.

7. BACKGROUND

7.1. Council approved the revenue budget for 2019/20 of £15.251million in February 2019. As at quarter 3 the working budget has decreased to £15.083million. Table 1 below details the approved changes to this budget to get to the current working budget:

Table 1 - Current Working Budget

	£k
Original approved budget for 2019/20	15,251
Quarter 3 2018/19 Revenue Monitoring report – 2019/20 budget changes approved by Cabinet (March 2019)	25
2018/19 Revenue Outturn Report – 2019/20 budget changes approved by Cabinet (June 2019)	521
Quarter 1 2019/20 Revenue Monitoring report - 2019/20 variances approved by Cabinet (July 2019)	(239)
Playgrounds report - delaying the removal of play equipment from two playgrounds in Royston until the 31st March 2020 – additional expenditure approved by Cabinet (July 2019)	4
Waste Collection from Multi Occupancy Properties report – retention of weekly residual waste collection service – variation to contract approved by Cabinet (July 2019)	68
Quarter 2 2019/20 Revenue Monitoring report – 2019/20 variances approved by Cabinet (December 2018)	(360)
Revenue monitoring included within 2020/21 budget report – 2019/20 variances approved by Cabinet (January 2020)	(187)
Current Working Budget	**15,083**

7.2. The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate in 2019/20 and how this has changed from the allocations published in the quarter two monitoring report.

Table 2 – Service Directorate Budget Allocations

Service Directorate	Working Budget at Q2	Changes approved at Q2	Changes approved in 2020/21 budget report	Other Budget Transfers	Current Net Direct Working Budget
	£k	£k	£k	£k	£k
Chief Executive	1,884	(78)	0	1	1,807
Commercialisation	(607)	144	0	0	(463)
Customers	3,528	(20)	10	26	3,544
Legal & Community	2,304	6	(54)	6	2,262
Place	4,776	(226)	13	0	4,563
Regulatory Services	1,230	(217)	(119)	(27)	867
Resources	2,515	31	(37)	(6)	2,503
TOTAL	**15,630**	**(360)**	**(187)**	**0**	**15,083**

8. RELEVANT CONSIDERATIONS

8.1. Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 3 below highlights those areas where there are forecast to be differences. An explanation is provided for each of the most significant variances, which are generally more than £25k. The final column details if there is expected to be an impact on next year's (2020/21) budget:

Table 3 - Summary of significant variances

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
Brexit Grant	52	0	(52)	NHDC have received Brexit resilience funding from Central Government totalling £52k. At the present time there is still uncertainty around the impact of Brexit. Several potential projects and measures are being looked at to minimise risk and provide resilience but spend is not expected to be incurred until 2020/21 and it is therefore requested that the unspent budget is carried forward into 2020/21.	52	0
Investment Interest	(372)	(418)	(46)	Level of investment balances are higher than budgeted due to slippage in the capital programme to 2020/21.	0	0
Apprenticeships	97	57	(40)	The apprentice budgets have been monitored closely to ensure any salary underspends can be used to recruit additional apprentices. In 2019/20 three additional apprentices have been recruited with their salaries funded from underspend. It has now been established that there will be an underspend of £40K. There is therefore enough funding to recruit two more apprentices. Allocation of those places and recruitment will get underway as soon as possible, but the posts are not expected to be recruited to until 2020/21. The budget is therefore requested to be carried forward into 2020/21.	40	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
Rental Income for Phone Masts on DCO	0	(83)	(83)	A lump sum of back-dated rent extending back to 2013 of £75k was received from Vodafone in relation to their lease of part of the DCO roof top for their phone mast. There was a Landlord and Tenant dispute which meant the rent invoices had to be suspended and rent receipts had to be rejected until an agreement had been reached. The annual rent agreed is now just over £8k; however, legislation may result in the future rental value to reduce.	0	(8)
Regulatory Directorate Staff Costs	716	624	(92)	Various vacancies within Environmental Health and Planning Services have resulted in underspends on staff costs in 2019/20. The majority of vacancies have now been recruited to, with the remaining vacancies to be advertised in 2020/21.	0	0
PCN Income	(665)	(702)	(37)	A full complement of CEOs and concentration of enforcement where more parking breaches are committed, to ensure management of the traffic network and road safety, have resulted in PCNs issued at a higher volume compared to the previous year.	0	0
Local Plan	210	136	(74)	At the time of setting the 2019/20 budget, it was anticipated that the Local Plan would be adopted in 2019/20, which the budget reflected. The inspector however identified further queries in July and August 2019 and further hearings have been set for March 2020. The plan will not be adopted until 2020/21. It is requested that the underspent budget is carried forward into 2020/21 to cover the remaining stages of this project.	74	0
Community Infrastructure Levy	87	0	(87)	A further decision on the preferred approach to developer contributions was postponed due to the delays associated with the Local Plan. In January 2020, Cabinet resolved that officers be instructed to conduct a review to consider the feasibility of introducing a CIL for residential sites. It is anticipated that the review will report in the second half of 2020. It is requested that the unspent budget is carried forward into 2020/21 to cover any costs arising from this review or	87	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
				its recommendations.		
Planning Application Income	(950)	(820)	+130	The uncertainty around the next steps of the Local Plan and the national situation with regards to Brexit are believed to have impacted upon the level of income; either through uncertainty with regard the timescale for sites to progress or through uncertainty around house prices and mortgage rates.	0	0
Careline Net Direct Trading Expenditure	(306)	(288)	+18	The main area of overspend is maintenance costs. Maintenance costs are not being fully funded by the service users due to restrictions placed on increasing the weekly service user charge (which is currently £3.25) by HCC. Moving to a full cost recovery model is currently being reviewed.	0	19
Trade Waste Income	(952)	(923)	+29	The management of commercial waste services requires regular marketing to maintain the existing client base. Vacancies within the team and increased pressure on staff resources have meant proactive marketing has not been possible. This has therefore resulted in a reduction in forecast income. A review is proposed for 2020/21	0	0
Museum Equipment Purchases	5	38	+33	For the Museum to open on time, and hence secure funding from the Heritage Lottery, expenditure was required on several items of equipment. This includes the production and installation of graphics in the reception area, upgrading various features, and installing spotlights.	0	0
Homelessness - Temporary Accommodation Expenditure	0	80	+80	£80k is the projected spend on temporary accommodation. £70k is the contribution NHDC gets back from the DWP for any households in temporary accommodation	0	80

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2020/21 £k
Temporary Accommodation Income	0	(70)	(70)	that receive housing benefit. The £10k variance is because not all households would have received housing benefit, therefore no contribution will be received from Central Government. There is also a cap on how much can be claimed, so if the cost of temporary accommodation exceeds the cap, there will be a shortfall in income.	0	(70)
Total of explained variances	**(2,078)**	**(2,369)**	**(291)**		**253**	**21**
Other minor balances	17,161	17,190	+29		+1	+12
Overall Total	**15,083**	**14,821**	**(262)**		**254**	**33**

8.2. Cabinet are asked to approve the differences highlighted in the table above (a £262k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to approve the estimated impact on the 2020/21 budget (£287k increase in budget, which includes the request to carry forward £254k of budget from 2019/20 to 2020/21 (recommendation 2.3).

8.3. The original approved budget for 2019/20 (and therefore working budget) included efficiencies totalling £610k, which were agreed by Council in February 2019. Any under or over delivery of efficiencies will be picked up by any budget variances (table 3 above). However, 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 at quarter three is that all the efficiencies approved in February last year will be delivered.

8.4. The working budget for 2019/20 includes budgets totalling £689k that were carried forward from the previous year. These are generally carried forward so that they can be spent for a particular purpose that had been due to happen in 2018/19 but was delayed into 2019/20. At quarter two it was projected that £74k of carry forward budget would not be spent. At quarter three, it is forecast that a total of £161k of the budget carried forward will not be spent in the current financial year. The increase of £87k relates to:

- Community Infrastructure Levy. The £87k budget carried forward will not be spent in this year, as highlighted and explained in table 3 above. The unspent budget is requested to be carried forward again into 2020/21.

8.5. There are 4 key corporate 'financial health' indicators 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 two of the indicators are green, one is amber, and one is red.

8.6. The amber status for Land Charges income was reported at quarter one and is based on the actual income to date. Whilst the income budget may still be achieved from an increase in activity over the remainder of the year, there is a risk that the budgeted level of income may not be met.

8.7. The actual income to date for planning application fees is increased by the reversal in the current year of the £335k accounting adjustment posted at the end of 2018/19. Income receipts received in the first three quarters of the year in respect of planning applications totalled £627k, which is below the budget expectation. The red status at quarter three therefore indicates that the budgeted level of income will not be met and the forecast outturn has been reduced by £130k, which is highlighted and explained in table 3 above. As in 2018/19, an accounting adjustment will be posted at the end of 2019/20 to ensure that the reported income total reflects only the income received from planning applications resolved in this financial year, in accordance with accounting policy. The accounting adjustment does not affect the cash the Council receives.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income to date £k	Forecast income for the year	Projected Variance £k
Planning Application Fees (including fees for pre-application advice)	Red	(950)	(962)	(820)	+130
Land Charges	Amber	(164)	(114)	(164)	0
Car Parking Fees	Green	(1,809)	(1,414)	(1,885)	(76)
Parking Penalty Charge Notices	Green	(532)	(560)	(702)	(170)

FUNDING, RISK AND GENERAL FUND BALANCE

8.8. The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus and Retained Business Rates income. The Council was notified by Central Government in February 2019 of the amount of New Homes Bonus it could expect to receive in 2019/20 and planned accordingly.

8.9. 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 other bodies. Each organisation has a share of the balance on the Collection Fund account. At the end of the third quarter, it is forecast that there will be a small deficit on the Council Tax Collection Fund. With regards to Business Rates, while income collected in year is in line with original estimates, an overall deficit position is projected due to the adjustment for the final prior year outturn, as detailed and explained in the quarter one revenue monitoring report.

8.10. The actual gain from Hertfordshire being a Business Rate pilot in 2019/20 will be dependent on the overall Business Rates collected across Hertfordshire, as well as within North Hertfordshire. Monitoring of the expected gain is being coordinated by Hertfordshire County Council. These forecasts will be a guide only as Business Rate income can be subject to significant fluctuations, particularly across 10 billing authorities. The final position will therefore not be known until after the end of the current year.

8.11. The Council also receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes into our funds rather than the Collection Fund. In 2018/19 NHDC received grant totalling £1.435m and the current expectation for 2019/20 is £1.922m. We are holding the grant received in a reserve to fund the repayment of deficits recorded in future years. Some of the amount held in reserve will therefore be used in this year to fund the required contribution to the Collection Fund of £58k in respect of the position for 2018/19 and is included in table 5 below.

8.12. The recommendation to transfer to the General Fund several amounts currently held in earmarked reserves was approved by Full Council at its meeting in February. The release of the reserves will therefore increase the General Fund balance at the end of the year, as shown in table 5 below.

8.13. Table 5 summarises the impact on the general fund balance of the position at quarter three detailed in this report.

Table 5 – General Fund impact

	Working Budget £k	**Q3 Projected Outturn £k**	**Difference £k**
Brought Forward balance (1st April 2019)	**(7,862)**	**(7,862)**	**-**
Net Expenditure	15,083	14,821	(262)
Funding (Council Tax, Business Rates, NHB)	(15,319)	(15,319)	0
Contribution to Funding Equalisation Reserve	68	68	0
Contribution to Collection Fund	58	58	0
Funding from Reserves (including Business Rate Relief Grant and transfer of reserves as approved at Full Council in February 2020)	(58)	(405)	(347)
Carried Forward balance (31st March 2020)	**(8,030)**	**(8,639)**	**(609)**

8.14. 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 3). 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 £1,203k, and by the end of quarter three a total of £257k has come to fruition. The identified risks realised in the third quarter relate to;

- Recycling services. Increase in net cost due to the reduction in sales price received for paper recyclates collected, as highlighted in the addendum to the Revenue Budget Report 2020/21 presented to Cabinet in January. £13k
- Housing Services. Use of temporary accommodation, highlighted in table 3 above. £10k
- Housing Services – legal costs for successful defence of an appeal to a housing decision. £3k.
- Planning Services – reduction in planning application income, as highlighted in table 3 above. £130k.

Table 6 – Known financial risks

	£'000
Original allowance for known financial risks	**1,203**
Known financial risks realised in Quarter 1	(17)
Known financial risks realised in Quarter 2	(84)
Known financial risks realised in Quarter 3	(156)
Remaining allowance for known financial risks	**946**

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. Specifically, 5.6.8 of Cabinet's terms of reference state that it has remit "*to monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework"*. 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 unplanned overspending of the overall Council budget.

12. EQUALITIES IMPLICATIONS

12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their 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.

12.2. 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. The Social Value Act and "go local" policy do not apply to this report.

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 affect staff, appropriate communication and consultation is provided in line with HR policy.

15. APPENDICES

15.1. None.

16. CONTACT OFFICERS

16.1. Jodie Penfold, Group Accountant
jodie.penfold@north-herts.gov.uk; ext 4332

16.2. Antonio Ciampa, Accountancy Manager
antonio.ciampa@north-herts.gov.uk; ext 4566

16.3. Ian Couper, Service Director – Resources
ian.couper@north-herts.gov.uk; ext 4243

16.4. Kerry Shorrocks, Corporate Human Resources Manager
kerry.shorrocks@north-herts.gov.uk; ext 4224

16.5. Gavin Ramtohal, Legal Commercial Team Manager and Deputy Monitoring Officer
gavin.ramtohal@north-herts.gov.uk; ext 4370

16.6. Reuben Ayavoo, Policy and Community Engagement Manager
reuben.ayavoo@north-herts.gov.uk; ext 4212

17. BACKGROUND PAPERS

17.1. None.