

# FINANCE, AUDIT & RISK COMMITTEE

20 November 2017

\*PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

**8**

*The following is the report to be considered by the Cabinet at its meeting to be held on 21 November 2017. The Committee is invited to comment on the report.*

## TITLE OF REPORT: SECOND QUARTER REVENUE MONITORING 2017/18

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

### 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 2017/18, as at the end of the second quarter (30 September 2017). The forecast variance is a decrease of **£131k** on the net working budget of **£17.230m** for 2017/18, with an ongoing impact in future years of a **£13k increase**. The most significant variances, which are highlighted and explained in table 2, relate to housing benefits overpayments income (-£200k) and car parking fee income (+£100k). The report also provides an update on;
- the progress with the planned delivery of efficiencies (paragraph 8.3)
  - the use of budget approved to be carried forward from 2016/17 (paragraph 8.4)
  - performance against the four key corporate 'financial health' indicators (para 8.5)
  - the overall forecast funding position for the Council and factors that may affect this (paras 8.6 – 8.12)

### 2. RECOMMENDATIONS

- 2.1 That Cabinet note this report.
- 2.2 That Cabinet approves the changes to the 2017/18 General Fund budget, as identified in table 2 and paragraph 8.2, a £131k decrease in net expenditure.
- 2.3 That Cabinet notes the changes to the 2018/19 General Fund budget, as identified in table 2 and paragraph 8.2, a £13k increase in net expenditure. These will be incorporated in the draft revenue budget for 2018/19.

### 3. REASONS FOR RECOMMENDATIONS

- 3.1 Members are able to monitor and request appropriate action of Services 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 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 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 contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 28<sup>th</sup> July 2017.

#### 7. BACKGROUND

- 7.1 Council approved the revenue budget in February 2017 of £16.545 million. As at quarter 2 the working budget has increased to £17.230 million. Table 1 below details the approved changes to this budget to get to the current working budget:

**Table 1 - Current Working Budget**

	<b>£k</b>
Original approved budget for 2017/18	16,545
Proposed Crematorium at Wilbury Hills Cemetery - Interim Report On Business Case – approved by Cabinet 28 <sup>th</sup> March 2017	50
Quarter 3 2016/17 Revenue Monitoring report - 2017/18 budget changes approved by Cabinet (March 2017)	199
2016/17 Revenue Outturn Report - 2017/18 budget changes approved by Cabinet (June 2017)	228
Quarter 1 2017/18 Revenue Monitoring report - 2017/18 variances approved by Cabinet (September 2017)	208
<b>Current Working Budget</b>	<b>17,230</b>

#### 8. RELEVANT CONSIDERATIONS

##### REVENUE INCOME AND EXPENDITURE FORECASTS

- 8.1 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. 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 (2018/19) budget:

**Table 2 - Summary of forecast variances**

<b>Budget Area</b>	<b>Working Budget £k</b>	<b>Forecast £k</b>	<b>Variance £k</b>	<b>Reason for difference</b>	<b>Estimated Impact on 2018/19 £k</b>
Housing Benefit Overpayments Income	-488	-688	-200	Increase in income projection follows the appointment to a temporary post to process changes to payments and raise income invoices accordingly.	0
Car Parking Fee Income	-1,813	-1,713	+100	Budget estimates for 2017/18 anticipated that the outcomes from the review of the Council's Parking Strategy would result in additional annual income of £100k. However, due to staffing resource being reallocated to progress the Local Plan and difficulties appointing to the Transport Officer post, the completion of phase 2 of the review has been delayed and as such it is not expected that the additional income will be realised in this financial year. It is though anticipated that the income target will be achieved in 2018/19. Failure to achieve the budgeted income from car parks was identified as a financial risk in 2017/18.	0
Residents Car Parking Permits Income	-140	-170	-30	Permit sales income recorded in April to September 2017 is similar to that recorded in the same period last year. The outturn in 2016/17 was an overachievement of budgeted income by £30k, which is forecast for this year and on an ongoing basis.	-30
Economic Development Officer	+52	+17	-35	Following the resignation of the Economic Development Officer in July 2017, NHDC has now agreed a shared service arrangement with East Herts District Council. It is anticipated that the recruitment process will be complete by December 2017.	0
Extending the boundary of the Chiltern Area of Outstanding Natural Beauty	+20	0	-20	The application to Natural England to extend the boundary was submitted by the Chilterns Conservation Board on behalf of North Hertfordshire District Council and the Board in 2013. The Council has however not received any further correspondence or update from Natural England as to their decision or when a decision can be expected. It is therefore proposed at this point that the budget for the associated consultants' costs, which was requested to be carried forward into 2017/18, be declared no longer required and that any future requirement for funding in relation to this application be subject to a new revenue investment bid.	0

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2018/19 £k
Income from proposed NHDC Lottery	-50	0	+50	The proposal to launch a lottery was approved as an efficiency proposal within the 2017/18 budget. Officers have since been assessing the options for delivery and the viability of the scheme as a whole. Whilst a recommendation is yet to be made, it has been established that the nature of the process involved prior to launching a lottery means that it is unlikely that any additional income would be generated before the end of 2017/18. Failure to achieve budgeted income from new initiatives was identified as a financial risk in 2017/18.	0
North Hertfordshire Museum and Community Facility Business Rates Assessment	+17	+70	+53	The increase in rates expenditure follows the revised ratings assessment by the VOA as measured at April 2017 (as part of the national business rates revaluation exercise). NHDC have appointed rating consultants to review and, if appropriate, make an appeal against this outcome. An appeal however could take some time for the VOA to process and resolve. It is therefore deemed prudent at this point to adjust for this on an ongoing basis.	+53
<b>Total of explained variances</b>	<b>-2,402</b>	<b>-2,484</b>	<b>-82</b>		<b>+23</b>
Other minor balances	19,632	19,583	-49		-10
<b>Overall Total</b>	<b>17,230</b>	<b>17,099</b>	<b>-131</b>		<b>+13</b>

8.2 Cabinet are asked to approve the differences highlighted in the table above (a £131k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2018/19 budget (a £13k increase in budget) which will be incorporated in to the 2018/19 budget setting process (recommendation 2.3).

8.3 The original approved budget for 2017/18 (and therefore working budget) included efficiencies totalling £929k, which were agreed by Council in February 2017. Any under or over delivery of efficiencies will be picked up by any budget variances (table 2 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 is a net underachievement of £115k. This relates to:

- Net overachievement reported at Q1 of £50k
- Underachievement of £150k as detailed in table 2 above (NHDC Lottery £50k and car parking fee income £100k).
- Hybrid Mail; an underachievement of £15k due to delays in implementation. The delay has been due to a wider consideration of the impacts on the organisation of the options available. It is still expected that the forecast savings will be achieved, and could be more than those originally estimated. The impact in this year has been absorbed by other off-setting variances.

- 8.4 The working budget for 2017/18 includes budgets totalling £642k 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 2016/17 but was delayed into 2017/18. At quarter one it was reported that one carry forward budget of £20k would not be spent. At quarter 2 it is forecast that a further carry forward budget of £20k, earmarked to fund costs associated with the proposed extension of the Chiltern area of outstanding natural beauty, will not be spent and that another carry forward budget, requested to resource the Economic Development Officer post in 2017/18, is expected to be only partially spent (£17k of the £52k budget carried forward) in the current financial year. Both changes are highlighted and explained in table 2. All other carry forward budgets are expected to be spent in 2017/18.
- 8.5 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 three indicators are green and one indicator is red. The red indicator in relation to car parking fees relates to the additional parking fee income anticipated in 2017/18 from the Parking Strategy review, as detailed in table 2 above.

**Table 3- Corporate financial health indicators**

<b>Indicator</b>	<b>Status</b>	<b>Original Budget £k</b>	<b>Actual income to date £k</b>	<b>Forecast income for the year £k</b>	<b>Projected Variance £k</b>
Planning Application Fees (including fees for pre-application advice)	Green	(683)	(595)	(800)	(117)
Land Charges	Green	(174)	(83)	(174)	0
Car Parking Fees	Red	(1,813)	(870)	(1,713)	100
Parking Penalty Charge Notices	Green	(410)	(299)	(532)	(121)

### **FUNDING, RISK AND GENERAL FUND BALANCE**

- 8.6 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 2017/18 and has planned accordingly.
- 8.7 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. Current forecasts for 2017/18 are that there will be a surplus on our share of Council Tax of approximately £275k and a deficit on Business Rates of around £400k.
- 8.8 The Council also receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes in to our funds rather than the Collection Fund. We are holding this amount in a reserve. Use of the amount held in reserve, currently projected to be £519k at the end of the year, will mitigate the impact on the General Fund balance in 2018/19 of the contribution to the Collection Fund to cover the Business Rates deficit recorded for 2017/18.

- 8.9 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. The estimated levy required is currently forecast to be £466k. The payment of the levy will be funded from the grant held in reserve.
- 8.10 The estimate of retained business rates income for 2017/18 has increased by £17k at Q2. This revision relates to the estimated level of rates income retained from premises being used for renewable energy projects. As the billing authority NHDC retains 100% of business rates income from renewable energy projects, with this income disregarded from all calculations within the rates retention scheme (e.g. does not affect Central Government levy or business rates tariff). In 2016/17 NHDC retained £54k of rates income from hosting renewable energy projects.
- 8.11 Table 4 below summarises the impact on the projected general fund balance from the changes at quarter 2 detailed in this report.

**Table 4 – Forecast General Fund impact**

	<b>Working Budget £k</b>	<b>Q2 Projected Outturn £k</b>	<b>Difference £k</b>
<b>Brought Forward balance (1<sup>st</sup> April 2017)</b>	<b>(8,235)</b>	<b>(8,235)</b>	<b>-</b>
Projected Net Spend	17,230	17,099	(131)
Funding (Council Tax, Business Rates, RSG)	(15,556)	(15,573)	(17)
Contribution to Collection Fund	741	741	0
Funding from Reserves (including Business Rate Relief Grant)	(373)	(373)	0
<b>Carried Forward balance (31<sup>st</sup> March 2018)</b>	<b>(6,193)</b>	<b>(6,341)</b>	<b>(148)</b>

- 8.12 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 £795k, and by the end of quarter two a total of £302k have come to fruition. The two identified risks realised in the second quarter relate to;
- Failure to achieve budgeted income from a variety of sources, including Car Parks and new initiatives (Lottery), as detailed in table 2. £150k
  - Cost of legal counsel advice in relation to a judicial review (included within 'other minor balances' in table 2) £8k

**Table 5 – Known financial risks**

	<b>£'000</b>
<b>Original allowance for known financial risks</b>	<b>795</b>
Known financial risks realised in Quarter 1	(144)
Known financial risks realised in Quarter 2	(158)
<b>Remaining allowance for known financial risks</b>	<b>493</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. 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 an unplanned overspend 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 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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**17. BACKGROUND PAPERS**

- 17.1 Budget Estimate Book 2017/18.
- 17.2 Statement of Accounts 2016/17.