

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: THIRD QUARTER REVENUE BUDGET MONITORING 2021/22

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: BE A MORE WELCOMING, INCLUSIVE AND EFFICIENT COUNCIL

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 the financial year 2021/22, as at the end of the third quarter. The forecast variance is a £510k decrease on the net working budget of £17.994million, with an ongoing impact in future years of a £42k increase and requests to carry forward budget totalling £196k to fund specific projects in 2022/23. The significant component variances are detailed and explained in table 3.

2. RECOMMENDATIONS

- 2.1. That Cabinet note this report.
- 2.2. That Cabinet approves the changes to the 2021/22 General Fund budget, as identified in table 3 and paragraph 8.2, a £510k decrease in net expenditure.
- 2.3. That Cabinet approves the changes to the 2022/23 General Fund budget, as identified in table 3 and paragraph 8.2, a total £238k increase in net expenditure.

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 14th January 2022.

7. BACKGROUND

- 7.1. Council approved the revenue budget for 2021/22 of £18.441million in February 2021. As at the end of Quarter Three, the working budget has decreased to £17.994million. Table 1 below details the approved changes to this budget to get to the current working budget:

Table 1 - Current Working Budget

	£k
Original Revenue Budget for 2021/22 approved by Full Council	18,441
Quarter 3 2020/21 Revenue Budget Monitoring report – 2021/22 budget changes approved by Cabinet (March 2021)	(17)
2020/21 Revenue Budget Outturn Report – 2021/22 budget changes approved by Cabinet (June 2021)	377
Quarter 1 2021/22 Revenue Monitoring report - 2021/22 variances approved by Cabinet (September 2021)	560
Quarter 2 2021/22 Revenue Monitoring report - 2021/22 variances approved by Cabinet (December 2021)	(1,256)
Month 8 revenue monitoring included within 2022/23 budget report – 2021/22 variances approved by Cabinet (January 2022)	(111)
Current Working Budget	17,994

- 7.2. The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate and how this has changed from the budget allocations published in the Quarter Two monitoring report.

Table 2 – Service Directorate Budget Allocations

Service Directorate	Net Direct Working Budget at Q2	Changes approved at Q2	Changes approved at Month 8	Other Budget Changes during Q3	Net Direct Working Budget at end of Q3
	£k	£k	£k	£k	£k
Managing Director	2,221	11	0	(143)	2,089
Commercialisation	(222)	(64)	42	20	(224)
Customers	4,113	(281)	39	1	3,872
Legal & Community	2,274	(107)	(19)	39	2,187
Place	7,042	(1,263)	(59)	112	5,832
Regulatory Services	1,324	460	(114)	9	1,679
Resources	2,609	(12)	0	(38)	2,559
TOTAL	19,361	(1,256)	(111)	0	17,994

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 columns detail if there is expected to be an impact on next year's (2022/23) 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 2022/23 £k
Strategic Priorities Fund	131	27	(104)	The Strategic Priorities Fund is a pot of money, which was initially funded from underspends, that Leadership Team allocate to short-term projects. This includes testing out new ideas. The forecast is that £104k will remain unspent at year end. A number of uses for the funding have been identified in 2022/23 that contribute towards Council Priorities and therefore it is requested that the unspent amount is carried forward. Those uses include continued consultancy support for the Boundary Review work, funding of Artificial Intelligence software to aid process automation, investment to allow automation of financial processes in the waste team, and trying out tools to enhance community engagement.	104	0
Hitchin Town Hall Net Direct Expenditure	201	234	+33	The emergence and spread of the Omicron variant of Covid-19 and subsequent tightening of restrictions during quarter 3, whilst not preventing events from going ahead, led to event cancellations and low attendances due to the associated apprehension surrounding indoor events, especially in the run up to the Christmas period. The forecast variance also includes the estimated impact of the Town Hall being closed during the final quarter for the flooring works to take place, which has prevented the vast majority of events from taking place in February. The ongoing impact relates to a reduction in anticipated business rates following a review undertaken by an external surveyor and the resulting merger of several component hereditaments.	0	(4)
Sales Income Ledger Bad Debt Provision	30	70	+40	The increase in the estimated contribution required to the bad debt provision in 21/22 is due to the calculation containing a higher level of commercial rents income debt that is now over twelve months old. The government introduced restrictions in the recovery of commercial debt to help businesses struggling due to the pandemic.	0	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2022/23 £k
Legal & Community Directorate Staffing Costs	1,665	1,624	(41)	The underspend variance is a result of both holding a number of vacancies and some staff temporarily working reduced hours. The estimated impact in 2022/23 relates to temporary cover required for anticipated maternity leave in Legal Services. Following an unsuccessful attempt at recruitment on a temporary contract, the staffing cover will now have to be provided through an agency at a significantly higher cost than the budget provision for the existing post. The additional salary budget is therefore requested to recognise the temporary budget pressure in 2022/23.	0	50
Leisure Centre management – additional finance support to Stevenage Leisure Limited (SLL)	82	5	(77)	The further reduction in forecast financial support required is indicative of the continued recovery in activity at the Leisure Centres, with actual usage in quarter three exceeding the recovery target for the quarter. This budget is in addition to the management fee that the Council is not expecting to receive this year.	0	0
Burial Services – Income from the sale of graves	(130)	(160)	(30)	Overachievement of income is primarily due to a significant increase in the sale of burial plots for those deceased that had resided outside of the District, for which a quadruple fee applies. This is likely to be due to a shortage of burial plot availability in other authority areas and religious requirements for the funeral to take place as soon as possible.	0	0
Regulatory Directorate Staffing Costs	3,738	3,570	(168)	Underspend is due to a combination of retirements and resignations, as well as several posts being held vacant due to the delay in the Local Plan and, in the case of Parking Services, the reduction in parking activity associated with Covid-19.	0	0
Electric Vehicles Charging Strategy	54	11	(43)	While work is ongoing, the development of the Electric Vehicle charging strategy and action plan has been delayed due to the focus on high street recovery and other priorities. The associated grant application will require specialist input and therefore a carry forward of the unspent budget is requested to finance the progress of the project in 2022/23.	43	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2022/23 £k
Repairs & Maintenance Expenditure	260	179	(81)	The underspend in this year is due to both delays in delivery of works and works being completed at lower cost. Some of the works completed at lower cost is due to them being delivered in-house rather than through an external contractor. Overall, there is a forecast saving of £32k against planned maintenance jobs completed in this financial year, with a carry forward of £49k requested to complete works that have been delayed to 2022/23.	49	0
Total of explained variances	6,031	5,560	(471)		196	46
Other minor balances	11,963	11,924	(39)		0	(4)
Overall Total	17,994	17,484	(510)		196	42

- 8.2. Cabinet are asked to approve the differences highlighted in the table above (a £510k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to approve the total estimated impact on the 2022/23 budget of a £238k increase, which includes the request to carry forward £196k of budget from 2021/22 to 2022/23 (recommendation 2.3).
- 8.3. The original approved budget for 2021/22 (and therefore working budget) included efficiencies totalling £286k, which were agreed by Council in February 2021. 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 it is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The forecast at the end of Quarter Two was that £286k of efficiencies will be achieved in 2021/22 and this forecast remains unchanged at Quarter Three.
- 8.4. At the start of the financial year, the working budget for 2021/22 included budgets totalling £719k 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 2020/21 but was delayed into 2021/22. At Quarter Two, it was forecast that £195k of the total carried forward will not be spent in 2021/22. At Quarter Three it is forecast that £318k of the budget carried forward will not be spent in the current financial year. The £123k increase in forecast unspent budget comprises:
- £27k - Single Issue Local Plan – the remaining £27k of the £40k budget carried forward is forecast to be unspent. As noted at Quarter Two, this carry forward budget was reallocated to fund the preparation of updated supplementary planning documents (SPDs). It was highlighted in the Month 8 revenue monitoring included within the 2022/23 Revenue Budget Report that the budget for SPDs would be unspent in this year, with the unspent budget requested to be carried forward.
 - £7k – Transport User Forum - the remaining £7k of the £47k budget carried forward is forecast to be unspent, as highlighted in the Month 8 revenue monitoring included within the 2022/23 Revenue Budget Report, with the unspent budget requested to be carried forward again to 2022/23.

- £54k – Strategic Priorities Fund - £54k of the £81k budget carried forward will not be spent in this financial year and has been requested to be carried forward in to 2022/23, as highlighted in table 3 above.
- £35k – Electric Vehicle Charging strategy – the £35k budget carried forward will not be spent in this financial year and has been requested to be carried forward in to 2022/23, as explained in table 3 above.

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 performance 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. At the end of Quarter Two, two of the indicators were green and two of the indicators were red. At the end of Quarter Three, one of the indicators is green and three of the indicators are red.

8.6. The additional red indicator at Quarter Three relates to land charges income. The projected outturn was adjusted in the revenue monitoring estimates prepared at month 8, with actual search numbers in this year lower than the estimate used for the calculation of search fees and the corresponding income budget assumption. This is attributed to the Government phasing out in this year the temporarily reduced stamp duty rates applicable from July 2020.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget	Actual to Date	Projected Outturn	Variance
		£k	£k	£k	£k
Planning Application Fees (including fees for pre-application advice)	Red	(953)	(971)	(853)	100
Land Charges	Red	(164)	(113)	(156)	8
Car Parking Fees	Red	(1,975)	(1,217)	(1,585)	390
Parking Penalty Charge Notices	Green	(573)	(453)	(573)	0

FUNDING, RISK AND GENERAL FUND BALANCE

8.7. The Council’s revenue budget is funded primarily from Council Tax and Retained Business Rates income. The Council was notified by Central Government in February 2021 of the amount of New Homes Bonus, Lower Tier Services Grant, and Covid-19 Emergency Grant Funding it could also expect to receive in 2021/22 and planned accordingly.

8.8. 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. In 2021/22 the Council must make a contribution from the General Fund of £77k to the Council Tax Collection Fund and £7.9m to the Business Rates Collection Fund. Both amounts are included in the calculation of the projected General Fund balance in table 6 below (the £77k Council Tax contribution is included in the estimated ‘Funding’ total). These amounts follow from the estimated deficits for 2020/21 declared to government in January 2021. As initially highlighted in the 2021/22 Revenue Budget Report,

government legislation introduced in response to the impact of the Covid-19 pandemic on local government finances required the repayment of the estimated 20/21 Collection Fund deficits (after adjusting for certain elements), as estimated in January 2021, to be spread in equal instalments over the following three financial years.

- 8.9. An overall deficit of £56k is forecast on the Council Tax Collection Fund at the end of the year. £54k of this deficit total is the spreading amount of the deficit for 2020/21, as estimated in January 2021, and will be charged in 2023/24 accordingly. Therefore, a contribution from the General Fund of only the remaining £2k will be required in 2022/23, as was indicated in Appendix C to the Revenue Budget 2022/23 report. The £2k contribution results from a forecast in-year surplus of £178k, which almost entirely mitigates the impact of both the £54k 20/21 deficit spreading amount payable in 2022/23 and the increase (from the January 2021 estimate) in the 2020/21 deficit reported at Outturn 2020/21. The in-year surplus is indicative of the reality in the year comparing positively to the assumptions made in the calculation of the Council Tax base for 2021/22.
- 8.10. As declared in the NNDR1 return submitted to Central Government in January 2022, there is forecast to be a deficit on the Business Rates Collection Fund at the end of this financial year of £5.76million. This total includes the third and final 2020/21 deficit spreading amount of £416k that will be included in the surplus/deficit calculation for 2022/23 and repaid in 2023/24. The contribution to the Collection Fund required from the General Fund in the next financial year 2022/23 will therefore be £5.344m. Around £3.4m of this deficit is due to the impact in the current financial year of the application of business rate reliefs introduced in response to the Covid-19 pandemic, for which the Council receives equivalent compensating grant from government. Of the remainder, £416k is the second 20/21 deficit instalment and £1.65m is the adverse movement in the position between the January 2021 estimate and the outturn position recorded, as detailed and explained in the 2020/21 Revenue Outturn report. These amounts have been slightly offset by the level of collectable business rates being higher than anticipated when the estimate for 2021/22 was prepared in January. Any movement in the deficit position for 2021/22 between that estimated now and the outturn position at the end of the year will not change the £5.344million contribution required next year and will instead impact the funding position for 2023/24.
- 8.11. The Council 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. NHDC expects to receive a grant allocation of £1.794m for non-Covid related reliefs in 2021/22, which includes an estimated amount of £142k received as compensation for the Government's decision to freeze the business rates multiplier for 2021/22, as well as a further £3.4m as compensation for temporary rate reliefs introduced by government in response to the Covid-19 pandemic. The multiplier compensation is included in the funding total in table 6 below. The rest of the grant received will be held in reserve to fund the repayment of business rate collection fund deficits recorded. Some of the amount held in reserve will therefore be used to fund the £7.9m deficit repayment required in this year.
- 8.12. The Council is also subject to a business rates levy from Central Government as NHDC collects more in business rates than the baseline need determined by Central Government. In 2021/22 NHDC is a member of the Hertfordshire Business Rates Pool with five other Hertfordshire Local Authorities. The Pool was formed with the expectation that this should reduce the business rates levy amount otherwise payable at the end of the year. In 2020/21 the Council benefited from a 'pooling gain' (reduction to levy contribution) of £54k. There are however a range of potential outcomes for the current year, with the final outcome depending on the actual level of rates collected by both North Herts as well as the other collection authorities in the Pool. The Council's

contribution to the pool levy in 2021/22 will, in any case, be funded from the grant held in reserve and as such will have a net zero impact on the General Fund balance at the end of the year.

- 8.13. The Council has received from government non-ringfenced emergency grant funding in 2021/22 of £558k and a Council Tax Support Grant of £230k to help mitigate the financial impact of the Covid-19 pandemic. In addition, the MHCLG (now DLUHC) scheme inviting Local Authorities to apply for compensation for loss of sales, fees and charges income due to the impact of Covid-19 affecting demand was extended to cover to the end of the first quarter of 2021/22. The eligible income compensation for North Herts Council relating to 2021/22 is estimated at around £300k, as denoted in table 6 below. With all payments made under the scheme currently subject to a reconciliation process (including those reported in the last financial year), at the time of writing confirmation from DLUHC of the final compensation payment to the Council is outstanding.
- 8.14. The most significant financial impact of the pandemic in 2021/22 relates to the financial support required for SLL to maintain operations at the Council's Leisure Centres during the year. Estimated support was determined and approved by Council in January 2021, with additional budget provision of £2m included in the original revenue budget for 2021/22, which included the waiver of £817k of management fee income due to the Council. Based on the experience of the first three quarters of the financial year, the additional support required is now forecast to reduce from the budgeted total of £2m to a revised total of £822k.
- 8.15. The original revenue budget was however not adjusted for ongoing financial impacts in other service areas, with the risk instead reflected in the calculation of the minimum General Fund balance required at the start of the year. Table 5 below itemises those other service areas where the impact of Covid-19 in 2021/22 is significant.

Table 5 – COVID-19 Financial Impact on General Fund

Budget Area	Revenue Budget Impact reported at Q1	Revenue Budget Impact reported at Q2	Revenue Budget Impact reported at Q3	Total Working Budget Adjustment 2021/22	Eligible for Income guarantee *	Estimated Sales, Fees and Charges (SFC) Contribution	Balance not covered by SFC contribution
	£k	£k	£k	£k		£k	£k
Homeless Accommodation	160	72	0	232	No	0	232
Hitchin Town Hall	25	0	33	58	Yes	17	41
Car Parking Fees Income	102	288	0	390	Yes	78	312
Car Park Season Ticket Income	61	91	0	152	Yes	43	109
Trade Waste and Recycling	32	0	0	32	Yes	14	18
Total	380	451	33	864		152	712

* Support from Government covers 75% of relevant losses incurred up to the end of June 2021 that are in excess of 5% of the original budget for the first quarter.

8.16. Table 6 below summarises the impact on the General Fund balance of the position at Quarter Three detailed in this report.

Table 6 – General Fund impact

	Working Budget	Projected Outturn	Difference
	£k	£k	£k
Brought Forward balance (1st April 2021)	(8,865)	(8,865)	-
Net Expenditure	17,994	17,484	(510)
Funding (Council Tax, Business Rates, NHB, Lower Tier Services Grant)	(15,135)	(15,135)	0
Contribution from Funding Equalisation Reserve	(398)	(398)	0
Contribution to Business Rates Collection Fund	7,911	7,911	0
Funding from Reserves (including Business Rate Relief Grant)	(9,904)	(9,904)	0
Covid-19 un-ringfenced government grant funding	(558)	(558)	0
Covid-19 related income losses compensation to June 2021	(308)	(308)	0
Covid-19 Council Tax Support Grant	(230)	(230)	0
Carried Forward balance (31st March 2022)	(9,493)	(10,003)	(510)

8.17. 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 £2,101k, and at the end of the third quarter a total of £567k has come to fruition. The identified risk realised in the third quarter relates to;

- Lower income generated from Hitchin Town Hall as the demand for bookings takes time to fully recover following the lifting of Covid-19 pandemic restrictions (as highlighted in table 3 above) - £33k.

Table 8 – Known financial risks

	£'000
Original allowance for known financial risks	2,101
Known financial risks realised in Quarter 1	(217)
Known financial risks realised in Quarter 2	(317)
Known financial risks realised in Quarter 3	(33)
Remaining allowance for known financial risks	1,534

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 of reserves.

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. ENVIRONMENTAL IMPLICATIONS

- 14.1. There are no known Environmental impacts or requirements that apply to this report.

15. HUMAN RESOURCE IMPLICATIONS

- 15.1. 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.

16. APPENDICES

- 16.1. None.

17. CONTACT OFFICERS

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18. BACKGROUND PAPERS

- 18.1. None.