

FINANCE, AUDIT & RISK COMMITTEE

12 June 2017

*PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

15

TITLE OF REPORT: REVENUE BUDGET OUTFURN 2016/17

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE

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 General Fund income and expenditure as at the end of the financial year 1 April 2016 to 31 March 2017. The report therefore includes;
- explanations for significant variances to the working budget estimates (**table 2**)
 - details of budgets requested to be carried forward (**appendix B to this report**)
 - confirmation of the funding position as the end of 2016/17 (**table 5**)
 - details of earmarked reserves movements and balances (**table 6**)

2. RECOMMENDATIONS

- 2.1 That Cabinet note this report.
- 2.2 That Cabinet approves a decrease of £1.294m in the 2016/17 net General Fund expenditure, **as identified in table 2** and **paragraph 8.1**, to a total of £15.974million.
- 2.3 That Cabinet approves the requested changes to the 2017/18 General Fund budget, **as identified in table 2** and **paragraph 8.2**, of a £227k increase in net expenditure and the total carry forward into 2017/18 of budgets from 2016/17 of £642k.
- 2.4 That Cabinet recommend that Council approve the net transfer to earmarked reserves, **as identified in table 6**, of £4k.

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 live within the existing budget but consider the variances reported here necessary and appropriate, and in accordance with spend incurred during the year.

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 3rd March 2017.

7. BACKGROUND

- 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 the approved changes to this budget to get to the current working budget:

Table 1 - 2016/17 Working Budget

	£k
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)
Quarter 3 2016/17 Revenue Monitor - variances approved by Cabinet	270
Working budget at Financial Year End 2016/17	17,268

8. RELEVANT CONSIDERATIONS

GENERAL FUND INCOME AND EXPENDITURE

- 8.1 Cabinet are asked to approve the net expenditure on the General Fund in 2016/17 of £15.974million (recommendation 2.2). This is a net decrease of £1.294million on the working budget of £17.268million. Rather than list and explain every variance, Table 2 below highlights the most significant variances, which are generally more than £25k, and provides an explanation for each. 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	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry- forward requested £k	2017/18 Impact £k
Corporate Vacancy Control Savings Target	+192	0	-192	The over-achievement of the vacancy control savings target is due to a greater level of posts held vacant as managers considered alternative options for service delivery. It is requested that £53k of this budget is carried forward and transferred to the Strategic Priorities Fund in 2017/18.	+53	0
Strategic Priorities Fund	+47	0	-47	Budget provision of £104k was approved for the Strategic Priorities Fund in 2016/17, of which a total of £57k was allocated to successful investment bids. It is requested that the remaining £47k go towards a new allocation of £100k for 2017/18.	+47	0
Parking Penalty Charge Notice Income	-452	-538	-86	A lower level of vacancies within the parking enforcement team has facilitated more effective parking patrols, which has resulted in higher income during the second half of the year.	0	0
Howard Park Repairs and Maintenance	+41	+5	-36	The recent capital investment and significant maintenance spend in the previous year combined to temporarily reduce the level of maintenance required in year at Howard Park.	0	0
Legal Services Fees and Charges Income	-62	-96	-34	This income overachievement is mainly due to an increase in work demanded from two neighbouring authorities, which was able to be facilitated within the demands of the NHDC caseload and with the use of an additional lawyer for part of the year. It is requested that the additional income reported is used to fund temporary staffing needs in 2017/18 and thus enable further income generation.	0	+34
Council Tax Analysis	0	+44	+44	Costs relate to work commissioned to review empty homes in order to capture all properties that should be paying council tax. The benefits to NHDC are an increase in the Council Tax base and increased New Homes Bonus funding.	0	0
Business Rates Analysis	+50	+78	+28	This expenditure relates to specialist software that identifies businesses that are not paying the correct level of Business Rates. The Council is invoiced by the software developer each time an adjustment to the rate charged is identified through the software. A higher number of discrepancies than anticipated were identified in February and March. The corresponding benefit to the Council will be realised in the Collection Fund.	0	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry-forward requested £k	2017/18 Impact £k
Housing Benefits (HB)						
HB Payments	+36,415	+36,114	-301	Housing Benefit Payments and corresponding subsidy received were less than the mid year estimates, due to a lower number of claimants than anticipated. This offsets partly with the reduced subsidy claimed.	0	0
HB Subsidy	-36,010	-35,754	+256		0	0
HB Overpayments Income	-358	-468	-110	Higher than estimated overpayments income followed an unexpectedly large number of overpayments income invoices raised in February and March. This was partially offset by the movement in the final quarter of the contribution required to the corresponding bad debt provision, which was identified as a financial risk in 2016/17.	0	0
HB Overpayments Bad Debt Provision	+300	+310	+10		0	0
Total	+347	+202	-145		0	0
Planning Policy Consultants	60	0	-60	Following the submission of the Local Plan, work will commence on the viability of the Council introducing a Community Infrastructure Levy (CIL). A carry forward is requested to meet the cost of this exercise in 2017/18.	+60	0
Planning Control Fees and Charges Income	-660	-734	-74	The positive progress of the Local Plan in the latter part of 2016/17 has resulted in increased confidence amongst developers. This has led to additional fee income for Planning Control. The approved budget for 2017/18 included an increase in income of £50k on this basis.	0	0
Private Sector Housing Consultants Expenditure	+25	0	-25	This budget was earmarked in 2016/17 for the Council's participation in the County Council led "Warmer houses project". The aim of the project is the installation of energy efficient measures for low income households living in the district's private sector. At the end of the financial year however the partnership agreement with the organisations involved was not yet finalised. It is therefore requested to carry this budget forward into 2017/18.	+25	0
Estates Rental Income	-479	-575	-96	Additional income primarily due to the completion of a new lease for premises in Royston, which was backdated to January 2013 and included over £80k in back rent. There have also been a number of rent reviews that have included backdated adjustments to rent due.	0	-49
Council Properties Contract Cleaning	+69	+37	-32	Routine cleaning required in year was lower due to the office decant. Expected additional one-off expenditure due to the relocation of offices was also less than anticipated.	0	0
External Audit Fees	+78	+58	-20	External Audit fees, which are prescribed by the Audit Commission, were reduced by 25% compared to the prior year. This reduction followed the lower prices	0	-20

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry-forward requested £k	2017/18 Impact £k
				achieved from an audit procurement exercise in 2014. There were no changes to the overall work programme.		
Local Land Charges – Transfer from Earmarked Reserve	-70	-18	+52	The planned transfer of £70k from reserves to cover one off costs incurred in year put the land charges overall total into a surplus position. At year-end this surplus element has been transferred back to the earmarked reserve, with the service having a net zero impact on the General Fund outturn.	0	0
IT Maintenance	+664	+608	-56	Due to other corporate high priority projects that were not on the IT Service Plan for 2016/17, IT did not have the staffing resource available to undertake other planned IT maintenance works. The costs associated with these works were therefore not incurred in the year.	0	0
Document Scanning Income	0	-36	-36	One-off income received from North Herts Homes for a document scanning exercise undertaken by the Council.	0	0
Careline Net Direct Trading Expenditure	-303	-240	+63	The 2016/17 financial year marked Year 2 of the three year Careline business improvement plan. Progress continues to be made – revenues in the year increased by over 33% and the Net Direct (Surplus) also increased by 20% - resulting in a contribution of £240k to the Council's overheads. Year 3 (2017/18), however, is likely to be more subdued as a consequence of a consolidation of Careline's corporate client base, an allied realignment of staffing levels, and planned infrastructure investment.	0	0
Neighbourhood Plans - Transfer from earmarked reserve	0	0	-33	Drawdown from earmarked reserve of related grant received in prior years from DCLG to cover apportioned staff costs of neighbourhood planning work undertaken in 2016/17.		
Total of explained variances	-453	-1,238	-785		185	-35
Other minor balances	17,721	17,212	-509		70	8
Overall Total	17,268	15,974	-1,294		255	-27

8.2 Cabinet are asked to approve the estimated impact on the 2017/18 budget, a £228k increase in budget (recommendation 2.3), which includes the request to carry forward £255k of budgets from 2016/17 to 2017/18 for projects that were not completed by the end of the financial year. Cabinet are asked to approve the total budgets requested to be carried forward (including those highlighted in reporting at month 8 and quarter 3) of £642k (recommendation 2.3). A full breakdown of amounts requested to be carried forward with accompanying explanation is presented in Appendix B.

- 8.3 The original approved budget for 2016/17 (and therefore working budget) included efficiencies totalling £357k, which were agreed by Council in February 2016. A total of £400k has been achieved in the year. This overachievement of £43k relates to;
- Legal Services initiative - a total of £59k (£25k was reported at quarter 2) additional income has been generated in 2016/17. This efficiency was recorded as "TBC" when the original budget 2016/17 was approved in February 2016.
 - Introduction of charging for car parking at Norton Common – Additional income of £4k was achieved in 2016/17 against the income generation estimate in the budget of £20k. The income estimate included in the original budget was not prepared on the basis that car parking at Norton Common would be free for stays of up to 2 hours.
- 8.4 The working budget for 2016/17 included budgets totalling £660k 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 2015/16 but was delayed into 2016/17. At the end of the year, one carry forward has not been spent and is not requested to be carried forward again. This relates to the carry forward of £5k budget for the purchase of e-billing software. This spend was dependent on the conclusion of the options considered for outbound mail. All other carry forward budgets have either been spent in 2016/17 or are requested to be carried forward, in part or in full, into 2017/18 as the projects have not been completed in 2016/17.

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.5 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.
- 8.6 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.
- 8.7 The deficit incurred on the Collection Fund for 2015/16 was £573k. A contribution to the Collection Fund from the General Fund was made in 2016/17 to fully cover this deficit. This payment was funded from the grant held in reserve.
- 8.8 At the end of 2016/17 there is a surplus on the NHDC share of the Council Tax Collection Fund of approximately £209k and a deficit on the Business Rates Collection Fund of around £820k. Use of the amount held in the reserve, which is £489k at the end of the year, will significantly reduce the impact on the General Fund balance in 2017/18 of the contribution required to the Collection Fund to cover this deficit.
- 8.9 The Council is also subject to a business rates levy from Central Government as NHDC has collected more in business rates than the baseline need determined by Central

Government. NHDC remained in the Hertfordshire Business Rate pool for 2016/17 with the expectation that this would reduce the levy amount required. This was the case in 2016/17, with the Council benefiting from a pooling gain of £154k in the form of a reduced levy contribution, with the calculated levy reduced from a total of £239k to £85k. This has been added to the DCLG grants reserve.

- 8.10 At the end of 2016/17 the Council has retained a total of £3.227m of Business Rates income, £819k more than had been projected to this point. This is primarily due to the Council's Business Rates Collection Fund benefiting from a change in the discretionary reliefs issued. In 2015/16 North Herts issued retail reliefs worth £760k. Any compensation received from Central Government for this relief would be posted to the General Fund and transferred to an earmarked reserve to fund the payment of the deficit on the Collection Fund. The equivalent retail relief issued in 2016/17 however reduced to £16k due to a change in the national scheme. This reduction in relief issued therefore increased the level of Business Rates income in the Collection Fund and contributed to increasing the amount that the Council retains.
- 8.11 In 2017/18 NHDC will no longer be in the Business Rates pool, as the Hertfordshire pool has been disbanded. This was due to a significant change in the Business Rates estimates provided in January from one of the pool members, which meant it was no longer beneficial for the member authorities to form a pool. NHDC and the other authorities in the pool will review the situation again in due course to establish whether requesting the reformation of the pool for financial year 2018/19 would be financially worthwhile (if the option continues to be available).
- 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 **£866k**, and by the end of the year a total of **£469k** have come to fruition. The two identified risks realised in the final quarter relate to;
- Lower than anticipated income from the collection of court summons fees (included within other minor variances total in table 2). £11k
 - Higher than estimated contribution required to the bad debt provisions in relation to the collection of benefit overpayments identified (as highlighted in table 2) and Council Tax collection (included within other minor variances total in table 2) £21k

Table 4 – Known financial risks

	£'000
Original allowance for known financial risks	866
Known financial risks realised in quarter 1	(54)
Known financial risks realised in quarter 2	(211)
Known financial risks realised in quarter 3	(182)
Known financial risks realised in quarter 4	(32)
Allowance for known financial risks remaining	387

- 8.13 Table 5 below summarises the 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 in 2015/16. It should be noted at this point that the Statement of Accounts is yet to be audited and changes to the General Fund balance may arise as a result of the final accounts audit.

Table 5 - General Fund impact

	Budget agreed by Council £k	Outturn £k	Difference £k
Brought Forward balance (1st April 2016)	(6,216)	(7,085)	(869)
Projected Net Spend	16,553	15,974	(579)
Funding (Council Tax, Business Rates, RSG)	(16,300)	(17,124)	(824)
Contribution to Collection Fund	0	573	573
Funding from Reserves (including Business Rate Relief Grant)	0	(573)	(573)
Carried Forward balance (31st March 2017)	(5,963)	(8,235)	(2,272)

EARMARKED RESERVES

- 8.14 The Council has a number of earmarked reserves which can be used to fund revenue expenditure. These are detailed in Table 6 below. A total of £1.160million has been contributed to the reserves in 2015/16 and a total of £1.156million has been used to fund expenditure. Cabinet are asked to recommend to Council that the net contribution to reserves of £4k be approved (recommendation 2.4), which leaves a total balance in earmarked reserves at 31 March 2017 of £4.609million.

Table 6 – Earmarked Reserves

	Balance at 1 April 2016	Contributions to reserve	Payments to Fund expenditure	Balance at 31 March 2017
	£'000	£'000	£'000	£'000
Cemetery Mausoleum	118	11	0	129
Children's Services	10	6	(8)	8
Climate Change Grant	30	0	0	30
Community Development	1	0	0	1
Community Right to Bid	45	0	0	45
DCLG Grants	549	743	(803)	489
DWP Additional Grants	13	107	(116)	4
Environmental Warranty Reserve	209	0	0	209
Growth Area Fund	53	0	0	53
Homelessness	33	9	0	42
Housing Planning Delivery Reserve	370	81	(83)	368
Information Technology Reserve	82	0	0	82
Insurance Reserve	36	0	(4)	32
Leisure Management Reserve	89	0	0	89
Local Authority Mortgage Scheme	82	25	0	107
Museum Exhibits Reserve	13	0	0	13
Neighbourhood Plan Reserve	55	6	(40)	21
Office Move IT Works	7	0	0	7
Paintings Conservation	13	0	(2)	11
Personal Search Fees	179	53	(71)	161
Property Maintenance	58	10	0	68
Syrian Refugee Project	0	29	(10)	19
S106 Monitoring	84	0	(16)	68

Special Reserve	1,720	0	0	1,720
Street Furniture	6	4	0	10
Street Name Plates	8	30	0	38
Taxi Licences Reserve	6	6	0	12
Town Centre Maintenance	34	8	(3)	39
Town Wide Review	222	0	0	222
Waste Reserve	480	32	0	512
Total Revenue Reserves	4,605	1,160	(1,156)	4,609

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.
- 9.2 The Accounts and Audit Regulations 2015 require that the Annual Statement of Accounts be approved and published by the deadline date of 30 September 2017. Members are reminded of the duty to set a balanced budget and to maintain a prudent level 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.
- 10.2 The general fund balance of £8.235million (table 5) meets the recommended minimum balance of General Fund reserves agreed when the budget was set. The Statement of Accounts is however yet to be audited and changes to the General Fund balance may arise as a result of the final audit. As the Housing Benefit claim is also yet to be audited, the relevant values included in the reported outturn are based on un-audited figures.

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 Appendix A – General Fund Summary 2016/17.

15.2 Appendix B – Carry Forward Budgets requested for 2017/18.

16. CONTACT OFFICERS

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17. BACKGROUND PAPERS

17.1 Budget Estimate Book 2016/17.

17.2 Statement of Accounts 2015/16.