

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: SECOND QUARTER REVENUE BUDGET MONITORING 2022/23

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: SUSTAINABILITY

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 2022/23, as at the end of the second quarter. The forecast variance is a £270k decrease in the net working budget of £18.056 million, with an ongoing impact in future years of a £49k increase and a request to carry forward a budget of £20k to fund a specific project in 2023/24. Within these summary totals there are a number of budget areas with more significant variances, which 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 2022/23 General Fund budget, as identified in table 3 and paragraph 8.2, a £270k decrease in net expenditure.
- 2.3. That Cabinet notes the changes to the 2023/24 General Fund budget, as identified in table 3 and paragraph 8.2, a total £69k increase in net expenditure. These will be incorporated in the draft revenue budget for 2023/24.

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 9th May 2022.

7. BACKGROUND

- 7.1. Council approved the revenue budget for 2022/23 of £18.198million in February 2022. As at the end of Quarter One, the working budget has increased to £18.615million. 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 2022/23 approved by Full Council	18,198
Quarter 3 2021/22 Revenue Budget Monitoring report – 2022/23 budget changes approved by Cabinet (March 2022)	238
2021/22 Revenue Budget Outturn Report – 2022/23 budget changes approved by Cabinet (June 2022)	179
Quarter 1 2022/23 Revenue Monitoring report - 2022/23 variances approved by Cabinet (September 2022)	(559)
Current Working Budget	18,056

- 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 One revenue monitoring report.

Table 2 – Service Directorate Budget Allocations

	Working Budget at Quarter One	Changes approved at Quarter One	Other Budget Transfers during Q1	Current Net Direct Working Budget
Service Directorate	£k	£k	£k	£k
Managing Director	3,661	(2,201)	(208)	1,252
Customers	3,928	371	90	4,389
Enterprise	(152)	(113)	32	(233)
Legal & Community	2,322	61	52	2,435
Place	4,752	747	11	5,510
Regulatory Services	1,502	535	(56)	1,981
Resources	2,602	41	79	2,722
TOTAL	18,615	(559)	0	18,056

- 7.3. The Council's accounts for the last financial year remain subject to External Audit examination. The 2021/22 Final Accounts audit is currently ongoing. Changes required to the opening General Fund balance may therefore arise as a result of the audit.

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 (2023/24) 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 2023/24 £k
Treasury Investments Interest Income	(708)	(1,126)	(418)	Increase in estimated interest income receivable follows the recent increases to the Bank of England base rate and the consequent increase in the interest returns available on the investment of surplus cash balances. In addition, reprofiling of capital spend has increased the cash balances available for investment. The estimated ongoing impact will be updated when the Investment Strategy for 2023 – 2033 is finalised in January 2023.	0	0
Careline Service Income from Herts County Council	(2,189)	(2,261)	(72)	Additional income received from HCC to cover the cost of pay inflation for 2022/23. Staffing budgets were adjusted at Quarter One for the employer pay offer for 2022/23 and for the Careline Service the cost was significantly higher than the 2% assumed in the original budget. This income receipt covers the additional cost of the pay award.	0	(72)
North Herts Lottery						
Running Costs	0	1	+1	Forecast outturn indicates the performance of the lottery to date. Forecast ticket sales in 2022/23 of 36,000 exceeds the 28,000 anticipated in the original business case proposal for the lottery. The Council retains 10% of the revenue generated from sales, with 50% (projected to be £18,000) going to fund good causes. Estimated impact in next year reflects the anticipated growth in sales, as detailed in the original business case.	0	1
Ticket Sales Income retained by North Herts Council	0	(4)	(4)		0	(6)
District Elections expenditure	121	164	+43	Majority of the overspend is attributable to two main areas of spend: postage and staffing. Due to the Covid-19 pandemic postal voting has been encouraged to reduce the number of in-person voters at polling stations, which has meant a significant increase in the number of postal voters, with a 38% increase since 2018. Over the same period, Royal Mail postage prices have increased by significantly more than the inflation assumption within the budget estimates. An increase in poll clerk costs is partly due to a higher than budgeted increase in their fee but is also due to increasing the number of poll clerks to comply with the Electoral Commission's recommendations on staffing ratios. These recommendations were implemented to ensure both the smooth running of the election in May and to ensure we have a pool of experienced staff to meet the demands of the next elections when voter ID requirements will be implemented.	0	37

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Leisure Centre Management Contract Fee Income	(404)	(671)	(267)	Forecast variance is indicative of the continuing recovery at the Council's Leisure Centres during quarter two, with usage of the Council's swimming pools now exceeding pre-pandemic levels. Figures also include the additional cost of extending outdoor pool opening, which at £16k was £9k less than the £25k investment budget approved when the budget for 2022/23 was set in February.	0	0
Income from charging for replacement purple residual waste bins	(48)	0	+48	To introduce charging for replacement bins it is necessary to develop fully integrated online forms to prevent adverse impacts, and additional costs, for customer services. Further project development has identified that the Council does not currently have the technical expertise/capacity to integrate online forms with back office payment and waste management systems. In addition, the Council also has no compliant way of taking telephone payments that would allow for a call handling operative to be able to confirm a payment has been received before processing a bin delivery. The project will therefore be delayed until 2024/25.	0	48
Building Control – Disabled Facilities Applications	53	77	+24	The number of applications relating to works for disabled persons has significantly increased this year in comparison to prior years. This corresponds to a high level of demand for Disabled Facilities Grants, processed by the Home Improvement Agency for the District, with adaptations sought to enable people to stay in their own home.	0	0
Planning Control – Funding from Earmarked Reserve	(16)	0	+16	S106 Monitoring & Planning Compliance Officer post has previously been partly funded from income held in the S106 Monitoring earmarked reserve. This reserve has however now all been transferred to the General Fund so the budgeted contribution should be removed. Due to changes in the S106 process some time ago, monitoring fees are no longer received.	0	16
Planning Income				As foreseen and explained in the Strategic Planning Matters report presented to Cabinet in June 2022, the introduction of masterplanning procedures has displaced considerable pre-application income on large schemes in this year. This combined with the general slowdown in the construction sector as a result of economic uncertainty has led to a material drop in fee income relating to all applications.		
Pre-Application advice	(66)	(36)	+30		0	0
Planning Applications	(940)	(690)	+250		0	0
Net Total	(1,006)	(726)	+280		0	0

Budget Area	Working Budget £k	Forecast Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2023/24 £k
Housing Stock Condition Survey	20	0	(20)	Due to both a lack of staffing capacity, because of vacancies and sickness absence, and other priorities, namely managing the arrival of Ukrainian refugees, the stock condition survey will now be undertaken in 2023/24. It is therefore requested that the unspent expenditure budget is carried forward to 2023/24.	20	0
Total of explained variances	(4,177)	(4,546)	(369)		20	24
Other minor balances	22,233	22,332	+99		0	25
Overall Total	18,056	17,786	(270)		20	49

8.2. Cabinet are asked to approve the differences highlighted in the table above (a £270k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2023/24 budget (£69k increase in budget, which includes the request to carry forward £20k of budget from 2022/23 to 2023/24), which will be incorporated in to the 2023/24 budget setting process (recommendation 2.3).

8.3. The original approved budget for 2022/23 (and therefore working budget) included efficiencies totalling £606k, which were agreed by Council in February 2022. 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 Quarter One was an overachievement of £589k. The current forecast at the end of Quarter Two is a net overachievement of £881k. The increase of £292k since Quarter One relates to:

- Increase of £418k in the overachievement of forecast interest income from investment of surplus cash balances, as itemised in table three above.
- £50k underachievement of the additional planning income anticipated from the adoption and implementation of the Local Plan, with instead a projected income shortfall reported in table 3 above.
- £48k underachievement of the planned efficiency from the charging for replacement purple residual waste bins, as highlighted and explained in table three above.
- £10k underachievement of the planned efficiency from the charging for replacement garden waste bins. This will not go ahead this year for the same reasons as explained for the purple bin scheme in table 3. The revenue impact has been absorbed by other off-setting variances.
- £16k underachievement of the saving on peripheral software license costs anticipated from the purchase of new Microsoft licenses. This saving primarily related to the cost of Citrix licenses. The project to transition away from Citrix remains ongoing and the overlap is now expected to extend to the end of this financial year. The financial impact has been absorbed by other off-setting variances.
- £2k underachievement of the saving relating to Independent Remuneration Panel expenses. In making its recommendations for 2022/23 the Panel concluded that an annual review was required and therefore an Independent Remuneration Panel has convened again this year to consider and report recommendations for 2023/24.

- 8.4. The working budget for 2022/23 includes budgets totalling £712k 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 2021/22 but was delayed into 2022/23. At Quarter One, it was forecast that all the budgets carried forward will be spent in this year. At Quarter Two it is forecast that the £20k budget carried forward in respect of the Housing Stock condition survey will not be spent, as explained in table 3. All the other budgets carried forward are expected to be spent in this year.
- 8.5. Six corporate 'financial health' indicators have been identified in relation to key sources of income for the Council in 2022/23. 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.
- 8.6. At the end of Quarter One, three of the indicators were green, one indicator was amber, and two of the indicators were red. At the end of Quarter Two, two of the indicators are green, one is amber and three are red. The additional red indicator at Quarter 2 relates to planning application fee income, as highlighted in table 3 above. The amber indicator remains for income from parking PCNs as, while activity and income receipts increased during quarter 2 and closed much of the shortfall (compared to profile budget) apparent at the end of quarter one, there remains a risk that the full year budget will not be achieved.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual to Date £k	Projected Outturn £k	Variance £k
Leisure Centres Management Fee	Red	(857)	(147)	(671)	186
Garden Waste Collection Service Subscriptions	Green	(1,139)	(734)	(1,184)	(45)
Commercial Refuse & Recycling Service Income	Green	(1,113)	(637)	(1,153)	(40)
Planning Application Fees (including fees for pre-application advice)	Red	(1,006)	(739)	(726)	280
Car Parking Fees	Red	(1,999)	(868)	(1,801)	198
Parking Penalty Charge Notices (PCNs)	Amber	(573)	(290)	(573)	0

- 8.7. Table 5 below indicates current activity levels, where these drive financial performance, and how these compare to the prior year to indicate the direction of current trends. As performance against the planning applications fee income budget is generally determined by the number of large applications resolved in the year (rather than the total number of applications received), and this distinction is not captured in the data available, this indicator is omitted from table 5. Regarding the comparative reduction in the number of PCNs issued, it should be noted that activity levels in 2021/22 were above those anticipated in the original budget estimate.

Table 5 - Corporate financial health indicators – activity drivers

Indicator	Activity Measure	Performance First Half of 2022/23	Performance First Half of 2021/22	Percentage Movement	Direction of Trend
Leisure Centres Management Fee	Number of Leisure Centre visits	742,388	411,330	+80.5%	
Garden Waste Collection Service	Number of bin subscriptions at end of quarter 2	24,345	24,947	+2.5%	
Commercial Refuse & Recycling Service	Number of customers	949	951	-0.2%	
Car Parking Fees	Car park tickets sold / average ticket price sold	566,547 / £1.61	533,607 / £1.52	+6.2% / +5.3%	
Parking Penalty Charge Notices	Number of PCNs issued	7,001	7,364	-4.9%	

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.8. 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 2022 of the amount of New Homes Bonus, Lower Tier Services Grant and Services Grant it could expect to receive in 2022/23 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. The Council must repay in this year its share of the Council Tax and Business Rates Collection Fund deficits for the prior year, as estimated in January 2022. As reported previously, this means a contribution from the General Fund of £2k to the Council Tax Collection Fund and £5.345m to the Business Rates Collection Fund in 2022/23.
- 8.10. At Quarter Two the current forecast of the Council's share of the balance for 2022/23 in respect of the Business Rates Collection Fund is a surplus of around £0.5m and a surplus of £150k on the Council Tax Collection Fund. The forecast surplus on the Business Rates Collection Fund is due to lower levels of retail relief applied to rates bills this year than anticipated when estimates were prepared in January. While the position may change over the second half of the year, in any case Collection Fund surpluses achieved in 2022/23 will not affect the General Fund position at the end of 2022/23 but will affect the level of funding available in 2023/24.
- 8.11. The Council is also subject to a business rates levy from Central Government as it collects more in business rates than the baseline need determined by Central Government. In 2022/23 the Council 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. At the end of 2021/22, the Council accrued a contribution to the pool levy of £300k, which represented a 'pooling gain' (reduction compared to the levy otherwise payable if outside the pool) of £700k. There are however a range of potential outcomes for the current year, which depend on the actual level of rates collected by both North Herts as well as the other collection authorities in the Pool. The contribution to the pool required for 2022/23 will therefore not be known until all the pool authorities have declared their business rates income amounts to government, via the NNDR3 return, following the end of this financial year. In any case, the Council's contribution to

the pool will be funded from grant held in reserve and as such will have a net zero impact on the General Fund balance at the end of the year.

- 8.12. 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. The Council has received a total grant allocation of £4.996m for reliefs in 2022/23, which includes an amount of £279k received as compensation for the Government's decision to freeze the business rates multiplier for 2022/23. The multiplier compensation is included in the funding total in table 7 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 £5.345m deficit repayment required in this year and a further £3m will be used to ensure the business rates income charged to the General Fund in 2022/23 matches the estimated position declared to Government in January 2022 via the NNDR1 return, as required by statute.
- 8.13. The Council is also eligible to retain further section 31 grant funding relating to the impact of the Covid-19 Additional Relief Fund (CARF). The Council received a cash receipt of £2.6m from government in the last financial year to facilitate the scheme. The scheme has subsequently awarded reliefs against chargeable business rates amounts for 2021/22 totalling £1.24m, of which the Council's share is £495k. The cost of the reliefs awarded through the fund is included in [has reduced] the forecast net surplus position referred to in paragraph 8.10 above. The compensating grant (£495k) will be charged to the General Fund in this financial year. We would usually carry-forward the grant in a reserve to cover any future shortfalls. However, as a provision was made in the 2021/22 accounts for the non-collection of outstanding arrears, against which the CARF reliefs have now been applied, it is unlikely that there will be a future impact. This will be confirmed as part of the year end collection fund calculations, including calculating the provision for bad debt. It is reasonably likely that the impact will be an increase in the year end General Fund balance of around £495k (compared with the current forecast).
- 8.14. The Council does not expect to receive non-ringfenced emergency grant funding from government in 2022/23 to help mitigate the ongoing financial impacts of the Covid-19 pandemic. As detailed in the 2022/23 Revenue Budget Report presented to Full Council in February, a central provision of £1.740m was included in the budget for 2022/23. At Quarter One £1.630m of this allocation was released, with £1.190m used to mitigate forecast adverse variances and a further £440k forecast to be unused. At Quarter Two only £110k of the provision in respect of Hitchin Town Hall income is not yet allocated, with the impact on demand for winter indoor events not yet known.
- 8.15. Table 6 below summarises the impact on the General Fund balance of the position at Quarter One detailed in this report.

Table 6 – General Fund impact

	Working Budget	Projected Outturn	Difference
	£k	£k	£k
Brought Forward balance (1st April 2022)	(10,607)	(10,607)	-
Net Expenditure	18,056	17,786	(270)
Funding (Council Tax, Business Rates, NHB, Lower Tier Services Grant, 2022/23 Services Grant)	(15,820)	(15,820)	0
Release of the balance held in the earmarked Special Reserve	(640)	(640)	0
Contribution to Collection Fund	5,345	5,345	0
Funding from Reserves (including Business Rate Relief Grant)	(5,888)	(5,888)	0
Carried Forward balance (31st March 2023)	(9,554)	(9,824)	(270)

8.16. 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 £1,808k, and at the end of the second quarter a total of £344k has come to fruition. The identified risks realised in the second quarter relate to:

- Income related to planning applications is lower than the budget expectation (as highlighted in table 3 above) - £280k
- Increase to the annual external audit fee negotiated between the Council's External Auditor and Public Sector Audit Appointments (included within the 'other minor variances total' in table 3 above) - £23k.

Table 7 – Known financial risks

	£'000
Original allowance for known financial risks	1,808
Known financial risks realised in Quarter 1	(41)
Known financial risks realised in Quarter 2	(303)
Remaining allowance for known financial risks	1,464

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.

9.2. The recommendations contained within this report are to comply with the council's financial regulations with attention drawn to significant budget variances as part of good financial planning to ensure the council remains financially viable over the current fiscal year and into the future. Local authorities are required by law to set a balanced budget for each financial year. During the year, there is an ongoing responsibility to monitor spending and ensure the finances continue to be sound. This means there must be frequent reviews of spending and obligation trends so that timely intervention can be made ensuring the annual budgeting targets are met

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.