

FINANCE, AUDIT AND RISK COMMITTEE

18 JUNE 2018

*PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

13

The following is the report to be considered by the Cabinet at its meeting to be held on 19 June 2018. The Committee is invited to comment on the report.

TITLE OF REPORT: REVENUE BUDGET OUTFURN 2017/18

REPORT OF: THE SERVICE DIRECTOR - RESOURCES

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 2017/18. The net outturn of £16.053m represents a **£422k decrease** from the working budget of £16.475million. There are corresponding requests to carry forward **£261k** (of underspends) to fund specific projects that will now take place in 2018/19. There is a further forecast impact on the 2018/19 base budget of a **£85k increase**. This reflects the variances identified (generally overspends) that are expected to have an ongoing impact in future years. Within these summary totals there are several budget areas with more significant variances, which are detailed and explained in table 2. The report also provides an update on;
- the delivery of planned efficiencies (paragraph 8.3)
 - the use of budget approved to be carried forward from 2016/17 (table 3)
 - performance against the four key corporate 'financial health' indicators (paras 8.5-8.7)
 - confirmation of the funding position as the end of 2017/18 (table 5)
 - details of earmarked reserves movements and balances (table 7)

2. RECOMMENDATIONS

- 2.1 That Cabinet notes this report.
- 2.2 That Cabinet approves a decrease of £422k in the 2017/18 net General Fund expenditure, **as identified in table 2 and paragraph 8.1**, to a total of £16.053million.
- 2.3 That Cabinet approves the adjustments to the 2018/19 General Fund budget, as identified in table 2 and paragraph 8.2, a £346k increase in net expenditure.
- 2.4 That Cabinet recommend that Council approves the net transfer to earmarked reserves, **as identified in table 7**, of £1.070million.

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.
- 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 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 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 16th February 2018.

7. BACKGROUND

- 7.1 Council approved the revenue budget for 2017/18 of £16.545 million in February 2017. The working budget at financial year-end has reduced to £16.475 million. Table 1 below details the approved changes to this budget to get to the current working budget:

Table 1 - Current Working Budget

	£k
Original approved budget for 2017/18	16,545
Proposed Crematorium at Wilbury Hills Cemetery - Interim Report On Business Case – approved by Cabinet 28 th 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
Quarter 2 2017/18 Revenue Monitoring report - 2017/18 variances approved by Cabinet (November 2017)	(131)
Revenue monitoring included within 2018/19 budget report – 2017/18 variances approved by Cabinet (January 2018)	(684)
Quarter 3 2017/18 Revenue Monitoring report - 2017/18 variances approved by Cabinet (March 2018)	60
Working budget at Financial Year End 2017/18	16,475

8. RELEVANT CONSIDERATIONS

REVENUE INCOME AND EXPENDITURE FORECASTS

- 8.1 Cabinet are asked to approve the net expenditure on the General Fund in 2017/18 of £16.053million (recommendation 2.2). This is a net decrease of £422k on the working budget of £16.475million. Table 2 below highlights the most significant variances, which are generally more than £25k, and contains an explanation for each. The final columns detail if a carry forward into 2018/19 is requested and the estimated ongoing impact of any variances:

Table 2 - Summary of significant variances

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2018/19 £k
Corporate Vacancy Control Savings Target	+55	0	-55	The over-achievement of the vacancy control savings target is due to a greater level of posts held vacant pending the implementation of the Corporate Restructure. It is requested that £24k of this budget is carried forward and transferred to the Strategic Priorities Fund in 2018/19 (see below).	+24	0
Strategic Priorities Fund	+76	0	-76	Budget provision of £100k was approved for the Strategic Priorities Fund in 2017/18, of which a total of £24k was allocated to successful investment bids. It is requested that the remaining £76k goes towards a new allocation of £100k for 2018/19.	+76	0
Commercialisation Project	+95	+1	-94	The creation of the 'Service Director-Commercial' post will lead to the ongoing development of commercialisation opportunities. It is therefore requested that the remaining resource unspent in 2017/18 be carried forward into 2018/19 as this funding will be used for the up-front costs of exploiting these opportunities.	+94	0
Corporate Restructure	0	+100	+100	A provision in 2017/18 is required for employee settlement costs associated with the Senior Management Restructure, which were not finalised as at the 31 st March. Final agreement was reached in April.	0	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2018/19 £k
CCTV						
Contribution to CCTV Partnership	+86	+109	+23	The increase in contribution to the CCTV Partnership follows the Partnership recording a deficit at the end of the financial year. The assumption in the budget is that the CCTV Partnership will achieve a break-even position.	0	0
Income from Herts CCTV Company	-37	0	+37	Anticipated income for 2017/18 was based on the original estimates prepared when the CCTV company was formed. Hertfordshire CCTV Limited has however made minimal profit this financial year due to the loss of a significant client, so there is no dividend receivable for the Council in 2017/18.	0	+39
TOTAL	+49	+109	+60		0	+39
Churchgate Project	+37	0	-37	It is requested that the earmarked resource is carried forward to fund any external professional advice required to assess proposals, prior to consideration by Full Council, in 2018/19.	+37	0
Waste Services - Household Waste and Recycling Bins	+47	+18	-29	A lower number of requests received for new bins in 2017/18 has meant expenditure on bins has been significantly lower than both the budget estimate and the prior year outturn (£67k spend in 2016/17).	0	0
Street Cleansing Contract Expenditure	+911	+894	-17	The cleansing of the Baldock Bypass had not commenced by the end of the financial year. The unspent budget is requested to be carried forward to meet the cost of cleansing the bypass in the early part of the next financial year.	+17	0
Planning Services – Planning Applications Income	-1,168	-1,292	-124	Planning application income receipts have continued to exceed the budgeted expectation in the final quarter. Growth in this income stream, based on the successful adoption of the Local Plan, is already incorporated in the budget estimates for future years.	0	0
Planning Services – Transfer to reserve	+363	+487	+124	The overachievement of income is requested to be transferred to the planning reserve. As previously discussed at Cabinet, there are significant risks associated with the progress of the Council's Local Plan. The balance in the earmarked reserve will therefore be used to mitigate the financial impact of associated risks materialising in the coming years.	0	0
TOTAL	-805	-805	0		0	0

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2018/19 £k
Building Control - Non fee Work	+55	+5	-50	Hertfordshire Building Control Ltd has agreed to only charge the Council for out-of-hours dangerous structures cover and response. The cost of this work totalled £4,500 in 2017/18. The Company will seek reimbursement for other chargeable services in 2018/19. Some of these have been agreed at a fixed fee and others will be at an hourly rate. The total cost will depend on the number of chargeable hours.	0	0
Hertfordshire Warmer Homes project	+12	0	-12	Following delays to the Herts Warmer Homes project with Herts County Council commencing, the project will now be completed in the next financial year. It is therefore requested that the budget remaining is carried forward to meet the costs in that year.	+12	0
Council Tax Summons Income	-263	-228	+35	The increasing proportion of households paying their Council Tax by direct debit has contributed to reducing the numbers of people taken to court over non-payment. Waiting times for court dates have also increased, which has extended the period available to pay the outstanding sum prior to the court summons being issued. Failure to meet the summons income budget was identified as a financial risk for 2017/18.	0	+35

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2018/19 £k
Housing Benefits						
Housing Benefit Payments	+34,332	+34,246	-86	The outturn for Housing Benefit Payments is less than the mid year estimate, upon which the working budget was based, due to fewer claimants than anticipated.	0	-3,867
Housing Benefit Subsidy	-33,861	-33,669	+192	The reduction in claimants also partially explains the lower than anticipated subsidy receivable (based on the mid-year estimate). In addition, subsidy is only receivable for the net payment where a portion of the gross amount is withheld to claw back an overpayment relating to a prior year. The total of relevant amounts (not eligible for subsidy) almost doubled from £330k in 2016/17 to £652k in 2017/18.	0	+3,867
Contribution to overpayments bad debt provision	+316	+335	+19	This increase also helps to explain overpayments income this year being significantly higher than 2016/17 (£468k). The income forecast for the year was increased by £200k at quarter 2 and significant overpayments have continued to be identified in the second half of the year. The increase in income has been partially offset by a higher contribution required to the overpayments bad debt provision.	0	0
Income from Housing Benefit Overpayments	-688	-889	-201		0	0
Total	+99	+23	-76		0	0
Careline Net Direct Trading Expenditure	-181	-141	+40	The lower than anticipated surplus achieved by Careline in 2017/18 is primarily due to higher than planned staffing costs. A higher turnover of temporary staff has meant a higher number of training hours being needed for new members of staff. Training hours increase salary costs as additional staff cover is required while the officers attend training.	0	0
Total of explained variances	+187	-24	-211		+260	+74
Other minor balances	16,288	16,077	-211		+1	+11
Overall Total	16,475	16,053	-422		+261	+85

8.2 Cabinet are asked to approve the estimated net impact on the 2018/19 budget, a **£346k increase** in budget (recommendation 2.3), which includes:

- **£261k** of budget carry-forwards from 2017/18 to 2018/19 for projects that were not completed by the end of the financial year. These are shown in the penultimate column of table 2 above. This will take the total carry-forward to £515k (i.e. including those reported and approved at month 8 and quarter 3).
- **£85k** increase in budget to reflect the estimated ongoing impact in 2018/19 of variances identified in Q4. These are shown in the final column of table 2 above.

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. Progress in delivering the efficiencies identified has been monitored throughout the year and reported at each quarter. The efficiency total has been overachieved in the year by £286k, which is £80k higher than the forecast overachievement of £206k reported at quarter 3. This increase in the total relates to:

- Planning income; overachievement of £124k, as highlighted in table 2 above.
- IT Server Room Rental Income; £3k underachievement; this efficiency was not delivered (variance included within 'other minor variances' total in table 2 above) as the anticipated tenant withdrew their interest.
- Net direct surplus from Hitchin Town Hall Community Facility; £41k underachievement; deterioration in overall financial position in the final quarter is due to the costs incurred in facilitating events at the Town Hall being higher than estimated and hence reducing the net income achieved (included within 'other minor variances' total in table 2 above)
- Corporate Restructure Phase 1 and 2; Overall the target was achieved from the posts deleted in phase 1 and holding other vacancies, even though the next stage of the restructure will not be in place until June 2018.

8.4 The working budget for 2017/18 included 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 the end of the year a total of £473k of the budget carried forward has not been spent in 2017/18, as detailed in Table 3 below.

Table 3 – Unspent Carry Forward Budget in 2017/18

Monitoring Report	Carry Forward Budget in 17/18 (£k)	Project	Underspend reported (£k)
Q1	20	Migration of the NHDC building control service onto the single IT platform of the Hertfordshire Building Control trading company	20
Q2	20	Proposed extension of the Chiltern area of outstanding natural beauty	20
Q2	52	Economic Development Officer post	35
Month 8	87	Viability Assessment of Community Infrastructure Levy	87
Month 8	13	Review of Housing Strategy	13
Month 8	25	Herts Warmer Home Project	13
Month 8	52	Economic Development Officer post	17
Q3	20	Legal Services Contract Scanning	14
Q3	42	Parking Lines and Signs maintenance	30
Q3	11	Waste Services Temporary Technical Officer Post	5
Outturn	100	Strategic Priorities Fund (SPF); £53k of unspent SPF resource in 2016/17 and £47k of the overachievement of the vacancy control target in 2016/17 were carried forward to provide a total SPF budget of £100k in 2017/18. £24k of the funding available was allocated to successful bids in 2017/18 with the remaining £76k requested to be carried forward into 2018/19 (as highlighted in table 2 above).	76
Outturn	95	Commercialisation project; £1k of this £95k carry forward budget has been spent in 2017/18, with the remainder requested to be carried forward into 2018/19 (as highlighted in table 2 above).	94

Outturn	52	Churchgate development; £15k of the £52k budget carried forward has been spent in 2017/18. It is requested that the remaining £37k be carried forward into 2018/19 (as highlighted in table 2 above).	37
Outturn	25	Herts Warmer Homes Project; A further £12k of the original £25k carry forward budget has not been spent in 2017/18. It is requested that this unspent amount is carried forward into 2018/19 (as highlighted in table 2 above).	12
Total Underspend 2017/18			473

- 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 income recorded matched or exceeded the budgeted level of income. A red indicator means that the outturn has not met the budgeted level of income. An amber indicator is only used during the year to highlight that there is a risk that the budgeted level of income may not be met.
- 8.6 At the end of the year, two indicators are green and two indicators are red.
- 8.7 The red indicator in relation to car parking fees was highlighted within the revenue monitoring report at quarter 2 and relates to the additional parking fee income anticipated from the Parking Strategy review that has not been achieved.
- 8.8 The red indicator in relation to land charges income was highlighted within the revenue monitoring report at quarter 3. The number of searches requested to be undertaken by the authority has reduced in comparison to the prior financial year.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income for the year £k	Variance £k
Planning Application Fees (including fees for pre-application advice)	Green	(683)	(1,292)	(609)
Land Charges	Red	(174)	(150)	24
Car Parking Fees	Red	(1,813)	(1,734)	79
Parking Penalty Charge Notices	Green	(410)	(546)	(136)

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.9 The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus and Retained Business Rates income. The Council was notified by Central Government in February 2017 of the amount of New Homes Bonus it could expect to receive in 2017/18 and planned accordingly.
- 8.10 Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. At the end of 2017/18 there is a surplus on the NHDC share of the Council Tax Collection Fund of £257k and a deficit on the Business Rates Collection Fund of £624k.

- 8.11 The Central Government return submitted in January 2018 estimated a Business Rates Collection Fund deficit for 2017/18 of £656k. The contribution to the Collection Fund required in 2018/19 in respect of the deficit for 2017/18 is based on this January estimate. The £32k difference between the actual deficit of £624k and the January estimate of £656k will be included in the calculation of the estimated surplus/deficit for 2018/19 (submitted to Central Government in January 2019), and hence will affect the calculation of the Council's eligible retained business rates income for 2019/20.
- 8.12 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. Some of the amount held in reserve, £868k at the end of the year, will be used in the next financial year to fund the repayment of the £656k deficit highlighted above.
- 8.13 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. The calculated levy required for 2017/18 is £685k. The payment of the levy has been funded from the grant held in reserve. In 2018/19 the Council will be a member of the Hertfordshire Business Rates Pool, with the expectation that this will reduce the levy amount required in 2018/19.
- 8.14 Table 5 below summarises the impact on the general fund balance of the outturn position detailed in this report. It should however 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

	Working Budget £k	Outturn £k	Difference £k
Brought Forward balance (1st April 2017)	(8,235)	(8,235)	-
Net Expenditure	16,475	16,053	(422)
Funding (Council Tax, Business Rates, RSG)	(15,589)	(15,589)	0
Contribution to Collection Fund	741	741	0
Funding from Reserves (including Business Rate Relief Grant)	(373)	(373)	0
Carried Forward balance (31st March 2018)	(6,981)	(7,403)	(422)

- 8.15 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 at the end of the year a total of £451k have come to fruition. The two identified risks realised in the final quarter relate to;
- Failure to achieve summons costs' income budget in relation to Council Tax (as highlighted in table 2) and Business Rates (included in the 'other minor variances' total in table 2). £46k

- Costs incurred associated with the progress of the local plan (included in the 'other minor variances' total in table 2). £20K

Table 6 – Known financial risks

	£'000
Original allowance for known financial risks	795
Known financial risks realised in Quarter 1	(144)
Known financial risks realised in Quarter 2	(158)
Known financial risks realised in Quarter 3	(83)
Known financial risks realised in Quarter 4	(66)
Remaining allowance for known financial risks	344

EARMARKED RESERVES

- 8.16 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 £2.736million has been contributed to the reserves in 2017/18 and a total of £1.666million has been used to fund expenditure.
- 8.17 Cabinet are asked to recommend to Council that the net contribution to reserves of £1.070million be approved (recommendation 2.4), which leaves a total balance in earmarked reserves at 31 March 2018 of £5.679million.

Table 7 – Earmarked Reserves

	Balance at 1 April 2017	Contributions to reserve	Payments to Fund expenditure	Balance at 31 March 2018
	£'000	£'000	£'000	£'000
Cemetery Mausoleum	129	11	0	140
Children's Services	8	0	0	8
Climate Change Grant	30	0	0	30
Community Development	1	0	0	1
Community Right to Bid	45	0	0	45
DCLG Grants	489	1,457	(1,078)	868
DWP Additional Grants	3	189	(63)	129
Environmental Warranty Reserve	209	0	0	209
Growth Area Fund	53	0	0	53
Homelessness	42	175	(14)	203
Housing Planning Delivery Reserve	368	612	(212)	768
Information Technology Reserve	82	0	0	82
Insurance Reserve	32	3	(1)	34
Leisure Management Reserve	89	0	(42)	47
Local Authority Mortgage Scheme	107	17	(124)	0
Museum Exhibits Reserve	13	1	(2)	12
Neighbourhood Plan Reserve	21	20	0	41
Office Move IT Works	7	0	0	7
Paintings Conservation	11	0	0	11
Personal Search Fees	161	0	(57)	104
Property Maintenance	67	10	(15)	62
Syrian Refugee Project	19	83	(15)	87
S106 Monitoring	68	0	(15)	53
Special Reserve	1,720	0	0	1,720

Street Furniture	10	12	(5)	17
Street Name Plates	38	0	(22)	16
Taxi Licences Reserve	13	0	0	13
Town Centre Maintenance	39	0	(1)	38
Town Wide Review	222	74	0	296
Waste Reserve	513	72	0	585
Total Revenue Reserves	4,609	2,736	(1,666)	5,679

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.
- 9.2 The Accounts and Audit Regulations 2015 require that the Annual Statement of Accounts be approved and published by the deadline date of 31 July 2018. 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 £7.403million (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 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.