

CABINET
31 JULY 2018

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: FIRST QUARTER REVENUE MONITORING 2018/19

REPORT OF: 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 revenue income and expenditure forecasts for financial year 2018/19, as at the end of the first quarter. The forecast variance is a **£30k increase** on the net working budget of £15.178m for 2018/19, with an ongoing impact in future years of **£55k decrease**. There are a number of significant variances within these totals, which are detailed and explained in table 2. The report also provides an update on;

- the progress with the planned delivery of efficiencies (paragraph 8.3)
- the use of budget approved to be carried forward from 2017/18 (paragraph 8.4)
- performance against the four key corporate 'financial health' indicators (para 8.5)
- the overall forecast funding position for the Council and factors that may affect this (paras 8.6 – 8.13)

2. RECOMMENDATIONS

- 2.1 That Cabinet note this report.
- 2.2 That Cabinet approves the changes to the 2018/19 General Fund budget, as identified in table 3 and paragraph 8.2, a £30k increase in net expenditure.
- 2.3 That Cabinet notes the changes to the 2019/20 General Fund budget, as identified in table 3 and paragraph 8.2, a £55k decrease in net expenditure. These will be incorporated in the draft revenue budget for 2019/20.
- 2.4 That Cabinet notes the proposal, as outlined in paragraph 8.3, to recruit two additional officers to embed the principles of commercialisation and develop commercial activity across the authority and approves the required adjustments within the overall budgetary framework to the 2018/19 budget.

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 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 5th June 2018.

7. BACKGROUND

- 7.1 Council approved the revenue budget in February 2018 of £14.747 million. As at quarter 1 the working budget has increased to £15.178 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 2018/19	14,747
Quarter 3 2017/18 Revenue Monitoring report - 2018/19 budget changes approved by Cabinet (March 2018)	85
2017/18 Revenue Outturn Report - 2017/18 budget changes approved by Cabinet (June 2018)	346
Current Working Budget	15,178

- 7.2 Following the restructure of senior management, effective from 1st June 2018, the Council is now managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate in 2018/19.

Table 2 – Service Directorate Budget Allocations

	Current Net Direct Working Budget
Service Directorate	£k
Chief Executive	1,479
Commercialisation	(349)
Customers	3,588
Legal & Community	2,101
Place	4,645
Regulatory Services	1,253
Resources	2,461
TOTAL	15,178

8. RELEVANT CONSIDERATIONS

REVENUE INCOME AND EXPENDITURE FORECASTS

- 8.1 Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 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 column details if there is expected to be an impact on next year's (2019/20) budget:

Table 3 - Summary of forecast variances

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2019/20 £k
Investment Interest Income	-167	-255	-88	Increase in forecast income is due to higher than planned cash balances available for investment at the start of the year following the re-profiling of the Capital Programme reported in the second half of 2017/18.	0
Hitchin Town Hall Community Facility Income	-134	-100	+34	Access to the Terrace Gallery and Café remains restricted while a resolution is sought to the ownership of 14 and 15 Brand Street, and therefore hinders operations at the Community Facility. The adverse impact of a further delay to the opening of the Museum and Gallery was identified as a financial risk for 2018/19.	0
Revenues and Benefits – Government Grant Income	-513	-474	+39	Notification received from Central Government of reductions to Housing Benefit administration grant (£29,300 reduction from 2017/18) and Council Tax administration grant (£9,600 reduction from 2017/18).	+39
Property Search Fees – Government Grant Income	0	-33	-33	NHDC has received the final allocation of new burdens monies from Central Government in respect of the national property search fee dispute.	0
Careline net direct trading surplus	-278	-239	+39	Deterioration in forecast net position is in part due to increased equipment maintenance costs, while a higher level of staff turnover has also meant greater than planned use of agency staff in quarter one.	0
District Election Costs	+90	+125	+35	The 2018 district election was a standalone election and covered a larger population than the average assumed in the original budget estimates, which meant printing and postage costs were higher than budgeted. In addition, ballots were held in Royston for both Parish Council and District elections, with additional staffing resource therefore required.	0
Processing of comingled recyclates	+251	+381	+130	China's decision to ban the import of certain categories of recycled materials from the start of the calendar year has ultimately led to a significant decline in the sale value of these materials. A fall in sale prices directly increases the processing unit cost charged to NHDC. An increase in the net cost of recycling due to changes in the sale price of commodities was identified as a financial risk for 2018/19.	+130

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2019/20 £k
Net income from the Garden Waste Collection Service	-197	-427	-230	The original estimate was based on the results of the public consultation, which indicated a 26% take up. The service has however been more popular than the consultation suggested, with currently over 50% of households registered for the service.	-235
Planning Control – Legal Fees	1	80	+79	NHDC lost an appeal in quarter one against a planning committee decision to refuse permission (against officer recommendation) for an application for housing in Whitwell. The appellant was also successful with a costs award application and compensation costs have now been agreed. Costs incurred associated with an appeal against a planning decision were identified as a financial risk for 2018/19.	0
Total of explained variances	-947	-942	+5		-66
Other minor balances	16,758	16,744	25		11
Overall Total	17,178	17,208	+30		-55

- 8.2 Cabinet are asked to approve the differences highlighted in the table above (a £30k increase in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2019/20 budget (a £55k increase in budget) which will be incorporated in to the 2019/20 budget setting process (recommendation 2.3).
- 8.3 Following the restructure of senior management and the appointment of the Service Director - Commercialisation, it is proposed to recruit two additional officers to the Commercial Support Team within the Commercialisation Service Directorate. The new posts will lead on the development of a housing investment company and explore new commercial opportunities, while also mapping out, supporting and developing internal services to increase commercial capacity. It is estimated that additional annual resource up to a maximum of £125k is required to meet the cost of the new positions; with maximum additional expenditure in 2018/19 of half this amount (£62.5k) should the recruitment process be successful. The Council's Senior Management Team recommended that the cost of the first two years of these posts should be funded from the Special reserve. The Special reserve is an earmarked reserve with a current balance of £1.7million that has been maintained for purposes which include the resourcing of transformational change projects. It is then expected that the ongoing costs of the two new roles (beyond the initial two year period) will be funded from additional income generated from projects undertaken. Cabinet are asked to note this proposal and approve the requisite changes to the 2018/19 working budget (recommendation 2.4). The impact on 2019/20 and beyond will be incorporated into the 2019/20 budget setting process.

- 8.4 The original approved budget for 2018/19 (and therefore working budget) included efficiencies totalling £2,706k, which were agreed by Council in February 2018. 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 is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The current forecast is a net overachievement of £229k. This relates to:
- Net income from Garden Waste charging; -£235k, as highlighted and explained in table 3 above.
 - Paperless reporting; +£6k, included within other minor balances total in table 3. The forecast £6k underachievement of the estimated £14k efficiency is due to the printing of meeting papers and agendas, with secure delivery to Members, continuing until January 2019.
- 8.5 The working budget for 2018/19 includes budgets totalling £515k 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 2017/18 but was delayed into 2018/19. At quarter one, it is forecast that all carry forward budgets will be spent in 2018/19.
- 8.6 There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 4 below shows the income to date and forecasts for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber or green. A green indicator means that they are forecast to match or exceed the budgeted level of income. An amber indicator means that there is a risk that they will not meet the budgeted level of income. A red indicator means that they will not meet the budgeted level of income. Currently three of the indicators are green and one is amber.
- 8.7 The reason for the amber status for car parking fees income is that the original budget includes the additional £100k of income anticipated from the outcomes of the Strategic Parking Review. Whilst the income budget may still be achieved from an increase in parking activity over the year, at the end of quarter one no additional income raising measures have been implemented and hence there is a risk that the budgeted level of income may not be met.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income to date £k	Forecast income for the year £k	Projected Variance £k
Planning Application Fees (including fees for pre-application advice)	Green	(940)	(224)	(940)	0
Land Charges	Green	(174)	(42)	(174)	0
Car Parking Fees	Amber	(1,906)	(403)	(1,906)	0
Parking Penalty Charge Notices	Green	(532)	(102)	(532)	0

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.8 The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus and Retained Business Rates. The Council was notified by Central Government in February 2018 of the amount of New Homes Bonus it could expect to receive in 2018/19 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 others (e.g. County Council). Each organisation has a share of the balance on the Collection Fund account. At the end of 2017/18 there was surplus on our share of Council Tax of approximately £260k and a deficit on Business Rates of around £650k. In respect of business rates, where a deficit is declared to Central Government (actual business rates income collected is lower than originally anticipated) NHDC is required to make a corresponding additional contribution to the Business Rates Collection Fund in the following year.
- 8.10 The Council is also subject to a business rates levy from Central Government as it is expected that NHDC will collect more in business rates than the baseline need determined by Central Government. In 2017/18 this levy amount was £685k. In 2018/19 however NHDC is a member of the re-formed Hertfordshire Business Rates Pool, with the expectation that this should reduce the levy amount required. The original estimate prepared by Hertfordshire County Council, calculated around the time the pooling application was submitted to Central Government, indicated that NHDC would benefit from a pooling gain (in the form of a reduced levy amount payable) of approximately £400k. An updated estimate will be provided at Q2.
- 8.11 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. In 2018/19 NHDC expects to receive grant totalling £1.435m. This amount is held in an earmarked reserve and will be used to fund the additional contribution required to the Business Rates Collection Fund (following the deficit recorded for 2017/18) and the Business Rates levy amount payable for 2018/19.
- 8.12 The projection of the level of business rates income retained by the Council in 2018/19 at the start of the year was based on the Council's business rates funding baseline need, as published annually by central government in the Local Government Finance Settlement. The baseline need is approximately the minimum that the Council can expect to retain from the total of business rates collected. At quarter one this forecast has been updated to reflect the Council's estimate of business rates income in 2018/19 with the result being an increase of £222k in the funding expectation.

8.13 Table 5 below summarises the impact on the general fund of the position at quarter one detailed in this report.

Table 5 – General Fund impact

	Working Budget £k	Q1 Projected Outturn £k	Difference £k
Brought Forward balance (1st April 2018)	(7,403)	(7,403)	-
Projected Net Spend	15,178	15,208	30
Funding (Council Tax, Business Rates, RSG)	(14,823)	(15,045)	(222)
Contribution to Collection Fund	0	656	656
Funding from Business Rate Relief Grant Earmarked Reserve	0	(656)	(656)
Carried Forward balance (31st March 2019)	(7,048)	(7,240)	(192)

8.14 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 £1,424k, and by the end of quarter one a total of £243k have come to fruition. The three identified risks realised in the first quarter relate to;

- Lower than anticipated income from Hitchin Town Hall due to the delay to the opening of the North Herts Museum and Cafe (as detailed in table 3). £34k
- Increase in the net cost of recycling services following adverse movement in market prices (as detailed in table 3). £130k
- Legal costs award after successful appeal against a planning application decision (as detailed in table 3). £79k

Table 6 – Known financial risks

	£'000
Original allowance for known financial risks	1,424
Known financial risks realised in quarter 1	(243)
Allowance for known financial risks remaining	1,181

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*". The Council is under a duty to maintain 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.

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

- 16.1 Antonio Ciampa, Accountancy Manager

antonio.ciampa@north-herts.gov.uk; ext 4566

- 16.2 Jodie Penfold, Group Accountant
jodie.penfold@north-herts.gov.uk; ext 4332
- 16.3 Ian Couper, Service Director - Resources
ian.couper@north-herts.gov.uk; ext 4243
- 16.4 Kerry Shorrocks, Head of Human Resources
kerry.shorrocks@north-herts.gov.uk; ext 4224
- 16.5 Jeanette Thompson, Service Director – Legal & Community
jeanette.thompson@north-herts.gov.uk; ext 4370
- 16.6 Reuben Ayavoo, Senior Policy Officer
reuben.ayavoo@north-herts.gov.uk; ext 4212