

**FINANCE, AUDIT AND RISK COMMITTEE**  
**17 December 2018**

**PUBLIC DOCUMENT**

**TITLE OF REPORT: SECOND 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 second quarter. The forecast variance is a **£17k decrease** on the net working budget of £15.293m for 2018/19, with an ongoing impact in future years of **£300k decrease** and a request to carry forward budget of **£87k** to fund a specific project in 2019/20. There are a number of significant variances within these totals, which are detailed and explained in table 3. 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 8.5)
- performance against the four key corporate 'financial health' indicators (para 8.6)
- the overall forecast funding position for the Council and factors that may affect this (paras 8.7 – 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 £17k decrease 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 £213k decrease in net expenditure. These will be incorporated in the draft revenue budget for 2019/20.

### **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 12<sup>th</sup> October 2018.

### **7. BACKGROUND**

- 7.1 Council approved the revenue budget in February 2018 of £14.747 million. As at quarter 2 the working budget has increased to £15.293 million. Table 1 below details the approved changes to this budget to get to the current working budget:

**Table 1 - Current Working Budget**

	<b>£k</b>
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
Quarter 1 2018/19 Revenue Monitoring report - 2018/19 variances approved by Cabinet (July 2018)	30
Waste Collection Service in North Hertfordshire report – 2018/19 income implication from 3 month extension to payment period for green waste collection – approved by Council (November 2018)	85
<b>Current Working Budget</b>	<b>15,293</b>

- 7.2 The Council is managed under Service Directorates. Table 2 below confirms the current net direct resource allocation of each Service Directorate in 2018/19 and how this has changed from the allocations published in the quarter one monitoring report. Budget was reallocated between directorates during quarter 2 as the finer details of phase one of the corporate restructure were finalised.

**Table 2 – Service Directorate Budget Allocations**

Service Directorate	Net Direct Working Budget at Q1	Forecast Variances approved at Q1	Garden Waste Income Adjustment	Budget Transfers in Q2	Current Net Direct Working Budget
	£k	£k	£k	£k	£k
Chief Executive	1,479	(105)	0	0	1,374
Commercialisation	(349)	42	0	(138)	(447)
Customers	3,588	59	0	0	3,647
Legal & Community	2,101	33	0	97	2,232
Place	4,645	(100)	85	(98)	4,532
Regulatory Services	1,253	63	0	0	1,316
Resources	2,461	38	0	139	2,638
<b>TOTAL</b>	<b>15,178</b>	<b>30</b>	<b>85</b>	<b>0</b>	<b>15,293</b>

## 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	Carry Forward Request £k	Estimated Impact on 2019/20 £k
Investment Interest Income	-255	-320	-65	Level of investment interest income is forecast to be higher than budgeted due to the re-profiling of Capital Programme expenditure increasing cash balances available for investment.	0	-133
Employee Payroll Costs – Savings Target	-516	-601	-85	Original payroll budgets included provision for 3% increase in salaries for all pay grades. With the respective pay offers for 2018/19 now agreed, adjustment to current year vacancy control savings target is the estimated over-provision in respect of the pay award for 2018/19. The ongoing impact will	0	-85

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2019/20 £k
				be incorporated in the base salary budgets calculated for each service.		
Business Rates Expenditure	+558	+586	+28	The national business rates revaluation in April 2017 resulted in significant increases to the rateable values of some of the Council's assets. Where this occurred, the authority was eligible for transitional relief, which allows the increase in rates to the higher value to be incremental over five years. Increase in spend therefore reflects reduction in value of the transitional relief in 2018/19 compared to last year.	0	+32
Land Charges Income	-174	-149	+25	Forecast shortfall is based on activity to date. The response to building control related elements of personal searches, previously provided by NHDC, is now undertaken by Hertfordshire Building Control. This is estimated to account for around £10k of the shortfall, with the remainder an indication of the effect of the slow down in the housing market due to economic uncertainty and the potential impact of Brexit.	0	+10
Planning Control – Legal and Consultants Costs	+103	+338	+235	Two appeals against Planning Committee decisions (both taken against officer recommendation) resulted in full cost awards against the Council and supplementary expenditure of approx. £140k. In addition, two 'hostile' planning applications for sites not taken forward within the Local Plan submission were defended at appeal. The first was a public inquiry at which the Council successfully defended its case. The outcome of the second appeal is awaited. Additional expenditure incurred as a result of planning appeals or hostile planning applications were identified as financial risks for 2018/19.	0	0
Local Plan Costs	+191	+306	+115	Anticipated further spend in this year includes inspector fees and legal fees for main modifications, and consultants' fees for advice on transport and green belt issues. Additional costs associated with the progress of the Local Plan were highlighted as a financial risk for 2018/19.	0	0

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2019/20 £k
Community Infrastructure Levy (CIL)	+87	0	-87	The carry forward budget for CIL implementation will not be spent this year. The work has just started to see if it is beneficial for North Herts to introduce a Community Infrastructure Levy. This work will continue into the new financial year and therefore it is requested to carry forward this budget into 2019/20.	+87	0
Car Parking Fee Income	-1,906	-1,814	+92	The working budget total includes an additional £100k of income anticipated from the outcomes of the Strategic Parking Review. At the end of quarter two no additional income raising measures have been implemented and are unlikely to be introduced in this financial year.	0	0
Insurance	+224	+172	-52	Savings on insurance from the re-tender of the Council's insurance arrangements, primarily on our property insurance. This has included some changes to the level and scope of the insurance cover. The ongoing financial implication is included as an efficiency proposal in the draft 2019/20 budget report.	0	0
North Herts Leisure Centre – Contribution from Stevenage Leisure Limited (SLL)	0	-126	-126	The £126k variance represents the amount of SLL contribution applied to the General Fund following the agreement of the final account for the capital expenses of the development project. The delay in the completion of the development put back the realisation of the additional income from the Learner Pool. SLL agreed to make an additional contribution, made up of a fixed amount and an element of profit share, to reduce the financial impact on the Council.	0	0
Hitchin Swim Centre Car Park Extension – transfer of abortive capital scheme costs to the General Fund	0	+109	+109	Transfer of costs incurred over a number of years in progressing the project to extend the HSC car park, which to date have been charged as capital expenditure. Following a public enquiry the Council was refused permission for an access road through Butts Close, which has meant the original scheme is no longer viable. A new plan is currently being considered to increase the number of parking spaces at the car park.	0	0
Property Compliance	+143	+118	-25	Underspend primarily due to buildings being removed from the compliance contract. Buildings removed include the DCO and Town Lodge, where compliance is generally delivered in-house, and those sports pavilions no longer maintained by the Council. Ongoing budget provision required for compliance will be reviewed again once the new	0	0

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2019/20 £k
				contract, commencing in February 2019, is fully operational.		
Net Income from Hitchin Town Hall Community Facility	-73	+38	+111	Whilst significant progress has been made concerning the ownership of 14 and 15 Brand Street, this revised forecast is an acknowledgement that the facility will not be fully operational before the end of this financial year, with the Council not able to achieve income from the café and the hiring of the terrace gallery. The opening of the museum and café was also expected to increase the footfall around the facility and so help in raising awareness of what services and activities are available. The adverse impact of a further delay to the opening of the Museum and Café was identified as a financial risk for 2018/19.	0	0
Corporate Photocopiers	+43	+25	-18	The temporary relocation to Town Lodge prompted a reduction in the total number of MFD machines, with three less in operation. This reduction was then made permanent when the lease contract was renewed prior to the return to DCO. This has resulted in lower rental costs, print charges and paper costs.	0	-18
Net Cost of Food and Garden Waste Collection	763	577	-186	Movement in forecast cost is indicative of both additional households registering for the Garden Waste Collection service during quarter 2 and performance management reductions in payments to the waste contractor relating to the delivery of the food and garden waste collection services in this year.	0	-61
<b>Total of explained variances</b>	<b>-812</b>	<b>-741</b>	<b>+71</b>		<b>+87</b>	<b>-255</b>
Other minor balances	16,105	16,017	-88		0	-45
<b>Overall Total</b>	<b>15,293</b>	<b>15,276</b>	<b>-17</b>		<b>+87</b>	<b>-300</b>

- 8.2 Cabinet are asked to approve the differences highlighted in the table above (£17k decrease 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 (£213k decrease in budget which includes the request to carry forward £87k of budget from 2018/19 to 2019/20), which will be incorporated in to the 2019/20 budget setting process (recommendation 2.3).
- 8.3 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. A net overachievement of £229k was forecast at quarter one. The current forecast is a net overachievement of £338k. The main reason for this increase that is not highlighted in table 3 is:
- Shared Client Waste Team staff; -£56k. While the efficiency proposal phased the £120k estimated total saving over two years (2018/19 -£60k and 2019/20 -£60k), the approved staffing structure for the shared waste client team has delivered an estimated permanent saving of £115,600 from 2018/19. The overachievement in the current year has however been absorbed by temporary staffing pressures associated with the new waste contract. The £4,400 shortfall against the ongoing £120k saving is included within the other minor balances ongoing impact total in table 3.
- 8.4 The original budget estimates approved in February 2018 included an expectation that permanent annual payroll savings of £305k would be identified as part of the corporate staff restructure, bringing the total annual saving to the £500k total estimated in the original corporate restructure efficiency proposals (£195k expenditure was permanently removed from the budget following the two senior management voluntary redundancies agreed in October 2016 as part of phase 1). As part of phase 2 of the restructure, following their appointment each Service Director has reviewed and amended their respective Directorate staffing needs and arrangements during quarter two. While having only a part-year impact in 2018/19, the outcome of the review has been the identification of the £305k ongoing annual savings, with the associated budget adjustments incorporated into the staffing budget estimates for 2019/20.
- 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 two, it is forecast that one carry forward budget of £87k will not be spent. This unspent budget, relating to the potential implementation of a Community Infrastructure Levy, is highlighted and explained in table 3 above, with the allocated

resource now requested to be carried forward again to be utilised in 2019/20. All other carry forward budgets are expected to 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 two of the indicators are green and two are red. Explanations for both red indicators, land charges and car parking fees, are provided in table 3 above.

**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)	(399)	(940)	0
Land Charges	Red	(174)	(72)	(149)	25
Car Parking Fees	Red	(1,906)	(852)	(1,814)	92
Parking Penalty Charge Notices	Green	(532)	(228)	(532)	0

## **FUNDING, RISK AND GENERAL FUND BALANCE**

- 8.7 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.
- 8.8 Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of others (e.g. County Council). Each organisation has a share of the balance on the Collection Fund account. The current forecast position for 2018/19 is a surplus on the Council Tax position of around £300k and a deficit on Business Rates of approximately £30k. 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. This is the case in 2018/19, as at the end of 2017/18 there was a deficit on Business Rates of around £650k.



- 8.9 In respect of Council Tax, £257k of the forecast £300k surplus position on our share of the Council Tax Collection Fund is the accumulation of annual surpluses recorded for prior financial years. The reason for retaining an annual surplus in the Collection Fund has been that the accumulated surplus can be used to fund / offset collection deficits reported in future years. Annual surpluses have however been recorded for a number of years consecutively and so, as detailed in the draft budget report, the accumulated surplus will be transferred from the Collection Fund to fund the Council's General Fund activities in 2019/20.
- 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 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. The County Council has recently requested from pool member authorities details of their forecast Business Rates income for 2018/19. The information collected will be used in preparing an updated estimate of the respective pooling gain for each authority. The updated calculation is expected to be circulated shortly.
- 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 Table 5 below summarises the impact on the general fund of the position at quarter two detailed in this report.

**Table 5 – General Fund impact**

	<b>Working Budget £k</b>	<b>Q2 Projected Outturn £k</b>	<b>Difference £k</b>
<b>Brought Forward balance (1<sup>st</sup> April 2018)</b>	<b>(7,403)</b>	<b>(7,403)</b>	<b>-</b>
Projected Net Spend	15,293	15,276	(17)
Funding (Council Tax, Business Rates, New Homes Bonus)	(15,045)	(15,044)	1
Contribution to Collection Fund relating to 2017/18 business rates deficit recorded	656	656	0
Funding from Business Rate Relief Grant Earmarked Reserve	(656)	(656)	0

<b>Carried Forward balance (31<sup>st</sup> March 2019)</b>	<b>(7,155)</b>	<b>(7,171)</b>	<b>(16)</b>
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8.13 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 £1,424k, and by the end of quarter two a total of £709k have come to fruition. The four identified risks realised in the second quarter relate to;

- Higher than anticipated net cost of Hitchin Town Hall (as detailed in table 3). £111k
- Legal costs awards after successful appeals against planning application decisions (as detailed in table 3). £140k
- Costs associated with receipt of 'hostile' planning applications (as detailed in table 3). £95k
- Additional costs associated with the progression of the Local Plan (as detailed in table 3). £115k
- Usage of bed and breakfast accommodation for homeless households (included within other minor variances in table 3). £5k

**Table 6 – Known financial risks**

	<b>£'000</b>
<b>Original allowance for known financial risks</b>	<b>1,424</b>
Known financial risks realised in quarter 1	(243)
Known financial risks realised in quarter 2	(466)
<b>Allowance for known financial risks remaining</b>	<b>715</b>

## **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**

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