

CABINET
26 March 2019

PUBLIC DOCUMENT

TITLE OF REPORT: THIRD 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 third quarter. The forecast variance is a **£211k decrease** on the net working budget of £15.392m for 2018/19, with an ongoing impact in future years of **£92k decrease** and a request to carry forward budget of **£87k** to fund specific projects 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 8.4)
- 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 – 8.11)

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 £211k decrease in net expenditure.
- 2.3 That Cabinet approves the changes to the 2019/20 General Fund budget, as identified in table 3 and paragraph 8.2, a £5k decrease in net expenditure.

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 18th January 2019.

7. BACKGROUND

- 7.1 Council approved the revenue budget in February 2018 of £14.747 million. As at quarter 3 the working budget has increased to £15.392 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 |
| 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 |
| Quarter 2 2018/19 Revenue Monitoring report – 2018/19 variances approved by Cabinet (December 2018) | (17) |
| Revenue monitoring included within 2019/20 budget report – 2018/19 variances approved by Cabinet (January 2019) | 116 |
| Current Working Budget | 15,392 |

- 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 two monitoring report. The budget transfers in quarter 3 mostly relate to directorate contributions to the vacancy control savings target.

Table 2 – Service Directorate Budget Allocations

| Service Directorate | Net Direct Working Budget at Q2 | Forecast Variances approved at Q2 | Forecast Variances within 2019/20 budget report | Budget Transfers in Q3 | Current Net Direct Working Budget |
|---------------------|---------------------------------|-----------------------------------|---|------------------------|-----------------------------------|
| | £k | £k | £k | £k | £k |
| Chief Executive | 1,374 | (159) | 0 | 310 | 1,525 |
| Commercialisation | (447) | 91 | 10 | (164) | (510) |
| Customers | 3,647 | (40) | 6 | (3) | 3,610 |
| Legal & Community | 2,232 | (14) | (15) | (168) | 2,035 |
| Place | 4,533 | (208) | 184 | 12 | 4,521 |
| Regulatory Services | 1,316 | 375 | 26 | (4) | 1,713 |
| Resources | 2,638 | (62) | (95) | 17 | 2,498 |
| TOTAL | 15,293 | (17) | 116 | 0 | 15,392 |

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 |
|------------------------|-------------------|-------------|-------------|---|--------------------------|--------------------------------|
| Waste Variation Orders | 462 | 208 | (254) | The waste contract includes unit prices where there will be variability in the need for those services (e.g. collection and delivery of bins and bulky waste collection). Due to the savings achieved through the core contract, this variation budget was set at a prudent level. Experience this year has been that this has not been required, but this may be linked to the operational issues experienced and a focus on the delivery of the core services. Therefore at this stage, an ongoing impact is not forecast. There have also been underspends on bin purchases as volumes required were less than expected for this | 0 | 0 |

| Budget Area | Working Budget £k | Forecast £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2019/20 £k |
|--|----------------------|----------------|----------------|---|--------------------------------|---|
| | | | | year. | | |
| Parking Services – Lines and Signs Maintenance Works | 80 | 16 | (64) | Request to carry forward to 2019/20. Tenders have been awarded to two contractors to undertake the lines and signs work. The lines and signs works in Royston are expected to be finished in 2018/19, with the rest of North Herts expected to be completed in the new financial year. | 64 | 0 |
| Car Parking Income | (1,814) | (1,869) | (55) | Increase in car parking income projection is based on actual parking income receipts recorded in the first three quarters of the year, which have been higher than anticipated. | 0 | (88) |
| Investment Interest | (320) | (360) | (40) | Level of investment interest income is higher than budgeted due to the reprofiling of the Capital Programme, which has increased cash balances available for investment. | 0 | 0 |
| Fernhill Sports Hall Management Fee | 36 | 2 | (34) | The management fee for 2017/18 (charged in this year) was £18k less than the value (£36k) accrued at the end of 2017/18. This was due to work undertaken on the hall roof and side panels in previous years reducing the level of maintenance spend required in year. In addition, the fee for 2018/19 is expected to be £20k, which is £16k less than the working budget provision. Maintenance costs are however expected to increase in future years, as the deterioration in the condition of the building increases the need for repair works. | 0 | 0 |
| Herts Warmer Homes Project | 25 | 12 | (13) | This is a project being undertaken with HCC and all other districts/boroughs in the County to enable residents to obtain free and discounted energy efficiency measures. Plans are being developed to extend the project into a third and possibly a fourth year, so it is requested to carry forward the remaining £13k for the continuation of the project in 2019/20. | 13 | 0 |

| Budget Area | Working Budget £k | Forecast £k | Variance £k | Reason for difference | Carry Forward Request £k | Estimated Impact on 2019/20 £k |
|--|----------------------|----------------|----------------|--|--------------------------------|---|
| Economic Development Officer | 39 | 29 | (10) | £10k carry forward requested for 2019/20. This is earmarked for economic development projects in relation to the evolving action plan as set out in the Economic Development Strategy. The tender for this work will be completed and the project started in 2018/19, but the work will not be completed until 2019/20. | 10 | 0 |
| Planning Income | (964) | (834) | +130 | Reduction in the planning income target as a result of a reduced number of planning applications received in the last few months. This is a trend across other Hertfordshire Authorities and believed to be partly due to uncertainty nationally with regard to the housing market. | 0 | 0 |
| Planning Consultants | 64 | 121 | +57 | Consultant spend was to advise on planning appeals for the Station Inn at Knebworth and The Cabinet, Reed. This is the last of the appeals for this financial year where consultants will be used to represent the Council, so no further significant spend is anticipated. This has been highlighted as a financial risk. | 0 | 0 |
| Vacancy Control Savings Target | (265) | (212) | +53 | Vacancy Control target will not be achieved due to one off restructure costs. | 0 | 0 |
| DCO Rental Income | (30) | 0 | +30 | The marketing of the office space, which commenced in late October, has not yet secured a tenant so rental income will not materialise this financial year. | 0 | 0 |
| Water and Sewerage costs for Amenity Areas | 12 | 39 | +27 | Invoices based on actual meter readings received for the splash parks have highlighted that the estimated bills received previously were significantly underestimated. The projected outturn includes corrections to billing over several years. | 0 | 8 |
| Total of explained variances | (2,675) | (2,848) | (173) | | 87 | (80) |
| Other minor balances | 18,067 | 18,029 | (38) | | 0 | (12) |
| Overall Total | 15,392 | 15,181 | (211) | | 87 | (92) |

8.2 Cabinet are asked to approve the differences highlighted in the table above (£211k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to approve the estimated impact on the 2019/20 budget, a £5k decrease in budget, which includes the request to carry forward £87k of budget from 2018/19 to 2019/20 (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 it is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. A net overachievement of £338k was forecast at quarter two. The current forecast is a net overachievement of £166k. The main reason for this decrease is the reduction in planning income and not achieving the DCO rental income which are highlighted in table 3. One other variance that is not highlighted in table 3 is:

- Replacement of existing Asset Management System. This saving has been underachieved by £8k due to a delay in transferring data over to the new system, which has meant the cost of the current system is still being incurred. The underachievement in the current year has however been absorbed by minor offsetting variances elsewhere in the service, which are included within the other minor balances figure in table 3.

8.4 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 three, it is forecast that a total of £161k of the budget carried forward will not be spent in the current financial year. This relates to:

- £87k - reported at Qtr2 that one carry forward would not be spent.
- Parking Services Lines and Signs Maintenance budget. £39k of the £55k carried forward budget will not be spent in this financial year, as highlighted and explained in table 3 above. The unspent budget is requested to be carried forward to be utilised in 2019/20.
- Economic Development Officer. £10k of the £18k carried forward will not be spent this financial year, as highlighted and explained in table 3. The unspent budget is requested to be carried forward to 2019/20.
- Herts Warmer Homes Project. £13k of the £25k carried forward will not be spent this financial year, which is highlighted and explained in table 3. The unspent budget is requested to be carried forward to 2019/20.
- Housing Market Review. £12k of the £21k carried forward will now not be spent. This is included in the minor balances total in table 3. The housing market review cannot be done until the local plan is adopted. As the work can be funded from allocated budget in future years, the carry forward provision is no longer needed.

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 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 red and one is green. The red indicators for land charges and car parking fees were highlighted at quarter two. The explanation for the red indicator for planning application fees is highlighted 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) | Red | (940) | (615) | (806) | 134 |
| Land Charges | Red | (174) | (116) | (149) | 25 |
| Car Parking Fees | Red | (1,906) | (1,414) | (1,869) | 37 |
| Parking Penalty Charge Notices | Green | (532) | (387) | (532) | 0 |

FUNDING, RISK AND GENERAL FUND BALANCE

8.6 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.

8.7 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 £58k. 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.

8.8 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 requested from pool member authorities details of their forecast Business Rates income for 2018/19. County are still awaiting information from some authorities, so as at the present time a revised estimate of the pooling gain has not been provided.

8.9 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.

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

Table 5 – General Fund impact

| | Working Budget £k | Q3 Projected Outturn £k | Difference £k |
|---|------------------------------|--|--------------------------|
| Brought Forward balance (1st April 2018) | (7,403) | (7,403) | - |
| Projected Net Spend | 15,392 | 15,181 | (211) |
| Funding (Council Tax, Business Rates, New Homes Bonus) | (15,045) | (15,045) | 0 |
| 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 |
| Carried Forward balance (31st March 2019) | (7,056) | (7,267) | (211) |

8.11 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 three a total of £786k have come to fruition. The two identified risks realised in the third quarter relate to;

- Compensation costs awarded to a sex establishment in North Herts due to a legal challenge on fees. This was included in table 7 (within other minor variances) of the 2019/20 budget report. £20k
- Costs associated with an appeal of a planning application (as detailed in table 3 above) £57k

Table 6 – Known financial risks

| | £'000 |
|--|--------------|
| Original allowance for known financial risks | 1,424 |
| Known financial risks realised in quarter 1 | (243) |
| Known financial risks realised in quarter 2 | (466) |
| Known financial risks realised in quarter 3 | (77) |
| Allowance for known financial risks remaining | 638 |

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

9.1 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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