

CABINET
31 JULY 2019

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: FIRST QUARTER REVENUE MONITORING 2019/20

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER FOR FINANCE AND IT

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 2019/20, as at the end of the first quarter. The forecast variance is a **£239k decrease** on the net working budget of £15.797million for 2019/20, with an ongoing impact in future years of a **£130k decrease**. Within these summary totals there are several budget areas with more significant variances, which are detailed and explained in table 3. The report also provides an update on;
- the progress with the delivery of planned efficiencies (paragraph 8.3)
 - the use of budget approved to be carried forward from 2018/19 (paragraph 8.4)
 - performance against the four key corporate 'financial health' indicators (paras 8.5 -8.7)
 - the overall forecast funding position for the Council and factors that may affect this (paras 8.8 – 8.14)

2. Recommendations

- 1.1. That Cabinet note this report.
- 1.2. That Cabinet approves the changes to the 2019/20 General Fund budget, as identified in table 3 and paragraph 8.2, a £239k decrease in net expenditure.
- 1.3. That Cabinet notes the changes to the 2020/21 General Fund budget, as identified in table 3 and paragraph 8.2, a £130k decrease in net expenditure. These will be incorporated in the draft revenue budget for 2020/21.

3. REASONS FOR RECOMMENDATIONS

- 1.1. 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.

1. ALTERNATIVE OPTIONS CONSIDERED

- 1.1. Budget holders have considered the options to manage within the existing budget but consider the variances reported here necessary and appropriate.

2. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 2.1. 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.

3. FORWARD PLAN

- 3.1. This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 7th June 2019.

4. BACKGROUND

- 7.1. Council approved the revenue budget for 2019/20 of £15.251 million in February 2019. As at quarter 1 the working budget has increased to £15.797 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 2019/20	15,251
Quarter 3 2018/19 Revenue Monitoring report – 2019/20 budget changes approved by Cabinet (March 2019)	25
2018/19 Revenue Outturn Report – 2019/20 budget changes approved by Cabinet (June 2019)	521
Current Working Budget	15,797

- 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 three monitoring report.

Table 2 – Service Directorate Budget Allocations

8. R		Original Budget	Changes approved at Q3 2018/19	Changes approved at Outturn 2018/19	Other Budget Transfers	Current Net Direct Working Budget
	Service Directorate	£k	£k	£k	£k	£k
	Chief Executive	1,599	0	349	(129)	1,819
	Commercialisation	(494)	(17)	0	(2)	(513)
	Customers	3,498	0	(13)	80	3,565
	Legal & Community	2,283	2	17	13	2,315
	Place	4,683	41	69	18	4,811
	Regulatory Services	1,145	(1)	58	10	1,212
	Resources	2,537	0	41	10	2,588
	TOTAL	15,251	25	521	0	15,797

RELEVANT CONSIDERATIONS

REVENUE INCOME AND EXPENDITURE

- 3.1 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 (2020/21) budget:

Table 3 - Summary of significant variances

Budget Area	Working Budget £k	Outturn £k	Variance £k	Reason for difference	Estimated Impact on 2020/21 £k
Employee Costs – Voluntary Redundancies	355	274	(81)	Variance represents the saving in employee costs from the two voluntary redundancies agreed by Full Council in February 2019. Part of the saving in 2019/20 has been used to fund some temporary additional staffing resource.	(107)
Business Rates Expenditure	619	550	(69)	Underspend variance in 2019/20 is primarily due to a backdated adjustment to rates payable on the North Hertfordshire Museum and Community Facility. This reduction however is estimated to be more than offset in future years by the phased withdrawal of transitional relief. Relief was granted where there were significant changes in the rateable value of Council assets from the 2017 revaluation, most notably in respect of several Council car parks.	10
Investment Interest Income	(300)	(372)	(72)	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 2018/19.	0
Total of explained variances	674	452	(222)		(97)
Other minor balances	+15,123	+15,106	(17)		(33)
Overall Total	+15,797	+15,558	(239)		(130)

- 8.2. Cabinet are asked approve the differences highlighted in the table above (a £239k decrease in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2020/21 budget (a £130k decrease in budget) which will be incorporated in to the 2020/21 budget setting process (recommendation 2.3).
- 8.3. The original approved budget for 2019/20 (and therefore working budget) included efficiencies totalling £610k, which were agreed by Council in February 2019. 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 that all the efficiencies approved in February will be delivered.

- 8.4. The working budget for 2019/20 includes budgets totalling £689k 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 2018/19 but was delayed into 2019/20. At quarter one, it is forecast that all carry forward budgets will be spent in 2019/20.
- 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 green and one is amber.
- 8.6. The amber status for Land Charges income is based on the actual income to date. Activity in quarter one was similar to that of the last financial year, where a total income outturn of £145k for 2018/19 was reported. A similar outturn for 2019/20 would represent approximately a £20k shortfall on the original budget expectation. Whilst the income budget may still be achieved from an increase in activity over the remainder of the year, there is a risk that the budgeted level of income may not be met.
- 8.7. The actual income to date for planning application fees is increased by the reversal in the current year of the £335k accounting adjustment posted at the end of 2018/19, as highlighted and explained in the Outturn Report 2018/19. Income receipts received in the first quarter in respect of planning applications totalled £262k, which is slightly above the budget expectation. As in 2018/19, an accounting adjustment will be posted at the end of 2019/20 to ensure that the reported income total reflects only the income received from planning applications resolved in this financial year, in accordance with accounting policy. Accounting adjustments do not affect the cash the Council receives.

Table 4 - Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income to date £k	Forecast income for the year	Projected Variance £k
Planning Application Fees (including fees for pre-application advice)	Green	(950)	(597)	(950)	0
Land Charges	Amber	(164)	(38)	(164)	0
Car Parking Fees	Green	(1,809)	(454)	(1,897)	(88)
Parking Penalty Charge Notices	Green	(532)	(137)	(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 income. The Council was notified by Central Government in February 2019 of the amount of New Homes Bonus it could expect to receive in 2019/20 and planned accordingly.
- 8.9. Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of other bodies. Each organisation has a share of the balance on the Collection Fund account. At the end of 2018/19 there was a surplus on the NHDC share of the Council Tax Collection Fund of £279k and a deficit on the Business Rates Collection Fund of £604k.
- 8.10. It was expected in the budget report for 2019/20 that the Council Tax Collection Fund would have a surplus recorded at the end of 2018/19 of £300k. This total included the accumulation of annual surpluses recorded for prior financial years. The budget for 2019/20 built in the transfer of this £300k surplus from the Collection Fund to fund the Council's General Fund activities in 2019/20 and this amount is therefore included in the funding total in table 5 below. The £11k shortfall between the £300k surplus anticipated at the end of 2018/19 and the actual surplus recorded of £279k will be incorporated in the calculation of the surplus or deficit recorded for 2019/20, with any impact affecting the Council Tax income total for 2020/21.
- 8.11. The Central Government return submitted in January 2019 estimated a Business Rates Collection Fund deficit for 2018/19 of £58k. The contribution to the Collection Fund required in 2019/20 in respect of the deficit for 2018/19, as shown in table 5, is based on this January estimate. The £546k difference between the actual deficit of £604k and the January estimate of £58k will be included in the calculation of the estimated surplus/deficit for 2019/20 (submitted to Central Government in January 2020), and hence will affect the calculation of the Council's retained business rates income for 2020/21. The increase in the deficit was based on the Council being more prudent about the level of appeals it should make provision for.
- 8.12. As has been previously notified, Hertfordshire was successful in becoming a Business Rate pilot in 2019/20. The overall benefits to the Council of being part of the pilot were set out in a report to the Cabinet meeting on 10th September 2018. The actual gain will be dependent on the overall Business Rates collected across Hertfordshire, as well as within North Hertfordshire. Monthly monitoring of the expected gain is being developed by Hertfordshire County Council. These forecasts will be a guide only as Business Rate income can be subject to significant fluctuations, particularly across 10 billing authorities. Therefore the final position will not be known until after the end of the current year and hence after the 2020/21 budget has been set. Depending on the confidence in forecasts and the margin for error, it may be possible to incorporate some of the gain into the 2020/21 budget, but most of it would only be available in 2021/22. It should also be noted that any gain will be a one-off.
- 8.13. 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. In 2018/19 NHDC received grant totalling £1.435m and the current expectation for 2019/20 is £1.922m. We are holding the grant received in a reserve to fund the repayment of deficits recorded in future years. Some of the amount held in reserve will therefore be used in this year to fund the repayment of the £58k deficit highlighted above.

- 8.14. Table 5 below summarises the impact on the general fund balance 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 2019)	(7,862)	(7,862)	-
Net Expenditure	15,797	15,558	(239)
Funding (Council Tax, Business Rates, NHB)	(15,319)	(15,319)	0
Contribution to Funding Equalisation Reserve	68	68	0
Contribution to Collection Fund	58	58	0
Funding from Reserves (including Business Rate Relief Grant)	(58)	(58)	0
Carried Forward balance (31st March 2020)	(7,316)	(7,555)	(239)

- 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 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 £1,203k, and by the end of quarter one a total of £17k has come to fruition. The identified risk realised in the first quarter relates to;

- Elections team staffing resource. Due to unforeseen turnover of staff, a consultant was employed to assist with the preparations for the District and European elections (included within other minor variances in table 3). £17k

Table 6 – Known financial risks

	£'000
Original allowance for known financial risks	1,203
Known financial risks realised in Quarter 1	(17)
Remaining allowance for known financial risks	1,186

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.

10. FINANCIAL IMPLICATIONS

- 10.1. Members have been advised of any variations from the budgets in the body of this report and of any action taken by officers.

11. RISK IMPLICATIONS

- 11.1. As outlined in the body of the report. The process of quarterly monitoring to Cabinet is a control mechanism to help to mitigate the risk of unplanned overspending of the overall Council budget.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. For any individual new revenue investment proposal of £50k or more, or affecting more than two wards, a brief equality analysis is required to be carried out to demonstrate that the authority has taken full account of any negative, or positive, equalities implications; this will take place following agreement of the investment.

13. SOCIAL VALUE IMPLICATIONS

- 13.1. The Social Value Act and “go local” policy do not apply to this report.

14. 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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