

# CABINET

## 26 SEPTEMBER 2017

**\*PART 1 – PUBLIC DOCUMENT**

**AGENDA ITEM No.**

**8**

**TITLE OF REPORT: FIRST QUARTER REVENUE MONITORING 2017/18**

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT  
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 2017/18, as at the end of the first quarter (30 June 2017). The forecast variance is an increase of **£208k** on the net working budget of **£17.022m** for 2017/18, with an ongoing impact in future years of **£158k**. 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 2016/17 (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 2017/18 General Fund budget, as identified in table 2 and paragraph 8.2, a £208k increase in net expenditure.
- 2.3 That Cabinet notes the changes to the 2018/19 General Fund budget, as identified in table 2 and paragraph 8.2, a £158k increase in net expenditure. These will be incorporated in to the draft revenue budget for 2018/19.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 Members are able to monitor 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 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 27<sup>th</sup> June 2017.

#### 7. BACKGROUND

- 7.1 Council approved the revenue budget in February 2017 of £16.545 million. As at quarter 1 the working budget has increased to £17.022 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 2017/18	16,545
Proposed Crematorium at Wilbury Hills Cemetery - Interim Report On Business Case – approved by Cabinet 28 <sup>th</sup> 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
<b>Current Working Budget</b>	<b>17,022</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 2 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 (2018/19) budget:

**Table 2 - Summary of forecast variances**

<b>Budget Area</b>	<b>Working Budget £k</b>	<b>Forecast £k</b>	<b>Variance £k</b>	<b>Reason for difference</b>	<b>Estimated Impact on 2017/18 £k</b>
Employer Pension Contribution	+2,379	+2,513	+134	Forecast variance follows the publication of the 2017 Pension Scheme revaluation. The Scheme's Actuary has advised that over the next three years NHDC make a minimum contribution to the pension scheme of an annual lump sum payment of £1.006m plus a contribution equivalent to 18.6% of pensionable pay. The original budget estimates for 2017/18 were based on an estimated increase in the lump sum of £558k (to £1.123m) and a contribution percentage of 15.5%. A further £100k pension cost provision was included in the budget estimates from 2018/19, which therefore reduces the ongoing impact in comparison to the original published estimates.	+34
Investment Interest Income	-267	-327	-60	Increase in income is due to both higher than planned cash balances available for investment at the start of the year, while longer-term investment deposits have been placed at an average annual interest rate of 1.0%, which is greater than the 0.7% estimated rate of interest on which the budget was calculated.	0
Telephones – Line Rental Costs	+41	+29	-12	Following the installation of the new telephony system, there were some lines that were still under old contracts. The majority of these have now come to an end and moved on to the new system. This results in an estimated annual saving of £12k. This saving is additional to the permanent £24k annual saving on call charges reported last year.	-12
Stationery Purchases	+28	+15	-13	The centralisation of the stationery budget has helped to highlight the likely underspend on this provision, while improved stock management has kept expenditure on new stationery to a minimum.	-13
Parking - Penalty Charge Notice Income	-410	-531	-121	Annual income recorded from PCNs issued in recent years has been consistently higher than the expectation within the base budget. The variance reported and the estimated ongoing impact is therefore to align budget estimates with the current level of activity.	-121
Pest Control Service	+27	+8	-19	The full commercialisation of the pest control service from April 2017 was agreed as part of the contract renewal.	-27

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2017/18 £k
Hitchin Town Hall Community Facility Income	-287	-245	+42	The delayed opening of the Café and Museum has reduced the income expectation from the facility in this year. The opening of the museum and café was expected to increase the footfall around the facility and so help in raising awareness of what services and activities are available. Lower than expected income from the facility was identified as a financial risk.	0
Trade Refuse – Tipping Charges	+332	+303	-29	Reduction in estimated tipping charge costs follows the trend of declining trade residual waste tonnages taken to landfill in recent years.	-29
Commercial Recycling – Customer Income	-41	-83	-42	Growth in projected income is due to a combination of the increase in prices charged for the service, and that the 17/18 forecast is inclusive of a full year of income from schools. Invoicing schools in receipt of the service commenced in October 2016.	-42
Paper Recycling Income				The volume of paper collected for recycling continues to decline. The use of electronic devices, such as tablets and smart phones, has impacted on the sales of print media and this would appear to be a long term trend.	
Sale of materials collected	-435	-404	+31		+31
HCC Recycling Credit	-161	-151	+10		+10
<b>TOTAL</b>	<b>-596</b>	<b>-555</b>	<b>+41</b>		<b>+41</b>
Community Development Grants for Building and Playground Refurbishment	+33	0	-33	These grants have been replaced by the Community Facilities Capital Project Fund.	-33
Housing Benefit – Contribution to bad debt provision in respect of benefit overpayments income	+100	+316	+216	The total value of debt outstanding in relation to benefit overpayments has increased year on year. Where benefit overpayments have been identified in previous years it is often difficult to recover the amounts owed. In a number of cases repayment plans are put in place. This means that some of the remaining amounts owed are quite old. It is prudent to make a bad debt provision to reflect that these amounts may not be received. The forecast variance and ongoing impact is based on the experience of the last two years, where the level of movement in the bad debt provision and the level of income raised from benefit overpayments have remained consistent.	+216

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Estimated Impact on 2017/18 £k
Planning Fees Income	-683	-775	-92	Planning application and pre-application fees received in quarter one are significantly above the budgeted expectation. Further growth in this income stream, based on the successful adoption of the Local Plan, was included as an additional income generation proposal in the 2017/18 Corporate Business Planning process and is already incorporated in the budget estimates for future years.	0
Careline Net Direct Trading Expenditure	-392	-182	+210	Careline continues to make progress with the reform of its operating model. However, the 2017/18 outturn position is likely to show a reduced surplus as the costs of a new website, increased infrastructure costs, and the loss of corporate customers (which was identified as a financial risk).	+175
<b>Total of explained variances</b>	<b>+264</b>	<b>+486</b>	<b>+222</b>		<b>+189</b>
Other minor balances	16,758	16,744	-14		-31
<b>Overall Total</b>	<b>17,022</b>	<b>17,230</b>	<b>+208</b>		<b>+158</b>

- 8.2 Cabinet are asked to approve the differences highlighted in the table above (a £208k increase in spend), as an adjustment to the working budget (recommendation 2.2). Cabinet are asked to note the estimated impact on the 2018/19 budget (a £158k increase in budget) which will be incorporated in to the 2018/19 budget setting process (recommendation 2.3).
- 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. Any under or over delivery of efficiencies will be picked up by any budget variances (table 2 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 £50k. This relates to:
- Planning income; -£92k, as detailed in table 2 above.
  - Hitchin Town Hall income; +£42k, as detailed in table 2 above.
- 8.4 The working budget for 2017/18 includes 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 quarter one, it is forecast that one carry forward will not be spent. This relates to the carry forward of £20k for the migration of the NHDC building control service onto the single IT platform of the Hertfordshire Building Control trading company. Hertsmere Borough Council were able to fund this through their existing budgets, so NHDC have not been asked to contribute to the cost of this work and the carry forward budget is not required. The impact of this on the General Fund forecast for 2017/18 is included within the 'other minor balances' total in table 2 above. All other carry forward budgets are expected to be spent in 2017/18.

- 8.5 There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 3 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 all the indicators are green.

**Table 3- 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	(683)	(358)	(775)	(92)
Land Charges	Green	(174)	(40)	(174)	0
Car Parking Fees	Green	(1,813)	(427)	(1,813)	0
Parking Penalty Charge Notices	Green	(410)	(156)	(532)	(121)

### **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, Retained Business Rates and Revenue Support Grant. The Council was notified by Central Government in February of the respective amounts of New Homes Bonus and Revenue Support Grant funding it can expect to receive in 2017/18 and has 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. Both are affected by collection rates, which is the proportion of what is billed that is actually received. Business Rates are heavily affected by appeals and reliefs. Business rates are based on a rateable value that is calculated by the Valuation Office Agency and some businesses have been able to show that this value is incorrect and appeal against it. The amount that is refunded as a result of a successful appeal can go back a number of years. 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. We are holding this amount in a reserve.
- 8.8 The actual deficit incurred on the Business Rates Collection Fund for 2016/17 was £820k. The required contribution to the Collection Fund from the General Fund in 2017/18 is however based on the estimated deficit for 2016/17 of £741k calculated as at January 2017 and declared in the Business Rates return to Central Government. This contribution is funded from the grant held in reserve. The £79k difference between the actual deficit and the January estimate is included in the calculation of the estimated surplus/deficit for the current year 2017/18. The corresponding additional contribution required to the Collection Fund from the General Fund will therefore be made in 2018/19.
- 8.9 In 2016/17 grant was transferred from the reserve to the General Fund equivalent to the actual deficit incurred for 2015/16 (rather than the estimate submitted in January 2016). This transfer was £368k greater than the contribution required to be made from the General Fund to the Collection Fund. This amount will therefore be deducted from the

transfer from reserve to fund the £741k contribution (as referred to above) required in 2017/18. This ensures that the drawdown from reserve over the two years is equivalent to the contribution required for 2016/17 and 2017/18.

- 8.10 Current forecasts for 2017/18 are that there will be a surplus on our share of Council Tax of approximately £260k and a deficit on Business Rates of around £115k. Use of the amount held in the reserve, currently projected to be £374k at the end of the year, should mitigate the impact on the General Fund balance in 2018/19 of the contribution to the Collection Fund to cover the Business Rates deficit recorded for 2017/18.
- 8.11 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. The estimated levy required is currently forecast to be £600k. The payment of the levy will be funded from the grant held in reserve. NHDC and the other authorities that previously formed the Hertfordshire Business Rates pool are currently reviewing whether reforming a pool for financial year 2018/19 would be financially worthwhile (if the option continues to be available).
- 8.12 The projection of the level of business rates income retained by the Council in 2017/18 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 2017/18 (as declared to central government in January 2017) with the result being an increase of £362k in the funding expectation.
- 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 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 by the end of quarter one a total of £144k 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 2). £42k
  - Failure to meet projected Careline sales income as a result of the loss of a corporate client (as detailed in table 2) £96k
  - Planning consultant costs incurred in responding to an appeal made against a planning application decision (included within 'other minor balances' in table 2) £6k

**Table 4 – Known financial risks**

	£'000
<b>Original allowance for known financial risks</b>	<b>795</b>
Known financial risks realised in quarter 1	(144)
<b>Allowance for known financial risks remaining</b>	<b>651</b>

8.14 Table 5 below summarises the impact on the general fund.

**Table 5 – Forecast General Fund impact**

	<b>Working Budget £k</b>	<b>Q1 Projected Outturn £k</b>	<b>Difference £k</b>
<b>Brought Forward balance (1<sup>st</sup> April 2017)</b>	<b>(8,235)</b>	<b>(8,235)</b>	<b>-</b>
Projected Net Spend	17,022	17,230	208
Funding (Council Tax, Business Rates, RSG)	(15,188)	(15,556)	(368)
Contribution to Collection Fund	0	741	741
Funding from Reserves (including Business Rate Relief Grant)	0	(373)	(373)
<b>Carried Forward balance (31<sup>st</sup> March 2018)</b>	<b>(6,401)</b>	<b>(6,193)</b>	<b>208</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. 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 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.