

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
4 September 2018

Subject: 2018/19 QUARTER 1 REVENUE MONITORING REPORT

All Wards
Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

- 1.1 The purpose of this report is to update Members on the revenue budget position of the Council and the reserve funds at the end of June 2018.
- 1.2 The Quarter 1 monitoring for the Capital Programme and Treasury Management position is contained in a separate report on this Cabinet agenda.
- 1.3 This report focuses on three key areas:-
- (a) Changes to the revenue budget
 - (b) Additional grant income received
 - (c) Reserve funds

2.0 REVENUE BUDGET:

- 2.1 The Council set its budget on 6 February 2018 for 2018/19 at £8,096,170 in line with the approved Financial Strategy 2018/19 to 2027/28.
- 2.2 The breakdown of the budget in accordance with the Council themes when the budget was approved was as follows::

	£
Leisure & Environment	5,038,420
Economy & Planning	1,430,990
Finance	342,450
Law & Governance	1,169,770
Drainage Board levies	114,540
Net Revenue Expenditure	<u>8,096,170</u>

3.0 BUDGET POSITION TO JUNE 2018:

- 3.1 Since the budget for 2018/19 was set in February 2018, adjustments to the budget outlook have occurred. The table below details the changes that have been approved through separate reports to Cabinet and also those that have been identified at Quarter 1 budget monitoring.

	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Budget Outlook approved at 06 February 2018	8,096,170	8,096,170	8,025,612	8,449,416
Changes to budget outlook:				
Inflation – salaries and contracts	-	179,192	170,000	190,000
Back funded pension (NYCC)	-	-	21,900	25,000
Parking enforcement	-	28,000	-	-
Insurance fund	-	22,638	24,902	30,000
Make a Difference Fund moved to Budget	-	125,000	-	-
Apprenticeship & Graduate Business & Economy Grants	-	70,000	-	-
Increase in Net Investment Income	-	(74,400)	-	-
Fees & Charges	-	(117,592)	(120,000)	(125,000)
Savings Exercise	-	(250,000)	-	-
Route Optimisation	-	(105,461)	-	-
Corporate Costs Increases:	69,610	88,800	-	-
Departmental Movements:-	150,530	14,730	59,400	-
Other Departmental Movements	(6,850)	(12,740)	-	0
Additional Budget Responsibilities	-	-	267,602	170,251
Savings or additional income requirements in Quarters 2, 3 and 4	(213,290)	(38,725)	-	-
Budget Outlook Q1	8,096,170	8,025,612	8,449,416	8,739,667
Financial Strategy 6 Feb 2018	8,096,170	8,025,612	8,453,726	8,739,834
Budget Outlook Q1 Surplus / (Shortfall)	-	-	4,310	167

3.2 In 2018/19 the budget started at £8,096,170 as stated in the Financial Strategy and illustrated in the table above. At the end of Quarter 1, it is recognised that there is currently a shortfall of £213,290, however during the year it is anticipated that additional income or reduced expenditure will occur to cover this overspend. An exercise is being carried out to identify savings and efficiencies across the Council. Therefore, at Quarter 1 it is requested Cabinet approves that there is no change to the budget of £8,096,170.

3.3 There are four main areas of changes to the 2018/19 budget at Quarter 1 totalling the £213,290 shortfall:

- (a) Corporate cost increases of £69,610
- (b) Departmental cost increases of £150,530
- (c) Other Departmental movements - a saving of £6,850
- (d) Department movements which have nil effect on the budget

3.4 The Corporate Costs movements in the budget are:

- (i) The annual Drainage Board Levies were higher than budgeted by £6,140.
- (ii) The effects of the increased pay award to staff employed on grades 7 and below has resulted in a £114,590 increase in the budget due to the increase in the national living wage.
- (iii) The re-enrolment of staff into the Council's pension scheme has resulted in £37,680 additional costs as fewer staff elected to opt out of the scheme than anticipated.
- (iv) During Quarter 1 a number of Office Moves have occurred incurring £5,980 of expenditure.

- (v) A Corporate Salary Savings exercise analysing vacant posts has resulted in £94,780 of savings.

3.5 The changes at Quarter 1 in relation to the significant departmental areas show an overall increase in the budget of £150,530.

- (i) This is represented by an increase in the Leisure & Environment budgets of £33,680 due to the creation of a new post in Operational Services for a Waste and Street Scene Supervisor.
- (ii) The Economy and Planning budgets have increased by £77,120 as a result of a number of factors. This includes increased costs of the Disabled Facilities Grant totalling £111,520 and vacant units at Leeming Food Enterprise Centre where it is estimated that income will be reduced by £25,000. These are offset by increased car parking income of £59,400 following the agreement with North Yorkshire Police for the sale of parking permits at Crosby Road..
- (iii) The Law and Governance budgets have increased by £39,730 due to a new post in Legal for a planning solicitor costing £20,630 and a new procurement officer post increasing the budget by £19,100.

3.6 Other Departmental movements create a saving of £6,850 and are detailed as follows:-

- (i) Finance – An additional £15,000 of income has been earned from the investment of surplus cash as higher interest rates have been received due to the interest rate rise in November 2017. The Housing Benefit Administration grant is £7,290 lower than budgeted. This is linked to the reduction of Housing Benefit cases due to the transition to universal credit.
- (ii) Leisure & Environment – the increase in the budget of £860 reflects the additional printing costs of £12,740 incurred due to the new route optimisation rounds. This is partly offset by £11,880 from increased sales of Green Licence fees.

3.7 Departmental budget movements that have nil effect on the overall budget are as follows:

- i) Discretionary Housing Payments have increased by £16,800; this can be financed through additional Discretionary Housing Payments subsidy received from the Department for Works and Pensions.
- ii) A grant of £16,290 has been received from the Department for Works and Pensions in relation to verifying earnings and pension alerts which is to be used to fund the additional costs within the Revenues and Benefits section.

3.8 The revised changes to the budget at Quarter 1 total an increase to the budget of £213,290. These are listed above, however, it is recognised that additional income or reduced expenditure will occur to cover this overspend during the year as a result of the savings and efficiencies exercise and therefore-detailed in the recommendations section of this report for approval by Cabinet and Council, the original budget set of £8,096,170 will remain. It should be noted that this Quarter 1 position will be monitored against the financial strategy over the rest of the year.

4.0 OTHER MATTERS - GRANTS

4.1 The following grants and contributions have been allocated to the Council and paid into the One-Off Fund Reserve since the budget was approved in February 2018

Description	Amount £
Department for Work and Pensions – Various Grants	26,845
Ministry of Housing, Communities and Local Government - Homelessness Grants	59,318
Cabinet Office - Individual Electoral Registration	9,911
Total	96,074

5.0 SENSITIVITY ANALYSIS

- 5.1 Further to the recommendations for changes to the budget in this Quarter 1 monitoring report, this report also highlights where there are areas of budget uncertainty. This can give Members early warning of possible issues in the future. All areas will be monitored closely and an update provided for Quarter 2 as at this time there is too much uncertainty surrounding these figures to include them as an adjustment to the budget. Annex 'A' attached details the sensitivity analysis.

6.0 RESERVE FUNDING

- 6.1 The table below shows the position on the revenue reserves at Quarter 1 if the recommendations are approved in this Cabinet report. Further information is also described below.

Reserve Fund	Balance at 1 April 2018 £	Q1 Movement (from) / to Reserves £	Balance at 30 June 2018 £
General Fund	2,000,000	-	2,000,000
Council Taxpayers Reserve	5,019,975	175,784	5,195,759
Grants Fund	191,834	(50,000)	141,834
Economic Development Fund	1,465,095	(741,006)	724,089
One Off Fund	714,477	154,749	869,226
Computer Fund	1,188,349	(448,208)	740,141
Repairs & Renewal Fund	2,097,807	(1,124,778)	973,029
Community Safety Partnership	27,536	-	27,536
Swimming Project Reserve	97,871	-	97,871
Local Plan Reserve	59,540	20,086	79,626
Make a Difference Fund	63,801	125,000	188,801
North Northallerton Bridge Reserve	2,365,779	-	2,365,779
Community Housing Fund	180,231	-	180,231
Income Generating Fund	-	100,000	100,000
Total	15,472,295	(1,788,373)	13,683,922

- 6.2 Economic Development Fund – In Quarter 1, the opening balance was £1,465,095 with the net movement of £741,006; split as £461,465 capital and £279,541 revenue. In line with the capital programme budget further approval is required at Q1 for capital expenditure and this is detailed in a separate report on the agenda. Included in the net movement is the expenditure that has been allocated from the Economic Development Fund in previous Cabinet reports, totalling £118,957. The balance of the Economic Development Fund at year end is estimated at Quarter 1 to be £724,089.

Expenditure in 2018/19 from the Economic Development Fund	Amount
Apprentice Scheme	50,000
Networking Events & Promotion	9,000
Federation of Small Business Subscriptions	3,000
Vibrant Market Towns	14,300
Identifying & Securing Investment – Salary related costs	42,357
Total expenditure already approved at Q1	118,957

- 6.3 The Economic Development Fund requests further expenditure of £10,046 to be allocated to the Improve Infrastructure – Broadband revenue scheme and £67,000 for the Industrial Estate/Employment land capital scheme for further feasibility work at Leeming Bar. A roll forward to 2019/20 of £52,750 is requested for the Vibrant Market Town scheme where originally £167,053 was allocated. The £52,750 is no longer required in 2018/19 and is to be moved forward into 2019/20 to support future years' salary. £65,250 is requested for movement from the Central Northallerton capital scheme into revenue and then rolled forward into 2021/22 to cover future costs when the scheme is completed. The net movements of the Economic Development Fund, including capital, to be approved at Quarter 1 total a return to the Economic Development Fund of £40,954.
- 6.4 The Economic Development fund has allocated a further £142,390 to future years' allocations; £52,750 (as mentioned above) for the Vibrant Market Town officers for 2019/20 and 2020/21 rolled forward at Q1, £21,390 for the Identifying & Securing Investment scheme to support salary expenditure in 2019/20, £3,000 for the final year approved for the Small Business Subscription scheme in 2019/20 and £65,250 roll forward at Qtr 1 to 2021/22 for the Central Northallerton scheme. This currently leaves £581,699 remaining for future projects.
- 6.5 Council Tax Payers Reserve – additional Rural Service Delivery grant funding has been received of £124,216 which is to be transferred to the Council Tax Payers Reserve along with a transfer of £1,000,000 from the Repairs and Renewals fund as detailed in the financial strategy approved in February 2018 . A number of transfers from the Council Tax Payers Reserve totalling £1,300,000 have also been made. These are £700,000 to the One-Off fund, £100,000 to the newly created Income Generating fund and £500,000 to support the Capital Programme in 2018/19; as detailed in the financial strategy approved in February 2018.
- 6.6 One Off Fund - In Quarter 1, the initial balance is £714,477 and additional income of £96,074 was received which can be seen in paragraph 4.1 above. £700,000 has been transferred from the Council Tax payers reserve, to fund related expenditure in 2018/19 as well as £84,809 transferred from the revenue budget. £125,000 has been transferred to the Make a Difference reserve for 2018/19. Expenditure that has been allocated from the One-off Fund in previous Cabinet reports rolled forward from 2017/18 totals £376,074 and further expenditure to be allocated from the One-off Fund is detailed in the table below at £225,060. The balance on the One-off Fund at year end is estimated at Quarter 1 to be £869,226.

Expenditure in 2018/19 from the One-Off Fund	Amount
Self Build Register – Fund temporary Housing Development Officer	19,640
Development Management – Legal Fees	21,260
Revs & Bens – Software system	2,440
District Elections – 2019/20 Election costs	135,000
Homelessness Grants – Fund implementation of software system for the Homelessness Reduction Grant, the Senior Housing Options Advisor, the Housing Options Advisor and the Housing Administration Officer	34,310
Individual Electoral Registration Grant – Postage costs	9,910
Development Management – Appeal Costs	5,000
World War 1 – 100 th Anniversary – Public art and activities	2,500
Total expenditure recommended for approval at Q1	230,060

- 6.7 At Quarter 1, is it recommended to Cabinet and Council that the allocation from the One-off Fund at £230,060 is approved.
- 6.8 Computer Fund – in accordance with the Financial Strategy approved by Council in February 2018, the reserve is being used to fund ICT projects to ensure technology is maintained to an acceptable standard in the current ICT market environment. This includes £50,000 of revenue expenditure, £265,630 of 2018/19 capital expenditure and a brought forward amount of capital expenditure from 2017/18 of £137,578. £5,000 within ICT improvement is being rolled forward to 2019/20.
- 6.9 Repairs & Renewal Fund – in accordance with the Financial Strategy approved by Council in February 2018, £1,000,000 of funds have been transferred to the Council Tax Payers Reserve, The reserve is being used to fund Repairs and Renewal projects to ensure that the Council's assets are maintained to an acceptable standard. This includes £50,000 of revenue expenditure, £41,000 of 2018/19 capital expenditure and a brought forward amount of capital expenditure from 2017/18 of £33,778.
- 6.10 Local Plan Reserve – £59,710 has been transferred from the income received from planning applications to the Local Plan. Expenditure allocated in quarter 1 totals £39,624 leaving a balance of £79,626.
- 6.11 Make a Difference Fund – the opening balance in Quarter 1 of £63,801 relates to projects brought forward from the 2017/18 programme and will be expended by 31 August 2018.. The Cabinet report dated 6 February 2018 approved that £125,000 was transferred from the One-Off Fund in 2018/19 to fund the 2018/19 Making a Difference grant programme. Successful awards will invest in worthy local community projects which help improve life in neighbourhoods and which support the work of the voluntary sector and will be expended by 31 March 2019.
- 6.12 North Northallerton Bridge Reserve – Work is on-going in relation to the construction of the North Northallerton bridge and payments will be made during 2018/19 as and when claims are made from the contractors. The funding to cover the costs of this project was received from the Local Enterprise Partnership.
- 6.13 Income Generating Fund: £100,000 has been transferred from the Council Tax Payers Reserve to financially support projects in the initial stages of development which will generate revenue income to contribute to the future funding of the Council.

- 6.14 Other Reserves - There is a movement on the grants reserve to allocate funds of £50,000. The grant fund provides assistance to community groups to benefit the district as a whole.

7.0 WAIVER OF PROCUREMENT RULES

- 7.1 It is the Council's policy to obtain competitive quotations or tenders for the purchase of products, work that is to be undertaken or for services to be provided. However, a waiver may be agreed by Cabinet (or the Chief Executive in an emergency) if they are satisfied, after considering a written report that the waiver is justified.

- 7.2 The Chief Executive has approved the following two waivers, for which Single Quote/ Tender Waiver Forms have been completed:

- (a) Commercial Advice – It is necessary to seek specialist advice for a commercial project of a sensitive nature in a short time period. The cost is below £10,000 where only one quote is required and the information available on the market illustrates that it will provide best value.
- (b) Appointment of External Auditor for Certification of Returns and Grant Claims - The council in December 2016 appointed local authority external auditors - Ernst & Young LLP – for 2017/18 and a further 4 years. These new arrangements were not intended to extend to the appointment of external auditors for the certification of the Housing Benefit subsidy claim arrangements and Returns. Therefore, to ensure consistency of external auditor functions across the whole Council - in particular for the work undertaken in respect of the Council's accounts is likely to overlap the Housing Benefit subsidy claim arrangements in areas such as grants testing, income recognition in the Income and Expenditure Account, and the debtor/creditor position in the Council's balance sheet - the appointment of the same external auditor will assist in developing and strengthening strong working practices between the external auditor and the Council. The cost is expected to be the same as in previous years at £11,286.

8.0 BUSINESS RATES RETENTION PILOT IN 2019/20

- 8.1 The Government has released its business rate pilot prospectus for 2019/20 to all local authorities to apply to become 75% Business Rates Retention Pilots, with the submission date being end of September 2018. The pilot would be for one year only.

- 8.2 The pilot and application criteria for 2019/20 appear to be very similar as they were in 2018/19. In December 2017 Cabinet Members agreed that the Council would be part of the North Yorkshire pilot submission for 2018/19, however this was not accepted by Government and did not proceed. The Council therefore remained in the current North Yorkshire Business Rate pool arrangements. Analysis shows from experts that the application was consistent with others across the UK and there were no specific reasons as to why pilots were accepted or rejected.

- 8.3 There are two main differences in the submission for 2019/20 compared to 2018/19. The first is that the submission will be a 75% pilot where the pilot will retain 75% of locally-collected business rates and will receive additional responsibilities in return. The 75% share is reduced from 100% as this aligns with the 75% local share that will be in place nationally in 2020/21 and it also helps to reduce the cost of all pilots to Government. The second difference is that this time there will not be a "no detriment" clause which means that if one of the Council's in the pilot falls short of obtaining the level of business rates that they

estimate then everyone in the pilot will be subject to this risk and receive less income than anticipated which in 2018/19 would have been funded by the Government. Therefore, this means in 2019/20 the Government will not support this loss. This is a risk of entering into the pilot and current modelling is under way.

8.4 If the pilot is approved, as a minimum, authorities will forego Revenue Support Grant and Rural Services Delivery Grant (this will be adjusted for from the rates retained). Any difference between the increase in business rate retention and new responsibilities will be offset by an adjustment to top-ups or tariffs. The creation of the pilots will be “fiscally neutral” at baseline, but authorities will gain from retaining 75% of any above-baseline growth; the Council currently retains 50%. In the 75% pilot there is the safety net which will be set at 95% of Base Funding level.

8.5 The Ministry of Housing, Communities and Local Government (MHCLG) is looking for a wide spread of different types of pilots; it is open to pilots based on either local economic geography or on existing boundaries (“a county council and all of the associated district councils”). In 2018/19 the Ministry of Housing, Communities and Local Government (MHCLG) effectively gave the “green light” to the arrangements that Harrogate Borough Council agreed with Leeds City Region in 2018/19, where this pilot was accepted but North Yorkshire Pilot excluding Harrogate but also included East Riding Council was not. This is clearly a very complicated area with a number of different scenarios, which are currently being explored and discussed across the area. The Ministry of Housing, Communities and Local Government (MHCLG) will again be particularly focusing on applications from rural areas and from two-tier areas. This is a major opportunity therefore for authorities in these areas.

8.6 It is very unlikely that all applications for pilot applications will be successful because of the Government affordability constraints. There is likely to be a competitive process, with applications measured against specified criteria. It is also estimated that the 75% Business Rates Retention Pilot would generate additional resources for the region which would be invested in projects throughout North Yorkshire and the East Riding of Yorkshire. These Chief Executives and the Local Enterprise Partnership (LEP) are to be consulted as to where this investment would be best placed; this work is ongoing.

8.7 The North Yorkshire Chief Finance Officers decided that the opportunity and benefits of applying to be a 75% Business Rates Retention Pilot should be investigated with a view that if it was beneficial then an application should be made. The services of Pixel Financial Management have been commissioned to provide advice and also to undertake the financial modelling required. Pixel already provides advice to the North Yorkshire Rates Pool and is well placed to understand the complexities across the region. They are also advisors to the Rural Services Network (SPARSE).

9.0 LINK TO COUNCIL PRIORITIES:

9.1 The monitoring of the financial budget throughout the year and reporting the financial year end position assists in ensuring the Council’s service requirements are met and contributes to the achievement of the priorities set out in the Council Plan.

10.0 RISK ASSESSMENT:

10.1 There are no major risks associated with this report.

11.0 FINANCIAL IMPLICATIONS:

11.1 The financial implications are dealt with in the body of the report.

12.0 LEGAL IMPLICATIONS:

12.1 It is a legal requirement under s25 of the Local Government Act 2003 to set a balance budget and monitor the financial position throughout the year.

13.0 EQUALITY/DIVERSITY ISSUES:

13.1 Equality and Diversity Issues have been considered however there are no issues associated with this report.

14.0 RECOMMENDATIONS:

14.1 That Cabinet approves and recommends to Council:

- (1) the budget remains at £8,096,170 as detailed in paragraph 3.2;
- (2) the allocation from the One-Off fund at paragraph 6.6 of £230,060;
- (3) the total amount of £40,954 at paragraph 6.3 to be returned to the fund and to note that the Economic Development Fund remaining balance to be allocated at paragraph 6.4 is £581,699;
- (4) to note the two waiver of procurement rules at paragraph 7.2
- (5) that Hambleton District Council takes part in the North Yorkshire and East Riding submission to the Ministry of Housing, Communities and Local Government (MHCLG) to become a 75% Business Rates Retention Pilot in 2019/20 and that delegated authority is given to the Director of Finance (S151 Officer) to enter into the 75% Business Rates Retention Pilot as detailed in paragraphs 8.1 to 8.7.

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Background papers: Budget Monitoring Q1 working papers

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Budget 2018/19 Sensitivity Analysis – potential savings / costs

Portfolio Area	Area of Sensitivity	Commentary
Finance	Housing Benefit Payments	Whilst any increase in Housing Benefit payments will be partly offset by subsidy, the budget is so large that a small increase in percentage terms can lead to a large amount in monetary terms.
Economy & Planning	Planning Fees	This will continue to be closely monitored due to the estimated income being so high, it is currently estimated that the target will be reached.
	Workspace Management Income	A number of businesses have vacated Hambleton's workspaces for various reasons. This will be closely monitored and reported at quarter 2 if there are any empty units.
Leisure & Environment	Operational Services – Fuel Prices	This is being kept under review as prices are currently on the rise and any significant increase will require additional budget.
	Kerbside Recycling Contract	Basket price changes will affect the budget, the current basket price indicates an increase but this will be monitored and reported at quarter 3
	Northallerton Leisure Centre – Gym extension	A review of the effects of the new extension is ongoing and the additional income through membership take up and revenue expenditure incurred will be reported at Quarter 2
	Leisure Centres	A review of all leisure centres income and expenditure as a whole will be carried out and reported at Quarter 2.