



Report to: Performance Management and Budget Scrutiny Committee, 15th March 2016

Report of: Finance Services Manager

Subject: Q3 FINANCIAL MONITORING REPORT 2015/16

1. Recommendation

- 1.1 **That PMBS reviews the financial monitoring details including variances and forecasts, and performance indicators, for the 3rd quarter ended 31st December 2015, and considers any recommendations for action to Cabinet.**

2. Background

- 2.1 In addition to the report, the following appendices provide further details on the Q3 financial position and year end forecasts:
- Revenue budget summary - **Appendix 1**
 - Service variances analysis - **Appendix 2**
 - 'Mind the Gap' Savings Plan - **Appendix 3**
 - Fees & Charges income generation - **Appendix 4**
 - Salary costs - **Appendix 5**
 - Car parks income - **Appendix 6**
 - Capital Programme summary - **Appendix 7**
 - Treasury Management - **Appendix 8**
 - Debt collection/supplier payment performance – **main body of report**
- 2.2 Last year in 2014/15, the council delivered an overall budget surplus of £0.4m. This was largely as a result of achieving extra income over budgets of £0.4m, plus an underspend on salary budgets of £0.1m and an overspend on non-pay budgets of £0.1m.
- 2.3 In Q2 this year, the reported position was a budget surplus of £243k which was forecast to rise to £283k by year end. The budget surplus, in keeping with the position in 2015/16, was largely driven by extra income, particularly in the Cleaner and Greener Service.
- 2.4 In Q2, the position on the 'Mind the Gap' savings was £900k achieved/actioned, £77k in the process of being actioned, and £40k at risk of not being achieved.

3. Executive Summary

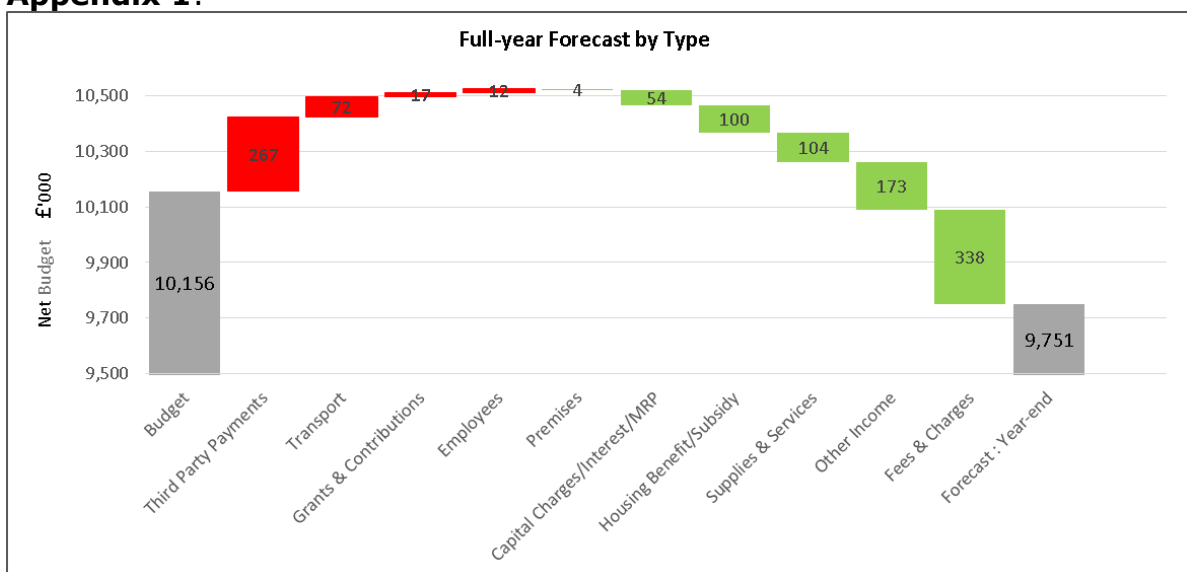
- 3.1 The actual performance at Q3 is a budget surplus of £298k. The year end forecast at Q3 is a budget surplus of £404k. This forecast surplus has increased by c£100k since Q2, which is largely due to a forecast net improvement on Housing Benefits subsidy and recovery of HB overpayments.

- 3.2 The other main reasons for the Q3 surplus position is extra income over budget, particularly on car parking and temporary contract income for street sweepings.
- 3.3 The 'Mind the Gap' savings plan is on target to deliver the majority of the £1.017m savings items, with £150k at risk of non-delivery by year end. The 'at risk' items are the project on business improvements (transactional reviews) and additional bereavement income from price increases. Although the bereavement charges were increased for 2015/16, the income target will not be achieved due to reduced levels of activity, in part due to the temporary disruption during the crematorium refurbishment period.
- 3.4 The collection of Council Tax and Business Rates income is on target and in line with last year. Our performance on supplier payments is 96.0% paid promptly and 93.5% of local suppliers paid within 10 days.
- 3.5 Performance on the capital programme is £3.4m spent or committed at Q3, with a year end forecast of expenditure of £4.4m, against a revised annual budget of £5.9m.

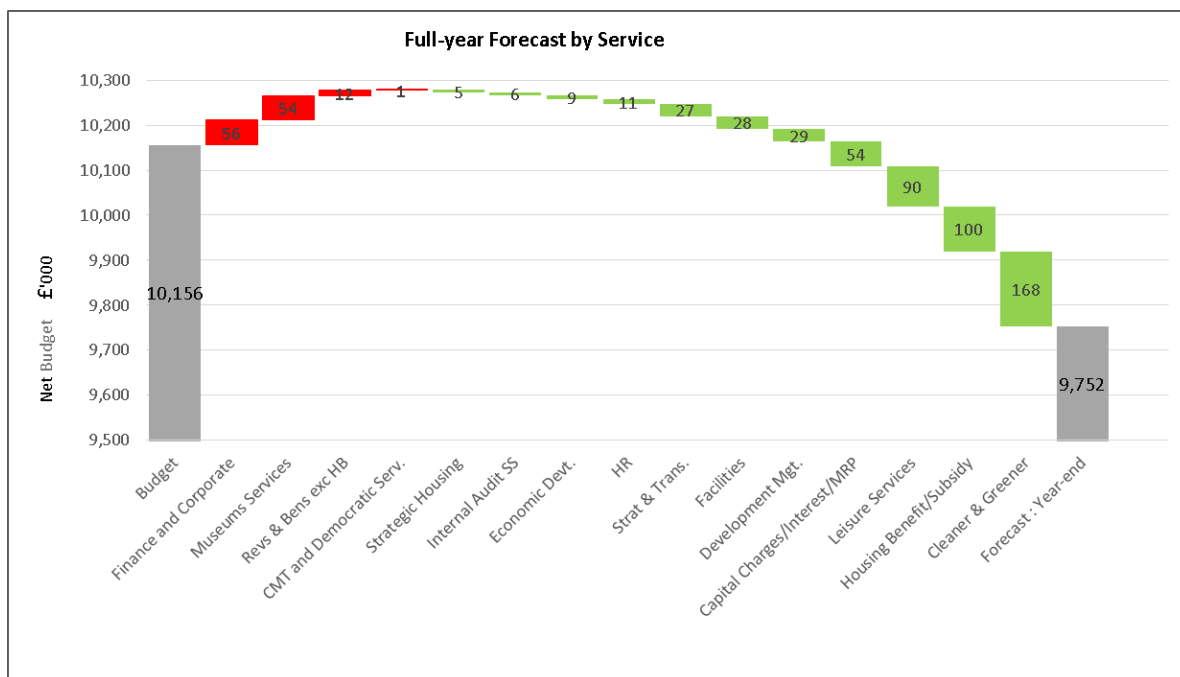
4. Q3 Revenue Budget Performance and Year End Forecasts

- 4.1 As stated above, the actual performance at Q3 is a budget surplus of £298k and the year end forecast is a budget surplus of £404k.
- 4.2 At summary level by type, the variances at Q3 and the year end forecast variances are:
 - Income – in surplus at Q3 by £413k, forecast to be £494k at year end;
 - Salaries – underspent by £56k at Q3, forecast to be £4k at year end;
 - Non-Pay – overspent by £171k at Q3, forecast to be £94k at year end.

4.3 Details of the variances by type are summarised in the graph below and detailed at **Appendix 1:**



4.4 Details of the variances by Service are summarised in the graph below and detailed in **Appendix 2:**



4.5 Explanations for the key variances are provided below:

- a) **Parking income £291k forecast surplus** – the position on car parks at Q3 is a surplus of £306k (**Appendix 6**) and the year end forecast is a surplus of £372k against budget. If the current trend continues the year end surplus could be higher by c£25k which has been noted as an additional income opportunity. The car park income surplus is offset by a forecast shortfall on decriminalised parking and on-street parking income of £81k.
- b) **Street sweepings temporary contract income £170k forecast surplus** – a temporary contract is in place for the transportation of street sweepings in the Cleaner and Greener Service, which is assumed to continue for the full year. This is an unbudgeted contract, with surplus income of £148k reflected at Q3 and a year end forecast surplus of £170k.
- c) **Bereavement income £100k forecast shortfall** – the position on bereavement income at Q3 is a shortfall on budget of £75k with a year end forecast shortfall of £100k (**see Appendix 4**). The income budget will not be achieved due to reduced levels of activity, in part due to the temporary disruption during the crematorium refurbishment period.
- d) **Trade and Garden waste income £88k forecast surplus** – both of these areas of activity are showing increased income of 11% over last year with a forecast year end surpluses of £60k on trade waste collections, and £28k on garden waste collections (**see Appendix 4**).
- e) **Treasury management interest £54k forecast surplus** – the position on interest is shown at **Appendix 8**. There is a forecast underspend on interest payable of £33k, due to the deferral of the borrowing requirement for the swimming pool into 2016/17 to match the cash profile of capital payments. In addition there is a small surplus forecast on interest receivable of £22k.

- f) **Salaries forecast £4k underspend** – the position on salary budgets is an underspend of £56k at Q3 which reduces to a forecast underspend of £4k by year end (**see Appendix 5**). Included within these figures is a vacancy turnover budget target of £88k (held as a 'corporate' budget) which is being achieved across a number of services. In addition, the salaries budget also has a corporate target of £75k for transactional review savings as part of the 'Mind the Gap' savings plan. This project is underway but is likely to only achieve some £15k this year with the balance rolled forward to be achieved in 2016/17.
- g) **Vehicle maintenance and vehicle hire £186k forecast overspend** – the overspend on vehicle maintenance and hire costs is due to the age of the fleet and its associated repair requirements. The forecast overspend of £186k compares to an equivalent overspend of c£200k in 2014/15. With the planned next phase of vehicle replacement, it is anticipated that this overspend will be reduced during 2016/17, closer to the budgeted levels.
- h) **Housing benefit subsidy and recovery of overpayments £100k forecast surplus** – the position at Q3 is a net surplus of £66k which is forecast to rise to a surplus of £100k by year end. The forecast allows for a shortfall of £0.2m (0.3%) on Housing Benefit Subsidy, offset by a surplus of £0.3m relating to the recovery of previous housing benefit overpayments. There has been an increase in the value of overpayments due to Government initiatives on data matching and fraud detection.

5. 'Mind the Gap' Savings Plan

- 5.1 The 'Mind the Gap' savings plan is on target to deliver the majority of the savings items (£867k out of £1.017m). The 'at risk' items are the shortfall of £90k on crematorium income and forecast slippage of £60k on the implementation of the Business Improvement (BI) review which aims to streamline transactional processes across the council. Details are provided at **Appendix 3**.
- 5.2 The crematorium income shortfall is in part due to the impact of the refurbishment project, but there is a recurring income generation problem, which has been recognised by Cabinet, and £50k has been added as a cost pressure in the 2016/17 budget proposals. This area of activity will continue to be closely monitored on a monthly basis.
- 5.3 The BI project is progressing, with a number of transactional activities already reviewed or subject to review in the next few months. Part of the project delivery also includes the realisation of the savings from the various reviews, and this part of the project is taking longer to deliver than originally expected. At this stage it is estimated that £15k of the £75k will be realised by year end, with the balance carried forward for achievement in 2016/17.

6. Capital Programme and Financing

- 6.1 The approved capital programme budget for the year at Q2 was £10.064m, which included an estimate of £6.0m for the new swimming pool. Following the appointment of the preferred contractor, the swimming pool project spend has been revised to £1.8m in 2015/16, with the balance of £4.2m carried forward to complete the £10.5m project in 2016/17. There is also a commensurate reduction in

borrowing, external grants and capital receipts in 2015/16, and these funding sources will now be utilised in 2016/17.

6.2 The capital programme performance is shown at **Appendix 7**. The revised annual budget is now £5.9m, with actuals/commitments at Q3 totalling £3.4m and a year end forecast total of £4.36m. In summary, the main details are as follows:

- Vehicle replacement in Cleaner & Greener – expenditure of £652k has been incurred to date on refuse vehicles. The replacement street cleansing vehicles originally planned for Q4 are now expected to be received in early 2016/17;
- Perdiswell Culvert £0.5m scheme – grant proceeds of £0.3m have been received from the Environment Agency towards the scheme. The scope and delivery of the scheme is currently under review, and impacts on cost and timing are being assessed. It is likely that a report will come forward to March Cabinet to approve a revised scheme with a start date in early 2016/17;
- Crematorium refurbishment £0.35m scheme – completed in Q3;
- ICT infrastructure replacement £120k budget in 2015/16 – at this stage the forecast is that £25k will be spent in 2015/16, with requirements to carry forward balances to 2016/17 subject to review by the ICT Management Board;
- House renovations £354k 'disabled facilities grant' budget in 2015/16 – this is an externally funded scheme from Government, which is forecast to spend all of the 2015/16 allocation in year;
- Technology Park £0.5m scheme – contribution to new joint venture project, funded from New Homes Bonus. Payment profile is under discussion with joint venture partners with the aim to complete this in 2015/16;
- Cathedral Square £0.4m scheme – this is a County Council scheme which is underway. The City Council total contribution is £400k, and the plan is to pay this in instalments, £0.3m in 2015/16, with the balance due in 2016/17.

7. Supplier Payments

- 7.1 The Council's target for paying invoices within terms is 100%. At the end of Q3, performance was 96.02% paid on time (97.48% Q3, 2014/15). The number of invoices paid this year to date is 3,967 and of these 3,809 were paid within 30 days or less.
- 7.2 The Council aims to pay local suppliers within 10 days. Performance at Q3 2015/16 was 93.49% achieved (93.7% Q3, 2014/15). The number of invoices paid this year to date is 2,320 and of these 2,169 were paid within 10 days or less.

8. Collection of Council Tax and Business Rates

- 8.1 The percentage of current year Council Tax and Business Rates debt collected to the end of December 2015 is shown below, together with the comparable figures for Q3 2014/15. Collection of both Council Tax and Business Rates has remained at broadly the same level as last year.

	Percentage Collected			
	April - December 2014/15	2014/15 Full Year	April - December 2015/16	RAG Trend Vs. Last Yr.
Council Tax	85.63%	97.57%	85.35%	G
Business Rates	83.16%	98.21%	83.37%	G

- 8.2 The amount of write-offs of Council Tax and Business Rates during Q3 is lower than the same quarter last year with some £71k put forward for write-off compared to £253k at Q3 last year.
- 8.3 The Q3 £71k of write-offs include; £3k from 1 case which requires the approval of the Corporate Director – Resources, £28k from 2 cases which requires Cabinet approval, and the remaining £40k from 63 cases have been approved by the Revenues & Benefits Shared Service management.

	2014/15 Write-off Cases	2014/15 Write-off £000	2015/16 Write-off Cases	2015/16 Write-off £000
Quarter 1	44	£50k	101	£157k
Quarter 2	30	£16k	58	£188k
Quarter 3	89	£253k	66	£71k
Quarter 4	63	£54k		
Total	226	£373k	225	£416k

- 8.4 The year to date write-off of £416k compares to £373k for the whole of last year. This increase reflects an increase in bankruptcies and liquidations. There is an ongoing initiative to improve recovery through legal proceedings involving charging orders and for business rates, the targeting of individual company directors.
- 8.5 The write-offs reflect the total amount payable which includes the precept to the County, Fire and Police. The element attributable to Worcester City Council is 11% for Council Tax and 40% for Business Rates.
- 8.6 **Policy Implications** – the Council should ensure that spending levels are in accordance with agreed budgets which are set to deliver council priorities. The quarterly financial monitoring process provides assurance that robust monitoring is in place at both an officer and member level.
- 8.7 **Risk Management Implications** – the key risks and opportunities to the Council’s financial performance for 2015/16 are as follows:
- **Planning Appeal costs** - higher risk of costs associated with awards against the council;
 - **Housing Benefit Subsidy/Recovery of Overpayments** – currently forecast as a net surplus of £100k at year end. The HB subsidy loss is forecast at £0.2m which is 0.3% of HB Subsidy expenditure. A 1% swing on performance in this area would cause a disproportionate impact, adverse or favourable, on the Council’s bottom line;

- **Business Rates** – the GP surgeries appeal issue has demonstrated the volatility that exists within the Business Rates funding regime and the significant impact changes can have. Whilst there should not be any further impacts for 2015/16, the Pool partners will continue to work as a group on monitoring future Business Rates income, seeking expert inputs and assessing the adequacy of resources devoted to this volatile and significant area of financial activity;
- **Fees and Charges** if the current income trend on car parking continues and the winter weather remains favourable – there could be a surplus of income in the region of c£0.4m which is c£25k more than the Q3 forecast surplus.
- **Fleet costs** – the costs of maintenance, repair and vehicle hire costs are running at a similar level to performance in 2014/15. Whilst reductions are expected in the future as a result of a programme of fleet replacement, the forecast of a net overspend of £186k is considered realistic although this remains an unpredictable area of activity and a further cost increase cannot be ruled out. This area of activity is being closely monitored by the Cleaner & Greener team on a vehicle by vehicle basis.

Ward(s): All
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Background Papers: None