



**Report to: Performance Management and Budget Scrutiny Committee, 20<sup>th</sup> March 2017**

**Report of: Head of Finance**

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**Subject: Q3 FINANCIAL MONITORING REPORT 2016/17**

**1. Recommendation**

1.1 **That the Committee reviews the financial monitoring details including budget variances, year end forecasts and performance indicators, for the 3rd quarter ended 31<sup>st</sup> December 2016, 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 and forecast year-end financial position:

- Revenue budget summary - **Appendix 1**
- Service variances analysis - **Appendix 2**
- MTFP 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 The budget for 2016/17 was approved by full Council in February 2016. As part of achieving a balanced budget, savings and income generation proposals totalling £0.8m were identified in the MTFP savings plan for implementation in this financial year.

**3. Executive Summary**

3.1 The revenue performance at the end of Q3 is a net budget surplus of £297k which is forecast to increase to a net surplus of £323k at the year-end. This is an increase from the Q2 year-end forecast of a £231k surplus. The position at Q3 is a high level overview and does not include all the detailed adjustments which are undertaken at the year-end. The forecast year-end surplus is largely due to extra income in several areas particularly car parking, trade and garden waste collections and lower interest payments.

- 3.2 The MTFP savings plan is budgeted to deliver £0.8m of extra income and cost savings in 2016/17. The position at Q3 against target is £348k actioned and achieved, £30k actioned awaiting results, £138k actions in progress and £252k at risk.
- 3.3 The collection of Council Tax is on target and in line with last year. Business Rates income is lower than Q3 last year by 1.3%, which is not considered significant at this stage. The performance on supplier payments is 97.0% of all payments made promptly and 92.3% of local suppliers paid within 10 days.
- 3.4 Council Tax and Business Rates write-offs for Q3 are £31k. The amount now written-off in the year to date is £186k of which the proportion attributable to Worcester City Council is £58k, which is fully budgeted.
- 3.5 Performance on the capital programme is £13.3m forecast for the year-end, against the approved annual budget of £14.1m.

#### **4. Q3 Revenue Budget Performance and Year End Outturn**

- 4.1 As stated above, the actual performance at Q3 is a budget surplus of £297k and a year-end forecast surplus of £323k. Details are provided at **Appendices 1 and 2**.
- 4.2 At a headline level, the year-end forecast surplus of £323k is comprised as follows:
- forecast £38k overspend on expenditure on a budget of £20.8m
  - forecast £185k surplus on income against a budget of £11.2m
  - forecast £176k surplus on interest payments and MRP.
- 4.3 Explanations for the key variances are provided below:
- a) **Parking income and Decriminalised Parking £260k forecast year-end surplus** – at the end of Q3 car parks income is £198k greater than budget and £77k greater than last year (details provided at **Appendix 6**). This is forecast to increase to a £259k surplus by the year-end. There is also a forecast year-end surplus on decriminalised parking income net of costs of £1k.
- b) **Trade and Garden waste £58k forecast year-end surplus** – both of these areas of activity are showing increased income over last year with forecast year-end budget surpluses, after accounting for direct costs, of £51k on trade waste collections, and £7k on garden waste collections.
- c) **Employee costs £99k forecast year-end deficit** – the year-end forecast for the services' salary budgets is an £99k under-spend (see **Appendix 5**). This is offset by a forecast overspend of £189k on corporate salary budgets, which mainly relates to the delay in delivering some of the Business Improvement initiatives. This is now part of the Transformation and Savings Plan in the 2017-2022 MTFP.
- d) **Development Management, Economic Development and Planning Policy £125k forecast year-end deficit** – an £82k shortfall on income particularly in Building Control, which is in part mitigated by reduced expenditure, £30k unbudgeted costs of Christmas lights and higher than budgeted legal costs by £22k relating to planning appeals.

The income is forecast to be over £100k lower than last year. The service is currently carrying out a review to identify any reasons for the downturn in income and the impact on the service if continuing at that level for subsequent years.

- e) **Strategic Housing Service £158k forecast year-end deficit** – this includes £56k void costs and loss of income for the Park Street hostel and £105k unbudgeted sustainability payments made to Worcester Community Trust. These have previously been reported and one-off funding agreed for 2016/17. It should be noted however that a continuation of such payments has not specifically been built in the 2017/18 MTFP and is therefore a future risk
- f) **Bereavement Services £77k forecast year end deficit**, mainly relating to a shortfall in income for the year of £67k on a budget of £1.7m.

## **5. Capital Programme and Financing**

5.1 The capital programme performance is shown at **Appendix 7**. The revised annual budget is £14.1m, with a year-end forecast of £13.3m

5.2 In summary, the main details are as follows:

- Vehicle replacement in Cleaner & Greener (budget £1.3m) - expenditure of £1.2m has been incurred. The replacement street cleansing vehicles originally planned for 2015/16 have been received this year.
- Perdiswell Culvert (budget £0.8m) - grant proceeds of £0.4m have been received from the Environment Agency towards the scheme. Expenditure of £760k has been incurred. The work began in May and is now complete.
- Perdiswell Pitches (budget £0.3m) - invoices and order commitments at the end of Q3 total £343k against an approved budget of £336k.
- Swimming Pool (budget £8.4m) – as at Q3 payments and commitments total £7.5m. The new pool is now open and the forecast is that this project will remain within budget.
- Commandery Improvements phase 1 (budget £0.4m) – £126k has been incurred/committed so far, which is the initial design work and the start of the building repair work prior to the main project for the interior.
- Worcester Six (budget £0.5m) – this reflects the City Council contribution to the joint initiative, funded from New Homes Bonus grant. No payment has been made in Q3.
- Cathedral Square (budget £0.5m) – this is a County Council scheme which is underway. The City Council total contribution is £0.5m, however no payment has been made in Q3.

## **6. Treasury Management**

- 6.1 The net position on Treasury Management at Q3 is a forecast year-end surplus of £48k – see **Appendix 8**.
- 6.2 There is a forecast underspend on interest payable of £57k, due to the borrowing requirement for the swimming pool being required later than expected to match the cash profile of capital payments.
- 6.3 The Minimum Revenue Provision (MRP) financial position has been added to the Treasury Management details for completeness. MRP is the amount which must be charged to the revenue account each year as the principle repayment element of external loans. For 2016/17 the MRP budget is £508k (2015/16 £479k), which is forecast to be £381k at year end, a £127k saving, due to the delays in vehicle replacement from 2015/16 to 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 97.0% paid on time (96.0% at Q3 in 2015/16). The number of invoices paid so far this year is 3,425 and of these 3,331 were paid within 30 days or less.
- 7.2 The Council target to pay local suppliers within 10 days is 90%. At the end of Q3 performance was 92.2% achieved (93.5% at Q3 in 2015/16). The number of invoices paid this year is 1,967 and of these 1,815 were paid within 10 days or less.

## **8. Collection of Council Tax and Business Rates**

- 8.1 The percentage of Council Tax and Business Rates debt collected during 2016/17 is shown below, together with the comparable figures at year end 2015/16. Collection of Council Tax is in line with last year and Business Rates 1.3% lower. This represents approximately £150k of the year to date Business Rates income for the City Council.

| % Collected    | <b>2015/16 Full Year</b> | <b>2015/16 Q3 Actual</b> | <b>2016/17 Full Year Target</b> | <b>2016/17 Q3 Actual</b> | <b>RAG Trend Vs. Last Yr.</b> |
|----------------|--------------------------|--------------------------|---------------------------------|--------------------------|-------------------------------|
| Council Tax    | 97.66%                   | 85.4%                    | 98.0%                           | 85.5%                    | G                             |
| Business Rates | 98.74%                   | 83.1%                    | 98.0%                           | 81.8%                    | A                             |

- 8.2 The amount of write-offs of Council Tax and Business Rates during Q3 is considerably lower than the same quarter last year with £31k put forward for write-off compared to £71k at Q3 last year.
- 8.3 The Q3 £31k of write-offs include; £31k from 47 cases have been approved by the Revenues & Benefits Shared Service management. There are no cases which require the approval of Cabinet nor the Corporate Director – Resources.

|              | <b>2015/16<br/>Write-off<br/>Cases</b> | <b>2015/16<br/>Write-off<br/>£000</b> | <b>2016/17<br/>Write-off<br/>Cases</b> | <b>2016/17<br/>Write-off<br/>£000</b> |
|--------------|--|---------------------------------------|--|---------------------------------------|
| Quarter 1    | 101                                    | £157k                                 | 36                                     | £35k                                  |
| Quarter 2    | 58                                     | £188k                                 | 57                                     | £120k                                 |
| Quarter 3    | 66                                     | £71k                                  | 47                                     | £31k                                  |
| Quarter 4    | 33                                     | £72k                                  |  |                                       |
| <b>Total</b> | <b>258</b>                             | <b>£488k</b>                          | <b>140</b>                             | <b>£186k</b>                          |

8.4 The year to date write-off of £186k comprises:

- Council Tax £58k,
- Business Rates £128k, including 13 company insolvencies for £109k

8.5 The decrease against 2015/16 is encouraging. Each quarter this year has seen lower write-offs than the equivalent period last year. However this is not necessarily an indication of a trend as the timing of write-offs can often create a distortion. This is an area that will continue to be closely monitored.

8.6 The write-offs in Q3 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, a combined value of £13k, which is fully budgeted.

## **9. Business Rates**

9.1 The latest projection for 2016/17 is a surplus of Business Rates income of £840k of which £336k is available as one-off additional funds to the City Council.

9.2 The Worcestershire Business Rates Pool (WBRP) has identified the need to build up a £2m risk pool to cover the risk of business rate losses. The pool currently stands at £128k with a further £659k forecast to be added as a result of 2016/17 business rate levies. This is some £1.2m below where WBRP would like to be. Based on what happened when the GP appeals occurred and there was insufficient in the pool, that burden was transferred to our respective authorities to resolve. To offset that risk it has been agreed as part of the 2017/18 Budget to earmark the 2016/17 related surplus as a reserve which can be reviewed again and released once the WBRP risk pool has reached its £2m target.

## **10. Opportunities and Risks for 2016/17**

10.1 In light of the 2015/16 outcome and performance in the 2016/17 so far, the key potential opportunities and risks for 2016/17 are;

- **Housing Benefit Subsidy/Recovery of Overpayments** – the Q3 year-end forecast shows a position equal to budget. (2015/16 was a net surplus of £0.1m). However a 1% swing on performance in this area would cause a disproportionate impact, adverse or favourable, of +/- £300k on the Council's bottom line;

- **Business Improvement** – target savings £300k (£225k + £75k b/fwd from 2015/16).. The year end forecast assumes that £99k of the target of £300k will be achieved in year. The balance of £201k has been built into the budget for 2017/18 as part of services’ transformation projects.
- **Car Park income** - The budget for income from car parking has been increased by £250k for 2016/17. The Q3 year-end forecast is for a surplus of £260k on this increased budget. However if the current trend continues, and the winter weather remains favourable, there could be additional surplus income for 2016/17 in the region of a further £25k.
- **Development Management income** –following a period of unusually low income, the income level to date is £83k below budget and the year-end forecast has therefore been set at £640k which results in a year end forecast deficit of £82k. All areas of income in Development Management need closely monitoring to ensure there are realistic quarterly forecasts.
- **Fleet costs** –. The costs for 2016/17 have resulted in significantly lower spend on maintenance as a result of the programme of fleet replacement, leading to a forecast broadly in line with budget which combined with an under-spend on fuel of £50k results in a net projected underspend of £42k on the fleet costs. This area of activity continues to be closely monitored by the Cleaner & Greener team on a vehicle by vehicle basis.

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**Background Papers:** None