



Report to: Policy and Resources Committee, 9th February 2021

Report of: Head of Finance

Subject: Q3 FINANCIAL MONITORING REPORT 2020/21

1. Recommendation

- 1.1 That the Committee reviews the financial monitoring details including budget variances and performance indicators for the 3rd quarter ended 31 December 2020; and**
- 1.2 That the Committee reviews the proposed write-offs of Council Tax and Business Rates for the quarter and approves the amounts noted.**

2. Background

2.1 In addition to the report, the following appendices provide further details on the forecast year-end financial position as at Q3:

- Summary of budget variances and comparison to Q2 forecast – **Appendix 1**
- Revenue budget summary - **Appendix 2**
- Revenue budget summary for gross income and expenditure – **Appendix 3**
- Service variances analysis - **Appendix 4**
- Fees & Charges income generation - **Appendix 5**
- Salaries by Service – **Appendix 6**
- Capital Programme summary - **Appendix 7**
- Earmarked Reserves– **Appendix 8**
- Debt collection/supplier payment performance – **main body of report**

3. Executive Summary

- 3.1 The forecast year-end performance at Q3 is to meet the balanced budget with no surplus or deficit. However, this will only be achieved through a transfer from the Risk Reserves of £0.405m leaving a balance in the Income and Business Rates Risk reserve of £4.014m. This is an improvement over the previous year-end forecast at Q2, which was a deficit of £0.701m, and is largely due to the receipt of £0.418m additional Government funding, see para 3.3 below.
- 3.2 The lockdown put in place due to the pandemic has had a significant effect on the Council's income. The forecast income from Fees and Charges overall is a budget deficit of £2.96m. This includes a £2.05m income deficit in Parking and £0.35m in Trade Waste Collection with further smaller deficits in Development Management and Bereavement Services. This is covered in more detail in para. 4.7.

- 3.3 The Government has already provided one-off funding for the effect of the lockdown with £1.1m received in April, a further £0.18m in July and £0.42m in October. The latter was not part of the previous forecast at Q2. With regards to income, where losses are more than 5% of a council's planned income from sales, fees and charges, the government will cover 75% of the lost income over and above the first 5% loss which each council will bear. For this Council, this is estimated to be an additional grant of £2.36m and reduces the amount needed to be transferred from the Risk Reserve.
- 3.4 The pandemic has also resulted in significant extra costs being incurred. At the Government's request all homeless individuals were moved into temporary accommodation with hotel rooms being booked to create the extra capacity required. This remains ongoing and the current forecast cost, net of Housing Benefit receivable and Government grants, is £567k. This is an increase of £19k over the Q2 forecast. The Council has received notice from the County Council that a proportion of these costs can be met from funding received by upper tier authorities. As the value of this transfer is not confirmed no allowance has been made for this in the Q3 estimates.
- 3.5 The lockdown also caused the closure of the Council's leisure facilities. Although these re-opened during Q3, it is unclear how long it will take for membership income to return to previous levels. To ensure the viability of the contract with the provider, the Council provided monthly support during the first period of closure from April to July, at a total cost of £220k. It has also been agreed that the quarterly management fee will be waived for the full year. This represents an additional £465k. Subsequent to the last quarterly report, the leisure centres were closed in November and again from January 2021. The provider estimates that further financial support of £81k will be required from the Council. This forecast therefore assumes a total unbudgeted cost of £751k, which is an increase of £81k over the Q2 forecast. The management fee waived is recoverable as part of the Government's 75% income scheme noted above. However, the £301k support payments do not qualify.
- 3.6 In respect of Housing Benefit subsidy, previous reports have noted the large volumes involved and the potential for small changes of, say, 1% to create changes of circa £300k. The table below summarises the movement in the year-end forecast of a budget deficit of £330k compared to the actual cost for last year of £389k. The improvement of £(59)k is due to the continuing increase in the cost of temporary accommodation offset by a larger reduction in the incidence of Housing Benefit over-payments. The latter reflects the fact that claimants are now able to advise their change in circumstances on-line.

Net Cost of Housing Benefit Subsidy	2018/19 Actual £'000	2019/20 Actual £'000	2020/21 Forecast Q1 £'000	2020/21 Forecast Q2 £'000	2020/21 Forecast Q3 £'000	Change 20/21 vs. 19/20 £'000
Budget	(32)	(65)	(32)	(32)	(32)	(33)
Actual /Forecast	26	324	268	268	298	(26)
Variance to Budget	58	389	300	300	330	(59)

3.7 A summary of the main elements of the forecast variance to budget is shown on **Appendix 1**. This includes a comparison to the Q2 forecast and therefore highlights those areas that are showing a significant movement. This particularly applies to income from car parking, a £328k adverse movement and the costs of supporting the SWDP which is also adverse by £162k. These are offset by an increase in one-off Covid-19 grants from MHCLG of £837k.

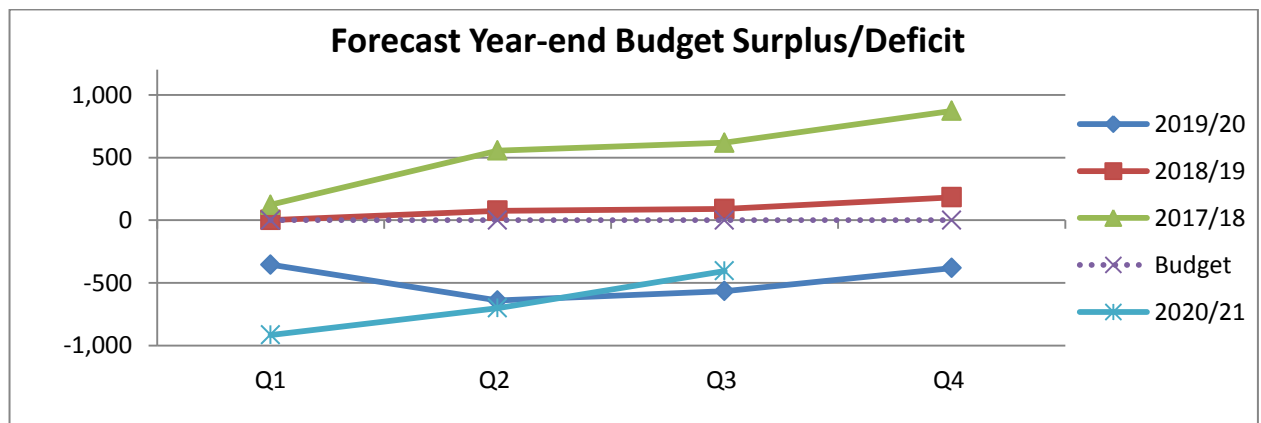
The year-end forecast meets the balanced budget through transferring £0.405m from the Risk Reserves.

3.8 The revised annual capital budget is £13.462m with a year-end forecast of £12.580m. Further details are provided in para 5.

3.9 The collection of Council Tax is slightly behind target, a variance of 0.5% of the annual total billed. The collection of Business Rates is 5.2% lower than the target. Write-offs for Q3 are £30k. The timing of write-offs can vary depending on the circumstances of each account.

4. **Q1 Revenue Budget Performance**

4.1 The forecast year-end performance at Q3 is to achieve a budget deficit of £405k which will be covered by a transfer from reserves. Details are provided at **Appendices 1 - 4**.



Year-end Forecast £'000 Surplus/(Deficit)	Q1	Q2	Q3	Q4
2020/21	(915)	(701)	(405)	
2019/20	(354)	(640)	(565)	(382)
2018/19	2	76	90	183
2017/18	123	556	618	872
2016/17	163	289	323	668

4.2 At a headline level, the year-end forecast, as shown in **Appendix 2**, is comprised as follows:

- £602k lower expenditure on a budget of £25.7m. This includes temporary accommodation costs of £567k as a result of the lockdown and an underspend on employee costs of £(602)k;

- £3,419k reduced income on a budget of £15.1m. This includes £2,969k shortfall on Fees and Charges income and £465k management fee waived in respect of Leisure services offset by Housing Benefit and Government grants of £(587)k receivable in respect of the additional lockdown related temporary accommodation costs noted above;
- £237k net deficit from interest payments and housing benefit subsidy. There is a favourable variance on interest and MRP of £(93)k less the forecast adverse variance on housing benefit subsidy of £330k. The latter includes the loss of subsidy on the cost of temporary accommodation.

Explanations for the key budget variances are provided below.

4.3 Employee Costs – the forecast under-spend of £(602)k, which is 5% of budget and is as shown on **Appendix 2**, is made up of the Services' salary costs, a forecast underspend of £(533)k, as detailed on **Appendix 6**, and other employee related expenditure, principally training costs. The main elements are shown below. A number of restructure proposals are under consideration pending the outcome of the voluntary redundancy exercise. Posts that are currently vacant and which may be affected by these proposals are being held vacant until that process is complete and any new positions can be recruited to. In other cases vacancies are due to delays in recruitment as indicated below:

- Economic Development and Planning Services: £(126)k, 10% of budget, due to four vacancies being held open pending a pending a restructure.
- Environmental operations: £(208)k, 6% of budget. There is currently no Arboricultural team in place due to difficulty in recruiting, an underspend of £66k, with contractors being used when required. The reduced activity for the jetting and skips teams is an underspend of £75k. In addition, there have been delays in filling vacancies due to the pandemic with agency staff covering when required.
- Policy and Strategy: £(53)k, 7% of budget, due to delays in recruitment and a post that is being held vacant pending a restructure.
- Community Services: £(68)k, 5% of budget. Parking has a full team but has experienced delays in recruiting due to the pandemic. Bereavement now has one vacancy which is being recruited for but has also experienced delays in filling vacant posts.
- Governance: £(69)k, 8% of budget, due to reduced use of casual staff as the Guildhall has been closed and reduced Electoral Registration activity due to Covid-19 restrictions.
- Internal Audit; £(43)k, 12% of budget. One post has been held vacant as fewer audits have been possible during 2020.
- In addition, the vacancy factor is held as a corporate budget of £127k with the actual vacancies being realised in the individual services. At Q3 the vacancy factor is therefore an over-spend of £80k.

4.4 Premises Costs – the forecast over-spend of £676k includes £597k for the cost of temporary accommodation provided to individuals who would otherwise have been homeless during each lockdown period and £104k for the void cost of managing the site of the former swimming pool at Sansome Walk prior to the demolition work starting.

	£'000	
Temporary accommodation	597	Accommodation £352k and on-site security £245k.
Void management at Sansome Walk site.	104	The contractor for the demolition assumed responsibility for the site from mid-November.

4.5 Supplies and Services – the forecast under-spend of £(22)k includes the unbudgeted cost of £149k for providing meals as part of the temporary accommodation provision and £(160)k underspend in Economic Development being mainly the expenditure that will not arise following the cancellation of the Christmas Fayre.

4.6 Third Party Payments - the forecast over-spend of £709k includes the one-off support for Leisure Services of £301k, additional third-party resource to facilitate the temporary accommodation under the lockdown of £236k and increased support costs for SWDP of £162k compared to the Q2 forecast.

4.6.1 The costs for supporting the SWDP this year have increased significantly and are now forecast to be £240k against a budget of £43k. This is on account of more work being required than originally envisaged. However, this is a prudent forecast and could be improved once the final costs of the transport modelling work from the County Council are received and if requests to the developers/landowners of the strategic sites for a contribution to the SFRA and the viability studies are successful.

4.7 Income – the forecast income budget deficit of £3,419k is made up of:

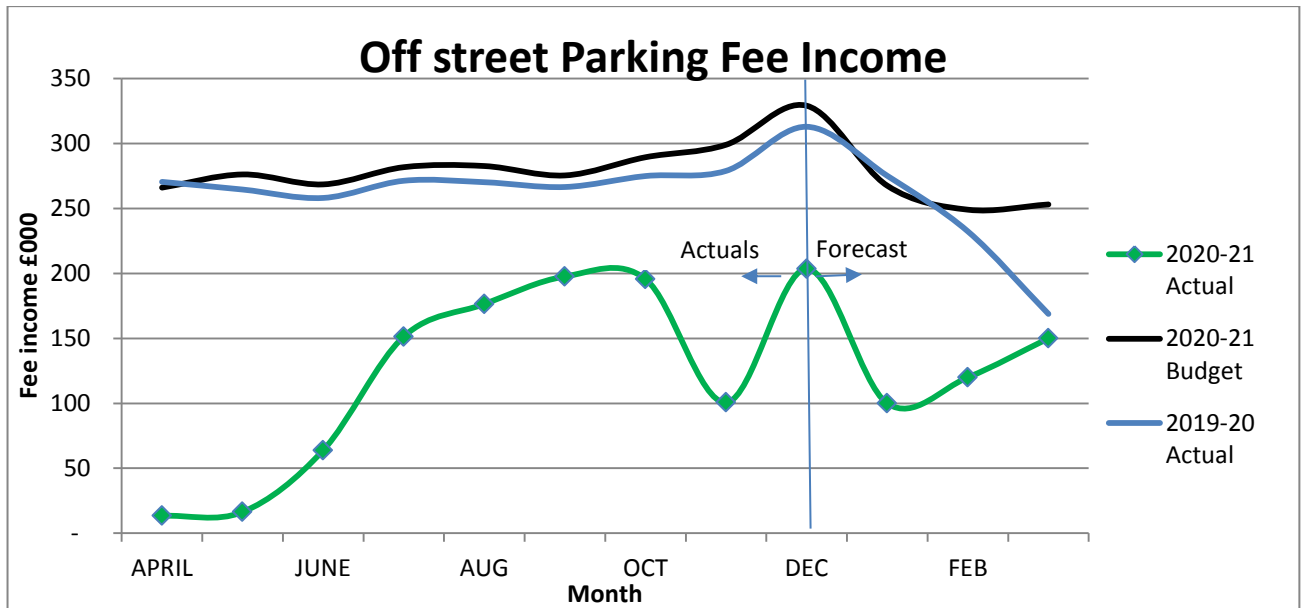
- Fees & Charges (from council services) £2,969k, see **Appendix 5**.
- Other Income / Grants & Contributions £450k

4.7.1 The income from car parking is forecast for a year-end budget deficit of £2,055k which comprises:

- Forecast income from the car parks: £1,841k below budget
- Forecast PCN income: £214k below budget.

At the end of Q3, income from car parks is £1,349k lower than this time last year and PCN income is £129k lower.

The income from car parks in April and May was very low but gradually increased through to October, when the income was 70% of that received last year. However, a further lockdown followed in November and again in January. Neither of these were expected at the time of the Q2 forecast. It is not yet clear how people will respond as far as shopping in the city centre, returning to offices or tourism is concerned once the lockdown eases. The forecast for future months is therefore difficult to predict and assumes a gradual increase in income to a level in March that is approximately 60% of that received for an average of the past three years.



The result is a year-end forecast of £1.38m against a budget of £3.4m.

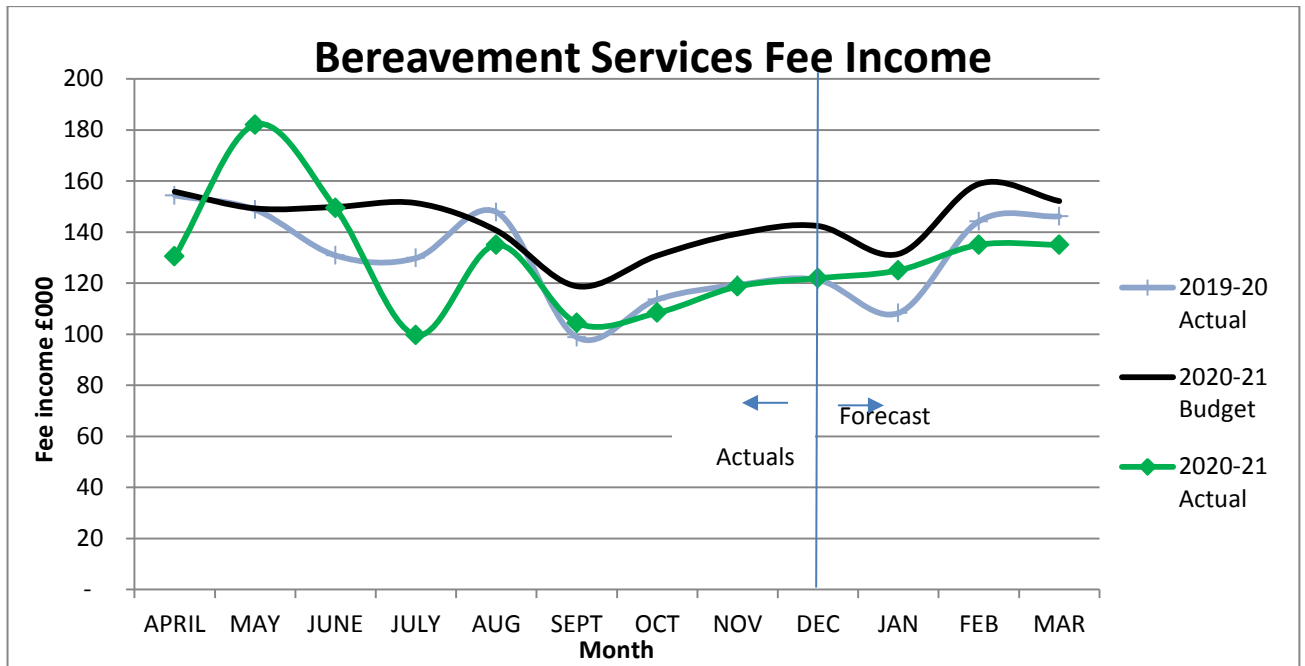
The PCN income is assumed to follow a similar pattern generating a forecast income of £305k against a budget of £519k.

Both of these income streams are covered by the Government grant to compensate for 75% of 95% of the loss of income. This is accounted for separately and not included in the graph above.

4.7.2 Bereavement income is forecast to be £1.54m for the year, which is the same as last year and a full-year budget deficit of £180k.

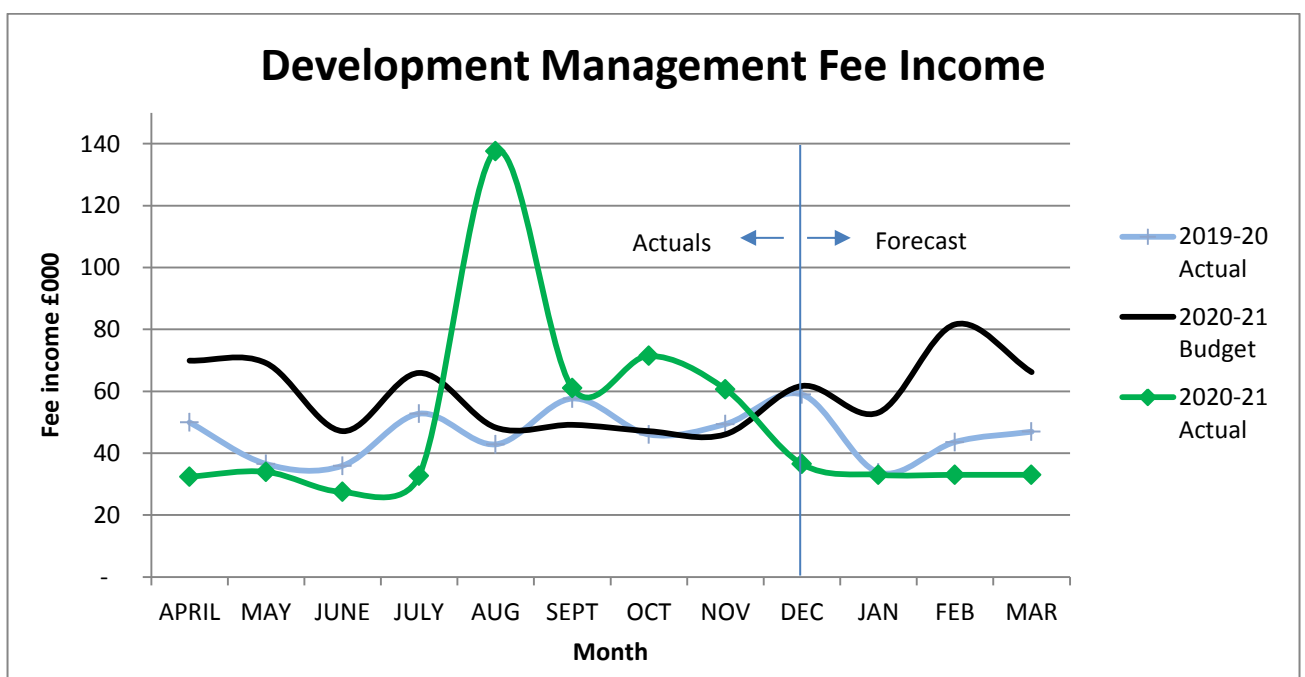
At the end of Q3, income from Bereavement Services is £128k short of the budget and £14k lower than this time last year. This has been affected by the increased number of deaths arising from the pandemic offset by a reduction in time, and therefore charges, for each service.

The forecast assumes that the income continues to follow the pattern of that achieved last year.



The Bereavement Service believes that the pandemic has accelerated the number of deaths and there is a risk that the death rate could be lower than last year in the future months.

- 4.7.3 Income for 2020/21 from Environmental Health and Licensing is forecast to be £323k which is £36k below budget and £2k lower than last year. The forecast is based on the trend to Q3. At the end of Q3 income was the same as last year.
- 4.7.4 The income in Development Management has a year-end forecast of £503k which is £97k below budget, helped by the receipt of some large planning application fees for £103k in August, including the Lowesmoor development. The forecast is based on the trend to Q3 excluding these large fees. At the end of Q3 income was £10k below budget.



Income from planning applications, Land Charges and building control are all below budget.

4.7.5 Income from the collection of Trade Waste has been reduced by the effects of the lockdown with many businesses closed or producing significantly less waste. The service operated for most of the first lockdown albeit on a much-reduced scale. Most businesses re-opened albeit with many customers producing lower volumes and requiring fewer collections. However, we have now returned to another lockdown situation. The forecast assumes that for the next 3 months the income will reduce again to a similar level as Q1. The income lost will not be recovered and is part of the Government's 75% Income Compensation scheme. The full year forecast is for an income budget deficit of £347k. This will be offset by forecast disposal costs being £159k lower than budget.

4.7.6 Other Income – the year-end forecast is for a budget deficit of £1,050k. This includes the following:

- Leisure Services - £465k lower than budget due to the waiver of the management fee for the whole of 2020/21 (see para 3.5).
- Rental income - £132k lower than budget arising from vacant properties that may prove difficult to let, requests from tenants for deferment or waiver of rental payments and the expected pressure on rent reviews compared to the budget assumptions. NB rental income is excluded from the Government's income compensation scheme.
- Environmental Operations income – £182k lower than budget as services provided to other organisations, including the County Council, have been significantly reduced during the lockdown and indications are that these are unlikely to return to previous levels of activity.

4.8 Housing Benefit Subsidy – forecast year-end over-spend at Q3 of £330k, which is £30k greater than the Q2 forecast.

In prior years the recovery of earlier over-payments of housing benefit has exceeded the current year subsidy costs. Hence the annual budget is for a small surplus of £(32)k.

The forecast over-spend of £330k is an improvement over last year of £(59)k. There is a continuing increase in the cost of temporary accommodation offset by a larger reduction in the incidence of Housing Benefit over-payments. The latter reflects the fact that claimants are now able to advise their change in circumstances on-line.

The city has a limited supply of temporary accommodation which often proves insufficient and leads to the individuals and families being placed in more expensive hotels. The City Council is working to provide its own temporary accommodation to alleviate this and provide better value for money.

5. Capital Programme and Financing

5.1 The capital programme forecast is shown at **Appendix 7**. The revised annual budget is £13.462m, with a year-end forecast of £12.580m. The original budget approved in February was £11.995m and the increase is summarised below:

	£'000	
Published Budget 2020/21	11,995	
Utilised in 2019/20	0	
Slippage from 2019/20	3,662	
Future High Streets Fund	1,065	
Accelerated Towns Fund	1,025	
Car Park Machines & Resurfacing	(100)	Budget no longer required
In Cab Technology Software (Waste)	23	
Crematorium Memorial Tree	20	
Cinderella Project	32	
Pocket Park	30	Sanctuary Close/Hopton Street
CCTV Upgrade	32	
Play areas	35	Howard Road
Disabled Facilities Grants	89	Increased grant available
Guildhall Improvement Access	32	
Wheelie Bin Replacements	100	
Other	29	
Slippage to future years	(4,607)	Hockey development deferred to 2021/22 £2.1m
Reported Budget Q3	13,462	

5.2 In summary, the main details are as follows:

- Development Fund Property (Budget £5.78m) – the purchase of a commercial property was completed in April 2020
- Sports development (Budget £0.75m) – the council is supporting initiatives by third parties for improving sports facilities in the city. This is likely to be in the form of long-term loans which will be repaid from the ongoing income generated by each project. At its meeting of 5 February 2019 this Committee approved a limit of £4m for loans to charitable organisations. A sum of £0.75m has now been budgeted for 2020/21.
- Sansome Walk (Budget £1.50m) – demolition of former swimming pool to prepare the site for disposal. This is will now extend into 2021/22 and the relevant budget amount has been deferred.
- Arches (Budget £0.1m) – refurbishment of the city’s railway arches and creation of a cultural arts quarter in the city
- Hostile Vehicle Mitigation (Budget £0.025m) – provision of security measures in the city centre to support the staging of large-scale events
- Accelerated Towns Fund (Budget £1.025m) – the Government has provided grant funding of £1.0m towards three new infrastructure projects relating to the offices at 4 Copenhagen St., electric charging points at St Martins Gate car park and further development of Warndon community centre.

- Future High Streets Fund - the Government has provided grant funding of £17.9m towards regeneration of the northern part of the city centre. Of this £1.065m is forecast to be spent this year.

6. Treasury Management

- 6.1 The net position on Treasury Management at Q3 is a forecast year-end surplus of £(11)k.
- 6.2 The forecast assumes no further borrowing this year and is based on the current level of funds held on deposit and the cash outflows forecast for the rest of the year.
- 6.3 There is a favourable budget variance on interest payable of £(92)k, arising from the loan for £6.0m that was taken out in April being at a lower rate of interest than had been budgeted for. This rate is fixed for the duration of the loan, which is 10 years.
- 6.4 Interest receivable is forecast to be below budget by £81k, due to the reductions in interest rates since the budget was set and lower than budgeted dividends on the CCLA property investment.

7. Supplier Payments

- 7.1 The Council's target for paying invoices within 30 days is 100%. At the end of Q3 performance was 95.2% paid on time.
- 7.2 The Council's target to pay local suppliers within 10 days is 90%. At the end of Q2 performance was 89.1%, although performance showed an improvement towards the end of the quarter.

8. Council Tax and Business Rates

- 8.1 The percentage of Council Tax and Business Rates debt collected during 2020/21 is shown below, together with a quarterly target based on the average of the last two years.

Council Tax	Q1	Q2	Q3	Q4
Actual	28.9%	56.7%	84.9%	
Target	29.4%	57.3%	85.4%	98.0%
+ / (-)	(0.5)%	(0.6)%	(0.5)%	

NDR	Q1	Q2	Q3	Q4
Actual	25.1%	56.7%	78.0%	
Target	28.4%	58.1%	83.2%	98.3%
+ / (-)	(3.3)%	(1.4)%	(5.2)%	

The collection of Council Tax is 0.6% behind target and Business Rates is 5.2% lower than the target. The Business Rates collection indicator is subject to larger fluctuations as income from a small number of businesses can form a significant proportion of the total collectable. As the billing authority, the gap of 5.2% represents approximately £1.0m.

With the uncertain economic outlook for both businesses and some individuals, the future collection of Council Tax and Business Rates represents a risk to the Council's

finances. This is being closely monitored and will be reported to the Committee on a quarterly basis.

- 8.2 The value of write-offs of Council Tax and Business Rates during 2020/21 is shown below.

	2017/18		2018/19		2019/20		2020/21	
Council Tax	No. of Cases	£'000	No. of Cases	£'000	No. of Cases	£'000	No. of Cases	£'000
Q1	56	£32k	104	£78k	25	£21k	124	£99k
Q2	61	£40k	57	£38k	32	£17k	46	£24k
Q3	38	£24k	64	£37k	8	£5k	22	£18k
Q4	50	£26k	24	£19k	25	£18k		
Total	205	£122k	249	£172k	65	£61k	192	£141k

	2017/18		2018/19		2019/20		2020/21	
NNDR	No. of Cases	£'000	No. of Cases	£'000	No. of Cases	£'000	No. of Cases	£'000
Q1	11	£64k	11	£78k	5	£19k	1	£4k
Q2	33	£105k	17	£117k	13	£197k	8	£47k
Q3	10	£33k	24	£142k	6	£27k	3	£12k
Q4	23	£114k	9	£56k	7	£83k		
Total	77	£316k	61	£393k	24	£326k	12	£63k

Write-offs	C. Tax £'000	B. Rates £'000	Total £'000
2015/16	122	366	488
2016/17	116	183	299
2017/18	122	316	438
2018/19	172	393	565
2019/20	61	326	387
2020/21 to Q3	141	63	204

- 8.3 The Q3 £30k of write-offs includes; £13k from 20 cases have been approved by the Revenues & Benefits Shared Service management, £17k from 5 cases have been approved by the S151 Officer; there are no cases this quarter that require the approval of this committee.
- 8.4 The write-offs include 2 cases of insolvency that are worth £8k.
- 8.5 The write-offs for the year to date 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 £40k, which is fully budgeted.
- 8.6 The year-end forecast for Council Tax is for a Collection fund deficit of £980k, of which the City Council's share would be £105k. This is based on the higher than budgeted levels of Council Tax Support and an expectation that the collection rate may fall as the Government support from furloughing comes to an end. At the year-

end this would necessitate an increase in the arrears provision. The Government has indicated that the deficit can be accounted for over the next 3 years.

9. **Earmarked Reserves**

9.1 The summary of earmarked reserves at the end of Q3 is shown on **Appendix 8**. The year-end forecast is for there to be reserves of £10.211m of which £0.250m (net) is yet to be committed to a specific project or use and £4.013m is forecast to be in income and business rates risk reserves. In addition, there is a forecast of a further £0.76m of funds relating to S106 schemes.

9.2 The movements in the City Plan Fund in 2020/21 are as follows:

City Plan Fund	£'000
Reserves b/fwd from 2019/20	3,118
New Homes Bonus 2020/21	88
Less:	
Support of Disability Sports	(5)
Kepax bridge	(100)
Boating	(6)
Cultural Development Fund (Arches)	(282)
Armed Forces Covenant	(1)
Improvements to Arterial Routes	(78)
Drinking water fountains	(9)
Health promotion	(79)
Work Placements	(8)
Street Signage	(3)
Place-based working	(20)
Worcester City Heat Network	(7)
Playing Pitch Strategy	(30)
City Museums, commercial development	(6)
Tourism strategy	(94)
Tourism and Events Officer extension	(41)
Business development initiatives	(11)
Foot/Cycle Path Diglis to Carrington bridge	(61)
Worcester City Masterplan	(140)
Gateway project	(6)
Forecast Balance at year-end	2,218

The balance of £2.22m includes projects to the total value of £2.523m. The difference of £0.25m is proposed to be funded from the Risk reserve and this will be concluded as part of the budget setting process for 2021/22.

9.3 The City Council currently holds Risk Reserves to a value of £4.57m. This comprises the following:

- Worcester County Hardship grant £115k
- Cold Weather Prevention Service £41k
- Income Contingency £495k
- Business Rates Risks £3,924k

The year-end revenue forecast is for a budget deficit of £0.405m, net of the government grants received of £1.607m and the Government commitment to fund

75% of 95% of the transactional income lost during the lockdown, estimated at £2.360m.

This net deficit of £0.405m will be addressed by drawing on the Income Contingency reserve of £0.495m.

The year-end forecast value of the Income and Business Rates Risk Reserves is therefore £4.013m

- 9.4 The forecast balance on the Transformation Fund of £613k includes commitments of £182k which, if realised as expected, will leave a balance of £431k unallocated.

10. Opportunities and Risks for 2020/21

- 10.1 Housing Benefit Subsidy / Recovery of Overpayments – the Q3 year-end forecast shows £330k deficit to budget. The large amounts involved in this area and the current uncertainty around the economic recovery mean that a 1% swing on performance in this area would cause a disproportionate impact, adverse or favourable, of +/- £300k on the Council's bottom line.
- 10.2 The Council has incurred a significant over-spend of £0.6m in relation to providing temporary accommodation for rough sleepers. The Council has received notice from the County Council that a proportion of these costs can be met from funding received by upper tier authorities. As the value of this transfer is not confirmed no allowance has been made for this in the Q3 estimates.
- 10.3 The year-end forecast includes income and expenditure estimates that are subject to considerable change during the current economic environment. The trends will be closely monitored and forecasts updated during the year. These will be reported to Members on a quarterly basis as in previous years.

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Background Papers: None