



Report to: Policy and Resources Committee, 16th November 2021

Report of: Head of Finance

Subject: Q2 FINANCIAL MONITORING REPORT 2021/22

1. Recommendation

- 1.1 That the Committee reviews the financial monitoring details including budget variances and performance indicators for the 2nd quarter ended 30th September 2021;**
- 1.2 That the Committee approves the write-offs of Council Tax and Business Rates for the quarter; and**
- 1.3 That the Committee approves the delegation to the Corporate Director – Finance and Resources, in consultation with chair and vice-chair, of the committee to negotiate with Freedom Leisure on the Management Fee to be received for 2021/22.**

2. Background

- 2.1 In addition to the report, the following appendices provide further details on the forecast year-end financial position as at Q2:
 - Q2 vs Q1 year-end 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 Q2 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 £0.436m leaving a forecast balance in the reserve of £3.647m.
- 3.2 The lockdown put in place due to the pandemic had a significant effect on the Council's income for 2020/21 and this has continued into the current year. The forecast for income from Council Services overall is a budget deficit of £1.020m. This includes a £0.649m income deficit in Parking and £0.105m in Bereavement Services. However, this is partly offset by the £600k income contingency that was built into

the 2021/22 budget as a one-off to mitigate the time it would take for income to recover to pre-pandemic levels. This is covered in more detail in para. 4.7.

- 3.3 In 2020/21 the Government provided funding for 75% of income lost due to the pandemic (compared to 95% of the budget). This scheme was extended to include Q1 of 2021/22 and this Council is due to receive a further £0.347m, which is included in this year-end forecast. The Government has also provided £145k for the management of Covid outbreaks (COMF). To date the Council has undertaken radio advertising and held pop-up vaccination centres, which have mostly been on council premises. With the pandemic not yet over, the final cost remains uncertain but the forecast assumes the transfer of £100k to the Council's revenue budget to offset other cost pressures and income losses arising from the pandemic.
- 3.4 The lockdown also caused the closure of the Council's leisure facilities. Although these have now re-opened, it is unclear how long it will take for membership income to return to previous levels. The Service provider has indicated that no management fee will be payable for Q1 and this will be confirmed on receipt of the Service's actual income and costs for the period. The Q1 element of the management fee formed part of the claim under the 75% Income Compensation Scheme. The forecast assumes the Council will receive the full management fee for Q3 and Q4. Further details including the forecasts provided by Freedom Leisure are shown in para 4.7.6
- 3.5 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 year-end forecast of a budget deficit of £475k compared to the actual cost for previous years. This deficit represents 1.7% of the budgeted payments of £28.0m. The improvement against last year of £(167)k reflects the gradual easing of lockdown restrictions which should see people returning to work and less reliance on Housing Benefit and temporary accommodation. The forecast for the full year is unchanged from the previous quarter.

Net Cost of Housing Benefit Subsidy	2018/19 Actual £'000	2019/20 Actual £'000	2020/21 Actual £'000	2021/22 Forecast Q2 £'000	21/22 vs. 20/21 £'000
Budget	(32)	(65)	(45)	(32)	13
Actual /Forecast	26	325	597	443	(154)
Variance to Budget	58	389	642	475	167

- 3.7 A summary of the main elements of the year-end forecast deficit as at Q2 and a comparison to Q1 are shown in **Appendix 1**.

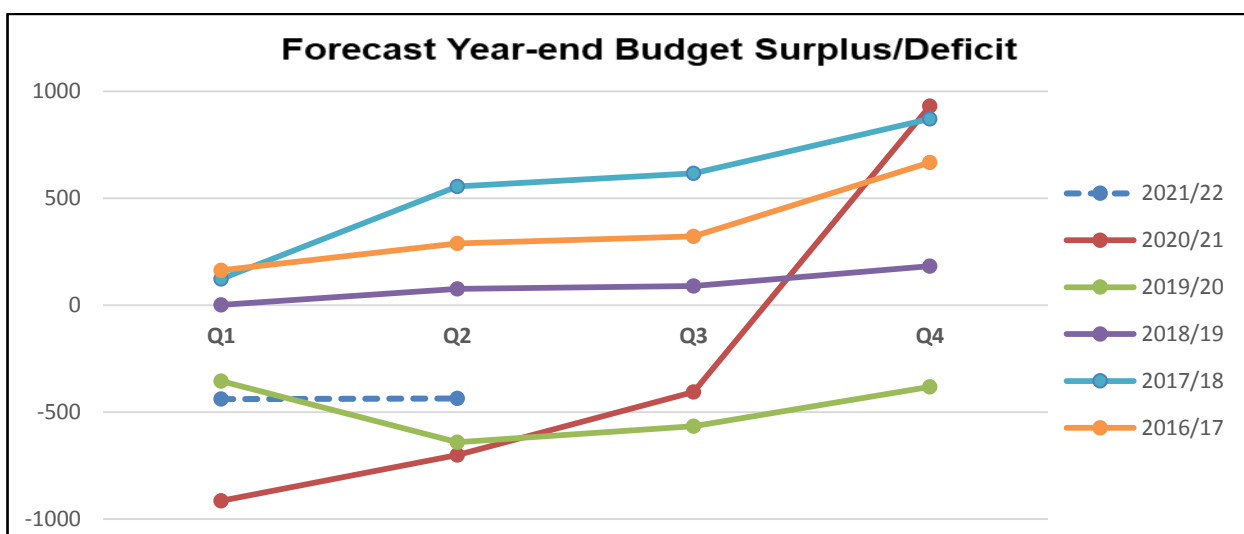
The year-end forecast meets the balanced budget through transferring £0.436m from the Risk Reserves and receiving additional grant funding of £0.447m from the government. This is on account of the deficit in income from Services' being £1.020m, see **Appendix 4**, and additional unbudgeted costs.

- 3.8 The revised annual capital budget is £16.648m with a year-end forecast of £16.273m.

3.9 The collection of Council Tax is on target. The collection of Business Rates is 10.0% lower than the target, which is a combination of businesses delaying payments due to the pandemic and also the result of the reliefs given to businesses in retail and nurseries changing from 100% for Q1 to 66% for the remainder of the year. Write-offs for Q2 are £43k. The timing of write-offs can vary depending on the circumstances of each account.

4. **Q2 Revenue Budget Performance**

4.1 The forecast year-end performance at Q2 is to achieve a balanced budget. Details are provided at **Appendices 1 - 6**.



Year-end Forecast £'000	Q1	Q2	Q3	Q4
2021/22	(439)	(436)		
2020/21	(915)	(701)	(405)	932
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 1**, is comprised as follows:

- £165k higher expenditure on a budget of £24.89m, which is a variance of 0.6%;
- £420k reduced income on a budget of £13.66m. This includes £330k shortfall on Fees and Charges income and £235k management fee waived in respect of Leisure services;
- £297k net deficit from interest payments and housing benefit subsidy. There is a favourable variance on interest and MRP of £178k less the forecast adverse variance on housing benefit subsidy of £475k. 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 over-spend of £9k, as shown on **Appendix 2**, is made up of the Services’ salary costs, which is a forecast overspend of £11k, as detailed on **Appendix 6**, and other employee related expenditure. Whilst individual services are forecasting underspends due to vacancies, others are showing a forecast over-spend with temporary resource having been added to mitigate the absence of key staff due to illness.
- 4.4 Premises Costs – the forecast under-spend of £36k includes:
- £23k in respect of budgeted savings in security costs that are no longer considered achievable and a further £9k for extra security measures put in place during the pandemic;
 - Release of a £48k contingency for Business Rates payable on council properties. This relates to the transitional relief that is being applied to the bills each year to smooth the effect of the 2017 revaluation. It is expected that this will be fully utilised next year.
- 4.5 Supplies and Services – the forecast over-spend of £91k includes;
- £33k increased cost of software licences including the renewal of a 5 year contract;
 - £61k unbudgeted costs in Bereavement Services relating to repairs of key pieces of equipment and including £25k for the cost of webcasts and slideshows that generate additional income;
- 4.6 Third Party Payments - the forecast over-spend of £126k includes:
- £56k of payments to the Revenues and Benefits provider for extra work required as part of the additional benefits and reliefs available during the pandemic. Grants were received by the City Council from Government to cover these costs.
 - £43k over-spend on vehicle maintenance costs which is a variance of 19% and is due to more vehicles falling out of the warranty period. This is a total full-year spend of £330k which is the same as 2020/21.
- 4.7 Income – the forecast income budget deficit of £420k is made up of:
- Fees & Charges (from council services) £330k, see **Appendix 5**.
 - Other Income / Grants & Contributions £90k
- 4.7.1 The income from car parking is forecast for a year-end budget deficit of £649k which comprises:
- Forecast income from the car parks: £530k below budget
 - Forecast PCN income: £119k below budget.

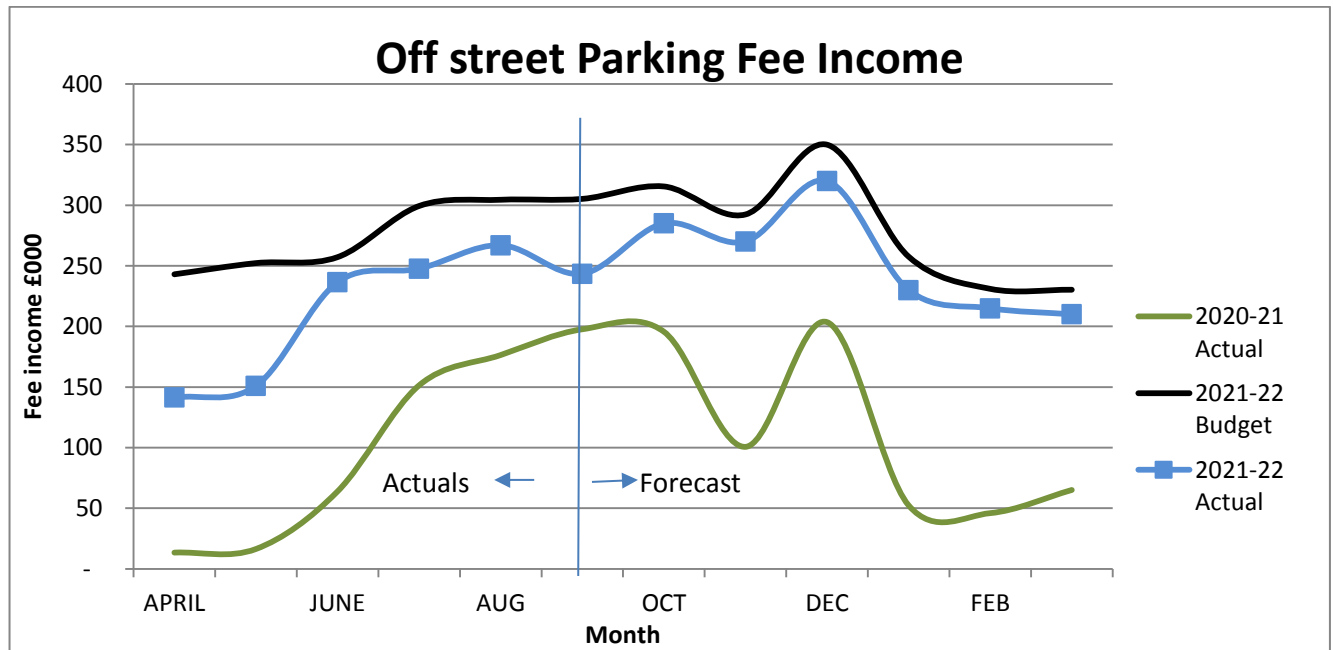
At the end of Q2, income from car parks is £375k lower than budget and PCN income is £69k lower.

The income from car parks has increased during the first 6 months of the year as the lockdown restrictions have gradually eased. In August and September income was 84% of budget. The forecast assumes an increase in income to a level that is

approximately 90% of that received in the average of the past three years. The result is a year-end forecast of £2.850m against a budget of £3.380m.

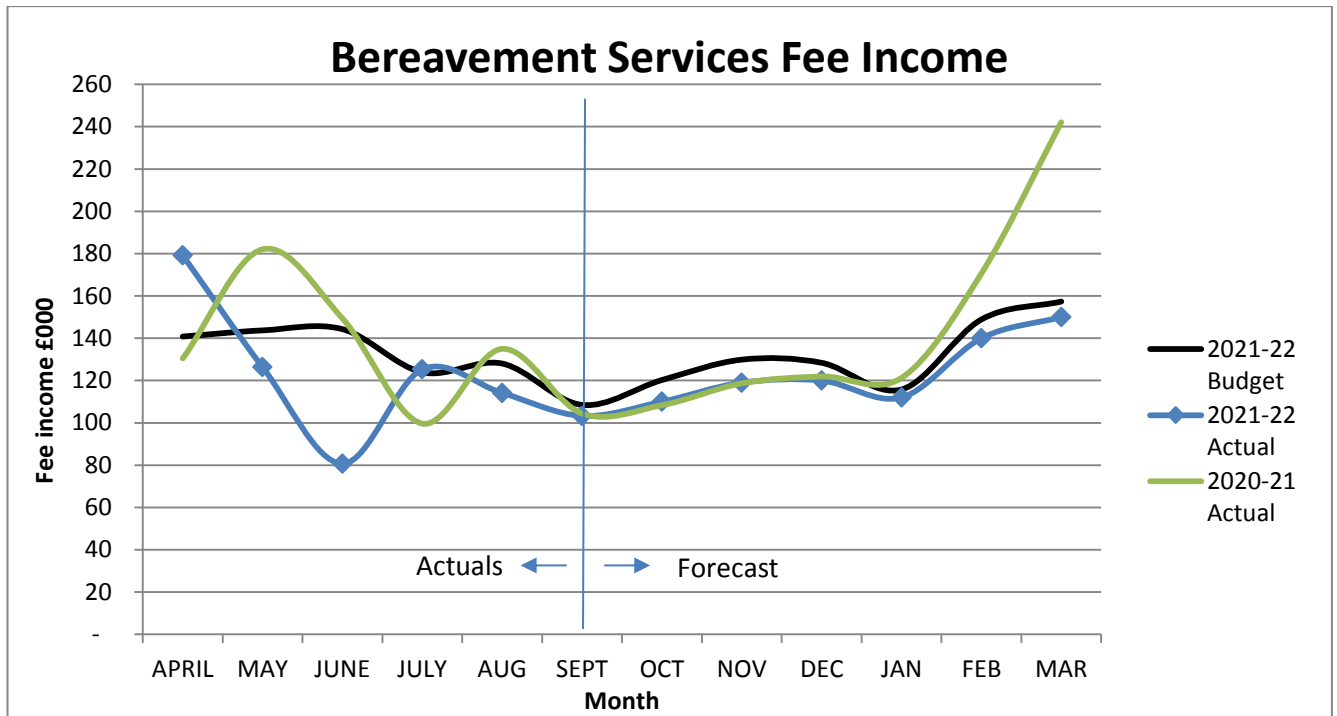
The PCN income is assumed to follow a similar pattern generating a forecast income of £401k against a budget of £520k.

At the time of setting the budget, a £600k contingency was added to the Corporate section in the overall budget to cover a potential shortfall in income from car parking and other services. In addition, the Government extended the 75% Income Compensation scheme to include Q1 of 2021/22, which has delivered £155k in respect of car parking income.



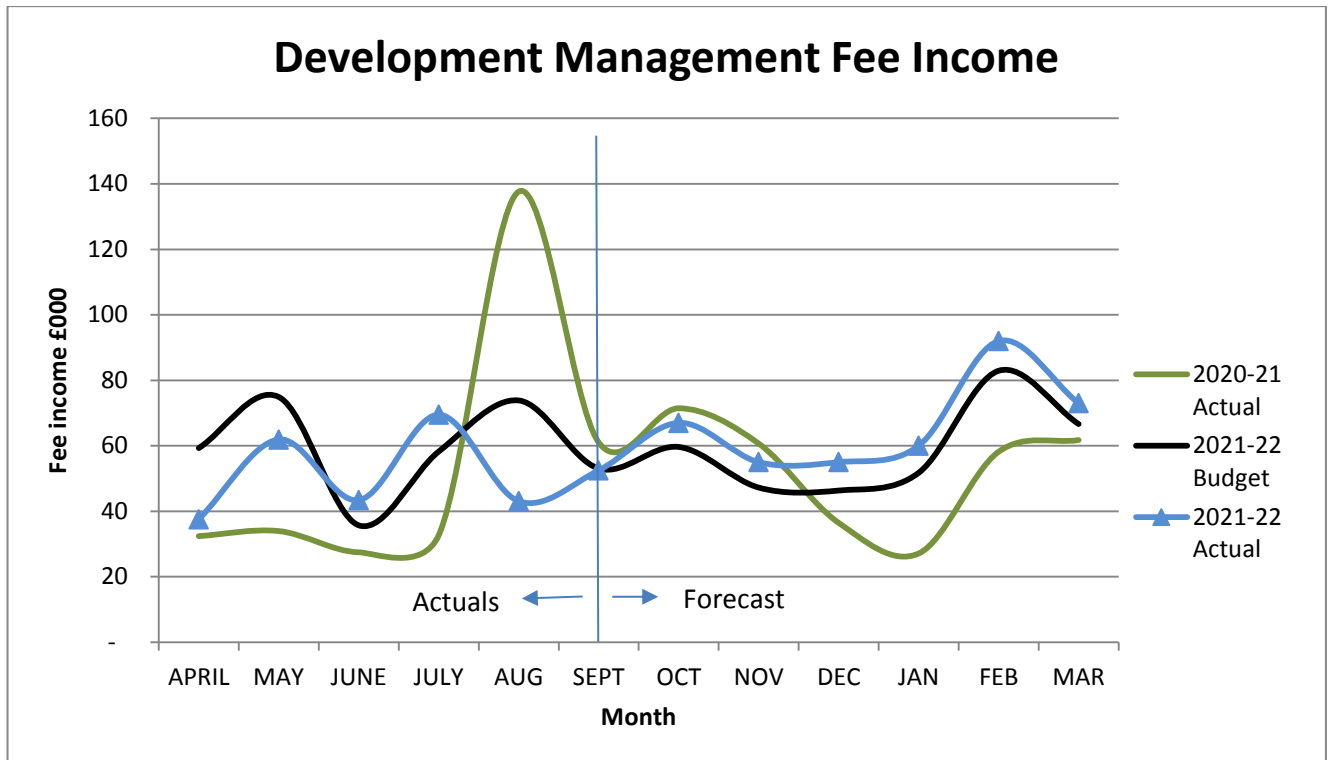
4.7.2 Bereavement income is forecast to be £1.48m for the year, which is £0.200m lower than last year and a full-year budget deficit of £105k.

At the end of Q2, income from Bereavement Services is £60k short of budget and £12k lower than this time last year. However, this has been affected by the increased number of deaths arising from the pandemic. Income was higher than budget in April, fell away sharply in May and June but has been close to budget and last year for July to September.



The forecast assumes that this recent trend will continue with income gradually increasing in the winter months.

- 4.7.3 Income for 2021/22 from Environmental Health and Licensing is forecast to be £340k which is £21k below budget and £25k greater than last year, an 8% increase. The forecast is based on the trend in Q1-2 with some recovery assumed later in the year.
- 4.7.4 The income in Development Management has a year-end forecast of £710k which is the same as budget. The forecast is based on the trend in Q1-2 with some recovery assumed later in the year. At the end of Q2 income was 13%, £47k below budget. This is lower than the income achieved last year, however that was bolstered by the receipt of large one-off planning applications.



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 lockdown albeit on a much reduced scale. Most businesses have now re-opened, although many are still operating with fewer collections. The full year forecast is for an income budget deficit of £124k against a budget of £836k. This will be offset by forecast disposal costs being £66k lower than budget.

4.7.6 Other Income – the year-end forecast is for a budget deficit of £235k. This includes the following:

- Leisure Services - £235k lower than budget. This is offset by the Government’s 75% compensation scheme which was extended to include Q1 of 2021/22 and amounts to £82k.
- In light of the progress to date officers have requested a revised forecast which sets out the Service provider’s best and worst case scenarios and the management fee payable to the Council in each case. These are shown below:

Freedom Leisure Forecast Scenario for 2021/22	£'000
Best Case	£117,557
Worst Case	£62,741
Budgeted management fee payable	£435,000

The City Council's Q2 year-end forecast assumes a return to the budgeted management fee being received from the council's leisure services provider for Q3 and Q4, which is £200,000. However, this is dependent on how quickly memberships return to the pre-pandemic level. Therefore the best and worst case scenarios need to be kept under review.

- City centre - £51k lower income arising from the Tourist information Centre being closed for much of Q1, less income being forecast from the Christmas Fayre and the reduced income expected from the markets contract;

4.8 Housing Benefit Subsidy – forecast year-end over-spend £475k.

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

The forecast over-spend of £475k is 1.7% of the £28m budgeted payments and an improvement over last year of £(167)k but nevertheless an increase over 2019/20 of £86k.

During 2020/21, the pandemic caused more people to claim housing benefit and to seek temporary accommodation. Although still contributing to the forecast deficit, the costs incurred for temporary accommodation have started to ease as the lockdown has been lifting and people are returning to work.

The other key element of Housing Benefit Subsidy is the recovery from claimants of previous over-payments. As noted above, in prior years this contributed to a surplus. However, the amount recovered in Q1 and Q2 was lower than expected. This is due to individuals transferring to Universal Credit, whereby they receive the payments gross and are expected to make any repayments themselves. The fact that many individuals have been furloughed for several months will have added to the difficulty of being able to make the payments required. This contrasts with the over-payment being deducted from Housing Benefit prior to it being paid over.

The total value of over-payments receivable held by the City Council is £1.9m, against which there is a provision for non-payment of £1.1m.

5. **Capital Programme and Financing**

- 5.1 The capital programme forecast is shown at **Appendix 6**. The revised annual budget is £16.648m, with a year-end forecast of £16.273m. The original budget approved in February was £24.952m and the decrease is summarised below:

	£'000	
Published Budget 2021/22	24,952	
Utilised in 2019/20	0	
Slippage from 2019/20	2,180	
Cromwell Crescent Park	135	
Green Homes projects	1,677	Ref the BEIS green Homes grants
Disabled Facilities grants	93	
Perdiswell Leisure Centre floor tiles	182	
Other	17	

Slippage to future years	(12,588)	Mainly Future High Streets Fund
Reported Budget Q2	16,648	

5.2 In summary, the main details are as follows:

- Future High Streets Fund (Original Budget £17.412m) – the regeneration of the northern part of the city centre through the purchase and renovation of key commercial properties. Properties have been purchased and plans for renovation are being drawn up. The forecast spend for this year is now £6.567m;
- Sports development (Original Budget £2.100m) – the council is supporting initiatives by third parties for improving sports facilities in the city. This is 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;
- Sansome Walk (Original Budget £1.468m) – demolition of former swimming pool to prepare the site for disposal and for eventual housing development. This is on track to be completed this year and within budget;
- Arches (Original Budget £1.368m) – refurbishment of the city’s railway arches and creation of a cultural arts quarter in the city. A substantial amount of work has been completed, the forecast spend this year is £1.0m;
- Hostile Vehicle Mitigation (Original Budget £0.25m) – provision of security measures in the city centre to support the staging of large-scale events.

6. Treasury Management

- 6.1 The net position on Treasury Management at Q2 is a forecast year-end surplus of £(178)k.
- 6.2 There is a favourable budget variance on interest payable of £(118)k, arising from the loan for £7.0m that was taken out in March being at a lower rate of interest than had been budgeted for. The forecast also 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 Minimum Revenue Provision (MRP) also has a favourable year end forecast variance of £(60)k due to the implementation of some elements of the capital programme being delayed compared to the budget assumptions.

7. Supplier Payments

- 7.1 The Council’s target for paying invoices within 30 days is 100%. At the end of Q2 performance was 93.2% 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 87.3%, which is a small improvement over Q1.

8. Council Tax and Business Rates

- 8.1 The percentage of Council Tax and Business Rates debt collected during 2021/22 is shown below, together with a quarterly target based on the average of the last two years (pre-pandemic).

Council Tax	Q1	Q2	Q3	Q4
Actual	29.4%	57.7%		
Target	29.4%	57.3%	85.4%	98.0%

NNDR	Q1	Q2	Q3	Q4
Actual	21.7%	48.1%		
Target	28.4%	58.1%	83.2%	98.3%

The collection of Council Tax is on target whilst Business Rates is 6.7% lower than the target and 3.4% lower than last year. The Business Rates collection for Q1 is distorted by the fact that from July, the relief for businesses in hospitality and retail has been reduced from 100% to 66%. The collection % should catch up during the rest of the year. It is also encouraging that in recent weeks a large number of businesses have asked for direct debits to be restarted.

With a number of businesses in the city having been closed and an uncertain economic outlook, 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 amount of write-offs of Council Tax and Business Rates during 2021/22 is shown below.

	2017/18		2018/19		2019/20		2020/21		2021/22	
Council Tax	No. of Cases	£'000	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	57	£44k
Q2	61	£40k	57	£38k	32	£17k	46	£24k	21	£20k
Q3	38	£24k	64	£37k	8	£5k	22	£18k		
Q4	50	£26k	24	£19k	25	£18k	32	£23k		
Total	205	£122k	249	£172k	65	£61k	224	£164k	78	£64k

	2017/18		2018/19		2019/20		2020/21		2021/22	
NNDR	No. of Cases	£'000	No. of Cases	£'000	No. of Cases	No. of Cases	No. of Cases	£'000	No. of Cases	£'000
Q1	11	£64k	11	£78k	5	£19k	1	£4k	14	£80k
Q2	33	£105k	17	£117k	13	£197k	8	£47k	4	£23k
Q3	10	£33k	24	£142k	6	£27k	3	£12k		
Q4	23	£114k	9	£56k	7	£83k	1	£3k		
Total	77	£316k	61	£393k	24	£326k	13	£66k	18	£103k

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	164	66	228
2021/22 (to date)	64	103	167

8.3 The Q2 £43k of write-offs includes; £21k from 140 cases have been approved by the Revenues & Benefits Shared Service management, £11k from 3 cases have been approved by the S151 Officer. £18k from 1 case requires the approval of this committee.

8.4 The write-offs for the year to date reflect the total amount payable which includes the Council is 11% for Council Tax and 40% for Business Rates, a combined value of £11k, which is fully budgeted.

9. Earmarked Reserves

9.1 The summary of earmarked reserves at the end of Q2 is shown on **Appendix 8**. The year-end forecast is for there to be reserves of £11.342m of which £0.106m (net) is yet to be committed to a specific project or use and £3.647m is forecast to be in income and business rates risk reserves. In addition, there is a forecast of a further £0.736m of funds relating to S106 schemes.

9.2 The movements in the City Plan Fund in 2021/22 are as follows:

City Plan Fund	£'000
Reserves b/fwd from 2020/21	2,729
Add: transfer from Risk Reserve	305
Add: Armed Forces – replenish reserve	5
Less:	
Tree planting	(10)
Armed Forces	(1)
Boating / Riverside safety	(6)
Business Development initiatives	(20)
Business Start-up and Growth programme	(25)
City Masterplan	(303)
City Gateways	(14)
Cultural Development Fund (Arches)	(172)
Transport Strategy	(100)
Housing for vulnerable tenants	(140)
Riverside Project	(84)
Tourism Strategy – phase 3	(23)
Museums Development projects	(45)
Museums National Promotion projects	(10)
Worcester Life Stories	(50)
Environmental Enabling Strategy	(20)
Disability Sports grant	(10)
Place Based Working	(45)

PSPO Enforcement Officers	(52)
Forecast Balance at year-end	1,908

The transfer from the Risk Reserve was approved by Council in February 2021 as part of the Budget setting process. The forecast balance at 31 March 2022 of £1.958m includes projects to that value.

- 9.3 The City Council holds a Risk Reserve which is forecast to have a year-end value of £3.647m. This comprises the following:
- Worcester County Hardship grant £179k
 - Cold Weather Prevention Service £17k
 - Income Contingency £59k (after funding the 2021/22 budget deficit)
 - Business Rates Risks £3,392k

The budget for 2021/22 that was approved by Council in February 2021 included transfers from the Risk Reserve to the Revenue Budget of £747k and £305k to the City Plan Fund.

The year-end revenue forecast is for a budget deficit of £0.436m, net of the government grants received of £0.953m. This net deficit of £0.436m will be addressed by drawing on the Income Contingency reserve of £0.495m. This will mean that the Council will then meet its balanced budget for 2021/22.

In 2020/21 the Council received Section 31 grants of £9.3m to cover the Business Rates deficit that arises from the significant reliefs given during the pandemic. £8.99m of this will be used during 2021/22 and the remainder in 2022/23.

The year-end forecast value of the Risk Reserves at 31 March 2022 is therefore £3.647m

- 9.4 The forecast balance on the Transformation Fund of £226k includes commitments of £71k which, if realised as expected, will leave a balance of £115k unallocated.

10. Opportunities and Risks for 2021/22

- 10.1 Housing Benefit Subsidy / Recovery of Overpayments – the Q2 year-end forecast shows £475k 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 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