



Report to: Policy and Resources Committee, 28th July 2020

Report of: Head of Finance

Subject: Q1 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 1st quarter ended 30th June 2020; and**
- 1.2 That the Committee notes the write-offs of Council Tax and Business Rates for the quarter.**

2. Background

2.1 In addition to the report, the following appendices provide further details on the forecast year-end financial position as at Q1:

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

2 Executive Summary

- 3.1 The forecast year-end performance at Q1 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 £0.91m leaving a balance in the reserve of £3.66m.
- 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 £2.74m. This includes a £1.79m income deficit in Parking and £0.30m in Bereavement Services with further deficits in Development Management and from Licensing. 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 of £1.1m and has also announced that where income 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. For this council, this is estimated to be an additional grant of £2.09m 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. Although the number of individuals involved has now reduced, this remains ongoing and the current forecast cost net of Housing Benefit receivable is £494k.
- 3.5 The lockdown also caused the closure of the Council's leisure facilities. Although these are now gradually re-opening, 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 has been providing monthly support during the period of closure, at a total cost of £165k. It has also been agreed that the quarterly management fee will be waived for the remainder of the year or until normal levels of membership activity is reached and that the Council will continue to help meet additional costs. This represents an estimated additional £450k, although this may vary according to Freedom leisure's estimates of potential turnover. The forecast therefore assumes a total unbudgeted cost of £615k.
- 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 £300k compared to the actual cost for last year. The improvement of £(89)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	Change 20/21 vs. 19/20 £'000
Budget	(32)	(65)	(32)	(33)
Actual /Forecast	26	325	268	(57)
Variance to Budget	58	389	300	(89)

3.7 To summarise; the main elements of the year-end forecast deficit as at Q1 are:

Year-end Revenue Budget forecast	£'000	
Parking income	1,791	See para 4.7.1
Bereavements Services income	304	See para 4.7.2
Development Mgt. income	187	See para 4.7.4
Environmental Ops income	122	See para 4.7.6
Court Fees income	92	
Trade Waste (income less disposal costs)	86	See para 4.7.5
Rental income reduced	64	See para 4.7.6
Licensing income	59	See para 4.7.3
Guildhall – income from letting fees	53	
Support for Leisure Service	615	See paras 3.5 and 4.6
Cost of temporary accommodation	449	See paras 4.2, 4.4, 4.5, 4.6
Housing Benefit subsidy	300	See para 4.8
Cost of security at Sansome Walk	78	See para 4.4
Salaries under-spend	(317)	See para. 4.3
Other	130	
MHCLG Covid-19 Grant for extra costs	(1,009)	Received in April 2020
MHCLG Covid-19 Grant for lost income	(2,089)	See para 3.3
Year-end Forecast	915	
Transfer from Risk Reserve	(915)	See para 9.3
Year-end Forecast as at Q1	0	

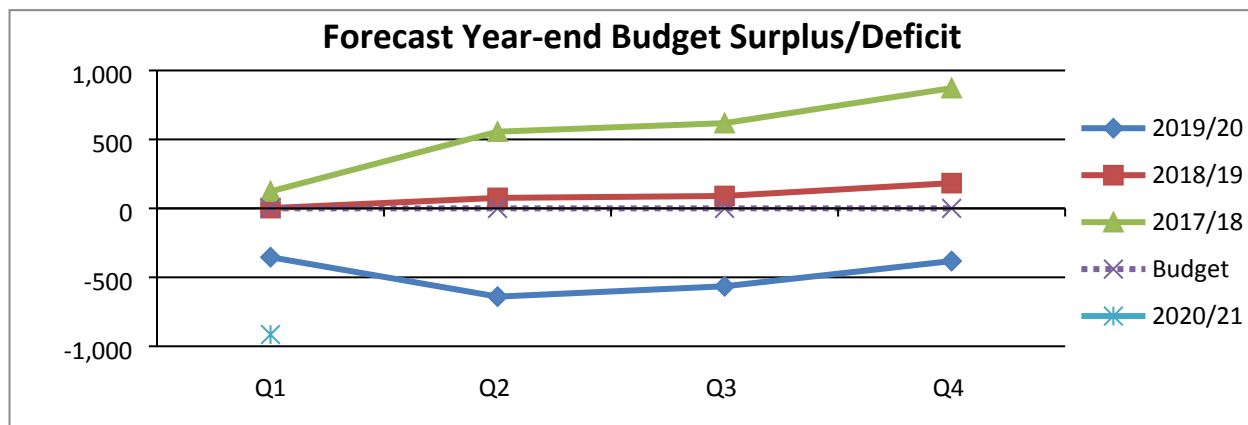
The year-end forecast meets the balanced budget through transferring £0.915m from the Risk Reserves and receiving additional grant funding of £2.09m from the government. This is on account of the deficit from Fees and Charges income being £2.74m, see **Appendix 4**, and additional unbudgeted costs of £0.5m.

3.8 The revised annual capital budget is £15.6m with a year-end forecast of £14.9m. Most of the under-spend relates to the demolition of Sansome Walk. The ITT has now been published, however the project will not be completed until 2021/22.

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 3.3% lower than the target. Write-offs for Q1 are £103k. 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 Q1 is to achieve a balanced budget. Details are provided at **Appendices 1 - 3**.



Year-end Forecast £'000	Q1	Q2	Q3	Q4
2020/21	(915)			
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:

- £497k higher expenditure on a budget of £23.4m. This includes temporary accommodation costs of £494k as a result of the lockdown;
- £3,272k reduced income on a budget of £13.8m. This includes £2,737k shortfall on Fees and Charges income and £450k management fee waived in respect of Leisure services offset by Housing Benefit of £(153)k receivable in respect of the additional lockdown related temporary accommodation costs noted above;
- £245k net deficit from interest payments and housing benefit subsidy. There is a favourable variance on interest and MRP of £55k less the forecast adverse variance on housing benefit subsidy of £300k. The latter includes the loss of subsidy on the cost of temporary accommodation.

Explanations for the key budget variances are provided below.

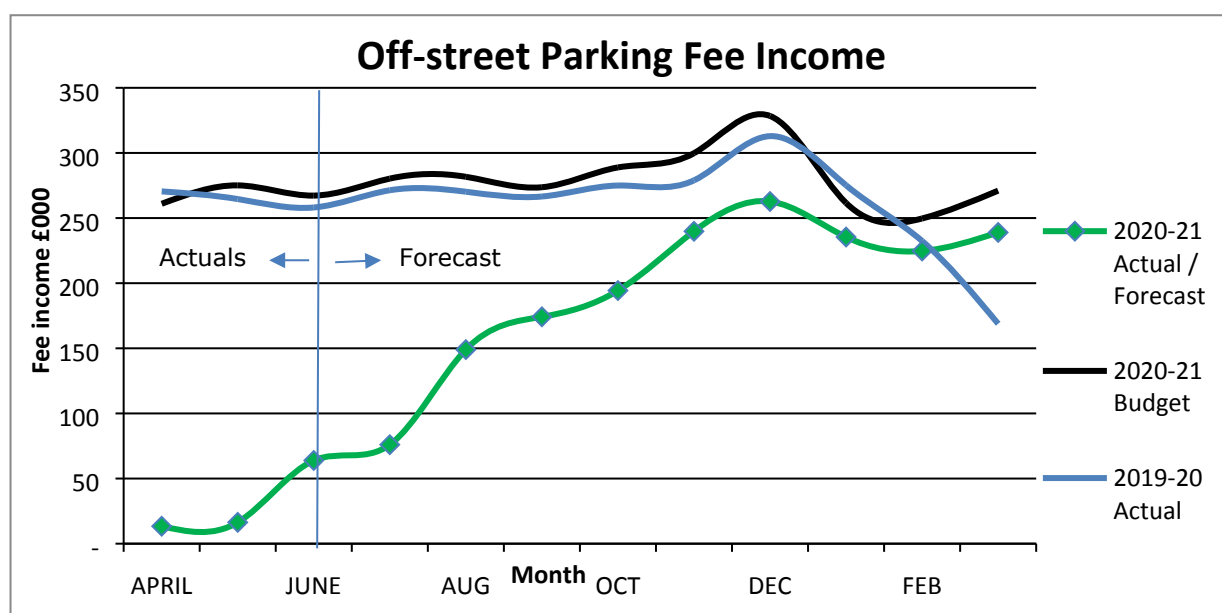
4.3 Employee Costs – the forecast under-spend of £(325)k, as shown on **Appendix 1**, is made up of the Services' salary costs, a forecast underspend of £(317)k, as detailed on **Appendix 5**, and other employee related expenditure. The main elements are as follows:

- Economic Development and Planning Services: £(105)k, vacancies held open pending a review of the reduced level of activity.
- Policy and Strategy: (£71)k, delay in recruitment and a post that is being held open pending a restructure.
- Community Services: £(58)k, mainly from vacancies in Parking and Bereavement Services teams.
- In addition, the vacancy factor is held as a corporate budget with the actual vacancies being realised in the individual services. At Q1 the vacancy factor is an over-spend of £27k.

- 4.4 Premises Costs – the forecast over-spend of £450k includes £412k for the cost of temporary accommodation provided to individuals who would otherwise been homeless during the lockdown and £78k for the void cost of managing the site of the former swimming pool at Sansome Walk prior to the demolition work starting. The void cost is forecast through to the end of September, when the contractor for the demolition will assume responsibility for the site.
- 4.5 Supplies and Services – the forecast over-spend of £94k is due to the unbudgeted cost of £117k for providing meals as part of the temporary accommodation provision.
- 4.6 Third Party Payments - the forecast over-spend of £285k includes the one-off support for Leisure Services £165k and £73k cost for additional third party resource to facilitate the temporary accommodation under the lockdown.
- 4.7 Income – the forecast income budget deficit of £3,569k is made up of:
- Fees & Charges (from council services) £2,737k, see **Appendix 4**.
 - Other Income / Grants & Contributions £750k
- 4.7.1 The income from car parking is forecast for a year-end budget deficit of £1,791k which comprises:
- Forecast income from the car parks: £1,465k below budget
 - Forecast PCN income: £326k below budget.

At the end of Q1, income from car parks is £699k lower than this time last year and PCN income is £98k lower.

The income from car parks in April and May was very low but has increased in June and July. The forecast for future months is difficult to predict. Although the lockdown is gradually lifting, it is not yet clear how people will respond as far as shopping in the city centre, returning to offices or tourism is concerned. The forecast adopted assumes a gradual increase in income to a level that is approximately 85% of that received on an average of the past three years.



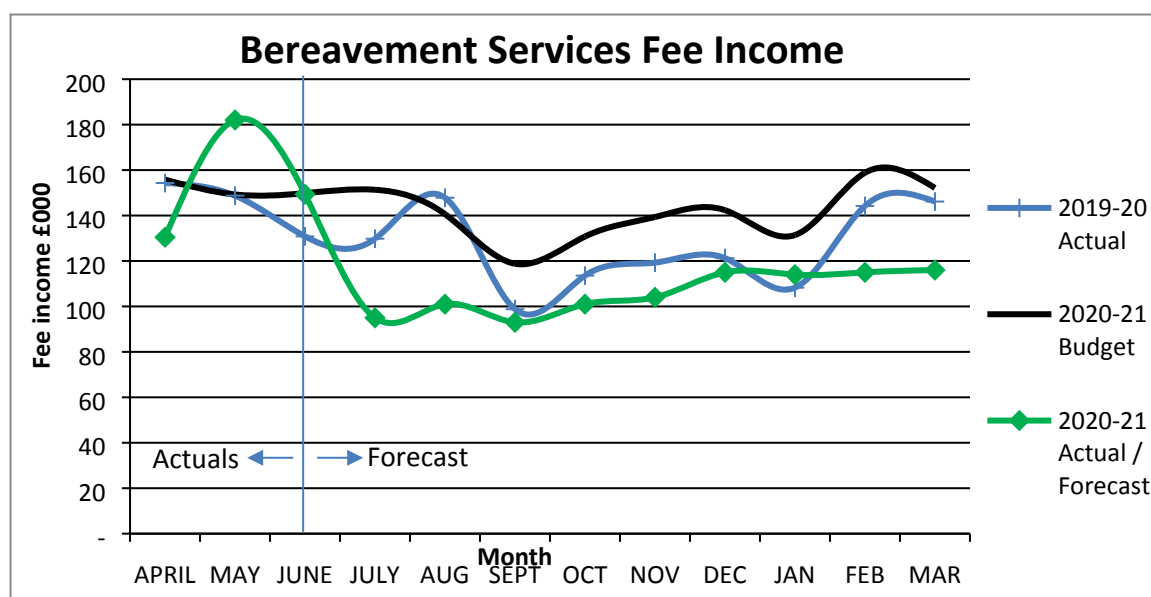
The result is a year-end forecast of £1.89m against a budget of £3.3m.

The PCN income is assumed to follow a similar pattern generating a forecast income of £193k against a budget of £519k.

An alternative scenario for parking income would be for it to increase at a slower rate and reach a level of, say, 50% of last year's income. In this case, income for this year would be a further £750k lower, with the Government grant to compensate for loss of income increasing by £534k.

4.7.2 Bereavement income is forecast to be £1.42m for the year, which is £0.15m lower than last year and a full-year budget deficit of £303k.

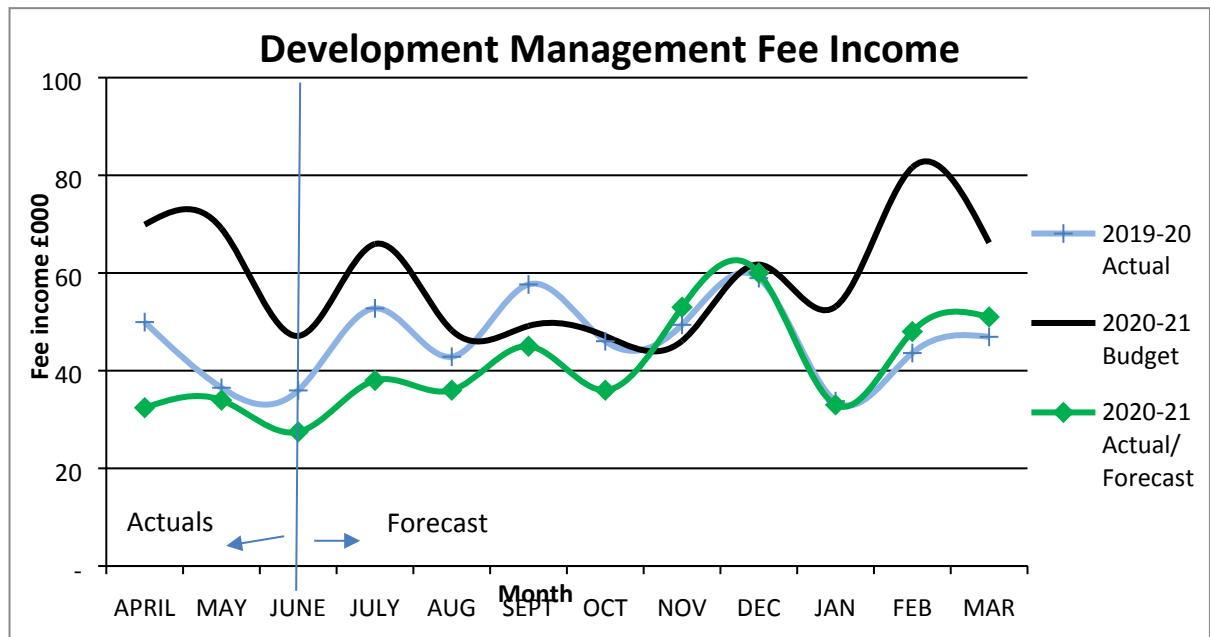
At the end of Q1, income from Bereavement Services is £7k ahead of budget and £21k greater than this time last year. However, this has been affected by the increased number of deaths arising from the pandemic.



The Bereavement Service believes that this has accelerated the number of deaths and that the death rate is likely to be lower than last year for the remainder of the year. The number of burials and cremations has already reduced and is expected to continue at this level rising in the final quarter of the year.

4.7.3 Income for 2020/21 from Environmental Health and Licensing is forecast to be £300k which is £58k below budget and £19k lower than last year. The forecast is based on the trend in Q1 with some recovery assumed later in the year. At the end of Q1 income was £24k below budget.

4.7.4 The income in Development Management has a year-end forecast of £494k which is £211k below budget. The forecast is based on the trend in Q1 with some recovery assumed later in the year. At the end of Q1 income was £120k below budget.



Income from planning applications, Land Charges and building control are all below budget. There were no large planning applications received in Q1, although there is a prospect of one, or possibly two, being received later in the year. This is not yet included in the forecast.

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 or are due to do so during July. Thereafter income should return to being closer to budget. However, the income lost during April to July of £164k will not be recovered. The full year forecast is for an income budget deficit of £192k. This will be offset by forecast disposal costs being £106k lower than budget.

4.7.6 Other Income – the year-end forecast is for a budget deficit of £750k. This includes the following:

- Leisure Services - £450k lower than budget due to the potential waiver of the management fee for the remainder of 2020/21 (see para 3.5).
- Rental income - £64k lower than budget arising from vacant properties that may prove difficult to let and the expected pressure on rent reviews compared to the budget assumptions.
- Environmental Operations income – £122k 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 £300k.

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 £32k.

The forecast over-spend of £300k is an improvement over last year of £(89)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 6**. The revised annual budget is £15.6m, with a year-end forecast of £14.9m. 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	
Development Fund Property	(33)	Re. acquisition made in April 2020
Other	(16)	
Slippage to future years	0	
Reported Budget Q1	15,607	

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 £2.85m) – 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 £2.85m has been budgeted for 2020/21.
- Sansome Walk (Budget £2.11m) – demolition of former swimming pool to prepare the site for disposal. This is now likely to extend into 2021/22.
- Arches (Budget £0.91m) – refurbishment of the city’s railway arches and creation of a cultural arts quarter in the city
- Hostile Vehicle Mitigation (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 Q1 is a forecast year-end surplus of £(28)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 £(91)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.
- 6.4 Interest receivable is forecast to be below budget by £69k, 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 Q1 performance was 97.2% paid on time.
- 7.2 The Council's target to pay local suppliers within 10 days is 90%. At the end of Q1 performance was 88.8%, 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 2018/19 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%			
Target	29.4%	57.3%	85.4%	98.0%

NDR	Q1	Q2	Q3	Q4
Actual	25.1%			
Target	28.4%	58.1%	83.2%	98.3%

The collection of Council Tax is 0.5% behind target and Business Rates is 3.3% 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 3.3% represents approximately £1.6m.

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 2018/19 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		
Q3	38	£24k	64	£37k	8	£5k		
Q4	50	£26k	24	£19k	25	£18k		

Total	205	£122k	249	£172k	65	£61k		
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	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		
Q3	10	£33k	24	£142k	6	£27k		
Q4	23	£114k	9	£56k	7	£83k		
Total	77	£316k	61	£393k	24	£326k		

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 Q1	99	4	103

8.3 The Q1 £103k of write-offs includes; £61k from 110 cases have been approved by the Revenues & Benefits Shared Service management, £42k from 15 cases have been approved by the S151 Officer. There are no cases that require the approval of the Policy and Resources Committee.

8.4 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 £12k, which is fully budgeted.

9. Earmarked Reserves

9.1 The summary of earmarked reserves at the end of Q1 is shown on **Appendix 7**. The year-end forecast is for there to be reserves of £12.385m of which £0.39m (net) is yet to be committed to a specific project or use and £3.66m is forecast to be in income and business rates risk reserves. In addition, there is a forecast of a further £0.72m 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	(10)
Forecast Balance at year-end	3,196

The balance of £3.196m includes projects to the total value of £3.501m. The difference of £0.305m is to be funded from future New Homes Bonus receipts.

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 £0.91m, net of the government grants received of £1.01m and the Government commitment to also fund 75% of the transactional income lost during the lockdown, estimated at £2.09m.

This net deficit of £0.9m will be addressed by drawing on the Income Contingency reserve of £0.5m and the Business Rates Risk reserve for £0.4m. This will mean that the Council will then meet its balanced budget for 2020/21.

The year-end forecast value of the Risk Reserves is therefore £3.66m

9.4 The forecast balance on the Transformation Fund of £743k includes commitments of £186k which, if realised as expected, will leave a balance of £557k unallocated.

10. Opportunities and Risks for 2020/21

10.1 Housing Benefit Subsidy / Recovery of Overpayments – the Q1 year-end forecast shows £300k 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.

Ward(s): All
Contact Officer: Mark Baldwin – Tel 01905 722007
Email – mark.baldwin@worcester.gov.uk
Background Papers: None