



Report to: Policy and Resources Committee, 5th February 2019

Report of: Head of Finance

Subject: Q3 FINANCIAL MONITORING REPORT 2018/19

1. Recommendation

- 1.1 That the Committee reviews the financial monitoring details including budget variances and performance indicators for the 3rd quarter ended 31st December 2018; 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:
- Revenue budget summary - **Appendix 1**
 - Service variances analysis - **Appendix 2**
 - Fees & Charges income generation - **Appendix 3**
 - Salaries by Service - **Appendix 4**
 - Car parks income - **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 Q3 is for a budget surplus of £90k. This is a £14k increase from the year-end forecast at Q2.
- 3.2 An unexpected increase in vehicle hire charges has had an adverse impact. This is discussed in more detail under Q3 Revenue Budget Performance Para 4.6.
- 3.3 The forecast for income from Fees and Charges overall has reduced by £13k. However, the year-end forecasts for the key income areas of Car Parking and Bereavement Services are both unchanged from Q2. This is covered in more detail in para. 4.8.
- 3.4 A review of the Council's cashflow has confirmed that there is still unlikely to be a need for further borrowing in this financial year. This has no impact on the year-end forecast as this was already assumed at Q2.
- 3.5 The year-end forecast for interest receivable has improved by £10k, while estimated employee costs have reduced by £125k compared to the Q2 forecast.

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 for this year. For Q3 this is unchanged compared to Q2. However the further rise of £43k in the forecast cost of temporary accommodation, which is part of this, means this continues to be a risk.

Net Cost of Housing Benefit Subsidy	Q1 £'000	Q2 £'000	Q3 £'000	Change Q3 vs. Q2 £'000
Budget	(32)	(32)	(32)	0
Forecast	248	110	110	0
Variance to Budget	280	142	142	0

3.7 To summarise; the main changes to the year-end forecast since Q2 are:

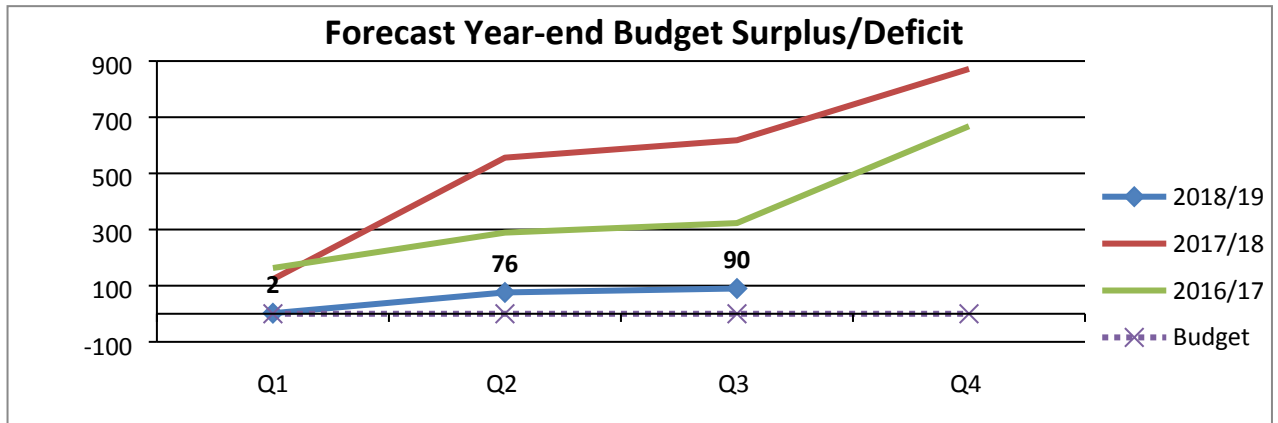
Year-end Revenue Budget forecast	£'000
As at Q2	(76)
Vehicle hire charges	54
Fees and Charges – lower income levels	13
Interest Receivable	(10)
Employee costs	(125)
Other	44
As At Q3	(90)

3.8 The revised annual capital budget is £4.3m with a year-end forecast of £4.3m.

3.9 The collection of Council Tax is on target. The collection of Business Rates is ahead of target. Write-offs for Q3 are £155k which compares with a Q3 write-off for 2017/18 of £145k. The timing of write-offs can vary depending on the particular circumstances of each account.

4. Q3 Revenue Budget Performance

4.1 The forecast year-end performance at Q3 is to achieve a budget surplus of £90k. Details are provided at **Appendices 1 and 2**.



Year-end Forecast £'000	Q1	Q2	Q3	Q4
2018/19	2	76	90	
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:

- £736k higher expenditure on a budget of £22.2m. This includes £465k higher cost of temporary accommodation, Operational Services over-spend of £117k, void costs at Sansome Walk £80k and an elections over-spend of £51k.
- £770k additional income against a budget of £11.7m. This includes £465k subsidy for temporary accommodation and extra income from Bereavement Services £105k and car parking £159k
- £55k net surplus from interest payments and housing benefit subsidy. This is a favourable variance on interest of £196k less the forecast adverse variance on housing benefit subsidy of £142k. The latter includes the loss of subsidy on the cost of temporary accommodation.

4.3 Explanations for the key budget variances are provided below.

	£'000	
Extra Bereavement income	(105)	Based on the trend of the last 9 months
Extra car park income / PCN's	(159)	Based on the trend of the last 9 months
Interest payable/receivable	(196)	No further borrowing forecast this year
Housing Benefit subsidy	2	Loss of subsidy on temporary accommodation
Operational Services	117	Delay in transformation savings being realised and extra cost of vehicle hire
Site of former swimming pool at Sansome Walk	80	Void costs not budgeted as only short-term
Elections	51	City Council election only in 2018/19 so no share of costs borne by County or Parliamentary elections
Other	(20)	
Year-end Forecast - variance to Budget	(90)	

4.4 Employee Costs – the forecast over-spend of £8k, as shown on **Appendix 1**, is made up of the Services' salary costs as detailed on **Appendix 4** and other employee related expenditure. The main elements are as follows:

- 1 director vacancy for part of the year: £(46)k.
- Community Services (mainly Parking Enforcement team vacancies): £(97)k
- Governance - Election staffing costs over-spend as noted in the table above offset by the temporary vacancy for the Monitoring Officer: net impact £10k
- Operational Services – forecast under-spend due to vacancies: £(51)k
- The other services are forecast to be a combined £3k over-spend against budget which is a variance of less than 1%.
- In addition the vacancy factor is held as a corporate budget with the actual vacancies being realised in the individual services. At Q3 the vacancy factor is therefore forecast as a budget shortfall of £81k along with the Apprentice levy of £17k, which has been addressed as a budget pressure for 2019/20.

This total under-spend of £(83)k represents the salary element of Employee costs. There is also £91k of higher costs for staff recruitment and training which includes:

- Recruitment of new director and Monitoring Officer, not budgeted, £39k
- Relocation costs, not budgeted, £21k
- Occupational health over-spend, £8k
- Additional staff training, £14k

This gives a net total over-spend of £8k.

4.5 Premises Costs - the forecast year-end over-spend of £457k arises mainly in Strategic Housing where the expenditure on temporary accommodation is forecast to be £465k over budget with a corresponding increase in the housing benefit received by the Council. The expenditure is part of the Premises cost category whilst the

benefit received forms part of Other Income. Excluding this, there is therefore a net under-spend on Premises costs of £8k.

- 4.6 Transport – the forecast year-end over-spend of £98k arises mainly from increased vehicle hire costs of £54k and budgeted transformation savings not yet realised of £40k. The extra hire costs include £32k relating to the street sweepers with which there have been a high number of repairs keeping several of them off the road. A complaint was lodged with the manufacturer with a demand for them to reimburse the Council for the hire costs. After considerable debate they have agreed to extend the warranties but have refused to pay for the hire costs. These are therefore now included in the year-end forecast.
- 4.7 Supplies and Services / Third party Payments – the net over-spend of £172k, shown in Appendix 1, is 2.1% of the budget and is spread across several services. It includes delays in achieving some transformation efficiency savings, and a number of smaller over-spends. Examples of these include, for Operational Services:
- Equipment repairs: £35k over-spend arising from a backlog of repairs from previous years.
 - Worcester Show: £16k which is covered by additional income included in Fees and Charges of £(16)k

And for Community Services:

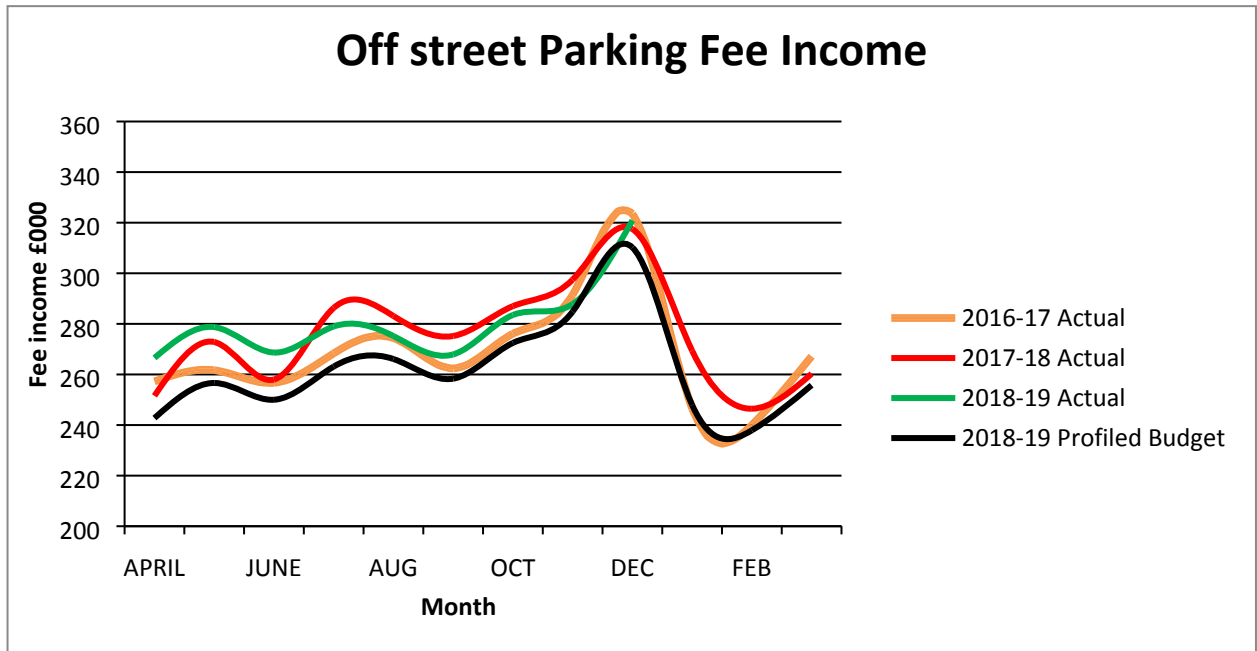
- CCTV: £65k for repairs and maintenance of CCTV system and cameras offset by a £(50)k reserve.
- 4.8 Income – the forecast additional income of £770k is made up of:
- Fees & Charges (from council services) £211k, see **Appendix 3**.
 - Other Income / Grants & Contributions £559k

4.8.1 The income from car parking is forecast for a year-end budget surplus of £159k which comprises:

- Forecast income from the car parks: £159k higher than budget
- Forecast PCN income: as budget.

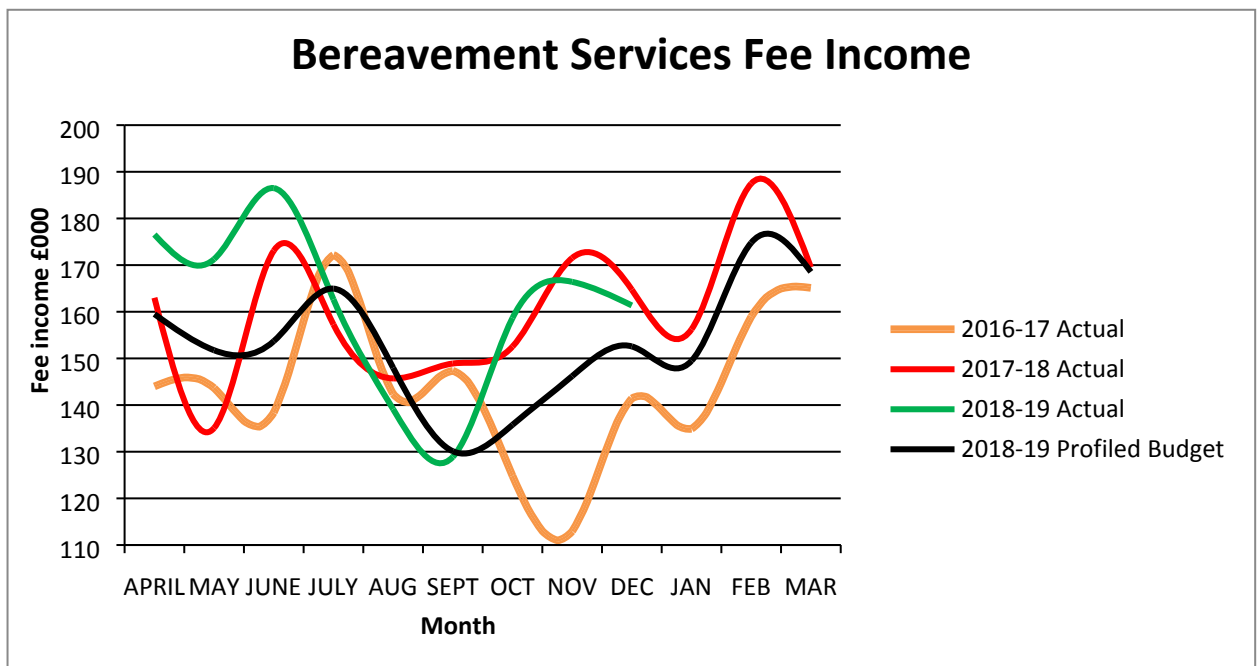
At the end of Q3, income from car parks is the same as this time last year. PCN income is 14% higher than last year and is averaging £35k per month.

The income from car parks started the year strongly, exceeding the income achieved in the same months last year. In Q2 and Q3 this softened with each month below last year's income until December, which was 1.1% higher.



The year-end forecast of £3.2m is based on the income in Q4 being the average of the last three years. The year-end forecast is therefore a budget shortfall of £22k, 0.6% lower than that achieved in 2017/18.

4.8.2 Bereavement income is forecast to be £1.95m for the year, which is the same as last year and a budget surplus of £115k.nd.



The Q1 income levels in Bereavement were high and well ahead of those in the same months last year. This followed the trend towards the end of the previous year. However this levelled off in August and Sept, which were both lower than the same months last year, followed by a return to higher activity levels in Q3. The year-end forecast assumes that Q4 income will be the average of the last three years to give a full year forecast that is the same as last year and unchanged from Q2.

- 4.8.3 The income in Development Management has a year-end forecast which is £94k below budget. This is mainly due to lower income from Land Charges and also Building Control. If the current pattern of income continues, these will become a budget pressure for 2019/20.
- 4.8.4 Other Income – the forecast year-end surplus of £547k arises mainly in Strategic Housing where the expenditure on temporary accommodation is £465k over budget with a corresponding increase in the housing benefit received by the council. As noted in para. 4.5, the expenditure is part of the Premises cost category whilst the benefit received forms part of Other Income.
- 4.9 Housing Benefit Subsidy – forecast year-end over-spend £142k.

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.

In Q1 the recovery of over-payments reduced following the trend in the second half of 2017/18. The cost of provision of temporary accommodation continued to increase following the trend of last year, driven by increased demand and a lack of suitable accommodation. Together this gave a year-end forecast over-spend of £280k.

However Q2 and Q3 have seen the recovery of over-payments return to previous levels. Although the cost of temporary accommodation remains high, this allowed a reduction in the year-end forecast over-spend to £142k in Q2 and for that to be held in Q3. This is less than 1% of the £33m expenditure on Housing Benefit and is an area that will continue to be closely monitored.

5. Capital Programme and Financing

- 5.1 The capital programme forecast is shown at **Appendix 6**. The revised annual budget is £4.3m, with a year-end forecast of £4.3m. The original budget approved in February was £2.4m and the increase is summarised below:

	£'000	
Published Budget 2018/19	2,427	
Slippage from 17/18	2,029	
Leisure developments	130	
Play Areas	84	
Solar Panels	95	At St Martins Gate car park
Other approved projects	44	
Slippage to future years	(544)	Diglis, Public Realm, Kiln
Reported Budget Q3	4,265	

- 5.2 In summary, the main details are as follows:

- Affordable Housing Bids (budget £0.5m) – the forecast assumes the completion of existing projects with the remainder of the budget carried forward to 2018/19.
- Cinderella Project (budget £0.31m) – provision of a new pavilion at the Cinderella sports ground.

- Gheluvelt Park Sons of Rest (budget £0.23m) – building refurbishment, including toilets and catering facilities
- Kiln (budget £0.25m) – provision of flexible office space for start-up businesses in the building behind the Guildhall.
- Playground Equipment (budget £0.34m) – new play area at Perdiswell and replacement of equipment at various sites across the city.

6. Treasury Management

- 6.1 The net position on Treasury Management at Q3 is a forecast year-end surplus of £(196)k.
- 6.2 The forecast assumes no further borrowing during 2018/19 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 £(205)k, due to the budgeted borrowing requirement for the swimming pool not having been taken out. The ultimate date of this borrowing being taken out is dependent on the timing of payments for business rates refunds relating to appeals, the use of Earmarked Reserves and the payments for capital projects.
- 6.4 Interest receivable is forecast to be below budget by £7k.

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% paid on time.
- 7.2 The Council’s target to pay local suppliers within 10 days is 90%. At the end of Q3 performance was 87%, 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	29.5%	57.3%	85.5%	
Target	29.4%	57.3%	85.5%	97.8%

NNDR	Q1	Q2	Q3	Q4
Actual	26.8%	54.8%	84.0%	
Target	28.2%	58.1%	82.5%	98.8%

The collection of Council Tax is on target. Business Rates is ahead of the target reversing the shortfall at the end of Q2. 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.

8.2 The amount of write-offs of Council Tax and Business Rates during 2018/19 is shown below.

Council Tax	2016/17 Write-off Cases	2016/7 Write-off £000	2017/18 Write-off Cases	2017/18 Write-off £000	2018/19 Write-off Cases	2018/19 Write-off £000
Quarter 1	31	£15k	56	£32k	104	£78k
Quarter 2	42	£15k	61	£40k	57	£38k
Quarter 3	43	£28k	38	£24k	64	£37k
Quarter 4	79	£58k	50	£26k		
Total	195	£116k	205	£122k	225	£153k

Business Rates	2016/17 Write-off Cases	2016/7 Write-off £000	2017/18 Write-off Cases	2017/18 Write-off £000	2018/19 Write-off Cases	2018/19 Write-off £000
Quarter 1	5	£20k	11	£64k	11	£78k
Quarter 2	15	£105k	33	£105k	17	£117k
Quarter 3	5	£24k	10	£33k	24	£142k
Quarter 4	13	£34k	23	£114k		
Total	38	£183k	77	£316k	52	£337k

The Business Rates write-offs include 8 company insolvencies for £132k out of the total £142k.

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 to Q3	153	337	490

8.3 The Q3 £179k of write-offs include; £35k from 80 cases have been approved by the Revenues & Benefits Shared Service management, £10k from 3 cases have been approved by the S151 Officer and £134k from 5 cases 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 £61k, which is fully budgeted.

8.5 The trend for 2018/19 is currently ahead of last year and will continue to be closely monitored.

9. Earmarked Reserves

9.1 The summary of earmarked reserves at the end of Q3 is shown on **Appendix 7**. The year-end forecast is for there to be reserves of £8.76m of which £2.6m is yet to be committed to a specific project or use and £1.4m is in income and business rates

risk reserves. In addition there is a forecast of a further £0.5m of funds relating to S106 schemes.

9.2 The movements in the City Plan Fund in 2018/19 are as follows:

City Plan Fund	£'000
Reserves b/fwd from 2017/18	2,176
Budget surplus from 2017/18	269
Balance of 2017/18 NHB	185
Transfer from Earmarked reserves	35
New Homes Bonus 2018/19	808
Less:	
10k Run	(20)
Solar Panels at SMG	(80)
Land at Parsonage Way	(28)
Sons of Rest - capital funding	(65)
City Master Plan	(8)
Guildhall energy improvements	(96)
Refurbishment of 2 Copenhagen Street (Kiln)	(60)
Air Conditioning re Kiln Project	(40)
Gateway Project	(38)
Worcester Arts Workshop	(32)
Tree planting project	(10)
Perdiswell play area	(100)
New pedestrian bridge	(31)
Drumhead ceremony	(7)
Armed Forces Covenant	(2)
Extension to WCC Business start Up & Growth Grant Programme	(20)
Forecast Balance at year-end	2,836

The balance of £2.8m includes £2.417m which is yet to be approved for specific projects, although the total funds are committed in accordance with the agreements made by Full Council in Appendix 8 to the Budget Report, February 2018.

10. Opportunities and Risks for 2018/19

10.1 Housing Benefit Subsidy / Recovery of Overpayments – the Q3 year-end forecast shows £142k deficit to budget and this is likely to increase due to the limited supply of temporary accommodation and the projected need for this form of support. The large amounts involved in this area 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 is reliant on income generated locally, particularly from car parking and Bereavement Services. The income generated is subject to pressures outside of the Council's control e.g. adverse weather including flooding. To mitigate against this the Council holds a risk reserve of £0.5m

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Background Papers: None