

SIGNED OFF BY	Interim Head of Finance Head of Corporate Policy
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TO	Overview and Scrutiny Committee Executive
DATE	Overview and Scrutiny Committee: Thursday, 18 March 2021 Executive: Thursday, 25 March 2021
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance and Governance Portfolio Holder for Corporate Policy and Resources

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Q3 2020/21 Performance Report
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RECOMMENDATIONS
<p>That the Overview and Scrutiny Committee:</p> <p>(i) Note the Key Performance Indicator performance for Q3 2020/21 as detailed in the report and annex 1 and make any observations to the Executive;</p>

- (ii) **Note the Key Performance Indicators to be reported on for 2021/22 as detailed in annex 1.1 and make any observations to the Executive;**
- (iii) **Note the Revenue budget performance for Q3 2020/21 as detailed in the report and at annex 2 and make any observations to the Executive;**
- (iv) **Note the Capital Programme performance for Q3 2020/21 as detailed in the report and at annex 3 and make any observations to the Executive.**

That the Executive:

- (v) **Note the Key Performance Indicator performance for Q3 2020/21 as detailed in the report and annex 1;**
- (vi) **Approve the Key Performance Indicators to be reported on for 2021/22 as detailed in annex 1.1;**
- (vii) **Note the Revenue budget performance for Q3 2020/21 as detailed in the report and at annex 2;**
- (viii) **Note the Capital Programme performance for Q3 2020/21 as detailed in the report and at annex 3.**

REASONS FOR RECOMMENDATIONS

For the Council's performance to be reviewed and for appropriate KPI reporting and budget monitoring arrangements to be in place for 2021/22.

EXECUTIVE SUMMARY

This report provides an overview of the Council's performance for Q3 2020/21, including Key Performance Indicator (KPI) reporting, as well as revenue and capital budget monitoring.

The report also details the KPIs to be reported on for 2021/22, at annex 1.1.

Of the ten KPIs reported on in Q3, nine are on target or within the agreed tolerance. One KPI is off target and outside of tolerance (therefore red rated). Additional detail is provided in the report as well at annex 1.

The Revenue Budget full year outturn forecast variance at the end of Q3 for Service budgets is £0.51m (3.4%) lower than the management budget. Central budgets are reporting £2.68m (27.6%) lower than budget, resulting in an overall forecast of £3.20m (12.9%) lower than budget.

The Revenue Budget for 2020/21 that was approved in February 2020, was agreed before the impacts of the COVID-19 pandemic on the UK became apparent. It does not therefore consider the significant additional financial impacts that are now faced during 2020/21 on Service income and expenditure budgets and on Collection Fund income forecasts for council tax and business rates. The potential financial implications are set out in Annex 2 (Section 3) to this report. The situation continues to be monitored closely and, while the impacts are currently forecast to be contained within the additional funding provided to date by Government, use of budget contingencies and Reserves may be necessary to offset any residual costs or income losses.

The full year Capital Programme forecast at the end of Q3 is £50.67m (41%) below the

approved Programme for the year. The variance is as a result of £50.14m slippage and a £0.53m net underspend.

The Overview and Scrutiny Committee considered this report on 18 March 2021. The agenda pack for this Executive meeting was published before the Overview and Scrutiny Committee met, meaning that any observations/recommendations from the Committee will be tabled at the meeting of the Executive.

The Overview and Scrutiny Committee and Executive have the authority to approve the above recommendations

STATUTORY POWERS

1. Following the abolition of Best Value Performance Indicators (BVPI) in 2008 and the National Indicator Set (NIS) in 2010, there is no statutorily imposed framework for local authorities to manage performance.
2. The Local Government Act 1972 requires the Council to set the associated annual budget as part of proper financial management. This monitoring report is part of that process.
3. The Local Government Act 1992 requires councils to set a balanced budget and announce the Council Tax level by 11 March each year.
4. The Chief Finance Officer has a key role to play in fulfilling the requirements of the statutory duty under the Local Government Act 2003 to keep the authority's finances under review during the year and take action if there is evidence that financial pressures will result in a budget overspend or if there is a shortfall in income.

BACKGROUND

1. Each quarter the Overview and Scrutiny Committee and Executive received an update on the Council's performance. The report provides an overview of KPI as well as budgetary performance.
2. In Q3 reporting each financial year the Council sets its KPIs for the following financial year.
3. KPIs are service level performance measures and are set in order to demonstrate performance against key corporate objectives.
4. Quarterly budget monitoring is a key financial control mechanism that demonstrates that the Council is fulfilling its responsibilities for managing public funds.

KEY INFORMATION

Key Performance Indicators – Q3 2020/21

1. Ten performance indicators are reported on in Q3 2020/21, the full detail of which is provided in annex 1.
2. Of the ten indicators, nine are on target or within the agreed tolerance.
3. One indicator is red rated:

- KPI 7 – Net affordable housing completions

4. Despite a sharp increase in completions compared to the end of Q2, affordable housing completions are off target and outside of tolerance. Against a target of 75, there were 48 completions by the end of Q3. The low number of completions due to COVID-19 in the first half of the year continue to weigh on performance. Additional contextual information is provided in annex 1.
5. However, it is important to note that the borough's affordable housing target is for 1,500 affordable units to be built between 2012 and 2027. Since 2012, 875 affordable units have been completed which is two units off where performance would expect to be by this point in the year. Therefore, overall, and allowing for the inevitable fluctuations in development activity and economic circumstances, performance is on track.

KPIs 2021/22

6. Annex 1.1 sets out the KPIs to be reported on for financial year 2021/22.
7. The indicators are based on those reported on in 2020/21 which were compiled following a cross party members working group. However, they have been reviewed taking into account feedback and in consultation with Heads of Service and Portfolio Holders. Two annually reported indicators are proposed for removal to avoid duplication with other reporting mechanisms which provide a more detailed and informative indication of performance.
 - For KPI 11 (Refuse and Recycling revenue) this information is now reported through the quarterly budget monitoring report (which is now more detailed than when the KPI was devised).
 - KPI 12 (investment income) has been superseded as the Commercial Ventures Executive Sub-Committee (CVESC) now receive performance information in this area.
8. Performance baselines, targets and tolerances will be set as part of Q4 performance reporting alongside the relevant Head of Service.

Revenue Budget Monitoring

9. The 2020/21 Original Revenue Budget approved by Council in February 2020 is £24.46m.
10. At the end of Q3 the projected full year outturn is £21.53m against a management budget of £24.73m, including £1.44m one-off funding from the Corporate Plan Delivery Fund (CPDF) Reserve and Feasibility Studies (Commercial Ventures) Reserve, resulting in an overall net underspend of £3.200m (12.9%).

Table 1: REVENUE BUDGET MONITORING QUARTER 2 2020/21	Original Budget £m	In-Year Adjustments £m	Management Budget £m	Year-End Outturn £m	Year End Variance £m
Service Budgets	14.90	0.13	15.03	14.51	(0.52)
Central Budgets	9.56	0.14	9.70	7.02	(2.68)
Total	24.46	0.27	24.73	21.53	(3.200)

Service Budgets

11. The 2020/21 Original Budget for Services approved by Council in February 2020 is £14.90m. At the end of Q3 the projected full year outturn is £14.51m against a management budget of £15.03m resulting in an underspend of £0.52m (3.4%).
12. The key variances leading to the £0.52m underspend are:
- £0.54m overspend in Finance, which is mostly attributable to the costs of interim staff covering vacant posts and additional support for the closure of accounts and advising on development projects. Permanent staff recruitment has now been completed with all staff in post by October. The Head of Finance post is still covered on an interim basis. Other overspends within Finance relate to £0.06m increased cost of financial software and £0.02m transactional related charges from the Council's banking provider. These pressures have been addressed during 2021/22 Service and Financial Planning.
 - £0.37m combined overspend in Benefits Team and Benefits Paid/Subsidy Received. The Head of Service currently expects around £0.22m of pressures to arise directly as a result of COVID-19 [reported separately within section 3 at Annex 2]. A £0.10m reduction in Housing Benefit subsidy is expected due to an increase in private supported accommodation in the borough, for which the Council is not fully reimbursed by the Government. The subsidy rate on all Housing Benefit expenditure is expected to be 99.3% of net expenditure, lower than the usual rate of 99.6% that was received in the years leading up to 2019/20. £0.16m of Printing and Software related cost pressures in the Revenues, Benefits & Fraud service are expected to continue from 2019/20. This budget has been reviewed as part of the 2021/22 Service and Financial Planning process. Services carried out for other local authorities and some private entities by the Revenues, Benefits & Fraud service are expected to make a net loss in 2020/21 as the service continues to build its contract base. This loss is currently forecast at £0.17m of which £0.08m is directly related to COVID-19 [reported separately within section 3 at Annex 2] and £0.09m relates to the underlying trading position. Losses are expected to reduce as more work is brought on stream and additional contracts are confirmed.
 - £0.22m overspend in Refuse and Recycling due to expected overspend of £0.12m on temporary staff and £0.05m on overtime. COVID-19 has resulted in £0.05m of additional expenditure and £0.07m of reduced income in this service area [reported separately within section 3 at Annex 2].
 - £0.06m underspend in Street Cleansing, due to lower fuel costs and vacancies unfilled because of lower activity levels.
 - £0.06m underspend in Greenspaces due to several vacant operative posts because of lower current activity levels. COVID-19 is likely to result in around £0.09m of lost income [reported separately within section 3 at Annex 2].
 - £0.07m underspend in Organisation Development & Human Resources due to vacancies earlier in the year.

- £0.09m underspend in Democratic Services due to a vacancy for part of the year and lower requirements for Mayoral events and Member training.
- £0.16m underspend in ICT due to lower software costs, hardware maintenance costs and staff vacancies.
- £0.18m underspend in Legal Services due to vacancies. These posts have now been recruited.
- £0.21m underspend in Building Control relating to a partnership provision that will not be used in 20/21.
- £0.21m underspend in the Chief Executive's Office due to lower staffing expenditure.
- £0.31m underspend in Property & Facilities. A significant proportion of this underspend relates to extra rents recovered from properties that had been forecast to be vacant.

13. Further details are provided at Sections 1 and 2 of Annex 2.

Central Budgets

14. The 2020/21 Original Budget for Central budgets approved by Council in February 2020 is £9.56m. At the end of Q3 the projected full year outturn is £7.02m against a management budget of £9.70m resulting in an underspend of £2.68m (27.7%).
15. This underspend is mainly as a result of
- £1.54m forecast underspend in Treasury Management: this is due to the net effect of increased income from loans and investments, including interest on the second loan to Greensand Holdings Limited (for the purchase of land at Horley).
 - £1.19m forecast underspend in Budget Contingencies and the New Posts budget.
16. Any shortfall in Government funding support for COVID-19 expenditure or income losses [reported separately within section 3 at Annex 2] or other significant unbudgeted costs will result in a call on budget contingencies in 2020/21.
17. Further details are provided at Sections 1 and 2 of Annex 2.

COVID-19 Pandemic – Forecast Budget Impacts at January 2021

18. The Revenue Budget for 2020/21 that was approved by Council in February 2020, was agreed before the impacts of the COVID-19 pandemic on the UK became apparent. It does not therefore consider the significant additional financial impacts that are now faced during 2020/21 on service income and expenditure budgets and on Collection Fund income forecasts for council tax and business rates.
19. This report reflects the most up to date forecasts for the financial impacts of the COVID-19 pandemic, the details of which are set out within section 3 at Annex 2.

20. The underlying analyses are evolving on a weekly basis therefore the position at the time of preparing this report is very different to that which would have been reported at 30 December. Under the circumstances it is more appropriate to report current (at January 2021) forecasts.
21. Overall the pandemic represents a material financial risk to the Council's budget and financial position. The information presented in this report represents the forecast at January 2021 and is likely to change as more information becomes available. The financial impacts of a deficit on the Collection Fund (further details below) will add to these pressures.
22. The current estimate of the net financial impact in 2020/21 is potentially cost-neutral after taking account of COVID-19 grant funding.

Table 2: FORECAST COVID-19 FINANCIAL IMPACTS 2020/21 at 31.1.21	Full Year Forecast at 31.1.21 £M
Forecast Additional Expenditure	1.958
Forecast Income Losses	4.332
Government Grants <ul style="list-style-type: none"> • Emergency Grant - £1.874m (excludes £638k for 21/22) • Other Grants and Contributions - £1.343m 	(3.217)
Government COVID-19 Income Reimbursement: <ul style="list-style-type: none"> • April – July claim • August – November claim • December to March claim (est.) 	(1.086) (1.044) (1.000)
Net Forecast Unfunded Estimated Cost/(Surplus Funding) of COVID-19 in 2020/21	(£0.057)

23. In principle this is welcome news meaning there will not be a requirement to call on the Headroom Contingency sum that is included in the 2020/21 budget or on earmarked Reserves. However the full financial impacts will not be confirmed until the year end budget outturn position is reported.
24. The main options for mitigating the financial impacts of COVID-19 have included:
- Continue to lobby Central Government for additional funding in recognition of the impacts on district Councils and their ability to deliver services. The Council is actively working with other councils and networks on this.
 - Look to make offsetting savings and efficiencies where possible before calling on the unallocated balance of the Headroom Contingency Budget of £1.0m that is built into the 2020/21 Revenue Budget. This in turn would require a call on the General Fund Balance to release the resources to do so.
 - Make use of Earmarked Revenue Reserves to close the gap. This has implications for the projects and services and other potential risks that were intended to be funded from these resources.
 - Potentially apply capitalisation to some of the costs and financial impacts to enable the Council to borrow and fund them on a long-term basis. Local authorities are lobbying for greater flexibility from Government in this area. This may include using capitalisation flexibilities to cover costs from forecast

future capital receipts and this may include making targeted asset sales to support this.

25. Other potential impacts on Council resources relate to the Collection Fund where income receipts from council tax and business rates are impacted by a range of factors, as explained at Section 3 of Annex 2. Over the short-term, during 2020/21, a range of measures have been implemented by the Government to help mitigate the impacts on the precepting authorities. However there will be ongoing adverse impacts on income levels in 2021/22 onwards.
26. Further updates on forecast impacts on costs and income and how they might be funded will continue to be included in the quarterly budget monitoring reports and were covered in the final 2021/22 budget report to Executive in January.
27. Further details are provided at Section 3 of Annex 2.

Capital Programme Monitoring

28. At Q3, the Capital Programme budget is £125.04m (including £29.49m of approved carry-forward capital allocations from 2019/20).
29. The forecast full year expenditure is £74.37m which is £50.67m (41%) below the approved Programme for the year. The variance is as a result of a £0.53m net underspend and £50.14m slippage.
30. The £0.053m net underspend is mainly as a result of:
 - £0.44m of Disabled Facilities Grant (DFG). COVID-19 has had an impact on the number of referrals for DFG works, with these stopping during the early part of lockdown. Works in properties were also suspended for several weeks, due to contractors halting their entire operations and vulnerable clients unwilling to allow works in their homes. Work is now underway again, but a lower than budget spend over the year is expected.
 - £0.08m underspend of Vibrant Towns & Villages funding due to COVID-19 reducing the opportunity to identify suitable projects
 - £0.04m underspend of the Handy Person scheme. COVID-19 has resulted in fewer applications being received and progressed for Small Works Grants and Loans than might otherwise be expected.
31. The £46.76m forecast slippage is mainly due to:
 - £10.00m forecast slippage against the Housing Delivery capital allocation.
 - £5.66m forecast slippage against the planned spend on the Cromwell Road development. Spend profile has changed following contract signature and is slightly behind the original profiled schedule.
 - £4.34m forecast slippage against the planned spend on the Marketfield Way development. Slippage is due to the extended period it has taken to conclude the build contract and in securing all necessary consents.
 - £3.0m forecast slippage against the planned spend on Beech House, London Road. Negotiations with the tenant are ongoing, slightly delayed by the COVID-19 pandemic. Current assumption is a revised £2.1m cost of major works to be carried out in 2021/22 but this is subject to a review by external advisors. Property Services are reviewing options and will recommend the final sum to the Commercial Ventures Executive Sub-Committee once the review completed.

- £1.59m forecast slippage against planned spend at Pitwood Park, Tadworth. The spend profile has changed following contract signature and is slightly behind the original profiled schedule, but slippage is lower than expected in Q1.

32. Further details are provided at Annex 2 (Section 3).

Overview and Scrutiny Committee – 18 March 2021

33. The Overview and Scrutiny Committee considered this report on 18 March 2021.

34. The agenda pack for this Executive meeting was published before the Overview and Scrutiny Committee met, meaning that any observations/recommendations from the Committee will be tabled at the meeting of the Executive.

OPTIONS

The Overview and Scrutiny Committee has two options:

35. Option 1: Note Q3 2020/21 KPI performance, the KPIs for 2021/22 and the Revenue Budget and Capital Programme forecasts for 2020/21 and make no observations/comments to the Executive.

36. Option 2: Note Q3 2020/21 KPI performance, the KPIs for 2021/22 and the Revenue Budget and Capital Programme forecasts for 2020/21 and make any observations to the Executive.

The Executive has two options:

37. Option 1: Note the Q3 2020/21 KPI performance and approve the KPIs for 2021/22. Also to note the Revenue Budget and Capital Programme forecasts for 2021/22. This is the recommended option.

38. Option 2: Note the Q3 2020/21 KPI performance and the Revenue Budget and Capital Programme forecasts for 2020/21. And to not approve the KPIs for 2021/22. This is not the recommended option as it will delay the Council having KPIs in place for the new financial year.

LEGAL IMPLICATIONS

39. There are no legal implications resulting from this report.

FINANCIAL IMPLICATIONS

40. There are no additional financial implications arising from this report.

EQUALITIES IMPLICATIONS

41. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

42. There are no communication implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

43. There are no risk management implications arising from this report. The annual budget report and supporting strategies include full risk assessments of budget proposals.

OTHER IMPLICATIONS

44. There are no other implications arising from this report.

CONSULTATION

45. The performance report has been reviewed by the Council's Corporate Governance Group.

46. There are no other consultation implications arising from this report.

POLICY FRAMEWORK

47. Robust performance management is integral to measuring the extent to which policy objectives have been achieved.

BACKGROUND PAPERS

None.