

SIGNED OFF BY	Interim Head of Finance, Head of Corporate Policy
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TO	Executive
DATE	Executive: Thursday 24 June 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	Q4 2020/21 Performance Report
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RECOMMENDATIONS
<p>That the Executive:</p> <ul style="list-style-type: none"> (i) Note Key Performance Indicator performance for Q4 2020/21 as detailed in the report and annex 1; (ii) Note the Revenue budget outturn for 2020/21 as detailed in the report and at Annex 2 and approve the recommended budget carry-forwards to 2021/22; (iii) Note the Capital Programme outturn for 2020/21 as detailed in the report and at Annex 3; (iv) Note the forecast year-end Revenue Reserves position; including the new Reserves that have been established to manage COVID-19 funds.
REASONS FOR RECOMMENDATIONS

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

EXECUTIVE SUMMARY

This report provides an overview of the Council's performance for Q4 2020/21, including Key Performance Indicator (KPI) reporting, as well as revenue and capital budget monitoring.

Of the twelve KPIs that are reported on in Q4, all are on target or within the agreed tolerance.

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 did not therefore consider the significant additional financial impacts that have been faced during 2020/21 on Service income and expenditure budgets and on Collection Fund income forecasts for council tax and business rates.

The final Revenue Budget outturn for the year, including the financial implications of the pandemic are set out below and in Annex 2 to this report. The impacts of the pandemic have been monitored closely throughout the year and, while they have generally been contained within the additional funding provided to date by Government during 2020/21, use of Reserves may yet be necessary to offset future ongoing costs or income losses if additional funding is not provided by the Government for 2021/22 onwards.

The Capital Programme outturn for the year was £25.76m which is £99.28m (80%) below the approved Programme for the year. The variance is as a result of £98.56m slippage and a net underspend of £0.71m. Further details are provided at Annex 3.

This report was considered by the Overview and Scrutiny Committee on 17 June 2021. As the agenda for the Executive meeting on 24 June was published before the meeting of the Overview and Scrutiny Committee, any observations/recommendations made by the Committee will be tabled at the meeting of the Executive.

The Executive has 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 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

- 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.
- KPIs are service level performance measures and are set in order to demonstrate performance against key corporate objectives.
- 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 Q4 2020/21

- Thirteen Key Performance Indicators (KPIs) are reported on in Q4, the full detail of which is provided in annex 1.
- Of the twelve KPIs reported on in Q4, all are on target or within the agreed tolerance.
- In Q4 leisure centre usage (i.e. total number of visits) for the year is usually reported on. However, given that the Council's leisure centres have been closed for much of the year due to the COVID-19 pandemic, this indicator is not being reported on this quarter.
- The report at annex 1 also includes three contextual performance indicators that are reported annually. Given their nature, contextual indicators do not have targets ascribed to them, though they nevertheless give a good indication as to the Council's performance in their respective area.

Revenue Budget Monitoring

- The 2020/21 Original Revenue Budget approved by Council in February 2020 was £24.460m, including a £6.204m advance pension payment.
- At 31 March the full year outturn for Services and Central Budgets was £24.787m against a management budget of £25.713m, including one-off funding from Reserves, resulting in an overall net underspend of £0.925m (3.6%).

Table 1: REVENUE BUDGET MONITORING AT 31 March 2021	Original Budget £m	In-Year Adjustments £m	Management Budget £m	Year-end Outturn £m	Year End Variance £m
Service Budgets – general budget variances at year-end	14.900	1.110	16.010	17.852	(0.615)
Service Budgets – COVID-19 budget impacts at year-end					2.457
Central Budgets	9.560	0.142	9.702	6.935	(2.767)
Sub-Total	24.459	1.253	25.713	24.787	(0.925)
COVID-19 Pandemic – unplanned expenditure					3.782

COVID-19 Pandemic – specific Government Funding	(3.327)
COVID-19 Pandemic - other Government Funding	(4.170)
COVID-19 Pandemic – distribution of discretionary Business Grants to 31 March	(0.238)
Total Revenue Budget Outturn 2020/21 inclusive of COVID-19 Pandemic Expenditure and Funding	(4.878)
Transfers to Reserves:	
Contribution to General Fund Balance/Earmarked Reserves	2.184
Unspent balances on specific Government funding for COVID-19 impacts - to be transferred to an Earmarked Reserve	0.456
Balance of COVID-19 Government funding for discretionary business grants - to be transferred to an Earmarked Reserve to fund the ongoing Pandemic Response	0.238
Balance of other COVID-19 Government funding - to be transferred to an Earmarked Reserve to fund the Council's ongoing pandemic response	2.000
Total	4.878

Service Budgets

13. The 2020/21 Original Budget for Services approved by Council in February 2020 was £14.90m.
14. At 31 March the full year outturn was £17.852m against a management budget of £16.010m resulting in an overspend of £1.841m (11.5%). The primary reason for this overspend is the inclusion of income losses as a consequence of the COVID-19 pandemic.
15. The key variances leading to the overspend are:

Organisation:

- £0.617m 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.
- £0.231m underspend in ICT due to lower software costs, hardware maintenance costs and staff vacancies.
- £0.231m underspend in Legal Services due to vacancies. These posts have now been recruited.
- £0.094m underspend in Democratic Services

- £0.184m underspend in Elections due to cancelled local elections
- £0.116m increased income for Land Charges
- £0.07m underspend in Organisation Development & Human Resources due to vacancies earlier in the year.

Place:

- £0.074m net overspend in Refuse and Recycling due to additional temporary staff and overtime; offset in part by fuel price decreases and increased income
- £0.105m additional Fleet costs of older vehicles
- £1.702m COVID-19 Parking income losses
- £0.097m savings on fuel costs and vacant posts for Street Cleansing

People:

- Housing – the underspend reflects receipt of £0.402m additional funding that will be carried forward for use in 2021/22
- Revenues &, Benefits & Fraud – the primary underlying causes contributing to the £1m overspend at year end (20/21) are:
 - loss of income due to the COVID-19 pandemic: £0.179m was lost due to courts being closed and therefore costs from council tax summonses were not recovered. Another £0.070m was lost from the service's external contracts for commercial work.
 - Irrecoverable bad debts were written off - £0.200m for Fraud/Compensation cases; £0.101m Council Tax Benefits debts balance; £0.095m Housing Benefit Overpayments.
 - £0.095m reduction in Housing Benefit subsidy due to an increase in private supported accommodation in the borough for which the Council does not get fully reimbursed by the Government. The subsidy rate on all Housing Benefit expenditure was 99.3% of net expenditure, less than the usual rate of 99.6% in previous years. £0.140m against Software Acquisitions and External printing. Budget growth has been approved for these two areas for 2021/22.
 - £0.160m of Printing and Software related cost pressures. This budget has also been reviewed as part of the 2021/22 Service and Financial Planning process.
- Supporting Families – the underspend reflects receipt of £0.240m additional funding that will be carried forward for use in 2021/22
- Harlequin Theatre – income losses due to the COVID-19 pandemic £0.266m
- Leisure Services – management fee income losses due to the COVID-19 pandemic £0.240m

Senior Management Team

- £0.266m underspend in the Chief Executive's Office due to reduced salary costs.

16. Further details on Service budget variances are provided at Sections 1 and 2 of Annex 2.

COVID-19 Expenditure and Funding

17. The Revenue Budget for 2020/21 that was approved by Council in February 2020, was agreed before the impacts of the COVID-19 pandemic became apparent. It did not therefore consider the significant additional financial impacts that have been faced during 2020/21 on Service income and expenditure budgets and on Collection Fund income forecasts for council tax and business rates.
18. Throughout the year the pandemic has represented a potentially material financial risk to the Council's budget and financial position. The underlying analyses have evolved throughout the year therefore it is only now, at the close of the year that the final outcomes can be reported. Initially there was genuine concern across the local government sector that funding provided by the Government would not match the additional expenditure incurred or the income that was being lost. The final outcome is much more positive; for 2020/21 at least.
19. Wherever practicable the additional costs of delivering the Council's response to the pandemic have been recorded separately in order to track costs and ensure that all available Government funding was being claimed. As explained above, the primary exception was income losses as a consequence of the pandemic which have had to continue to be recorded against service income budgets.
20. The table below sets out a summary of the additional pandemic-related expenditure and the funding that has been received to offset it.

TABLE 2: COVID-19 EXPENDITURE AND FUNDING AT 31 March 2021	Additional Expenditure £m	Additional Funding £m	Net Expenditure / (Funding) £m
COVID-19 Pandemic - Expenditure less specific grants & funding	3.782	(3.327)	0.455
COVID-19 Pandemic - other Government funding	-	(4.170)	(4.170)
COVID-19 Pandemic - discretionary business grants for distribution/retention (remaining balance at 31 March)	0.102	(0.340)	(0.238)

21. Total additional expenditure as a consequence of the pandemic was £3.782m. The most significant areas of activity included:
- Supporting Shielded Residents and contributions to Voluntary Sector activities - £1.921m
 - Council-wide expenses including staff redeployment, supporting remote working and compliance checks on grants - £0.631m
 - Garden Waste additional expenses - £0.148m and customer refunds £0.475m
 - Environmental & Regulatory checks and control measures - £0.220m
 - Provision of support for the homeless - £0.156m
 - Cultural services additional expenses - £0.080m
 - Marketing and Public Notices - £0.071m
 - Purchase of PPE - £0.153m
22. Specific grants and donations to support the above included:

Table 3: COVID-19 SPECIFIC GOVERNMENT GRANTS	£m
Contain Outbreak Management Funding to support vulnerable residents	1.331
Hardship Funding – to support council tax benefit claimants	0.755
Homelessness Support Grants	0.289
New Burdens Funding – for additional admin costs	0.275
Clinically Extremely Vulnerable Funding	0.253
Reopening the High Street Safely Grant	0.132
Emergency Assistance Funding	0.089
Other Funding & Donations	0.058
Compliance & Enforcement Grants	0.058
Environmental Response Funding	0.040
Environmental Health Grant	0.040
Winter Grant Funding – for food for families	0.007
Total	3.327

23. The majority of this funding was received direct from the Government but some came via Surrey County Council and also from the general public.

24. The general funding support from Government has comprised:

Table 4: COVID-19 General Government Funding Support	£m
Sales Fees & Charges Compensation Grant – representing c65% of all losses incurred	2.337
Emergency Grant for general COVID expenditure	1.833
Total	4.170

25. On balance the position at year end is much more encouraging than initially feared; all costs have been funded and eligible income losses made good for 2020/21.

26. Overall it has been possible to create an Earmarked Reserve of £2.0m for use in 2021/22 to help fund the ongoing pandemic response and impacts on service delivery, including income losses.

27. In the budget report for 2021/22 these were forecast to be in the region of £2.220m:

Income losses

- Community Centres - £0.200m
- Harlequin - £0.180m
- Parking - £1.200m
- Commercial Waste - £0.160m
- Property Rents - £0.270m

Expenditure pressures

- Homelessness prevention - £0.210m
28. In addition to the £2.0m Reserve, Government COVID-19 funding for 2021/22 includes:
- Confirmed £0.638m grant for general COVID expenditure and income losses;
 - A further contribution towards Sales, Fees & Charges losses in quarter one (amount to be confirmed); and
 - Contain Outbreak Management Funding of £0.165m.
29. Looking forward beyond 2021/22 there remain concerns that ongoing costs and residual income losses may ultimately add to the forecast budget gap over the medium term as there is no current prospect of further Government funding for the majority of these pressures beyond the end of June 2021. When the carried-forward funds and any new Government grants have been exhausted any ongoing unfunded impacts will have to be accommodated within future budget-setting decisions and may result in a call on Reserves until sustainable solutions are implemented.
30. As previously-reported, over the medium term, the main options for mitigating the financial impacts of COVID-19 include:
- Continue to lobby Central Government for additional funding in recognition of the residual impacts on district Councils and their ability to deliver services.
 - Look to make offsetting savings and efficiencies where possible before calling on Reserves.
 - 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.
31. As a final resort it would be necessary to apply for permission from Government to capitalise some of the costs and financial impacts to enable the Council to borrow and fund them on a long-term basis. This would place the Council in the spotlight as being at risk of financial failure.
32. 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 throughout 2021/22.

Central Budgets

33. The 2020/21 Original Budget for Central budgets approved by Council in February 2020 was £9.56m.
34. At 31 March the outturn was £6.935m against a management budget of £9.702m resulting in an underspend of £2.767m (28.52%).
35. This underspend is mainly as a result of:
- £1.586m 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) and lower than forecast borrowing costs due to Capital Programme slippage.

- £0.722m forecast underspend in Budget Contingencies.

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

Proposed Revenue Budget Carry-Forwards to 2021/22

37. Revenue budgets are approved on an annual basis and there is no automatic carry over of unused budgets into the following year. However, circumstances sometimes arise beyond the control of the budget manager, where expenditure slips from the planned year to the next or funding has been received that could not be spend and needs to be carried forward for use in the next year. Such occasions are generally rare but the COVID-19 pandemic is an example of exceptional circumstances where service plans for 2020/21 have not been completed in full and therefore some allocated budgets remain unspent.
38. The proposed mechanism to achieve the carry-forward is to seek approval from Executive to agree to increase the previously-approved service budgets for 2021/22, funded from the relevant budget underspend in 2020/21.
39. A de-minimis figure of £10,000 has been applied. In previous years budget-carry forward proposals have not been reported in detail or the reasons for them. They are included here to ensure transparency of decision-making and the details are set out at Annex 4.

COVID-19 Business Grants & Reliefs

40. During the year the Council's Revenues, Benefits & Fraud team was required by the Government to administer grants and additional business rate reliefs for local businesses and also Test & Trace payments to individuals to help them mitigate the financial impacts of the pandemic.
41. These grants included:

Table 5: COVID-19 GOVERNMENT FUNDING FOR DISTRIBUTION / REPAYMENT	Funding Received for Grants & Reliefs to Businesses £m	Funding Received for Payment to Individuals £m
Additional Restrictions Grants	4.295	
Local Restrictions Support Grants	9.833	
Christmas Support Payments (Pubs)	0.032	
Closed Business Lockdown Payments	6.282	
Additional Business Rate Reliefs	23.680	
Test & Trace Payments		0.213

42. At 31 March £34.505m had been distributed. The unspent balance on these sums (£9.829m) will be accounted for at year end but does not form part of the Council's resources. Any unspent balances when these individual grant schemes end will eventually have to be paid back to the Government.

43. The only exceptions are the following grants where the Council has discretion over how the funds are distributed and can retain the funds until distributed in full. The unallocated balance will be held in an earmarked COVID-19 Reserve at year-end for ongoing distribution in 2021/22.

Table 6: COVID-19 BUSINESS GRANTS FOR DISTRIBUTION/RETENTION	Funding Received for Grants to Businesses £m
Local Discretionary Grants Fund	0.130
Local Restriction Support Grants (Open)	0.210

Forecast Revenue Budget Reserves at 31 March 2021

44. The forecast balances on Revenue Reserves are set out at Annex 5. In summary they comprise

Table 7: FORECAST REVENUE RESERVES AT 31 March 2021	£m
General Fund Balance	3.000
Earmarked Reserves	36.044
Revenue Reserves	39.044
COVID-19 Reserves	2.694
Total Reserves at 31 March 2021	41.738

Note; the final position will be confirmed when the Statement of Accounts for 2020/21 is prepared and any final closing entries are processed. The above balances are not anticipated to change significantly.

45. Other approved Earmarked Reserve drawdowns to support in-year expenditure are reported at Annex 2.
46. The opening balance on the Pension Reserve (£1.507m) was drawn down to help fund the employer's £6.204m payment in advance during the year. At year-end £2.0m has been allocated to rebuild the Pension Reserve in anticipation of the next revaluation in 2022 and any potential requirement to take up a similar opportunity to make an advance payment in 2023. Advance payment results in a lower net sum payable compared to three annual instalments.
47. Other year-end Reserves recommendations include:
- Maintaining the General Fund Balance at £3.0m, being just over 15% of the net Revenue Budget;
 - Maintaining the balance on the Government Funding Risks Reserve at just over £2.800m in anticipation of a potential requirement to draw on this Reserve in 2022/23 onwards when Government Funding changes are implemented until new sustainable income sources are achieved;
 - Re-naming the Commercial Ventures (Feasibility Studies) Reserve in recognition of the fact that it will be used to fund the feasibility costs of all Capital Schemes. Calling on appropriate advice and carrying-out up front

feasibility studies to test business cases helps reduce the risk of subsequent scheme overspends or delivery failure;

- Increasing the balance on the Commercial Risks & Volatility Reserve by £1.000m in acknowledgement of potential post-pandemic pressures on income streams;
- Adding £0.250m to the Insurance Reserve to ensure continued adequate cover for uninsured losses;
- Establishing a separate Reserve for the unspent balance of Government Brexit funding (this funding was previously held within the General Fund Balance);
- Creating new Earmarked Reserves for the Service Revenue budgets/funding that are being carried-forward from 2020/21 for use in 2021/22.
- Creating a new Earmarked Reserve for the unused balance of Government support for businesses during the COVID-19 pandemic;
- Creating two new Earmarked Reserves for the unused balance of Government funding support to the Council during COVID-19 pandemic; and
- Creating a new Earmarked Reserve of £2.0m to address the anticipated continued impacts of the COVID-19 pandemic in 2021/22.

Collection Fund Outturn

48. The 2020/21 Budget included forecast for income receipts from Council Tax and Business Rates. The outturn position is summarised in the table below.

Table 8: COLLECTION FUND RECEIPTS 2020/21	Budget £m	Actual at 31.3.21 £m	Variance £m
Council Tax	14.214	14.422	0.208
Business Rates	2.900	1.307	(1.593)
Net Deficit/Call on Reserves	17.114	15.729	1.385

49. The net deficit of £1.385m will be a call on Reserves at year-end. It reflects this authority's share of the historic brought-forward deficit on the business rates element of the Collection Fund that now has to be funded by calling on the Earmarked Reserve that has been set aside to address shortfalls in Government funding.
50. Going forward forecast Collection Fund deficits are now being taken into account during budget-setting and will not have to be funded through a retrospective call on Reserves in this way. In addition, in response to the COVID-19 pandemic a range of measures have been implemented by the Government to help mitigate the impacts on the precepting authorities of exceptional losses during 2020/21, including a 75% tax income guarantee scheme and dispensation to spread the Collection Fund deficit repayment over three years. Nevertheless there are likely to be ongoing adverse impacts on income levels in 2021/22 onwards unless Government support measures continue.

Capital Programme Monitoring

51. At 31 March 2021, the Capital Programme budget was £125.04m (including £29.49m of approved carry-forward capital allocations from 2019/20).
52. The outturn position is £25.76m which is £99.28m (80%) below the approved Programme for the year. The variance is as a result of £98.56m slippage and a net

underspend of £0.71m. The slippage will be carried forward to the Programme for 2021/22 onwards.

53. The net underspend is mainly as a result of:

- £0.40m 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 there was a lower than budget spend over the year.
- £0.10m 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.

54. The slippage is mainly due to:

- £10.00m slippage against the Housing Delivery Strategy capital allocation.
- £9.66m 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.
- £5.81m slippage against the planned spend on the Cromwell Road development. Spend profile has changed following contract award and is slightly behind the original profiled schedule.
- £3.00m 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 when the review is completed.
- £2.28m slippage against planned spend at Pitwood Park, Tadworth. The spend profile changed following contract award and is slightly behind the original profiled schedule.

Further details are provided at Annex 3.

Overview and Scrutiny Committee – 17 June

55. This report was considered by the Overview and Scrutiny Committee on 17 June 2021. As the agenda for the Executive meeting on 24 June was published before the meeting of the Overview and Scrutiny Committee, any observations or recommendations made by the Committee will be tabled at the meeting of the Executive.

OPTIONS

56. The Executive has two options:

57. Option 1: Note Q4 2020/21 KPI and Budget performance and approve the recommended budget carry-forwards.

58. Option 2: Note Q4 2020/21 KPI and Budget performance and reject the recommended budget carry-forwards or request additional information on them.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

EQUALITIES IMPLICATIONS

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

COMMUNICATION IMPLICATIONS

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

RISK MANAGEMENT CONSIDERATIONS

63. There are no risk management implications arising from this report.

64. The annual budget report and supporting strategies include full risk assessments of budget proposals.

OTHER IMPLICATIONS

65. There are no other implications arising from this report

CONSULTATION

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

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

POLICY FRAMEWORK

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

BACKGROUND PAPERS

None.