

<b>SIGNED OFF BY</b>	Head of Corporate Policy Interim Head of Finance
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<b>TO</b>	Executive
<b>DATE</b>	Thursday, 17 December 2020
<b>EXECUTIVE MEMBER</b>	Deputy Leader and Executive Member for Finance and Governance Portfolio Holder for Corporate Policy and Resources

<b>KEY DECISION REQUIRED</b>	N
<b>WARDS AFFECTED</b>	(All Wards);

<b>SUBJECT</b>	Q2 2020/21 Performance Report
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<b>RECOMMENDATIONS</b>
<p><b>That the Executive note:</b></p> <ul style="list-style-type: none"> <li>(i) The Key Performance Indicator performance for Q2 2020/21 and make any observations to the Executive; and</li> <li>(ii) The revenue and capital budget position at Q2 2020/21;</li> </ul> <p><b>That the Executive recommends to Council:</b></p> <ul style="list-style-type: none"> <li>(iii) The allocation of an additional allocation of £0.054 million in the Capital Programme for the Horley Pay-on-Exit parking to be funded through prudential borrowing.</li> </ul>
<b>REASONS FOR RECOMMENDATIONS</b>

For the Council's performance to be reviewed.

## **EXECUTIVE SUMMARY**

This report provides an overview of the Council's performance for Q2 2020/21, including Key Performance Indicator (KPI) reporting, as well as revenue and capital budget monitoring.

Of the ten KPIs reported in Q2, seven are on target or within the agreed tolerance. Two KPIs are off target and outside of tolerance (therefore red rated) and we are unable to report on one. Additional detail is provided in the report below as well as at Annex 1.

The Revenue Budget full year outturn forecast variance at the end of Q2 for Service budgets is £0.17m (1.1%) higher than the management budget. Central budgets are reporting £1.75m (18.6%) lower than budget, resulting in an overall forecast of £1.58m (6.4%) 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 3 (Section 3) to this report. The situation continues to be monitored closely and use of budget contingencies and Reserves may be necessary to offset any costs or income losses that are not funded by Government.

The full year Capital Programme forecast at the end of Q2 is £46.81m (37%) below the approved Programme for the year. The variance is as a result of £46.76m slippage and a £0.05m net underspend.

In a report to Executive on 17 September 2020 Members approved the allocation of £0.054 million additional capital resources to the Horley Pay-on-Exit parking project. As this sum is not included in the Capital Programme 2020/21 to 2025/26 that was approved by Council in February 2020 it will be necessary to seek approval from Council for this supplementary budget allocation, funded through prudential borrowing.

The Overview and Scrutiny Committee considered this report on 9 December 2020. 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 Executive has the authority to approve recommendation (i) and (ii); the Council has authority to approve recommendation (iii).**

## **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 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. Section 65 of the Act requires the Council to consult representatives of those subject to non-domestic rates in the Borough about its proposals for expenditure for each financial 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**

5. Each quarter the Overview and Scrutiny Committee and Executive receives an update on the Council's performance. The report provides an overview of KPI as well as budgetary performance.
6. KPIs are service level performance measures and are set in order to demonstrate performance against key corporate objectives.
7. A cross-party member working group was convened in the last financial year in order to help develop the indicators for 2020/21. The performance indicators for 2020/21 were approved by the Executive at its meeting on 25 June 2020.
8. 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 – Q2 2020/21**

9. Ten performance indicators are reported on in Q2 2020/21, the full detail of which is provided in Annex 1.
10. Of the ten indicators, seven are on target or within the agreed tolerance.
11. Two indicators are red rated:
  - KPI 7 – Net affordable housing completions
  - KPI 10 – Recycling performance (Q1 2020/21 performance)
12. Affordable housing completions are off target and outside of tolerance. Whilst the number completed so far this year is low, it is expected that affordable units will be completed in batches at several sites across the borough later in the year as the construction sector picks up. 363 affordable housing units are currently under construction in the borough.
13. The Council's recycling performance (KPI 10) is also off target. Performance is reported one quarter in arrears, with Q1 performance reported in Q2. In Q1 the tonnage and composition of household waste has changed significantly, a trend seen across Surrey and which has resulted from the COVID-19 pandemic. Compared with Q1 2019/20, over 520 tonnes of additional refuse was collected in Q1 of this year.
14. The suspension of the garden waste service also weighed on recycling performance, with the suspension of collections resulting in a shortfall of around 2,000 tonnes of

garden waste. The Council also offered an amnesty on 'excess waste' being presented, particularly whilst Community Recycling Centres were closed. Additionally, the project to rollout kerbside recycling to flats in the borough was also suspended to focus on waste collections. In combination, this has resulted in the collected waste able to be recycled and composted being lower in absolute and percentage terms

### Revenue Budget Monitoring

15. The 2020/21 Original Revenue Budget approved by Council in February 2020 is £24.46m.
16. At the end of Q2 the projected full year outturn is £23.02m against a management budget of £24.6m, 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 £1.58m (6.4%). As set out in the table below.

<b>Table 1: REVENUE BUDGET MONITORING QUARTER 2 2020/21</b>	<b>Original Budget £m</b>	<b>In-Year Adjustments £m</b>	<b>Management Budget £m</b>	<b>Year-End Outturn £m</b>	<b>Year End Variance £m</b>
Service Budgets	14.90	0.30	15.20	15.37	0.17
Central Budgets	9.56	(0.16)	9.40	7.65	(1.75)
<b>Total</b>	<b>24.46</b>	<b>0.14</b>	<b>24.60</b>	<b>23.02</b>	<b>(1.58)</b>

### Service Budgets

17. The 2020/21 Original Budget for Services approved by Council in February 2020 is £14.90m. At the end of Q2 the projected full year outturn is £15.37m against a management budget of £15.20m resulting in an overspend of £0.17m (1.1%).
18. The £0.17m overspend is mainly as a result of:
  - £0.47m 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 will be addressed during 2021/22 Service and Financial Planning.
  - £0.42m 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, less 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 is being 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.
- £0.29m overspend in Refuse and Recycling due to expected overspend of £0.06m on temporary staff and £0.05m on overtime. COVID-19 has resulted in £0.05m of additional expenditure and £0.04m of reduced income in this service area [reported separately within section 3 at Annex 2].
- £0.09m underspend in Electoral Services: As elections will no longer take place in 2020/21 due to COVID-19, the unspent budget will be carried forward to 2021/22.
- £0.05m underspend in Greenspaces due to several vacant operative posts. It is anticipated that these vacancies will be filled in a few months. COVID-19 is likely to result in around £0.09m of lost income [reported separately within section 3 at Annex 2].
- £0.17m underspend in Projects and Assurance due to three vacant posts
- £0.20m underspend in Building Control due to £0.12m underspend on salaries (vacancies and maternity leave) offset by £0.18m of Consultancy cost to cover these posts and £0.20m underspend relating to the provision in the budget of a partnership loss that is not currently expected to be drawn upon this year.
- £0.06m underspend in Car Parking – vacancies are expected to last for remainder of year. COVID-19 is expected to have a material adverse impact on the income receipts this year. Currently an expected loss of £1.6m is predicted [reported separately within section 3 at Annex 2].

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

### **Central Budgets**

20. The 2020/21 Original Budget for Central budgets approved by Council in February 2020 is £9.56m. At the end of Q2 the projected full year outturn is £7.65m against a management budget of £9.40m resulting in an underspend of £1.75m (18.6%).

21. This underspend is mainly as a result of

- £1.008m 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).

- £0.770m forecast underspend in Budget Contingencies and New Posts Budget.
22. 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.
23. Further details are provided at Sections 1 and 2 of Annex 2.

### COVID-19 Pandemic – Forecast Budget Impacts at November 2020

24. 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.
25. 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. 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 September. Under the circumstances it is more appropriate to report current (at November 2020) forecasts.
26. 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 November 2020 based on the impacts during the first six months of 2020/21 and is likely to increase as more information becomes available. The financial impacts of a deficit on the Collection Fund (further details below) will add to these pressures.
27. The current estimate of the net adverse financial impact in 2020/21 is up to £1.0m after taking account of COVID-19 grant funding.

<b>Table 2: FORECAST COVID-19 FINANCIAL IMPACTS 2020/21</b>	<b>Full Year Forecast at November 2020 £M</b>
Additional Expenditure	1.498
Income Losses	4.747
Government Grants	(2.546)
Government COVID-19 Income Reimbursement:	
• April – July Claim	(1.086)
• August – November claim (est.)	(1.000)
• December to March claim (est.)	(1.000)
<b>Net Unfunded Estimated Cost of COVID19 in 2020/21</b>	<b>£0.613m</b>

28. In principle this budget pressure can be funded through the Headroom Contingency sum that is included in the 2020/21 budget and other forecast budget underspends

during the year, however that would leave no remaining capacity to address other in-year budget risks without having to also call on Reserves.

29. The Net Revenue Budget requirement for 2020/21 is £18.258m. As a percentage of the net budget requirement therefore, the potential combined net loss of income and additional costs could be more than 5.4%.
30. The main options for mitigating the financial impacts of COVID-19 include:
  - 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.
31. 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 the ongoing adverse impacts on income levels in 2021/22 onwards remain to be confirmed.
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 and in the final 2021/22 budget report to Executive in January.
33. Further details are provided at Section 3 of Annex 2.

### **Capital Programme Monitoring**

34. At Q2, the Capital programme budget is £125.04m (including £29.49m of approved carry-forward capital allocations from 2019/20).
35. The forecast full year expenditure is £78.23m which is £46.81m (37%) below the approved Programme for the year. The variance is as a result of £46.76m slippage and a £0.05m net underspend.
36. The £0.05m net underspend is mainly as a result of:

- £0.24m 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.
- £0.04m underspend of 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.

37. The £46.76m forecast slippage is mainly due to:

- £4.34m forecast slippage against the planned spend on the Marketfield Way. 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 the Beech House, London Road. Negotiations with tenant (AIG) are still ongoing, slightly delayed by the COVID-19 pandemic. Current assumption is a revised £2.1m 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.
- £4.23m 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.
- £1.59m forecast slippage against the planned spend at Pitwood Park Tadworth. Spend profile has changed following contract signature and is slightly behind original profiled schedule, but lower slippage than expected in Q1.
- Housing Delivery is forecasting a £9.76m slippage against the £10m Capital allocation in 2020/21. The £0.24m forecast expenditure this year relates to the procurement of the design team to include professional services such as quantity surveyor, project manager, architect, civil, structures and building services consultants together with a wide range of technical consultants, procurement of supporting surveys and documentation required for the planning application and future development of the site.

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

### **Capital Programme – Supplementary Budget Approval**

39. In a report to Executive on 17 September 2020 Members approved the allocation of £0.054 million additional capital resources to the Horley Pay-on-exit parking project. As this sum is not included in the Capital Programme 2020/21 to 2025/26 that was approved by Council in February 2020 it will be necessary to seek approval from Council for this supplementary budget allocation, funded through Prudential borrowing.



## **Overview and Scrutiny Committee – 9 December**

40. The Overview and Scrutiny Committee considered this report on 9 December 2020.
41. 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**

42. The Executive has two options:
  - Option 1: approve the recommendations in the report.
  - Option 2: reject the recommendations and/or request further information.Option 1 is the recommended course of action.

## **LEGAL IMPLICATIONS**

43. There are no legal implications arising from this report.

## **FINANCIAL IMPLICATIONS**

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

## **EQUALITIES IMPLICATIONS**

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

## **COMMUNICATION IMPLICATIONS**

46. There are no communications implications arising from this report.

## **RISK MANAGEMENT CONSIDERATIONS**

47. 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**

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

## **CONSULTATION**

49. The performance report has been reviewed by the Council's Corporate Governance Officer Group.
50. There are no other consultations implications arising from this report.

## **POLICY FRAMEWORK**

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

<b>BACKGROUND PAPERS</b>
None.

**ANNEXES**

1. Key Performance Indicators
2. Revenue Budget Monitoring; COVID Implications Monitoring
3. Capital Programme Monitoring