



Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

SIGNED OFF BY	Interim Head of Finance
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TO	Overview and Scrutiny Committee Executive
DATE	Thursday, 9 December 2021 Thursday, 16 December 2021
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance & Governance Portfolio Holder for Corporate Policy & Resources

KEY DECISION REQUIRED	N
WARDS AFFECTED	(All Wards);

SUBJECT	Quarter 2 Performance Report 2021/22
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RECOMMENDATIONS
That the Overview and Scrutiny Committee:

- (i) **Note Key Performance Indicator (KPI) performance for Q2 2021/22 as detailed in the report and in Annex 1 and make any observations to the Executive;**
- (ii) **Note the Budget Monitoring forecasts for Q2 2021/22 as detailed in the report and at Annexes 2 and 3 and make any observations to the Executive.**

That the Executive:

- (iii) **Note Key performance Indicator performance for Q2 2021/22 as detailed in the report and in Annex 1;**
- (iv) **Note the Budget Monitoring forecasts for Q2 2021/22 as detailed in the report and at Annexes 2 and 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.

EXECUTIVE SUMMARY

This report provides an overview of the Council's performance for Q2 2021/22, including Key Performance Indicator (KPI) reporting, as well as revenue and capital budget monitoring.

Of the ten KPIs reported on in Q2, eight are on target or within tolerance. Two indicators are off target.

Service and Central budgets are currently forecast to be £0.061m (0.4%) higher than the Revenue Budget for 2021/22 that was approved in February 2021.

The approved budget included separate forecasts for the ongoing financial impacts of the COVID-19 pandemic and this report includes updated forecasts based on the current position. The impacts of the pandemic continue to be monitored closely and, while additional expenditure has continued to be contained within the funding provided by Government, use of Earmarked Reserves set aside for the purpose will be necessary to offset forecast income losses. Further details are provided in this report and at Annex 2.

The Capital Programme forecast for the year is £53.07m which is £88.01m (62.4%) below the approved Programme for the year. The variance is as a result of £87.36m slippage and a net underspend of £0.065m. Further details are provided in this report and at Annex 3.

The Overview and Scrutiny Committee and Executive have the authority to approve their respective 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

4. Each quarter the Overview and Scrutiny Committee and Executive receive an update on the Council's performance. The report provides an overview of KPI as well as budgetary performance.
5. KPIs are service level performance measures and are set in order to demonstrate performance against key corporate objectives.
6. 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

7. Ten KPIs are reported on in Q2, the full detail of which is provided in annex 1.
8. Of the ten KPIs reported on, eight are on target or within the agreed tolerance. Two indicators are off target, outside of their tolerance and are therefore red rated.
9. Of those that are off target:
 - **KPI 2 – Business rates collection.** Performance continues to be affected by the recalculation of the Retail Rate Relief which took place earlier this year, leading to a number of instalments being set back and a subsequent recalculation and creation of new instalment plans. It is expected that performance will catch up as the year progresses.
 - **KPI 7 – Affordable Housing Completions.** Affordable housing completions this quarter continue to be off target, however these units are often delivered in batches. With a significant number of housing development projects such as the Horley North West Sector, RNIB and Quarryside Business Park expected to reach completion later in the year, an increase in affordable housing completions is expected to bring completions in line with the target.

Revenue Budget Forecast

10. The 2021/22 Original Revenue Budget approved by Council in February 2021 was £17.395m.
11. At 30 September the forecast outturn for Services and Central Budgets is £17.841m against a management budget of £17.808m, including one-off funding from Reserves, resulting in an overall net underspend of £0.033m (0.4%).
12. In addition, there are forecast continued income losses of £1.418m (net) following the COVID-19 pandemic that will have to be funded this year through a call on the Reserve that has been set aside to mitigate this risk.

Table 1: REVENUE BUDGET MONITORING at 30 Sept 2021	Original Budget £m	In-Year Adjustment s¹ £m	Management Budget £m	Forecast Outturn £m	Forecast Year-end Variance £m
Service Budgets	16.240	0.413	16.653	16.714	0.061
Central Budgets	1.155	0.000	1.155	1.127	(0.028)
Revenue Budget Forecast at 30 June	17.395	0.413	17.808	17.841	0.033
Income losses due to ongoing COVID-19 impacts	0.000	0.000	0.000	1.772	1.772
Government Funding to offset Income Losses	0.000	0.000	0.000	(0.354)	(0.354)
Revenue Budget Forecast at 30 June Including COVID-19 Income Losses	17.395	0.413	17.808	19.259	1.452

Note: in-year budget adjustments reflect the drawdown of Earmarked Reserves during the year and amounts carried forward from the prior year to fund approved expenditure.

Service Budgets

13. The 2021/22 Original Budget for Services approved by Council in February 2021 was £16.240m.
14. At 30 September the full year outturn is forecast to be £16.714m against a management budget of £16.653m resulting in an overspend of £0.061m (0.4%).
15. The key variances are:

Organisation:

- Electoral Services - £0.168m underspend due to lower than expected election costs and review of long term contracts .

Place:

- Planning Policy - £0.133m underspend due to lower staff costs because of vacancies.

People

- Revenues, Benefits & Fraud - £0.393m overspend due to lower DWP subsidy and higher Housing Benefit, partially offset by lower staff costs due to vacancies and higher commercial income.

Corporate

- Management Team - underspend of £0.200m in anticipation of implementation of the new senior management structure

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

COVID-19 Expenditure & Funding

17. The Revenue Budget for 2021/22 that was approved by Council in February 2021 did not include specific budgets for ongoing expenditure relating to the Council's response to the pandemic but it did provide an outline of the types of spending that were likely to be incurred and assumptions regarding how they would be funded based on the information available at the time.
18. The latest forecast for additional expenditure and funding during 2021/22 are summarised below. This confirms that expenditure and associated funding are currently forecast to balance. These forecasts are based on current assumptions regarding national and local recovery following the pandemic and may change. Some of the forecast Government funding is also subject to final confirmation. The majority of pandemic funding is received direct from the Government but some continues to be paid via Surrey County Council.

Table 2: COVID-19 FORECAST ADDITIONAL EXPENDITURE & FUNDING at 30 Sept 2021	Forecast Expenditure £m	Forecast Funding £m
Welfare Response	0.294	
'Welcome Back' Expenditure & Funding	0.166	(0.166)
Revenues & Benefits Team - additional temporary staff	0.136	
Financial Management & Monitoring	0.131	
Communications/Contact Centre/Data & Insight Team - additional capacity	0.113	
Homelessness Prevention	0.101	
Revenues & Benefits - in-house overtime, software etc	0.101	
Environmental Services/Waste Team - additional capacity	0.100	
ICT support costs	0.079	
Other expenditure (including Elections)	0.056	(0.039)
Surge Testing	0.026	(0.026)
Cultural, Sports, Leisure	0.022	

New Burdens Funding (bid outcome awaited, only part assumed)		(0.030)
Test & Trace Administration Funding		(0.088)
Contain Outbreak Management Funding		(0.274)
Government COVID-19 Funding Allocation 2021/22		(0.638)
Forecast Expenditure and Funding 2021/22	1.323	(1.261)
Net Expenditure / (Income)	0.062	

COVID-19 Income Losses

19. The main area for concern relates to ongoing income losses as a consequence of the pandemic. At 30 September the forecast total income loss is £1.418m after taking account of forecast Government funding for losses to 30 June (only).

Table 3: COVID-19 FORECAST INCOME LOSSES AND FUNDING at 30 June 2021	Forecast Income Loss £m
Car Parking	1.228
Leisure Services (management fee has continued to be waived during 2021/22; lower pitch income)	0.278
Planning Policy (lower fee income)	0.118
Property & Facilities (lower income from commercial properties)	0.051
Planning Policy (lower fee income)	0.118
Revenues & Benefits (lower commercial income)	0.040
Environmental Licencing (lower premises/taxi licencing & MOT income)	0.037
Harlequin (lower ticket sales, hire and catering income)	0.020
Forecast Income Loss	1.772
Government Funding (Q1 Losses Only)	(0.354)
Net Forecast Income Loss 2021/22	1.418

20. The net forecast shortfall can be funded on a one-off basis through drawing on the £2.0 million Earmarked Reserve that was set aside at the end of 2020/21 in anticipation of continued income losses.
21. These forecasts are based on the second quarter position and remain subject to review as recovery continues.
22. Looking forward beyond 2021/22 there remain concerns that ongoing income losses (in particular relating to car parking) will add significantly 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.

23. The ongoing unfunded impacts will have to be accommodated within future budget-setting decisions and will result in a further call on Reserves until sustainable solutions are implemented. This will have to be addressed as a priority during budget-setting for 2022/23 for services where there is no prospect of income streams returning to pre-pandemic levels.
24. 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 of income losses 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.
25. 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.
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 throughout 2021/22.

Central Budgets

27. The 2021/22 Original Budget for Central budgets approved by Council in February 2021 was £1.155m.
28. At 30 September the forecast outturn is £1.127m against a management budget of £1.155m resulting in an underspend of £0.028m (2.42%).
29. This overspend is mainly as a result of small adjustments to forecasts as projects near completion.
30. During the quarter notification was received from the Local Enterprise Partnership of its decision to withdraw £2.833m grant funding that was previously allocated to help the Council prepare to develop Horley Business Park. The reason for withdrawal was because the current timeframe for delivery no longer meets the original grant terms. The grant funding was used in 2019 to part-fund the loan to Greensand Holdings Limited for purchase of land on the business park site. The grant will be replaced with equivalent prudential borrowing and the costs will be taken into account when preparing treasury management budgets for 2022/23.
31. Further details on Central Budget forecasts are provided at Annex 2.

Investment Income

32. Forecast income from property rents at Quarter 2 is £4.608m compared to the £4.568m that was received in 2020/21. This represents 26.5% of the net revenue budget for 2021/22.

Capital Programme Monitoring

33. At 30 September 2021, the Capital Programme budget was £141.08m (including £99.456m of approved carry-forward capital allocations from 2020/21).
34. The forecast outturn position is £53.07m which is £88.01m (62.4%) below the approved Programme for the year. The variance is driven by £87.36m slippage and a net underspend of £0.65m.
35. Slippage at 31 March will be carried forward to the Programme for 2022/23 onwards. The main reasons for forecast slippage at the end of Quarter 2 were:
- Housing Delivery Programme (£20.0m slippage) – these capital funds have been allocated to fund investment in new affordable housing. There are no specific developments planned at this time. Forecasts will be updated when new business cases are developed.
 - Commercial Investments Programme (£63.98m slippage) - these capital funds have been allocated to fund investment in new developments and commercial assets & activities to deliver a sustainable net income stream. There are no specific developments or asset purchases planned at this time. Forecasts will be updated when new business cases or investment opportunities are developed.
36. The forecast net underspend is mainly as a result of:
- ICT Disaster Recovery - £0.200m lower expenditure due to activity being funded from elsewhere in the capital programme.
37. Further details are provided at Annex 3.

OPTIONS

38. The Overview and Scrutiny Committee has two options:
- Option 1:** Note the Q2 2021/22 KPI and budget performance and make no observations/comments to the Executive.
- Option 2:** Note the Q2 2021/22 KPI and budget performance and make any observations to the Executive
39. The Executive has two options:
- Option 1:** Note the Q2 2021/22 KPI and budget performance and make no observations/comments to the Head of Corporate Policy, Projects and Business Assurance and/or Head of Finance.

Option 2: Note the Q2 2021/22 KPI and budget performance and make any observations/comments to the Head of Corporate Policy, Projects and Business Assurance and/or Head of Finance.

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

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

EQUALITIES IMPLICATIONS

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

COMMUNICATION IMPLICATIONS

43. There are no communication implications arising from this report

RISK MANAGEMENT CONSIDERATIONS

44. There are no risk management implications arising from his report

45. The annual budget report and supporting strategies include a full risk assessment of budget proposals.

OTHER IMPLICATIONS

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

CONSULTATION

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

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

POLICY FRAMEWORK

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

BACKGROUND PAPERS

None.