

# **POLICY AND PERFORMANCE**

**Monday, 20 July 2020**

## **CABINET**

**Wednesday, 22 July 2020**

### **FINANCE AND PERFORMANCE PROVISIONAL OUTTURN FOR THE YEAR 2019/20**

#### **Report of the Corporate Director Support Services - Chief Financial Officer**

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#### **Recommendations**

##### **For Policy and Performance:**

- (1) Note the Finance and Performance Provisional Outturn report for 2019/20 and make recommendations to Cabinet as appropriate.

##### **Cabinet:**

- (2) Note the financial performance of the Revenue account and Community Investment Programme (CIP) as at 31 March 2020.
  - (3) Note the operational performance
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#### **Summary**

This report presents the Council's provisional financial position for 2019/20. There is an underspend of £11,000 compared to the revised budget. The details provided within the report are subject to external audit and could change.

Capital expenditure for 2019/20 was £36.9m compared to the rolling budget of £36.9m.

The report also includes information on service performance and key performance indicators. The understanding of both elements of monitoring enable a full picture of the Council for 2019/20.

## **Statutory Powers**

**Local Government and Housing Act 1989, Sections 41 and 42**  
**Local Government Act 1972, Section 151**

### **Strategic Implications**

1. Regular monitoring and management of the Council's performance, including financial performance is key to ensuring delivery against strategic objectives set out in the Council's corporate plan 2015-2025, and contributes to the management of corporate risk. This report details budget variances which are within the tolerance of the Budget agreed in February 2020. While individual variances are actively being managed with service managers, the overall position reflects a strong position for the Council. The report also details key performance indicators which allows monitoring of performance trends. The impact of the covid-19 pandemic and social distancing activities was late in the financial year however it did have some financial and service performance impact on the Council during the months of February and March since the previous monitoring report.

### **Introduction**

2. This performance report includes information and analysis on the Council's financial performance and use of resources to the end of the financial year 2019/20, in comparison to the budget set by Council on 20 February 2020. The report also includes at Appendix B detail on service performance measures.
3. The revenue outturn position for 2019/20 includes the in-year costs of COVID-19 until end March 2020.
4. It should be noted that all of the amounts in this report are subject to audit by the Council's external auditor – EY. The accounts will be available for public inspection for four weeks from 15th June 2020 to Friday 24th July 2020 and will be formally signed off by 8<sup>th</sup> September 2020. In accordance with statutory requirements the 2019/20 Statement of Accounts were prepared and published online by 5<sup>th</sup> June 2020.
5. Reporting the total expenditure and income measured against the approved budget for both the revenue and capital accounts helps to advise Members of service performance, performance against grant budgets and also performance of CIP schemes. In turn this assists with the planning process for the Medium Term Financial Plan. Portfolio Leads have received information specific to their areas of responsibility and are encouraged to discuss any issues with service managers.
6. For 2019/20 the net General Fund expenditure was £11,000 lower than the revised budget (Appendix A).

7. The report contains, in the Appendices, details of the following:

<b>Appendix</b>	<b>Description</b>
A	General Fund Monitoring including portfolio statements
B	Council Strategy Outturn Scorecard Summary
C	Community Investment Programme Monitoring
D	Risk Assessment
E	Treasury Management Outturn Report
F	Transfer to reserves

## **Revenue Monitoring**

8. The financial performance of all services has been discussed with services and actions are being taken where necessary. Commentary provided by Service Managers on significant variances compared to the Rolling Budget are discussed in paragraphs 9 - 31 below.

	<b>£000's</b>
Area committees – para 9	60
Economic development – para 10	39
Open air markets – para 11	(19)
Eastleigh business centre – para 12	(21)
Council tax – para 13	(18)
Combined heat and power – para 14	22
Waste and Recycling – para 15	(31)
Environmental health – para 16	13
Safety and Resilience – para 17	27
Development management – para 18	(47)
Democratic process – para 19	(11)
Performance – para 20	52
Registration of electors & election expenses – para 21	(22)
Corporation estates – para 22	144
Support services – para 23	70
Housing & council tax support/benefit – para 24	(517)
Housing advice – para 25	(53)
Borough council services transport policy – para 26	84
Technical Services – para 27	(73)
Hackney carriages and private hire vehicles – para 28	(17)
Car parks – para 29	41
Decriminalised parking – para 30	(26)
Non service related items – para 31	291

Other	<u>23</u>
<b>Total</b>	<b>11</b>

9. Area Committees are reporting a £60,000 favourable variance. The variance primarily relates to the saving on LAC discretionary budgets which are transferred to earmarked LAC reserves at the end of the year through the 'Non service related items' figures as show in Appendix A.
10. The Economic Development service is underspent by £39,000. £20,000 of this underspend relates to the Pontoon Project. The annual Business Conference has made recurring savings through more resourceful venue management, which has led to an underspend of £13,000. This will be used to invest in skills and employment. The remaining £6,000 underspend relates to communications budget not utilised in year, which as part of the 20/21 approved budget, has been transferred across to communications for the business engagement networking.
11. Open Air Markets is reporting £19,000 under recovery of income. In 2019/20 Markets operated at a net profit, however trading levels have not been able to reach historic levels of income. This is funded through LAC reserves. A reorganisation of the Eastleigh Local Area Committee (ELAC) budgets will commence in 20/21 in order to address this.
12. Eastleigh Business Centre is showing a total overspend of £21,000 which is broken down in the following table:

	£
<b>Expenditure</b>	
Property Expense Codes	(21,000)
Admin Costs/ Postage	26,000
<b>Income</b>	
Rents	(91,000)
Car Parking	45,000
Broadband	20,000
<b>Total Variance</b>	<b>(21,000)</b>

- The overspend on property expense codes is due to additional maintenance and cleaning of the building.
- The underspend on admin costs relates to postage.
- Shortfall on rents received of £91,000 due to occupancy rates being below targeted amounts throughout 19/20. It should be noted that the

space originally intended for the Tech hub has now been let. The space was vacant for the first 5 months of the year this which contributes to £24,000 of the shortfall.

- Car parking spaces have generated income of £45,000 over the budgeted amount due to more efficient allocation of the spaces.
  - Service Charges for broadband and telephone use have generated income of £20,000 over the budgeted amount; the increased amount of income compared to the budgeted amount is due to a higher uptake from tenants on broadband packages. It is to be noted there are 6 offices occupied by non-paying tenants so recorded as occupied space but no contribution to building income.
13. The Council Tax service is reporting an £18,000 adverse variance due to lower court cost income. This is owing to recovery having been frozen for two months in order to concentrate resources on successfully reducing the administrative backlog. Furthermore, when recovery was resumed, some of the residents that would otherwise have been taken to Court, had benefited from extra time to bring their payments up to date and despite court cost income being than anticipated collection of council tax income was correspondingly higher. Due to Covid-19, courts have not yet opened in 2020/21 and are not likely to open until October so Court Cost income for 2020/2021 will be significantly reduced.
14. Combined heat and power and renewable energy is reporting a £22,000 favourable variance. The service manager has significantly improved the contract management and the CHP unit is now working more effectively. There has also been a significantly improved purchase rate compared with the charging rate to Places Leisure Eastleigh
15. The Waste and Recycling section is reporting an unfavourable variance of £31,000. There has been an increasing national shortage of LGV drivers (Large Goods Vehicles), which has led to a difficulty in recruiting and retaining qualified drivers. In order to ensure continuity of service, a decision was made to retain temporary agency drivers, which lead to additional costs of £33,000 being incurred. It should be noted that over the last 4 years Direct Services have embarked on a programme of internal driver training, with the result that 10 additional drivers have been recruited from within the existing workforce. This programme will continue to develop increased resilience, providing succession planning as existing drivers retire or leave the organisation as well as reducing the need for reliance on agency drivers in order to mitigate the risk of future overspends. The overspend has been partly offset by additional income of £25,000 and £15,000 from Project Integra and Kitchen Waste recycling credits respectively. For information Project Integra is a Hampshire-wide partnership working to provide an integrated approach to the collection, treatment and disposal of municipal waste in Hampshire. This covers circa 750,000 households and over 800,000 tonnes of waste a year.
16. Environmental Health is reporting a £13,000 underspend. The education and promotion element of the environmental health budget £3,000 has not spent

due to resources not being available in the Environmental Unit. This has had no impact on the service and as it is a recurring saving, has now been permanently vired by the Service Delivery Operational Manager to help recruit an experienced specialist for Service Delivery in 20/21. In addition to this, the local response team undertakes the Animal Welfare function on behalf of the Environment Service. Due to staff savings there is a reduction of £5,000 in the staffing costs to Environmental Health. The service has over recovered income by £5,000 on animal welfare licenses fees.

17. The Safety & Resilience budget is showing an under spend of £27,000, relating to the funding no longer required for Police Community Support Officers. The under spend is due in full to there being no expenditure on the budgets relating to the local area committees which has been transferred to LAC reserves. In future years this will fund Community Safety Initiatives.
18. The Development Management service is reporting a net £47,000 adverse variance. This is largely due to major applications that were expected to be submitted at the time of the revised 2019/20 budget, but did not come to fruition in the financial year. This demand led income shortfall was partly covered by an increase in minor planning applications.
19. The Democratic services budget is showing an overspend amounting to £11,000 across the service. The overspend is predominately due to additional administration expenses which includes mobile phones and meeting expenses. Meeting expenses have overspent due to the number of meetings in which Councillors are attending in year and the number of ELAC planning permission meetings held not on premises owned by EBC being over the budgeted amount. The overspend on mobile phone expenses is due to increased amount of devices being issued.
20. The Performance and Governance budget is showing an underspend of £52,000. Staffing budget is underspent by £63,000 due to part year vacancies in the year for the Performance team. The Performance staffing budget is made up of staff from Elections, Democratic services and the Performance team. It is to be noted that the staffing underspend was across all of these services. This is offset by £11,000 additional expenditure, recognising the increase in external audit fees.
21. The Elections budget is showing an overall overspend of £22,000 across the service. This is due to the increase in administration costs for postage of £15,000 and storage costs of £7,000. These costs are due to a higher number of people able to vote in the electorate due to the number of new housing programs in the Borough which will be reviewed in 2020/21. The electoral budget receives a Grant from central government to be used exclusively for electoral expenses. In 19/20 £40,000 was received which offsets expenditure of £40,000 within the electoral budget. It must be noted that this income is not guaranteed and is done on an application basis each year.
22. Corporation Estates is reporting a favorable variance of £144,000. Supplies and services are £39,000 overspent because of an increased provision for

bad debts due to COVID 19. There has been a successful rent review at New Kings Court resulting in additional backdated rental income of £100,000. Completion of the development of the Hendy Car show room has resulted in a higher rent of £43,000. A further £40,000 of the variance is due to increased rents for new leases at Black Horse House. Any changes in rent will be reflected in the revised 2020/21 budget.

23. Support Services is reporting an underspend of £70,000 in 2019/20. This variance is predominantly due to staffing vacancies as highlighted in the Quarter 3 Financial Monitoring.
24. The net cost of the Housing and Council Tax Benefits/Support service has exceeded the budget by £517,000. The primary reason for the variance in budget is due to the income from the recovery of Housing Benefit being down due to a number of reasons including; the migration of Housing Benefit claims to Universal Credit resulting in debts not being able to be recovered from ongoing Housing Benefit making recovery more difficult, Department of Work and Pension reducing recoveries to prevent excessive hardship during the Covid-19 situation.
25. Housing Advice is reporting an adverse variance of £53,000 due to additional bad debt provisions for Bed and Breakfast costs and Rent Top Up & Rent in Advance schemes. The Support Services and Health & Wellbeing teams are considering the process for housing debt recovery to see if improvements can be made. This may result in the recommendation for the recruitment of a post to work with vulnerable residents to manage and recover debts subject to a business case.
26. Transport Policy is reporting an underspend of £84,000. The Street Name plates budget of £20,000 has not been utilised, however, a process is now in place to ensure full use of this budget between construction and local areas. The Street Name Plates underspend has been transferred to the LAC Reserve. There is also an £43,000 underspend on public transport. In 2020/21 the Council is looking to review Public Transport services, contracts and ensure services commissioned by the Council remain good value. There were also reduced internal staffing costs of £10,000. The remaining underspend relates to lower expenditure incurred on Traffic and Road Safety initiatives in 19/20.
27. Technical Services is reporting an overspend of £73,000. Details of this variance are explained below;
  - Transport Trading Account is showing a £13,000 unfavourable variance due to a number of temporary changes in the team the number testing slots were not available to achieve the expected demand.
  - Sale of vehicles at auction has contributed to the favourable £14,000 position on the fleet accounts.
  - Due to long term sickness the pest control service has incurred additional costs relating to sickness cover. There has also been a

reduction in the provision of the services due to staff not being fully qualified in all pest service areas which has resulted in a £15,000 unfavourable variance. This has now been addressed and a full services is operating from 20/21.

- Although the Construction and Maintenance team continues to be extremely popular and valued within a number of the local areas and by councillors, the service delivered a £59,000 unfavourable position at the 31st March 2020. This is due to an experienced permanent member of the team who left at the beginning of the financial year and the resultant shortfall in resourcing expertise coupled with an increase in agency staff to cover vacant posts.
  - The service is being reviewed to identify how to reduce costs and be more commercially focused whilst ensuring that the quality standard of work to meet customer expectation. The review will be reported to Management Team to agree future steps it is anticipated that this will be completed by October 2020.
28. The licensing is reporting £17,000 adverse variance. There was additional one off costs this financial year as the account recognised higher costs for contract payments. There has been a transfer to reserve to reflect additional income of 300 out of the 605 driver licenses as shown in Appendix F.
29. Car Parks is showing a favourable position of £41,000 of which £37,400 relates to additional income compared to budget in 2019/20. This is due to a higher increase in usage than anticipated when the revised budget was set.
30. Decriminalised Parking is reporting a £25,000 overspend. This is due to additional staffing and administration costs.
31. The Income and Expenditure account is reporting a favourable variance of £291,000. Details of this are explained below;
- Interest payable is showing a saving for 2019/20 of £127,000. This is primarily due to slippage in capital schemes delaying borrowing.
  - Interest receivable is reporting an increase of £23,000. This is predominantly due to the additional investing of sums during the Council's restructuring of debt.
  - Included within the Income and Expenditure account is a £500,000 unfavourable variance relating to the collection fund. £100,000 relates to a difference in the Levy charge estimate for 2018/19. As a tariff authority the Council have to make a payment to Central Government based on their Collection Fund closing balances and as part of the close down process each year this has to be estimated and the actual payment is charged in the following financial year. Due to the timing and complexities of the scheme which collects in excess of £60M it is very difficult to estimate leaving a balance in the following accounting year.



- The remaining £400,000 of this relates to a reduction in the receipt of Section 31 grants relating to business rates due to a change in the way in the Retail Discount has been calculated. A number of businesses were allocated Retail Discount Relief when the original estimates were first made back in January 2019. However since then a number of large businesses are no longer eligible due to state aid rules and where charged the full rates without any discount. Due to the way the statutory accounting works for the Collection Fund this additional actual rates paid is show in the Collection Fund adjustment account which for 2019/20 has increased by £1.8M, this will be allocated to the revenue account in 2020/21. To mitigate the timing of this adjustment £666,000 less was paid into the Interest Reserve to maintain a General Fund position in excess of £1M.
- There have been additional transfers to revenue reserves of £25,000 which are reflected in paragraphs 9-30.

## **Earmarked Reserves**

32. The Council's earmarked reserves are held for specific purposes. In 2019/20 the opening balance of Earmarked Reserves was £17.6m. The normal operation of council business includes movements on earmarked reserves, including spending existing reserves or placing new funding aside for use in future years.
33. There were contributions to reserves of £11.1 million and drawdowns from reserves of £6.6 million resulting in a net increase in earmarked reserves for the year of £4.5 million during the year. Appendix F sets out those reserves with movement.
34. The level of earmarked reserves further supports the forward planning of the Council. This approach to financial management will help to deliver our corporate priorities during the short to medium term whilst mitigating / managing risks.
35. The movement in reserves statement (Appendix F) contains a noteworthy transfer of £926,000 for maintenance and voids, as well as earmarked reserves to cover specific future maintenance and repair work for the property portfolio.

## **Efficiency & Improvement**

36. A new Continuous Improvement Strategy launched during the year as part of the MTFP, setting an efficiency target of £2.5M to be saved by 2023/24. However, there was no target for set for 2019/20. The 2020/21 target will be reviewed due to Covid-19.

## Community Investment Programme

37. Financing of capital expenditure during the year relied on the use of prudential borrowing. Of the total capital expenditure in 2019/20 approximately 52% has been financed from borrowing with the majority of schemes being repaid through business cases. The rest of the expenditure was predominantly funded through a split of Capital Grants and Capital Receipts received from the sale of Housing.
38. Net income generation from the 2019/20 CIP investment portfolio will be £8m. Consisting of £13.2m of additional income against a cost of borrowing of £5.2m. This does not include income from the Council's housing programme which is detailed separately in this report
39. A summary of capital financing is shown below:

	<b>£'000</b>
Prudential borrowing	19,374
External resources: New Homes Bonus	671
Other Grants	7,387
Developers' contributions	1,151
Internal Resources: Revenue contribution to capital	303
Capital Receipts	7,820
Local Area Committees	197
<b>Total capital expenditure in the year</b>	<b>36,903</b>

40. Appendix C provides a summary of the CIP budgets and actuals to the end of March 2020 across the programme boards
41. In addition to Appendix C, it should be noted that the Central Heat and Power scheme, servicing Fleming Park and the Civic Site is forecasting additional expenditure of £200k, this is due to ongoing legal discussions. Any additional costs will be offset by future revenue savings arising from operations of the scheme.
42. It should also be noted that the CIP rolling budget is regularly monitored throughout the financial year, and any slippages in spend are moved to future years as they become apparent.

## Treasury Management Outturn

43. The Council has a very successful and active capital programme generating a large revenue surplus. The majority of the programme is financed by prudential borrowing which means it brings an element of risk which the Council needs to manage. CIPFA's Treasury Management Code sets out guidance which the Council needs to follow to ensure prudence. Appendix E

gives a detailed review of the Annual Treasury Management outturn for 2019/20 showing the continuing success of the investment programme.

44. The overall level of borrowing for the Council increased by £37.8m during 2019/20 due to the increase in capital spend, offset by the repayment of debt through a minimum revenue provision (MRP) and the use of internal borrowing.
45. The Council went through an extensive restructuring of borrowing during 2019/20, switching a large proportion of debt from short term borrowing to long term. This was done in order to de-risk the borrowing portfolio, by reducing interest rate risk, without paying a financial penalty based on interest rate forecasts.
46. The Treasury Management group meets twice a year alongside regular meetings of Finance staff to review current Treasury practices. The Council is also advised by the Treasury Advisers Arlingclose, who provides the Council with frequent Treasury Updates, as well as attending meetings of the Treasury Group and of Council Staff, and providing regular training days and workshops.

## **Performance Monitoring**

47. Performance monitoring covers the financial year running from April 2019 to March 2020. Appendix F shows a balance scorecard for Key Performance Indicators (KPIs). The KPIs are organised into five strategic themes: Environment; Economy; Health and wellbeing; Housing and development; and Organisation.

## **Chief Officer's statement**

48. The outturn each year is a very important element of the Council's financial calendar as it represents the culmination of financial planning and budgeting along with how effective day to day management of finances has actually been. Any unforeseen overspends and underspends can distort the Council's financial position and make it very difficult to forecast for the future.
49. The provisional outturn position shows an underspend of £11,000. Appropriate amounts have been set aside as provisions to meet future liabilities as they occur. It is very important to keep the Council's finances under close scrutiny to ensure the most effective use of resources particularly as we develop the future efficiency strategy. This position is very healthy compared to other authorities, as widely reported most are significantly drawing on reserves to meet budget.
50. It is important that managers accurately forecast the financial position of their services and the finance team will be working more closely with managers in

the future to ensure they are fully supported. This will be particularly important for 2020/21 and beyond as we see the effect of the Covid-19 pandemic. The Council is in a strong position to meet the future challenges but this is only possible with strong financial management.

## **Risk Assessment**

51. The purpose of the financial monitoring process is to give Members the assurance that the Council's finances are performing broadly in line with the Budget. This report is integral to the risk management process in respect of the Council's finances. A full risk assessment in respect of the Council's current and future financial position is included within the Provisional Outturn, Medium Term Budget Strategy and Budget reports that are submitted to Cabinet and Council. Appendix C contains the Risk Assessment.

## **Equality and Diversity Implications**

52. The Equality Act is not relevant to the decision in this report as the decision does not relate to eliminating discrimination, advancing equality of opportunity, or fostering good relations between different people. An Equality Impact Assessment has not been carried out.

## **Climate Change and Environmental Implications**

53. There is no direct impact, positive or negative, to climate change or the environment. However, effective financial monitoring enables the delivery of the Council's Strategic Objectives of which include supporting the Climate Change Programme.

## **Conclusion**

54. The provisional outturn report for 2019/20 provides a comprehensive analysis of the Council's finances, and gives the opportunity to advise Members of significant issues that may impact on the Council's finances. The details contained within this report are subject to external audit and therefore may change. If any significant change is necessary this will be reported to Members.
55. The performance report, as well as providing a comprehensive snapshot of the Council's finances, provides the opportunity to advise Councillors of significant financial issues that may impact on the Council's service performance. The Council continues to effectively deliver a dynamic range of services however there are some performance areas needing attention and rectification of these issues is important in ensuring the Council is continuing to meet customer need.

56. A number of pressures have been addressed through the 2020/21 budget setting process and key risks will continue to be monitored and mitigations sought as required throughout 2020/21, whilst recognising the unprecedented impact of COVID-19 on the Council's financial position. An update on the budget for 2020/21 will be reported to the Committee in July.
57. The overall revenue position at 31st March 2020 shows an underspend of £11,000 against the revised 2019/20 budget after the rolling forward of Budget Management items.

SARAH KING  
Corporate Director Support Services – Chief Financial Officer

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Appendices Attached: 4

#### **LOCAL GOVERNMENT ACT 1972 - SECTION 100D**

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information.

None.