

POLICY AND PERFORMANCE SCRUTINY PANEL

Thursday, 18 November 2021

CABINET

Thursday, 9 December 2021

CORPORATE PERFORMANCE REPORT

Report of the Chief Financial Officer

Recommendation(s)

For Policy and Performance:

- (1) It is recommended that the Policy and Performance Scrutiny Panel note the performance and financial position of the Council for the first two quarters of the year making any recommendations to Cabinet as appropriate.**

For Cabinet:

It is recommended that Cabinet:

- (2) note the performance of the Council for the first two quarters of 2021/2022 and the Council's forecast financial position for the year and consider any recommendations from Policy and Performance Scrutiny Panel;**
- (3) note the performance of the Community Investment Programme (Appendix C);**
- (4) note the updated Medium Term Financial Plan (Appendix B);**
- (5) note the performance of Treasury Management, and the financial outlook (Appendix O); and**
- (6) recommend to Council to approve the change to the Prudential Indicators (Appendix P).**

Summary

This report presents the Council's financial and performance position for the second quarter (Q2) of 2021/22 including a forecast of the financial position for the full year against that budgeted. The report also highlights significant and emerging financial and performance issues. Key Performance Indicators (KPIs) for service areas are outlined in

Appendix A of the report. KPIs and financial variances are commented on in Appendices F-N.

The financial monitoring for the second quarter of 2021/22 is forecasting total net favourable variances against the budget of £99,000 based on best estimates in a changing landscape.

Capital expenditure for the first half of the financial year of 2021/22 was £39.3M compared to the rolling budget for the year of £81.8M.

Statutory Powers

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

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. The report details budget variances compared to the rolling budget. The report also details key performance indicators which allows monitoring of performance trends. Individual variances and performance measures are being actively managed by service managers with the support of the Finance team.

Introduction

2. This report brings together the context of the Council's strategic ambitions, its performance working towards them, and the financial implications and challenges of both. This ensures greater transparency and presents a full picture of the overall position.
3. To facilitate the implementation of the new executive structure, embedded in the Council in January 2021, a new way of managing and reporting financial information has been introduced. This enables services to directly input financial and performance information into their Executive Summary Reports shown in Appendices F-N. Services can see real time impacts of decisions which creates enhanced transparency and accessibility.
4. Performance overall is good considering the challenging environment, changes in the labour market, and customer demand. The £99,000 net underspend position across the whole Council is positive overall although there have been challenges with performance in a few areas, such as Waste collection. Where challenge areas have been identified action has been taken to mitigate impacts and improve performance in both the short and long term.

5. Further detail on operational delivery is included within the Executive Summary Reports [Appendices F-N].
6. The report contains, in the Appendices, details of the following:

Appendix	Description
A	Council Strategy Scorecard Summary
B	Medium Term Financial Plan (MTFP)
C	Community Investment Programme (CIP) Monitoring
D	Financial Risk Assessment
E	Portfolio Variance Report
F	Finance and Housing Executive Summary Report
G	Assets and Project Delivery Executive Summary Report
H	Governance Executive Summary Report
I	Customer Care Executive Summary Report
J	Organisational Development Executive Summary Report
K	Planning and Economy Executive Summary Report
L	Environment Executive Summary Report
M	Health and Wellbeing Executive Summary Report
N	Neighbourhood Services Executive Summary Report
O	Treasury Management Half Yearly Report
P	Prudential Indicators

Strategic Overview

7. The gradual easing of lockdown restrictions, alongside the longer-term solution of the national vaccine rollout, has allowed for a degree of return to pre-Covid delivery although uncertainty and some restrictions still exist. This report has been produced with the current expectation that service levels will stabilise and return to pre-pandemic levels over the period of the MTFP, with the safety of staff and residents the key priority. The Council is starting to look forward beyond recovery and is working to understand what the future demand for services will be in the context of changed customer behaviour and other changes in the economy.
8. Performance overall is good considering the fluctuating patterns of customer behaviour and demand. These high levels of uncertainty are likely to continue into 2022/23 and services are already planning on the basis of the best possible predictions of demand.
9. A considerable amount of management effort is now involved in service improvement (Case Management, Waste Services, recruitment), maintaining performance, and addressing critical external threats (e.g. changes in demand and in the labour market). At the same time the Council is embedding a new leadership structure, performance and planning processes, developing proposals for longer term home/office working, and pressing forward with its ambitions on Housing delivery, with the HRA, management and lettings progressing well. Focusing on strategic and service planning and prioritising

for 2022/23 and beyond, will assist in managing this demanding mix of challenges going forward.

10. Delivery of the Council's Community Investment Programme is similarly challenging, with the pressure of increased construction and labour costs and the ongoing need to embed Climate and Environment Emergency (declared 2019) considerations into projects.
11. The [Corporate Action Plan \(CAP\) 2021/22](#) sets out the key outward-facing actions the Council is embarked upon; progress at Quarter 2 in delivering this Plan is good overall. Many actions are on track to be completed during the year and are referenced in the Executive Summary Reports appended to this report. A separate report for Policy and Performance Committee in December 2021 will detail progress against each CAP action. (Actions in Local Area Action Plans for 2021/22 are reported to Local Area Committees).

Service Performance

12. Performance monitoring covers the first two quarters of 2021/22, running from April 2021 to September 2021. Appendix A shows a scorecard summary for Key Performance Indicators (KPIs). The KPIs are organised into five strategic themes: Environment; Economy; Health and Wellbeing; Housing and Development; and Organisation.
13. Service managers have reviewed their financial performance for the year and used this information as a basis for forecasting financial performance for the full year. The aggregate of these forecasts estimates an underspend against the approved budget for 2021/22 of £99,000.
14. The financial performance of all services has been discussed with spending officers and significant variances, including transfers to and from reserves, are explained in the Executive Summary Reports in Appendices F-N. During the year the financial performance will continue to be monitored and where estimates become more certain, these will be reported to Cabinet if budgetary changes are necessary.

15. The table below shows the summarised General Fund Monitoring statement by Portfolio:

Portfolio Name	Original Budget £'000	Rolling Budget £'000	Forecast £'000	Outturn Variance £'000
Area Committees (Net of Gross Cost Adjustment)	1,464	1,304	1,304	0
Skills & Business	(238)	(240)	(59)	(181)
Environment	6,165	6,497	6,868	(371)
Health	2,524	2,744	2,498	247
Planning and Property	(6,921)	(6,943)	(9,987)	3,044
Social Policy	3,106	3,254	2,493	761
Transport	(114)	(84)	199	(283)
Position on Services	5,988	6,533	3,316	3,217
Non Service Related Items (para 27)	(5,987)	(6,218)	(3,100)	(3,118)
Net Position	1	315	216	99

16. The continued impact of COVID-19 and other additional priorities is placing extra pressure on service areas through increased demand, amendments to procedures or additional services. This includes the resource diverted towards the Afghan resettlement scheme and COVID-19 related activities, such as the administration of support payments and the Council's Future Ways of Working project. Below outlines the most notable matters, with the portfolio identified in bold.
17. Like many other employers, the current position of the job market is affecting the Council's ability to recruit and, as such, increasing the demand upon existing resources. A review of recruitment has started, and recommendations are due to be finalised by the end of the calendar year, any action that can be taken earlier, is being acted upon. The review will focus upon the following themes: Attract, Recruit and Retain. Targeted recruitment campaigns have commenced, such as the one for HGV drivers because of the current national shortage.
18. There has been a nationwide shortage of HGV drivers, which has led to a need to increase associated costs in the Waste and Streetscene services (**Environment**) and has contributed to a downturn in performance with an increased number of missed bins. To improve staff retention and maintain performance levels an ongoing increase in budget of up to £314,000 was

approved by Cabinet in July 2021, of which £40,000 has so far been committed, leaving a total forecast additional expenditure of (£645,000) for the year. There remains a forecast adverse variance on the Environment portfolio of (£371,000), primarily relating to staff costs in Waste Management and the hire of food waste vehicles, as there has been a delay in the delivery of new vehicles due to longer lead times given by the manufacturer.

19. Some services are managing with vacancies, creating an underspend position, including Strategic Planning £107,000 and Corporation Estates £60,000 (**Planning and Property**). Other services, such as Development Management (**Planning and Property**), have needed to bring in agency staff to maintain service provision while supporting additional workloads from the airport judicial review. At the time the ESR was drafted the cost of the judicial reviews was estimated with funding to be drawn from an earmarked reserve. On 19th October the Council received notice from the court that the permission to apply for Judicial Reviews by the Claimants have both been refused. Subsequently, one claimant has appealed this judgement and been granted the opportunity to present their case in person.
20. The removal of government restrictions related to the pandemic has acted as a catalyst for the progression of work previously paused including events on Council owned land and facilitating face to face or hybrid meetings. Work is ongoing to support the services most affected and improved utilisation of resources is a critical focus.
21. Income generation has not returned to pre pandemic levels for a number of services. Within Arts and Culture (**Health**), the service is managing expenditure in line with this reduced expectation of income and is showing a favourable position of £137,000 with further grants being sought to cover lost income as in 2020/21. The Places Leisure Eastleigh (**Health**) budget is forecasting a £107,000 underspend which will be allocated to the maintenance reserve. The Afghan Resettlement Project (**Health and Social Policy**) has significantly increased in scope from the initial two planned families, up to the current 135 individuals in a Bridging Hotel in the borough, which is drawing on existing resource, the direct impact upon the performance of Health and Wellbeing and Organisational Development is being closely monitored. The occupancy rate of Eastleigh Business Centre (**Skills & Business**) is currently 71% and the challenge of bringing in new tenants means the expected income is forecast (£168,000) lower than the already reduced budget. A potential refurbishment project at the building is being scoped as an invest-to-save project to determine whether this will increase tenancy and income levels.
22. Parking Services (**Transport**) is forecasting an under recovery in income beyond the estimated impact totalling (£381,000). While this has been initially due to the direct impact of COVID restrictions reducing travel, there is concern that consumer habits will have changed long-term. A Parking Working Group, which includes relevant Portfolio Holders, has been set up to review performance and identify any actions to mitigate future income losses.

23. With the Government restrictions being lifted in July, the associated Sales, Fees and Charges income support scheme (SFC) which reimbursed the Council for lost income across all services is due to be withdrawn. This has contributed approximately £2.1M to the Council in 2020/21 and is due to contribute a further £800,000 in 2021/22 to cover the period Apr – Jul 2021 however there is uncertainty as to whether this level of grant will be received which is being closely monitored.
24. Housing Benefit and Council Tax Support (**Social Policy**) has seen continued migration across to Universal Credit, resulting in a saving against the budget of £419,000 which is anticipated to continue in future years and will be reflected in the budget process.
25. Some significant grants have been received and are being set aside within earmarked reserves, including £2.6m New Homes Bonus (**Planning and Property**) and £302,000 Homelessness grant (**Social Policy**). A general COVID grant of £532,000 has also been received from the Government to cover increased expenditure specifically related to the pandemic and is accounted for centrally within the Corporate Financial Services budget (**Planning and Property**).
26. The Climate and Environmental Emergency resourcing position is a priority. In order to facilitate progress, reserve funding has been drawn down and additional support is being coordinated by the Green Energy Manager. Wider progress has continued across the action plan, including starting to install electric vehicle charging points in four car parks, as well as progress being made on aspects such as the purchase of electric refuse vehicles and the use of Hydrotreated Vegetable Oil (HVO) rather than diesel.
27. Non-Service related items are those budgets recognising movement in funding from earmarked reserves or corporate costs such as Interest and Minimum Revenue Provision. These areas are showing a net unfavourable variance of (£3.1M), consisting of:
 - Interest Payable is reporting a favourable variance of £166,000 due to the reprofiling of forecast borrowing throughout the financial year, as well as active treasury management operations allowing the Council to borrow at slightly lower levels than forecast when the budget was set.
 - Interest Receivable is reporting an unfavourable variance of (£638,000), due to the timing of the Pembers Hill Development Loan. As previously reported, the interest on this loan has accrued at a faster rate than in the original plan and has therefore been accounted for in previous financial years. This does not affect the total return on this investment and will be reflected in the budget process.
 - Minimum Revenue Provision is reporting a favourable variance of £28,000 due to the slippage of the capital programme 2020/21 delaying the forecast repayment of this borrowing in 2021/22.

- Movements in Earmarked Reserves is reporting a net adverse variance of (£2.8M). This predominantly relates to New Homes Bonus income being transferred to reserves. Please see Appendix F for more detail.

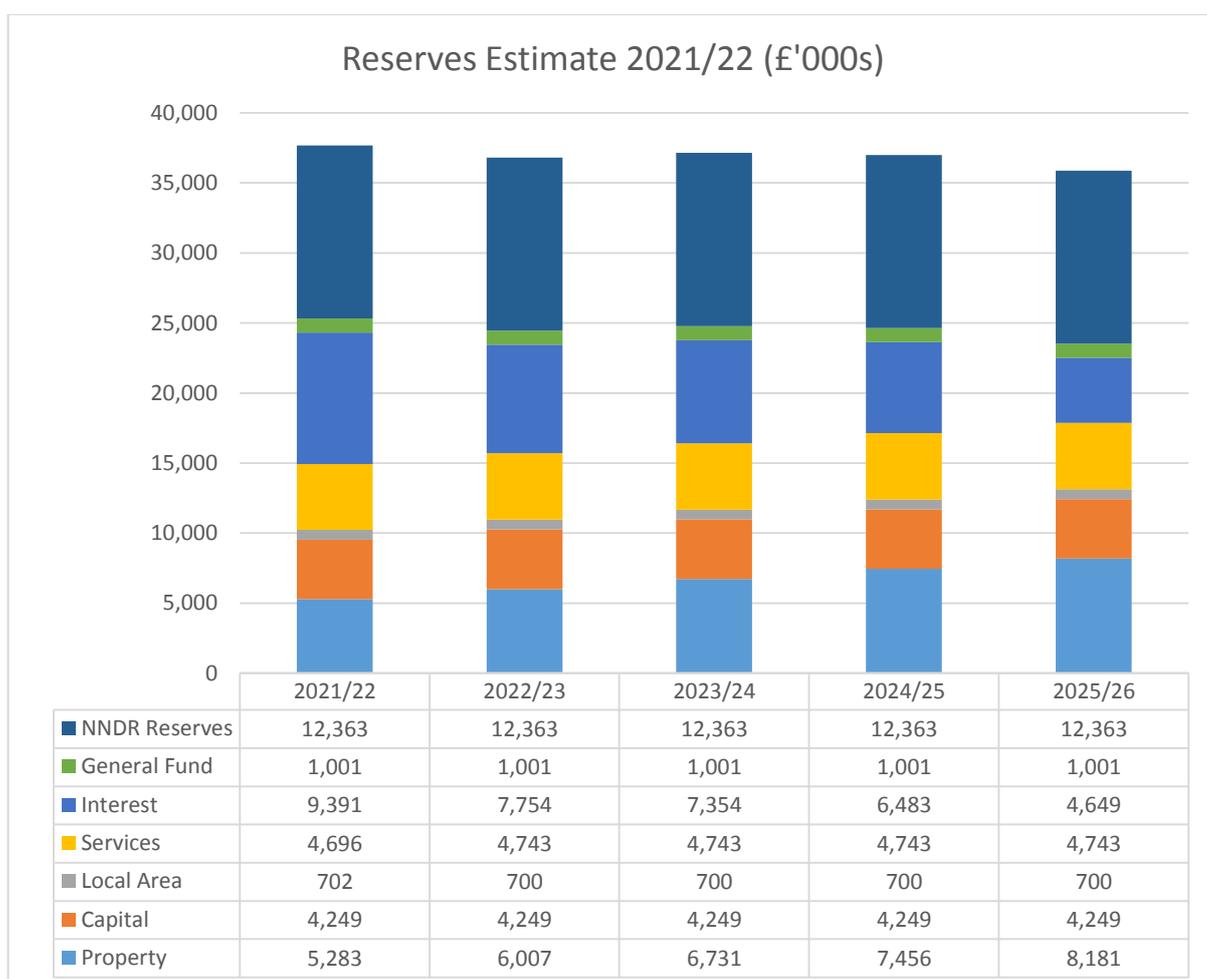
Medium-Term Financial Plan (MTFP)

28. The MTFP outlines the Council's budget projections for the period 2021/22 to 2025/26. These figures contain the current financial monitoring forecasts and show how short-term financial monitoring also impacts medium-term decision making and the medium-term financial resilience of the Council.
29. The latest MTFP is shown at Appendix B for noting and includes the implications forecast in the financial monitoring, particularly those surrounding business cases that have approved borrowing, as these contain medium-term and long-term financial commitments. It should be acknowledged that forecasting is particularly difficult at the moment with the changing economic landscape.
30. The MTFP recognises the ongoing financial pressures arising from demand led services, particularly within the Waste Services. In addition to this, whilst it is recognised in the MTFP that a gradual return of most income streams is anticipated, it is considered unlikely that usage levels will return to those previously met in all areas, particularly for Car Parking Services and the impact of this will be reflected in the upcoming budget.
31. Interest rates continue to be a key focus of the MTFP. The Council has an ongoing borrowing requirement in the medium to long term. Through the use of effective interest rate forecasting, external advisers (Arlingclose) and the use of an interest rate reserve, the Council is able to demonstrate it can continue to service its borrowing requirement through the life of the MTFP, although costs are anticipated to increase as the short-term variable element of the Council's borrowing portfolio begins to rise from its current historically low rates. The interest rate reserve will need to be utilised in the later years of the MTFP to maintain the General Fund Reserve balance as rates rise.
32. The MTFP ensures that the Council is financially resilient in managing its capital expenditure, showing the medium-term impact of capital decisions, including the ongoing cost of funding these decisions. Covid 19 has led to an increase in prices throughout the construction industry of both materials and labour. This is being reviewed to see if it is pervasive, or a short-term fluctuation. Once impacts on the costs of projects are fully known any implications will be factored into the forecast and brought back to Cabinet for approval as necessary.
33. Considering current known impacts to the Council, the Council is forecasting a balanced MTFP over the period 2021/22 – 2025/26. Although this can only be achieved through the implementation of the Continuous Improvement strategy detailed later in the report, and the use of the interest reserve to mitigate the impact of potential interest rate rises.

34. A full MTFP document will be brought for formal approval to Cabinet and Council in February 2022 as part of the budget process. Ongoing quarterly updates will be provided within future versions of this Corporate Performance and Finance Monitoring Report.

General Fund and Reserves

35. Appendix B details the MTFP position and demonstrates that the General Fund balance is maintained at the minimum balance of the higher of £1m or 10% of Net Cost of Services for the life of the plan. In addition, other earmarked reserve balances are detailed below, and these are considered to be at the appropriate levels:



Community Investment Programme

36. The Community Investment Programme (CIP) has a rolling budget of £81.8m for 2021/22. The budget has increased by £16m since originally set which is primarily due to the slippage of forecast expenditure from 2020/21 to 2021/22. Appendix C provides an overview of the current CIP position.

37. For the period to the end of September £39.3m has been spent, representing 48% of the rolling budget. It is forecast that expenditure will continue to rise in line with the rolling budget as the year progresses.
38. Capital expenditure throughout the year has been predominantly incurred on Housing and Infrastructure. With the Housing expenditure consisting of:
- £9.5m for the purchase of additional land at the Solar Park within the One Horton Heath Development (OHH).
 - £5m expenditure on the infrastructure works at OHH, which includes the completion of the £20.8m funding from Homes England for the LAAC grant.
 - £3m for the purchase of homes at Stoneham phase 5.
 - £2.5m for the ongoing construction works at Fanfare Place.
39. Capital expenditure on Infrastructure is predominantly made up of the £16.8m purchase of Chalcroft Solar Park Ltd within the OHH development.
40. The progress of CIP schemes is reported to relevant boards monthly as part of the highlight reports completed by Project Managers for each scheme. As with Service Managers, Project Managers are asked to identify forecast spend for the year in order that total CIP budgets can be monitored effectively and profiled into the most appropriate financial year. This is an iterative process, with adjustments to budgets between financial years being made as and when reported to the relevant boards or through the financial monitoring process.

Continuous Improvement Strategy

41. The Council continues to strive to achieve financial resilience through innovation and the identification of efficiencies without cutting or reducing the quality of services. The upcoming budget process will include detail as to how this is planned to be achieved with budgets set and monitored for 2022/23 and the medium term accordingly.
42. The ongoing achievement of the Continuous Improvement Programme will be led by the Executive Team and monitored through the Organisational Development Review Group. This will ensure targets are met and reported quarterly from next financial year.

Treasury Management Half Year Report

43. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires the Authority to approve treasury management semi-annual and annual reports.
44. The first 6 months of the Financial Year have led to day-to-day treasury management practices returning to pre pandemic borrowing and investment

activity. Additional investments to cover unexpected shortfalls in liquidity due to the pandemic have been disinvested, as the local authority to local authority borrowing market has continued to prove to be a liquid and secure marketplace for the authority to meet its ongoing borrowing requirement.

45. Appendix O provides the Treasury Management Half Yearly Report, providing detail on the performance of Treasury Management for the first 6 months of 2021/22.

Chief Financial Officer's Statement

46. As the Council's Statutory Finance Officer, the Chief Financial Officer is required to advise the Council on all pertinent financial matters including the level of balances and to alert Councillors to any concerns they may have regarding the financial well-being of the Council.
47. Financial monitoring is required to be timely and accurate so the identification of variances from forecast levels of expenditure to budgeted levels of expenditure are known. This identification allows the Council to utilise underspent, or reallocate financial resources accordingly, in order to continue to meet service level standards.
48. The performance monitoring process is a very important element of the Council's financial arrangements as it assesses how effective the day-to-day management of budgets has been throughout the year. Any unforeseen overspends and underspends can distort the Council's financial position and financial planning process.
49. Linking the financial monitoring with operational context highlights the outputs the Council achieves from its resources, allowing assessment of efficiency and effectiveness. Understanding this is key to ensuring greater value for money through informed service planning and prioritisation of resources.
50. The COVID-19 pandemic has brought into sharp focus the need for accurate and detailed financial planning. The success of the Council's approach to financial management has enabled the identification and reporting of financial pressures and the early identification of potential savings. Undoubtedly this is a testing time for the economy and that includes local government, although Eastleigh Borough Council is well placed to sustainably manage financially into the future.
51. The Council continues to manage finances well and maintains an appropriate level of reserves despite the impacts of the pandemic. However, with the uncertainties in the future economic landscape it is important that the Council continues to closely monitor financial performance. Expenditure must be contained within budgets and the Continuous Improvement Strategy needs to be developed to be achievable and realistic to ensure continued financial stability.

Risk Assessment

52. The purpose of the performance monitoring process is to give Councillors and the public the assurance that the Council's finances and performance are performing broadly in line with the Budget and service targets. 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 D contains the Financial Risk Assessment. Risks pertaining to the delivery of Council services are monitored through the use of a risk register at a service and corporate level. All risks captured are mitigated against and the effectiveness of the mitigation is monitored regularly in conjunction with the Council's Strategic Risk Management Group.

Equality and Diversity Implications

53. The Equality Act is not relevant to the decision in this report because the decision does not relate to eliminating discrimination, advancing equality of opportunity, or fostering good relations between different people. Therefore, it is considered that for this decision the Equality Duty does not need to be addressed and an Equality Impact Assessment (EqIA) has not been carried out.

Climate Change and Environmental Implications

54. 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

55. This report, as well as providing a comprehensive snapshot of the Council's finances, provides the opportunity to advise Councillors of significant performance issues that may impact on the Council's finances. The forecast overall revenue position at 30 September 2021 suggests a forecast favourable position of £99,000 for the full year.
56. The significant performance areas outlined within this report, together with the overview of service KPIs and financial information contained within the appendices, give Councillors an opportunity to understand current performance and risks impacting the delivery of services to customers. Whilst the Council is continuing to deliver a comprehensive range of services there are some performance areas needing attention and rectification of these issues is important in ensuring the Council is continuing to meet customer needs.

SARAH KING
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Appendices Attached: 16

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.