

POLICY AND PERFORMANCE SCRUTINY PANEL

Thursday, 23 June 2022

CABINET

Thursday, 7 July 2022

CORPORATE PERFORMANCE REPORT

Report of the Corporate Leadership Board

Recommendation(s)

For Policy and Performance:

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

For Cabinet:

It is recommended that Cabinet:

- (2) note the performance of the Council for 2021/22 and the Council's provisional 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) approve additional capital expenditure for the Lakeside Community Facilities of £313,000 to be funded from borrowing, with the borrowing costs of £13,000 per annum to be financed from revenue growth.**
- (5) approve additional capital expenditure for Bandstand Court of £617,000 to be funded from borrowing, with the revenue costs being met by additional income.**
- (6) note the Treasury Management Outturn Position as at 31 March 2022 (Appendix O);**
- (7) approve transfers to and from reserves as per Appendix P.**

Summary

This report presents the Council's financial and operational performance outturn position

for 2021/22 against the rolling budget. The report also highlights significant and emerging financial and performance issues and progress against delivery of the Corporate Action Plan. Key Performance Indicators (KPIs) for service areas are outlined in Appendix A of the report. Service performance and financial variances are commented on in Appendices E-M.

The provisional financial position for 2021/22 is a total net favourable variance against the Rolling Budget of £463,000.

Capital expenditure for financial year 2021/22 was £48.2M compared to the Rolling Budget for the year of £48M.

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 essential to ensuring delivery against strategic objectives set out in the Council's Corporate Plan 2015-2025 and actions in the Corporate Action Plan 21/22, 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 Council's strategic ambitions, its performance working towards them, and the financial implications and challenges of both. This enables transparency of the Council's services and performance and presents a full picture of the overall position.
3. The Council performed well in 2021/22 considering the challenging environment, changes in the labour market, and customer demand. The £463,000 net underspend across all areas of the Council enables a positive reserve transfer; however, forecasting needs to become more accurate throughout the year to ensure resources are appropriately directed to delivery of services. Where areas of challenge have been identified action continues to be taken to mitigate impacts and improve performance in the short and longer term.
4. Further detail on operational delivery is included within the Executive Summary Reports [Appendices E-M].
5. The report contains, in the Appendices, details of the following:

Appendix	Description
A	Council Strategy Scorecard [Detail for P&P, Summary for Cabinet]
B	Portfolio Variance Report
C	Community Investment Programme (CIP) Monitoring
D	Financial Risk Assessment
E	Finance and Housing Executive Summary Report
F	Assets and Project Delivery Executive Summary Report
G	Governance Executive Summary Report
H	Customer Care Executive Summary Report
I	Organisational Development Executive Summary Report
J	Planning and Economy Executive Summary Report
K	Environment Executive Summary Report
L	Health and Wellbeing Executive Summary Report
M	Neighbourhood Services Executive Summary Report
N	Corporate Action Plan 21/22
O	Treasury Management Outturn Report
P	Reserves Balances

Strategic Overview

6. Planning for 21/22 was conducted with the expectation that service levels would stabilise and return to pre-pandemic levels in most areas, with the safety of staff and residents the main priority.
7. Performance overall is good considering the fluctuating patterns of customer behaviour and demand. These levels of uncertainty are reducing, but some uncertainty will persist into 2022/23 and services are already working on ensuring best possible forecasts of demand and any potential financial impact. Performance has been hampered in some areas due to labour market challenges also being experienced by many other councils. It will be important for the Council to improve and further develop its approach to prioritising and planning during 2022/23 and beyond, in order to move an optimum position that sees the Council continuing to deliver against priorities whilst being able to reasonably respond to unplanned events.
8. The [Corporate Action Plan \(CAP\) 2021/22](#) sets out the main outward-facing actions the Council planned for 21/22. Progress at Quarter 4 and for the year (shown at Appendix N) is good overall, with over half of the actions considered 'green' (completed on time), with the remaining actions considered 'amber' indicating significant progress towards completion or a slight delay to completion, often for reasons beyond the Council's control. No actions are showing as 'red' (no action taken). The closing position for the year therefore is positive with a large amount of ambitious activity successfully completed or progressing well towards completion. (Actions in Local Area Action Plans for 2021/22 are reported to Local Area Committees.)

Service Performance

9. Performance monitoring covers the full financial year 2021/22, running from April 2021 to March 2022. 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.
10. Service managers have reviewed their financial and service performance for the full year. The aggregate position of the Council is a net underspend against the approved net Rolling Budget for 2021/22 of £463,000.
11. The elements relating to the financial performance of services is detailed in the Executive Summary Reports in Appendices E-M. An outline of the key issues is detailed below [Paras 14 to 25], with the relevant Portfolio identified in bold.

12. The table below shows the summarised General Fund statement by Portfolio; a full breakdown of these variances by service is shown in Appendix B:

Portfolio Name	Revised Budget £'000	Rolling Budget £'000	Actual Outturn £'000	Outturn Variance £'000
Area Committees (Net of Gross Cost Adjustment)	1,286	2,626	2,487	138
Skills & Business	(221)	(130)	(463)	333
Environment	7,248	5,144	5,070	73
Health	2,471	1,741	1,621	120
Planning and Property	(8,937)	12,042	10,301	1,741
Social Policy	2,548	2,422	2,442	(20)
Transport	113	(141)	(511)	371
Position on Services	4,508	23,704	20,948	2,756
Non-Service Related Items	(1,704)	(20,872)	(18,579)	(2,293)
Net Position	2,805	2,832	2,369	463

13. The Revised net budget position approved in February 2022 has moved by £27,000 as the approved revenue growth for the market street units has now been loaded, creating an increased budgeted transfer from reserve of £2,832,000. It should also be noted that budgets across services have also changed to reflect statutory accounting adjustments such as valuations, pension and capital accounting requirements. These adjustments get reversed out within the non-Service related items and have no net impact on the budget.
14. The Council continued to divert resources toward the Afghan resettlement scheme in order to assist with the national emergency. Despite the pressures, core services have been maintained, and the Council continues to plan based on its best assessment of the position. During the final quarter, the Council began planning its response to the Ukrainian refugee crisis, and worked with its partners to establish service provision.
15. Like many other employers, the Council's ability to recruit has been significantly affected by the national situation and, as such, an internal review of recruitment is in progress to address this key priority for the Council. Recommendations are continuing to develop, and action has been taken during the quarter to help the position. The overall review is connected to the Council's People Strategy and so focuses on both recruitment and retention. Where required, targeted recruitment campaigns have been initiated to support hard to recruit posts and the Council has adapted where it advertises vacancies to increase visibility. The Council continues to focus on improving

its retention position to reduce the need for recruitment and to support the career development of existing staff.

16. During the quarter, the government published the 'Living with Covid' plan and ended legal restrictions in England. This led to a return toward prior levels of consumer activity, alongside a renewed spike in cases with the Omicron variant. Demand for Parking (**Transport**) and associated income greatly exceeded expectations anticipated when constructing the Revised Budget by (£298,000). The majority of this upturn was due to increased return to office working in the Borough resulting in increased day parking income, although this is still short of pre-pandemic levels.
17. Frontline services such as Waste and Streetscene Services (**Environment**) were most impacted by sickness absences while Covid-19 cases were high, which increased the pressure on existing staff and the need for alternate resource solutions, costing £136,000, to maintain service provision.
18. The emergence of the cost-of-living crisis stems from the recent spike in inflation for household expenditure such as fuel and energy costs, which is having a disproportionately detrimental effect on the most vulnerable within the Borough who spend a larger percentage of their income on these items. Service improvements, including the use of external funding and strategic solutions, are reinforcing the Council's welfare services which are already experiencing increased engagement. This includes Housing Benefit and Council Tax Support (**Social**) where claim processing times have continued to improve despite an increasing level of cases.
19. The Council has been protected throughout 2021/22 from energy price fluctuations through fixed-tariff contracts in place until March 2022. Furthermore, the volatility of the energy market has improved the Council's financial position by £81,000 where we are on a variable tariff with the off-taker, such as at Chalcroft Solar Park (**Environment**). The transition to Hydrotreated Vegetable Oil, while significantly reducing carbon emissions, has not avoided the sustained rise in the cost of fuel as prices have continued to increase. However, an increased provision has been made in the budget for continued high prices for both fuel and energy in 2022/23 which will be kept under regular review.
20. Inflation across other categories such as construction materials and vehicle parts has created pressures delivering Council activities including the delivery of capital projects. Changes to policy and supply chain management are being investigated. Project business cases are regularly assessed to ensure they remain viable.
21. Early development of process improvement and centralising the customer view by the IT service (**Planning and Property**), has brought forward expenditure, including system licences, of £183,000 earlier than planned. Whilst progress of development work remains healthy, vacancies in the infrastructure team may impact delivery timetables and create some future cost pressures due to unplanned licencing renewals. Further work is ongoing to minimise the risk.

22. The Climate and Environmental Emergency continues to be a priority for the Council. The reserve funding drawn down has been used to better establish the foundations of the Council's aspirations and to deliver the action plan. Progress has continued and the additional staff time and resources has started to move actions assessed as red, to amber. A tender process has been completed for three electric refuse vehicles and the installation of electric vehicle charging points in Eastleigh car parks will continue during 2022/23.
23. Corporate Financial Services (**Planning and Property**) is showing a favourable variance of £315,000. £215,000 of this relates to grant income which has been set aside in a new New Burdens Reserve. The remaining £100,000 additional income is from the sale of the service externally and additional duties provided to partner companies which was not envisaged in Quarter 3.
24. Following the increased speed of recommencement of Council Tax and NNDR (**Skills & Business**) debt recovery the service saw an increase of £305,000 in income from Court Costs. This will be added to the new New Burdens Reserve.
25. The recent Strategic Land purchases have proved to be very successful helping to not only deliver the Green Energy Network for One Horton Heath but also generate receipts from the sale of Nitrate Credits. These receipts total £1.5M which is showing as a surplus in Strategic Housing (**Planning and Property**). This surplus is being used to repay the debt incurred on the land earlier (para 26c).
26. Non-Service related items have resulted in a variance of £2.3M:
 - (a) Interest payable saved £224,000 against the Revised Budget. As reported throughout the year, interest rates have been on an upward trajectory as the Bank of England has tightened policy in response to increasing inflation. However, due to active treasury management, the Council has managed to both use internal resources to reduce the need to borrow externally and has also attained favourable borrowing rates at levels below the budgeted interest rate for the year.
 - (b) Interest and Investment income has also achieved a favourable position of £1.1m; the majority of this is due to a favourable variance of £800,000 on the Pembers housing development loan caused by increased sales values at Pembers, leading to increased profitability for the scheme. £10.6m of the loan for the Pembers housing development was repaid during 2021/22, leaving a remaining balance of £13.9m, which is due to be repaid through 2022/23. A loan provided to Chalcroft Solar Park Ltd to complete the purchase of the Solar Park led to £180,000 interest received for the year to 31st March 2022. This income was not budgeted due to the uncertainty around the timing of the final transfer of assets from Chalcroft Solar Park Limited to the Council. This loan has now been repaid as part of the transfer of the Solar Park into the Council and therefore the income has been

realised. Other smaller variances are attributed to general interest rates increasing throughout the year.

- (c) As detailed in Para 25, the extra Nitrate Credit receipts has enabled the early repayment of the debt (minimum Revenue Provision) of £1.5M secured against the land for nitrates. This additional payment is shown as an unfavourable variance within the Non-Service expenditure figure.
- (d) As detailed in the paragraphs above a number of additional transfers to Earmarked Reserves have been made which were not included in the budget. Within the Non-Service expenditure the transfers below have created an unfavourable position to offset the favourable positions detailed above.
- Local Area Committees £179,000
 - New Burdens Reserve £480,000
 - Interest Reserve £1,572,000

General Fund and Reserves

27. The General Fund balance is shown in the table below is in excess of the minimum balance of 10% of Net Cost of Services for the life of the plan (£1M). In addition, other earmarked reserve balances are at the appropriate levels. These are further detailed in Appendix P.

General Fund Reserve	Revised Budget £000	Outturn Position £000
Opening Balance	3,806	3,806
2021/22 movement to/(from) reserve	<u>(2,806)</u>	<u>(2,369)</u>
Closing Balance	1,000	1,437

Community Investment Programme (CIP)

28. Financing of capital expenditure during the year relied on the use of prudential borrowing. Total expenditure of £48.2m was incurred in 2021/22. Of the total capital expenditure approximately 83% has been financed from borrowing, with the majority of schemes being repaid through business cases. The remainder of the expenditure was predominantly funded through Capital Grants including the Homes England LAAC Grant for One Horton Heath (OHH), of which the final £4.1M of the £20.8M awarded was claimed and spent in 2021/22.
29. Appendix C provides a summary of the CIP budgets and actuals to the end of March 2022 across the programme boards.
30. Capital expenditure throughout the year has been predominantly incurred on Housing and Infrastructure projects. The Housing expenditure consisted of:

- £9.3M expenditure on the infrastructure works at OHH, which includes the completion of the £20.8M funding from Homes England for the LAAC grant. The OHH project has continued to progress in line with the latest business plan as reported to Cabinet in December 2021.
 - £7M for the purchase of homes at Stoneham phase 5.
 - £5M for the ongoing construction works at Bandstand Court.
 - £1.3M on Disabled Facilities Grants to residents within the Borough.
31. Capital expenditure on Infrastructure is predominantly made up of the £17M purchase of Chalcroft Solar Park Ltd within the OHH development, as well as the purchase of additional land at the Solar Park of £9.5M.
32. There has been an overspend on the Lakeside community facilities due to protracted contractual issues of £77,000 in 2021/22, with a further £236,000 anticipated in 2022/23. The contractor on the site went into administration, prior to the contractor going into administration and subsequent liquidation, the budget position was within the approved contribution although it was noted that there were significant differences between the Council's and contractor's contract valuations. These differences were in the process of being reviewed and investigated by the respective quantity surveyors at the time of administration (Oct 2016). The legal process has now concluded, and the final account has been settled. A confidentiality agreement contained within the settlement agreement prevents a detailed breakdown being publicly reported. A full breakdown of the costs will be reported internally through a confidential report to the Community Programme Board. This has led to an overspend of £313,000. This will be funded from borrowing, with the resulting borrowing costs of £12,000 to be funded from revenue growth.
33. It is also projected that additional budget will be required for the Romsey Road Housing Project of £617,000, £43,000 of which relates to the 2021/22 financial year. This overspend is due to changes to the original budget for the specification of improving fire safety and future proofing the building against impending changes to regulations. Such improvements include the removal of combustible materials, the installation of a sprinkler system in every apartment, a state-of-the-art EACIE (Evacuation Alert Control & Indicating Equipment) to serve the building and the commissioning of an EWS1 (External Wall System Fire Review certificate). This has led to a longer build time than originally anticipated that has also led to an increase in associated capitalised interest for the project. It is anticipated that final accounts for this project will be produced in the coming months, once these are finalized, an end report detailing variances to original budget will be reported to the Housing Board. This overspend will be funded from borrowing, with the resulting borrowing costs being covered by increased income on the site since the previous business case was presented to Cabinet.

34. Net income generation from the 2021/22 CIP investment portfolio was £9M, consisting of £14.8M of additional income against a cost of borrowing of £5.8M. This does not include income from the Council's housing programme which is detailed separately in this report.
35. 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 and as such reduces the in year variance against the budget.

Treasury Management

36. The Council has a very successful and active capital programme generating a large revenue surplus. Much 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 O gives a detailed review of the Annual Treasury Management outturn for 2021/22 showing the continuing success of the investment programme.
37. The overall level of borrowing for the Council increased by £21.7M during 2021/22 due to approved increases in capital spend, offset by the repayment of debt through a minimum revenue provision (MRP) and the use of internal borrowing.
38. The Treasury Management Review Group meets at least twice each year alongside regular meetings of Finance staff to review current Treasury practices. The Council is also advised by the treasury advisers Arlingclose, who provide 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.

Annual Planning Cycle and Forward Planning

39. The Annual Planning Cycle during 22/23 will help create robust and resourced Corporate and service-based plans for delivery in 23/24 and beyond, that will sit alongside the 23/24 Budget and Medium-Term Financial Plan. The Council will plan during 22/23 to take account of key Councillor ambitions, new levels of demand, changes in the regulatory and legislative environment and changes in other parts of the public sector.
40. Higher than forecast inflationary pressures may lead to both increased costs through general costs of service provision, and through an increased likelihood of higher interest rates than originally anticipated when setting the budget for 2022/23. Both issues will be discussed in detail in the quarterly performance monitoring process throughout 2022/23.

41. Whilst interest rates will cause the largest material variance to ongoing budgets, additional transfers of £1.6M to the interest reserve as part of the outturn 2021/22 process will continue to mitigate the risk from rising interest rates. An updated MTFP will be produced alongside Q1 performance monitoring for 2022/23 detailing the full impact and mitigation.
42. 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 Continuous Improvement Programme seeks to deliver both financial and non-financial efficiencies and progress will be reported quarterly to Cabinet from next financial year.
43. During quarter 1 of 2022/23 a process of engagement will begin including workshops with Senior Managers and a discussion with Cabinet in June. The Council continues to foster a culture of continuous improvement and understands that all staff will play an important role in the success of the programme. The Council will be focused on increasing established forms of income, generating new income streams, reducing costs, and making more efficient use of resources. So far, a range of ideas have been collected and the expected benefits are being assessed. The expected benefit of the ideas identified to date value circa £275,000 and that number is expected to rise following further analysis. The Council's review of recruitment and its assessment of its future ways of working are initiatives connected to the programme.

Chief Financial Officer's Statement

44. As the Council's Statutory Finance Officer, the Chief Financial Officer is required to advise the Council on all pertinent financial matters and to alert Councillors to any concerns they may have regarding the financial well-being of the Council.
45. 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 underspend, or reallocate financial resources accordingly, in order to continue to meet service level standards.
46. 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.
47. The financial performance for 2021/22 shows an underspend of £463,000, the reasons for which are explained in detail with the ESR appendix. The ESR process enable senior managers to articulate where successes and challenges are arising in their areas, and this has improved accountability through the year. There are however areas where more accurate forecasting throughout the year could have been carried out. Inaccurate forecasting, both financially and of performance, can prevent the Council from applying

resources appropriately. Where significant underspends arise, this can lead to additional service pressures and a distorted overall financial position. It is important that forecasting is improved in future monitoring exercises so that the Medium-Term Financial Plan can be as robust as possible to enable services to be appropriately resourced.

48. 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.
49. 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.
50. The Council continues to manage finances well and maintains a healthy level of reserves despite the impacts of the pandemic. However, with the uncertainties in the future economic landscape, including cost of living pressures both on the Council and our residents and businesses and further likely increases in interest rates, 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 continue to develop achievable and realistic plans to ensure continued financial stability.

Risk Assessment

51. 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

52. 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

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 which include supporting the Climate Change Programme.

Conclusion

54. 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 overall revenue position at 31 March 2022 is a favourable position of £463,000 for the full year.
55. 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 performance over 2021/22 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.

JAMES STRACHAN, SARAH KING, ANDY TRAYER, NATALIE WIGMAN
CORPORATE LEADERSHIP BOARD

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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.