GUILDFORD BOROUGH

James Whiteman
Managing Director

www.guildford.gov.uk

Contact Officer:

John Armstrong,
Democratic Services and Elections Manager
Tel:(01483) 444102

21 July 2021

Dear Councillor

Your attendance is requested at a meeting of the **CORPORATE GOVERNANCE AND STANDARDS COMMITTEE** to be held in the Council Chamber, Millmead House, Millmead, Guildford, Surrey GU2 4BB on **THURSDAY 29 JULY 2021** at **7.00 pm**.

Yours faithfully

James Whiteman
Managing Director

MEMBERS OF THE COMMITTEE

Chairman: Councillor George Potter
Vice-Chairman: Councillor Deborah Seabrook

Councillor David Goodwin	+Maria Angel MBE
Councillor Nigel Manning	+Murray Litvak
Councillor Susan Parker	^Julia Osborn
Councillor John Redpath	^Ian Symes
Councillor James Walsh	^Tim Wolfenden

+Independent member ^ Parish member

Authorised Substitute Members:

Councillor Jon Askew	Councillor Masuk Miah
Councillor Ruth Brothwell	The Mayor, Councillor Marsha Moseley
Councillor Colin Cross	Councillor Ramsey Nagaty
Councillor Guida Esteves	Councillor Jo Randall
Councillor Andrew Gomm	Councillor Tony Rooth
Councillor Angela Gunning	Councillor Catherine Young
Councillor Liz Hogger	

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QUORUM 3

Guildford Borough Council
Millmead House, Millmead, Guildford, Surrey GU2 4BB

THE COUNCIL'S STRATEGIC FRAMEWORK

Vision – for the borough

For Guildford to be a town and rural borough that is the most desirable place to live, work and visit in South East England. A centre for education, healthcare, innovative cutting-edge businesses, high quality retail and wellbeing. A county town set in a vibrant rural environment, which balances the needs of urban and rural communities alike. Known for our outstanding urban planning and design, and with infrastructure that will properly cope with our needs.

Three fundamental themes and nine strategic priorities that support our vision:

Place-making

Delivering the Guildford Borough Local Plan and providing the range of housing that people need, particularly affordable homes

Making travel in Guildford and across the borough easier

Regenerating and improving Guildford town centre and other urban areas

Community

Supporting older, more vulnerable and less advantaged people in our community

Protecting our environment

Enhancing sporting, cultural, community, and recreational facilities

Innovation

Encouraging sustainable and proportionate economic growth to help provide the prosperity and employment that people need

Creating smart places infrastructure across Guildford

Using innovation, technology and new ways of working to improve value for money and efficiency in Council services

Values for our residents

- We will strive to be the best Council.
- We will deliver quality and value for money services.
- We will help the vulnerable members of our community.
- We will be open and accountable.
- We will deliver improvements and enable change across the borough.

A G E N D A

ITEM

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

2 LOCAL CODE OF CONDUCT - DISCLOSURE OF INTERESTS

In accordance with the local Code of Conduct, a councillor is required to disclose at the meeting any disclosable pecuniary interest (DPI) that they may have in respect of any matter for consideration on this agenda. Any councillor with a DPI must not participate in any discussion or vote regarding that matter and they must also withdraw from the meeting immediately before consideration of the matter.

If that DPI has not been registered, you must notify the Monitoring Officer of the details of the DPI within 28 days of the date of the meeting.

Councillors are further invited to disclose any non-pecuniary interest which may be relevant to any matter on this agenda, in the interests of transparency, and to confirm that it will not affect their objectivity in relation to that matter.

3 MINUTES (Pages 5 - 10)

To confirm the minutes of the meeting of the Corporate Governance and Standards Committee held on 17 June 2021 (attached).

4 EXTERNAL AUDIT PLAN AND AUDIT UPDATE 2020-21 (Pages 11 - 46)

5 2020-21 AUDITED STATEMENT OF ACCOUNTS

6 CAPITAL AND INVESTMENT OUTTURN REPORT 2020-21 (Pages 47 - 114)

7 HOUSING REVENUE ACCOUNT FINAL ACCOUNTS 2020-21 (Pages 115 - 126)

8 REVENUE OUTTURN REPORT 2020-21 (Pages 127 - 150)

9 ANNUAL GOVERNANCE STATEMENT 2020-21 (Pages 151 - 172)

10 WORK PROGRAMME (Pages 173 - 182)

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CORPORATE GOVERNANCE AND STANDARDS COMMITTEE

17 June 2021

* Councillor George Potter (Chairman)
* Councillor Deborah Seabrook (Vice-Chairman)

Councillor David Goodwin
* Councillor Nigel Manning
* Councillor Susan Parker
* Councillor John Redpath
* Councillor James Walsh

Independent Members:	Parish Members:
*Mrs Maria Angel MBE	Ms Julia Osborn
*Mr Murray Litvak	*Mr Ian Symes
	Mr Tim Wolfenden

*Present

The Mayor, Councillor Marsha Moseley and Councillors Tim Anderson, and John Rigg, were also in attendance.

CGS1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillor David Goodwin, and from Julia Osborn and Tim Wolfenden.

CGS2 LOCAL CODE OF CONDUCT - DISCLOSURE OF INTERESTS

There were no disclosures of interest.

CGS3 MINUTES

The minutes of the meeting of the Committee held on 22 April 2021 were approved as a correct record. The Chairman signed the minutes.

CGS4 EQUALITY SCHEME AND ACTION PLAN

The Committee considered a report on the proposed revision to the Council's Equality Scheme and Action Plan. The key objectives of the Scheme and Action Plan were:

- to demonstrate how the Council would meet its legal obligations set out in the Equality Act 2010
- to provide a structured and easy to understand equality framework
- to ensure that the workforce encourages equality, diversity, and inclusion to help prevent legal challenges arising from bullying, harassment, and discrimination

The Committee noted that the Scheme itself was reviewed annually and updated every three years. The new scheme covered the period 2021 - 2024. The Action Plan, which was an organic document, was reviewed by the Equality and Diversity Group every quarter. This Committee monitored the implementation of the actions in the action plan annually. Ongoing monitoring of equalities issues was undertaken via equality impact assessments that were completed for any major decisions, policies, projects etc., and approved by senior management and HR. These were available for the public to view.

A revised and updated Action Plan was attached to the Supplementary Information Sheet circulated before the meeting.

During the debate, it was suggested for the future that where actions had been completed, a date should be included and, where appropriate, the date when the matter was next due for review.

Having considered the report, the Committee

RESOLVED: That the revised Equality Scheme and Action Plan shown respectively in Appendices 1 and 2 to the report submitted to the Committee, as amended by the update on the Supplementary Information Sheet, be approved.

Reason:
To assist the Council in meeting its obligations under the Equality Act 2010 and to provide a way to measure and evidence the Council's work in this area.

CGS5 CORPORATE PERFORMANCE MONITORING

The Committee considered the second Corporate Performance Monitoring Report (in relation to quarter 4 of 2020-21), which had been submitted as part of the Council's new performance monitoring framework.

The first Performance Monitoring Report presented to the Committee on 25 March 2021 had been received positively by Corporate Management Team and the Committee and had prompted a good discussion with the Committee about the Performance Indicators (PIs) and information which would be useful in future, as well as constructive feedback.

In particular, Councillors were keen for the report to include commentary where PIs were not meeting a target/not heading in the preferred direction of travel. This information had now been requested from Service Leads when they submit their PI data in their Service Plans and was included in the report where it had been provided.

Following feedback, officers had also made some changes to the report to ensure it was more clearly presented, including re-designing the RAG rating symbols to be more accessible and removing targets/preferred direction of travel when it was not relevant to the PI. Unfortunately, the report for quarter 4 was still showing some PIs without data (for a variety of reasons) and where this was due to data not being provided, Directors had been made aware.

The Committee had been invited to submit comments and questions regarding the report itself and specific performance indicators in advance of the meeting, details of which, together the officer response, were included in the Supplementary Information Sheet circulated prior to the meeting.

During the debate, the following points were made:

- Concern over the persistent lack of data provided in respect of a number of PIs
- Suggestion that future reports show performance over the previous five quarters on a rolling basis so that comparisons can be made with the same quarter in the previous year
- In response to concern expressed over the average time to let void housing properties (COM10), officers confirmed that performance in letting properties had been affected by the Covid pandemic over the past 12 months, but performance was expected to improve significantly moving forward
- In response to a suggestion that there should be a broader spectrum of environmental monitoring across the Borough, not just monitoring of Council activities or operations, officers stated that the current performance metrics represented the data that the Council was readily able to access and monitor and that work was being undertaken to develop better and wider monitoring benchmarks. Further information on how these metrics were being developed would be shared with councillors.

The Committee, having reviewed the report

RESOLVED: That the contents of the report along with the Performance Monitoring Report for 2020-21 quarter 4, shown in Appendix 1 thereto, be noted.

Reasons:
To support our new corporate performance monitoring framework and enable the Committee to monitor the Council's performance against key indicators, as well as review key data relating to the 'health' of the borough.

CGS6 AUDIT REPORT ON THE CERTIFICATION OF FINANCIAL CLAIMS AND RETURNS 2019-20: HOUSING BENEFIT SUBSIDY AND POOLING HOUSING CAPITAL RECEIPTS

The Committee considered an audit report on the certification of financial claims and returns for 2019-20.

The audit covered claims returns relating to expenditure in respect of Housing Benefit Subsidy worth £27.6 million. However, it was noted that the pooling of Housing Capital Receipts for 2019-20 had not been received at the time this report had been written.

The auditor had provided assurance to the Department for Work and Pensions (DWP) around the accuracy of the Subsidy claim. This recompensed the Council for payments to help residents on low incomes with their rent.

The Committee noted that the DWP did not have a financial tolerance level, so any errors were reported. This led to the claim being qualified and would result in additional testing in subsequent years. The more records that were tested, the more likelihood there was that an error would be identified.

The Council's subsidy claim had been qualified since 2012-13. Statistics on qualified subsidy claims were not routinely published. However, in 2012-13 over 77% of claims were qualified, indicating that Guildford was not an unusual case.

Whilst the auditors found a new error type during their audit, the overall errors in 2019-20 remained low and no amendments had been made to the Council's claim. As had been the case in recent years, this meant that the Council did not have to pay funds back to the DWP as a result of the audit.

The Committee acknowledged that it remained challenging to balance capacity, speed, and accuracy to ensure that claimants received the help they required whilst not exposing the Council to an increased financial risk as a result of errors. It was noted that the Council had provided the DWP with assurance that it would continue to work to reduce errors further.

In response to questions from the Committee, the officers confirmed the following:

- It was the DWP's responsibility to migrate claimants out of the existing system into Universal Credit, rather than the Council's, and that the process by which this would be done had not yet been clarified.
- As housing benefit subsidy would cease to apply for cases that moved to Universal credit, it was likely that the Council's claim would be less prone to errors as the case load would be reduced.
- Although Future Guildford had automated many processes across the Council, and a smart form had been produced for housing benefit claimants, the processing of housing benefit claims was not fully automated. As the introduction of universal credit, to replace housing benefit, had been delayed by the DWP the Council had not invested in any further smart forms as part of Future Guildford, so it was not likely that this would lead to a reduction in errors in future.

Having considered the report, the Committee

RESOLVED: That the position regarding the certification of claims and returns for 2019-20 be noted.

Reason:
To formally sign off the claims and returns for 2019-20.

CGS7 HOUSING REVENUE ACCOUNT (HRA) RIGHT TO BUY RECEIPTS AUDIT REPORT

The Committee considered the audit report from KPMG regarding the HRA Right to Buy receipts audit, which followed on from the report to the Executive on 23 March 2021, on a review of the use of the right to buy capital receipts by the Council. The review had reported that, in 2019-20, the Council had to repay Right to Buy (RTB) receipts plus interest to government totalling £2.7million. The reason for the repayment was because the Council had not spent the money on its new build housing investment programme in the HRA within the required time frame. Although the Council had acquired property to try and mitigate some of the repayment risk, it had not spent enough money on acquisition of property into the HRA to mitigate all of the repayment risk. The report showed that the Council had seen slippage in the region of 56% to 72% on its Housing Investment Programme (HIP) in recent years which continued into 2020-21.

The HIP was funded 30% through RTB receipts (with the remaining 70% being funded either through HRA reserves or, if necessary HRA borrowing) and as such, any slippage in delivery had a direct impact on the risk of having to repay receipts to government. The review had found that, in order to avoid this risk going forward, the Council needed to improve both the monitoring and the delivery of its Housing Investment Programme. The Executive had set up an Executive working group to consider why RTB receipts needed to be repaid to government, the reporting arrangements around the matter and what could be done to prevent further repayments. Alongside the working group, the Council's internal auditors, KPMG had been asked to carry out an audit of the monitoring and use of RTB receipts, and the findings were presented in the audit report submitted to the Committee.

The audit report had made seven recommendations which had been accepted by officers for implementation. The highest priority of the recommendations was to establish a formal policy around Right to Buy Receipts and their use. This proposal had been recommended to the Executive at its March meeting; however, KPMG had recommended that the policy should also set out the roles and responsibilities, accountability and ownership for the spending and monitoring of RTB receipts. Officers indicated that the policy would be submitted to the Executive for approval in September 2021.

KPMG had found that some, but not all, of the recommendations made to the Executive in March had been implemented. The improvements to the financial monitoring reports to this Committee had been implemented immediately. However, improvements to the monitoring and reporting of progress on projects identified as being partially funded through RTB receipts by the Major Projects Portfolio Board and the establishment of a Housing Working Group were still to be implemented. KPMG had also made some additional recommendations relating to the training of officers and risk management processes.

The report highlighted one minor correction to the KPMG report in relation to the detailed findings, which was to clarify that the Council's Housing Team used RTB receipts to purchase new properties or re-purchase properties formerly sold under right to buy for the Council's Housing Revenue Account.

The Committee noted with deep disappointment at the fact that this situation had arisen in the first place, but expressed cautious optimism with the efficacy of the measures that had been put in place, or were being put in place, to prevent the recurrence of having to make further

repayments of RTB receipts. The Committee also indicated that it would wish to be kept informed of progress with the implementation of all the recommendations by way of further update reports.

The Committee, having reviewed the audit report from KPMG in respect of this matter,

RESOLVED: That the accepted recommendations and actions be noted.

Reason:
To ensure good governance arrangements and internal control.

CGS8 REVIEW OF TASK GROUPS REPORTING TO THE COMMITTEE

The Committee noted that Council Procedure Rule 24 (v) required the appointing body to review annually, the continuation of task groups appointed by them. Although the Councillors' Development Steering Group had been set up originally as an Executive working group, it was agreed in 2015 that the Steering Group, which met quarterly, would report on its work to this Committee.

The Corporate Governance Task Group had been established by the Committee in November 2019 to review a number of corporate governance related matters and had met on ten occasions in 2020-21, and twice already in 2021-22.

The Committee considered a report which reviewed the work carried out by the Steering Group and the Task Group over the past twelve months, and the work they were likely to undertake over the next twelve months. The Committee was asked to agree that the two Groups should continue with their important work and that all five political groups should be represented on them.

Having considered the report, the Committee

RESOLVED:

(1) That the Councillors' Development Steering Group should continue its work and that the numerical allocation of seats on the Steering Group to each political group be agreed as one member per group (plus a nominated deputy) as follows:

Cllr Colin Cross
Cllr Angela Gunning
Cllr Jo Randall
Cllr Pauline Searle
Cllr Catherine Young

(2) That the terms of reference of the Steering Group be amended as follows:

"To continue to support councillors in their ongoing development and training needs through a clear, structured Action Plan for councillor development that responds to the ***corporate priorities of the Council*** ~~fundamental themes that support the vision of the Corporate Plan: Place-making, Community and Innovation.~~"

(3) That the Corporate Governance Task Group should continue its work and that the numerical allocation of seats on the task group to each political group be agreed as one member per group (plus a nominated deputy) as follows:

Cllr Nigel Manning
Cllr Ramsey Nagaty
Cllr Will Salmon
Cllr Deborah Seabrook

Cllr James Walsh

(4) That the following matters be added to the work currently being undertaken by the Task Group in considering proposals to promote transparency, and effective communications and reporting:

To discuss and consider:

(a) the Council's Constitution regarding the definition and processes for 'Key Decisions' so that any bids, tenders or other activities that may lead to key decisions in future are included in the Forward Plan or communicated to relevant Ward Councillors in a sufficiently timely manner for transparency;
(b) how we can ensure that any meetings involving lead councillors, officers and the private sector are minuted and available in the public domain; and
(c) steps we can take to ensure that any failings in transparency or procedure are communicated to the public by the Council as soon as identified.

(5) That the membership of the Corporate Governance Task Group shall continue to include a co-opted Independent Member (Murray Litvak) and a Parish Member (Julia Osborn) of this Committee.

Reasons:

- To recognise the important work that both groups undertake in respect of councillor training and development and reviewing various corporate governance related matters on behalf of this Committee.
- To comply with the requirement for this Committee to review the continuation of the Councillors' Development Steering Group and the Corporate Governance Task Group, in accordance with Council Procedure Rule 24 (v).

CGS9 WORK PROGRAMME

The Committee considered its updated 12 month rolling work programme and

RESOLVED: That the updated 12 month rolling work programme, as set out in Appendix 1 to the report submitted to the Committee, be approved.

Reason:
To allow the Committee to maintain and update its work programme.

The Chairman announced that this meeting would be the last for Bridget Peplow, before she leaves the Council, having been with Guildford for the past 14 years.

On behalf of the Committee, the Chairman thanked Bridget for all her hard work during her time with the legal team, and latterly as Deputy Monitoring Officer, and wished her well for the future.

The meeting finished at 9.24 pm

Signed ..... Date .....

Chairman

Corporate Governance and Standards Committee Report

Report of the Director of Resources

Author: Claire Morris

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Lead Councillor responsible: Tim Anderson

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Date: 29 July 2021

External Audit Plan 2020-21

Executive Summary

The Council's external auditors, Grant Thornton, have prepared their annual audit plan for 2020-21. The plan is attached as Appendix 1**,** it details the programme of work that Grant Thornton intend to carry out during 2020-21, the approach they will adopt and significant risks that they will review as part of the audit. Pages 25 and 26 of the audit plan details the fee that Grant Thornton will charge in respect of the external audit of the Council. The scale fee for the core audit, which is published by Public Sector Audit Appointments (PSAA) Ltd of £44,300, has not changed since 2018-19. However, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating. This has led to additional work being required. The revised fee for 2020-21 will be £80,300 for the core audit. A further fee of £24,000 is estimated for the audit of grant claims as set out in page 27 of the audit plan (Appendix 1).

PSAA are responsible for appointing an auditor to principal local government and police bodies that have chosen to opt into its national auditor appointment arrangements. At its meeting on 6 December 2016, the Council resolved to opt-in to the appointing person arrangements made by PSAA. Grant Thornton UK LLP was successful in winning a contract in the procurement process and were recommended by PSAA as the Council's auditors for a period of 5 years from 2018-19. This appointment is made under Regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and was approved by the PSAA Board at its meeting on 14 December 2017 and by Council on 10 April 2018.

PSAA have recently consulted on their draft prospectus for public sector audit from April 2023. As part of the exercise the Council will need to decide in the autumn if it wishes to be part of the national procurement exercise or whether it wishes to undertake its own procurement exercise and set up an independent auditor appointment panel.

Recommendation to Committee:

That the Committee approves the external audit plan submitted by Grant Thornton, attached as Appendix 1 to this report, including the audit fee set out on page 25, and makes any comments it feels relevant.

Reason(s) for Recommendation:
To enable the Committee to consider and comment on the planned audit fee, work programme and update report

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

1.1 This report provides a summary of the proposed external audit fee and the work programme for the audit of the 2020-21 accounts, value for money opinion and the grant certification work as set out in the audit plan attached at **Appendix 1**. Officers recommend that the Committee notes the fee and makes any comment that it feels relevant.

2. Strategic Framework

2.1 The annual audit by Grant Thornton underpins the achievement of all of the Corporate Plan key priorities. In particular the key priority of Using innovation, technology, and new ways of working to improve value for money and efficiency in Council services.

3. Background

3.1 During 2017, the audit of local government bodies was retendered by Public Sector Audit Appointments (PSAA) Ltd. As a result, Grant Thornton were appointed as the Council's auditors for a 5-year period from 2018-19 by the PSAA board at its meeting on 14 December 2017 and by this Council on 10 April 2018.

3.2 The fee for the 2020-21 core audit will be £80,300, the audit fee is an increase from the 2019-20 final audit fee of £66,657. The audit plan at **Appendix 1** contains details of the scope of work covered by the core audit fee.

3.3 The external auditor charges a separate fee for Grant Certification and non-audit related work. The indicative fee for 2020-21 of the non-core audit work is expected to be £24,000 as set out on page 27 of **Appendix 1**. The actual fee charged may vary from the indicative fee, depending on the level of work necessary to complete the grant certification work. The certification work covers the audit of the Housing Benefit Subsidy Claim, and Pooling of Capital receipts.

3.4 The overall fees to be paid to Grant Thornton for 2019-20 will be £104,300 taking into account all elements of work.

4. Financial Implications

4.1 There is budget provision of £50,550 in the 2021-22 estimates for the audit fees; however, the fees proposed represent a significant increase to what has been budgeted. This will place a cost pressure on the Council which will need to be managed through a virement process to ensure the budget is increased to a sufficient level for 2021-22. A growth bid will be required for the audit fees for 2022-23.

5. Legal Implications

5.1 Section 4 of the Local Audit and Accountability Act 2014 ('the Act') states that the accounts of a relevant authority for a financial year must be audited:

a) in accordance with the Act and provision made under it, and
b) by an auditor (a "local auditor") appointed in accordance with the Act or provision made under it.

5.2 Section 20 (5) of the Act states that a local auditor must, in carrying out the auditor's functions in relation to the accounts of a relevant authority, comply with the code of audit practice applicable to the authority that is for the time being in force. The current code of practice for UK Local Government is the 'Code of Audit Practice 2020' issued by the National Audit Office (NAO). The code adopts the International Standards of Auditing (ISAs) as issued by the FRC (Financial Reporting Council).

5.3 The document known as 'ISA 260 (International Standard on Auditing 260) (Revised), Communication with those charged with governance', requires the auditor to outline the audit strategy and plan to deliver the audit.

5.4 Section 7 of the Act requires a relevant authority (such as this Council) to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for this appointment, including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

5.5 Paragraph 1 of Schedule 3 to the Act also provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

6. Human Resource Implications

6.1 There are no human resource implications to the report

7. Conclusion

7.1 The report outlines Grant Thornton's external audit plan for 2020-21.

8. Background Papers

None

9. Appendices

Appendix 1: Grant Thornton: External Audit Plan for Guildford Borough Council year ended 31 March 2021

Grant Thornton

External Audit Plan – Guildford Borough Council

Year ending 31 March 2021

Agenda item number: 4
Appendix 1

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

Factors	Our response
Impact of COVID-19 pandemic The Covid-19 pandemic has impacted the Council's financial position during 2020/21. As reported to your Corporate Governance and Standards Committee in January 2021, direct costs related to the pandemic of £2.9m are offset in part by Government Grant of £2.2m however there are additional Covid related costs that create a cost pressure of £3.3m. The reduction of income from fees and charges of £7m is mitigated in part by being able to claim £4.5m from the government compensation scheme. The combined impact is a £8.2m increase in net expenditure as forecast at the end of Month 8. The Council has continually monitored the merging situation and its impact on the Council finances throughout the year and updated Members as new information has become available via regular budget monitoring. As at November 2020, the cumulative budget gap of £4m for the period 2021/22 to 2024/25. Taken together there is pressure on the Council's reserve position. The Council has received a number of covid-19 related grants from Central Government to mitigate some of the additional pressures experienced in responding to the pandemic locally, which have been incorporated into the budget and medium term financial strategy.	At this time we have not identified a specific COVID-19 significant audit risk (as we did for Local Government audits in 2019/20 which covered a number of risks including the availability of Council staff to produce accounts, year end stock take completion and valuation uncertainties in relation to land and buildings). We will revisit this assessment should the current pressures the sector faces continues and impacts year end accounting and auditing processes. We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.

Key matters

Factors	Our response
Accounting and auditing developments On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach: • A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness • More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach • The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty or require significant judgement. Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8 . As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this. In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the COVID-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pooled property funds which impacted both the Council's and Pension Funds position. We will monitor the position for the 31 March 2021 valuations.	As part of our planning work, we considered and concluded there were not any risks of significant weakness in the council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have identified a number of areas of focus to update our understanding of the Council's arrangements as set out at page 17. The revisions to the standard have been incorporated into our audit approach and methodology. We have already identified the material accounting estimates likely to be impacted by the new auditing standard and will work with management to agree the information required and the disclosures required in the financial statements. We will continue to provide you with sector updates via our Audit Committee updates. We will liaise with the Council's valuer to clarify any potential material uncertainties in 2020-21.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Guildford Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *Terms of Appointment and Statement of Responsibilities* issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Guildford Borough Council. *We draw* your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Corporate Governance and Standards Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Corporate Governance and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of North Downs Housing Limited. We have considered our approach the components of the group on the following page.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue cycle includes fraudulent transactions (risk rebutted)
- Fraud in expenditure recognition
- Management override of controls
- Valuation of land and buildings including investment properties
- Valuation of net pension fund liability
- Implementation of a new general ledger system

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £2.52m (PY £2.2m) for the group and £2.5m (PY £2.1m) for the Council, which equates to 1.9% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.125m (PY £0.1m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness: We will continue to review and update our risk assessment over the course of the audit.

Audit logistics

Our planning and risk assessment visit took place in April, remotely, and our final visit will take place in September, with dates to be confirmed. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit is £80,300 (PY: £66,657). The fee subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Guildford Borough Council	Yes	Comprehensive	• Risks identified on proceeding pages.	Full scope audit performed by Grant Thornton UK LLP
North Downs Housing Limited	Yes	Specified audit procedures	• Valuation of Property assets, long term debtors and investments as at 31 March 2021	Specific scope procedures on Property valuations, long term debtors and investments to be performed by Grant Thornton UK LLP.
Guildford Borough Council Holdings Limited	Yes	Analytical Only	• None – we understand that this is a holding company only	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

We have confirmed via discussion with officers that the group structure remains consistent with the prior year. The Council controls North Downs Housing Limited and its parent company Guildford Borough Council Holdings Limited through its ownership of 100% of the shares of Guildford Borough Council Holdings Limited.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk Relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council	Under ISA 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and nature of the revenue streams at Guildford Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Guildford Borough Council, mean that all forms of fraud are seen as unacceptable	We do not consider this to be a significant risk for Guildford Borough Council.
Fraud in expenditure recognition	Council	As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results with the aim of reducing the impact on declining reserves. We have rebutted the risk in relation to other expenditure streams.	We will: • inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period; • inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; and • investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	Under ISA (UK) 240 there is a non rebuttable presumed risk that the risk of management override of controls is present in all entities. You face external scrutiny of your spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings (including investment properties)	Group and Council	The group revalues high value fixed assets on an annual basis and the remainder of assets on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£781 million and £153 million of investment properties in 2019/20) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuation was carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation; • test revaluations made during the year to see if they had been input correctly into your asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	Your pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£114 million in your balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Surrey County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.
Incomplete or inaccurate financial information transferred to the new general leader	Group and Council	In July 2020, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Complete an information technology (IT) environment review by our IT audit specialists to document, evaluate and test the IT controls operating within the new general ledger system • Map the transfer of data to ensure accuracy and completeness of the financial information

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for grant revenues and expenditure correctly	Council	The Council (similar to all other local authorities) has been the recipient of significant increased grant revenues in 2020/21 relating to Covid-19. Some of these grants relate to the Council, and others are grants which should be passed onto other entities. The Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on that decision how the grant income and amounts paid out should be accounted for.	We will: • Discuss with management and understand the different types of material grants received during 2020/21 and what the conditions are in the grant agreements; • Understand the conditions for payment out to other entities; • Therefore understand whether the Council should be acting as agent or principal for accounting purposes; and • We will test material grant revenues to see whether the Council has accounted for these correctly.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We did not identify any issues or recommendations in our 2019/20 audit in relation to the Council's estimation processes.

Introduction

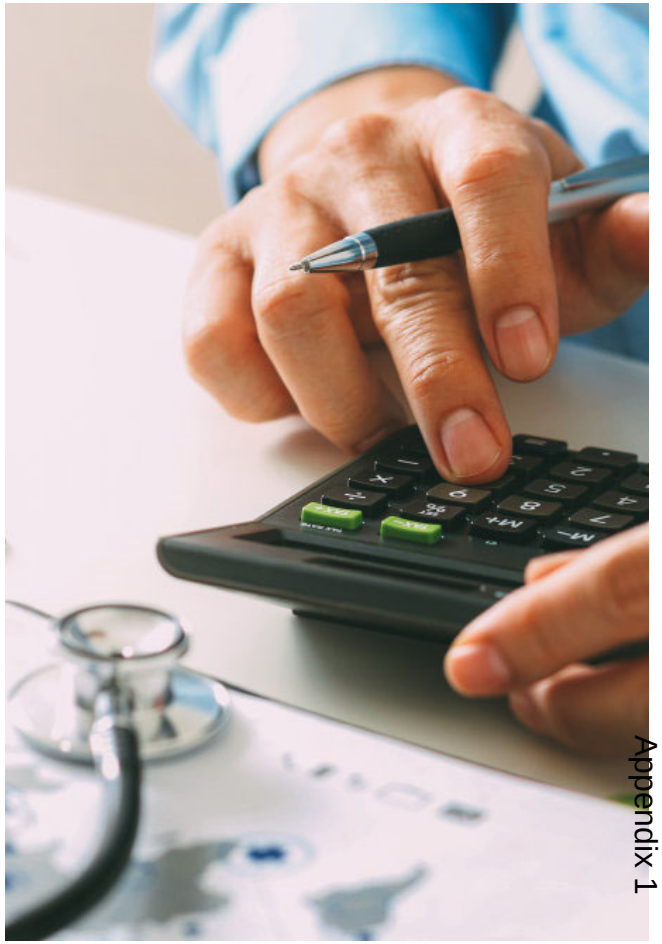
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Corporate Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Business rates appeals provision
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates (level 2)

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

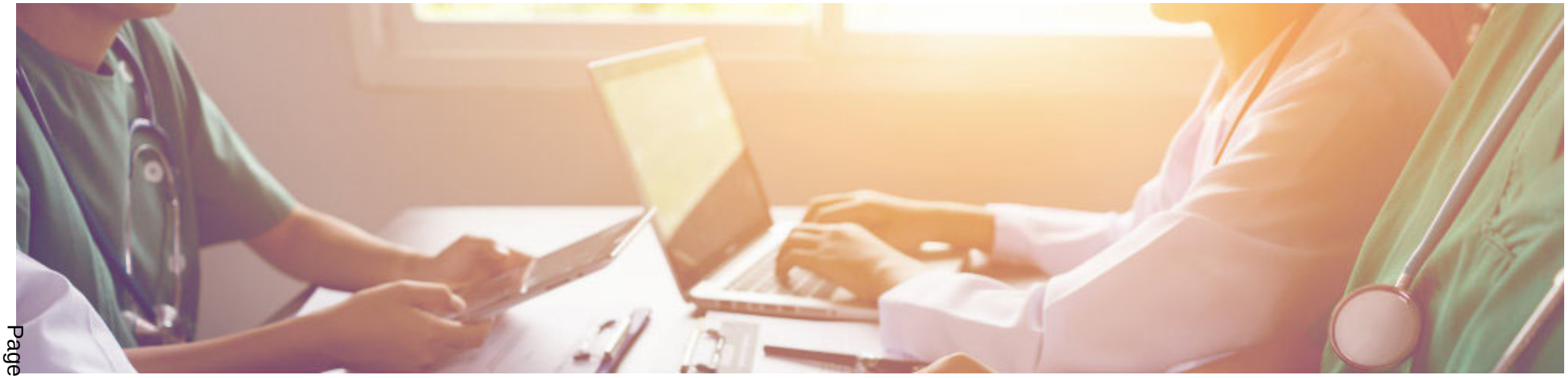
- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Accounting estimates and related disclosures



Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainly is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to the management that will be shared with the Corporate Governance and Standards Committee for approval.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 17). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations, however our year end work on the financial statements will confirm if these issues have been fully addressed.

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	Ongoing	**Other land and Buildings - Guildford Lido valuation** We identified that this asset was valued at 31st January 2020 for the 2019/20 accounts however, the previous valuation was completed at 1st April 2014. Therefore this asset was not revalued for over 5 years. The Code stipulates that all assets have to be revalued by a LG authority at least every 5 years. The asset had a brought forward valuation of £800,000 and a closing valuation of £2,224,000. There is a risk that the brought forward balance not revalued is different to its actual value at that time by a non-trivial amount.	Management sought confirmation from the valuer and confirmed that, although the latest valuation was performed at 31 January 2020, a supplementary valuation was performed as at 1 April 2019, within the five year window.
Medium	Ongoing	**Investment Properties – Haydon Place** We identified that one asset - Haydon Place - was classified as an Investment Property by the client but the valuation was completed as if it was an operational property. We obtained an understanding of why this was - the client instructed the valuer in 2018/19 to value it as an operational property for the 2019/20 accounts based on the plans for the new lease. However, this fell through but the valuer wasn't informed, meaning the basis for this valuation was incorrect. We requested that the client obtains an investment property valuation for this asset. The value of the property in the draft financial statements is £585,000. There is a risk that, under a different valuation basis, the asset would have a non-trivially different value.	Management sought confirmation from the valuer as to whether the asset would have a different value if it had been valued as an investment property; the estimate provide indicates the estimated different to be between 2.5% to 5.0% of the asset's value. This initial assessment would not indicate a material risk noting the valuation of the asset and the fact that the range of uncertainty is below our triviality threshold.

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	Ongoing	**HRA Dwellings disposed but not removed from asset register** From the work on the Dwellings (housing) we identified 2 HRA properties were not revalued this year. On review, these were not included in the revaluation schedule because these were equity share assets for which the last part-disposal had taken place, and GBC no longer owns these assets - they should have been taken off the fixed asset register but were not. The total value of these assets is £165k, therefore the Dwellings is overstated by £165k, this is above trivial but not material, and has been identified as an unadjusted misstatement.	Finance will liaise with housing at the end of the financial year to double check the share properties tie in with the asset register.
Medium	Ongoing	**Debtors / creditors journals posted after accounts closure** The audit work on debtors and creditors revealed that the transaction listings for debtors and creditors did not match the amounts disclosed in the financial statements. Further investigation revealed that journals to record revenue from collection funds and for business improvement district charges were entered in the revenue accounts correctly, however, the corresponding entries to the receivables and liability accounts were not recorded before publication of the first draft of financial statements. Journals had not gone through at time accounts were drafted and so had to be posted as correcting journals.	Finance aim to return to the 31 May date for preparing the draft SOA and all journals will be posted in the preparation as has happened in previous years.
Medium	Ongoing	**Grants document retention** In sample testing revenue from grants, we could not verify two sample items due to missing documentation. The client was not able to provide the audit team with source documentation to verify the occurrence and accuracy of the revenue recognized from the two sample items. We were advised that this was due to information that had not been recorded prior to the transition to Business World combined with the fact that these both related to historic grants with an ongoing income element. This generated a sample error of £552k which, though not material, is non-trivial.	Accountants are obtaining copies of agreements as and when grants are received so we have the information to hand when we close the accounts.

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	Ongoing	**Group Accounts – preparation arrangements** The draft group accounts were presented for audit on 25th November 2020, late in the audit process. The underlying workings provided did not enable the auditor to reperform management's consolidation process, particularly over intra-group eliminating entries, meaning additional audit time was required to understand and reperform management's consolidation process. Part of the reason for this is that the workings were essentially presented as two separate consolidation processes, one between North Downs Housing Ltd and Guildford Borough Council Holdings Ltd (GBCH) and another between GBCH and the Council. This two tier manual approach increases the risk of error and version control issues (which was found to be a problem). In addition, there was no documented review process or timetable for the group accounts, which should be produced at the same time as the Council's accounts as they align to the same statutory publication deadline. While no significant quantitative errors were noted, it is recommended that the production and review process be enhanced. It is acknowledged that this is the first year that Group Accounts have been produced and that this may have contributed to the delay and method in producing them; getting the process more systemised will benefit the Council in future years particularly if there are changes or expansions to the Group structure.	Additional resource has been created in the finance team who is responsible for company accounts which will enable the accounts to be prepared in a more timely fashion and allow more time to be spent on the consolidation.
Medium	Ongoing	**Related party declarations not received** As part of our testing over related party transactions, we identified that declarations were not received from 7 councillors. As per discussions with the Deputy CFO, to ensure that the Council has not omitted any material related party transactions from disclosure, a review of the prior year declarations is made and an assessment as to whether there is expectation for material transactions to have occurred in the current year is made. While this process and our work performed did not identify any unidentified related parties, receipt of declarations from councillors remains a key tool for the Council to identify related parties and so compliance in this area needs to be enhanced.	This was more tricky this year with remote working. In future, we will be able to work with Councillors at committee meetings so should have a higher return rate

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	Ongoing	**Finance team capacity** A high volume of misstatements and adjustments appeared to stem from finance team capacity and errors made prior to the draft accounts being produced. A high volume of working papers initially provided, and evidence subsequently provided, did not initially meet our audit evidence requirements. In addition, key items such as the group accounts were not made available until very late in the audit process (25 November).	With the aim to prepare the draft accounts by the end of May, and the Audit for 20/21 likely to start from July, the finance team will have more time to spend on increasing the quality of working papers, with more cross referencing.
Medium	Ongoing	**Treasury management working papers** The initial treasury management working papers had the following did not tie back to the amounts disclosed in the accounts and were as such unsuitable for completing our testing. As such revised working papers were required, which were provided on 21 January 2021	Many discussions on the treasury management transactions we had throughout the whole audit process, there were only a couple of outstanding items that were resolved in January, the majority were resolved much earlier in the audit. We will ensure the working papers are better cross referenced in future.
Medium	Ongoing	**Unrecorded liabilities** As part of our review of post year end supplier payments we identified two transactions which had not been recorded as liabilities prior to year end despite these relating to 2019/20 goods or services. While the value of these was not material (and management have accepted these as an unadjusted misstatement). While we note the disruption caused by the onset of Covid-19 restrictions at year end (March/April 2020 cut-off) may have impaired the Councill's ability to effect normal processes we recommend that the root causes of the unprocessed invoices are identified and addressed.	This does depend on whether invoices are in dispute, held up or not received/paid in time during the closing process (which is what happened with one of these transactions). With the introduction of Business World, we are now operating a Purchase Order process so we hope this will mitigate this issue. Finance do also review the new year payments and will accrue for any that managers haven't accrued for and this process will continue.

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Low	Ongoing	**Fully amortised assets** We established that several assets in the intangible assets register have reached their full useful economic lives. These assets appear in the intangible assets register with nil net book values. There is need for the Council to put in place measures to ensure that intangible assets that are reaching/have reached their full economic useful life are evaluated and appropriate action is taken to either revise estimates or clearly show that these assets are no longer in use in the intangible assets register.	Finance will review the assets on the asset register
Low	Ongoing	**Accounts payable document retention** For one of our accounts payable sample, the Council were not able to provide a supplier invoice. The root of this finding was an absence of synchronisation between the ledger and the housing management system (Orchard). We have gained assurance that the amount represents a creditor at year end and that the service the expenditure relates to took place.	Since the introduction of Business World, the way we process invoices has changed. This should help with the source documentation being available. From 1/4/21 Orchard invoices will be dealt with differently to currently, and PO's will be raised in BW as well as Orchard.
Low	Ongoing	**Employee starters contracts** From the testing of starters and leavers as part of the procedures on Employee Benefit Expenditure, we identified two starters in the 2019-20 financial year where the employee did not sign their contract. HR's view is that if they start the employment they agree to the terms implicitly. Although this practice is not uncommon, we identified that beyond this there are no specific mitigations against having unsigned contracts. Our work did not identify any issues with respect to the validity, value or accurate processing of the HR data contained within. All forms had been correctly signed by HR.	The starter process is being reviewed as part of the transformation programme and the implementation of the new ERP.
Low	Ongoing	**Fully depreciated assets** We established that several assets in the fixed asset register have reached their full useful economic lives. These assets appear in the fixed asset register with nil net book values. There is need for the Council to put in place measures to ensure that assets that are reaching/have reached their full economic useful life are evaluated and appropriate action is taken to either revise estimates or clearly show that these assets are no longer in use in the fixed asset register.	Finance will work with the Asset team to review these assets in the asset register.

Progress against prior year audit recommendations

Assessment	Progress	Issue and risk previously communicated	Update on actions taken to address the issue
Low	Ongoing	Leases (2017/18) We recommend that management ensure that the classification of leases are monitored on an ongoing basis and that the classification and subsequent financial reporting treatment is consistent with the underlying nature of the transaction. This will be particularly relevant given the adoption of a new accounting standard IFRS 16, which will apply to public sector bodies for periods starting on or after 1 April 2021 (in the case of Guildford, financial year 2021/22)	Management planned to review the lease treatment of assets held on the asset register as part of their preparation for IFRS 16. The delayed implementation of IFRS16 has delayed management's action
Low	Ongoing	IT access (2017/18) All logical access within financially critical systems belonging to leavers should be revoked in a timely manner upon their departure from the Council. Security/System administrators should be provided with (a) timely, proactive notifications from HR of leaver activity for anticipated terminations and (b) timely, per-occurrence notifications for unanticipated terminations (e.g. monthly rather than quarterly). Security/system administrators should then use these notifications to either (a) end-date user accounts associated with anticipated leaver's date or (b) immediately disable user accounts associated with unanticipated leavers.	As part of the Future Guildford transformation project, the Council will consider changing its HR policies on recording employees regardless of the route for engagement and the use of Selima as the authoritative identity source which can be automatically linked to account provisioning and management. The implementation of the ERP system was delayed from April 2020 to August 2020 due to COVID 19. The new system does record all employees engaged by the council regardless of their engagement (i.e. employee costs and details are based on person not position) however the workflows relating to the starters and leavers process within the new system are still being reviewed with the aim of updating the workflow by the end of March 2021.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

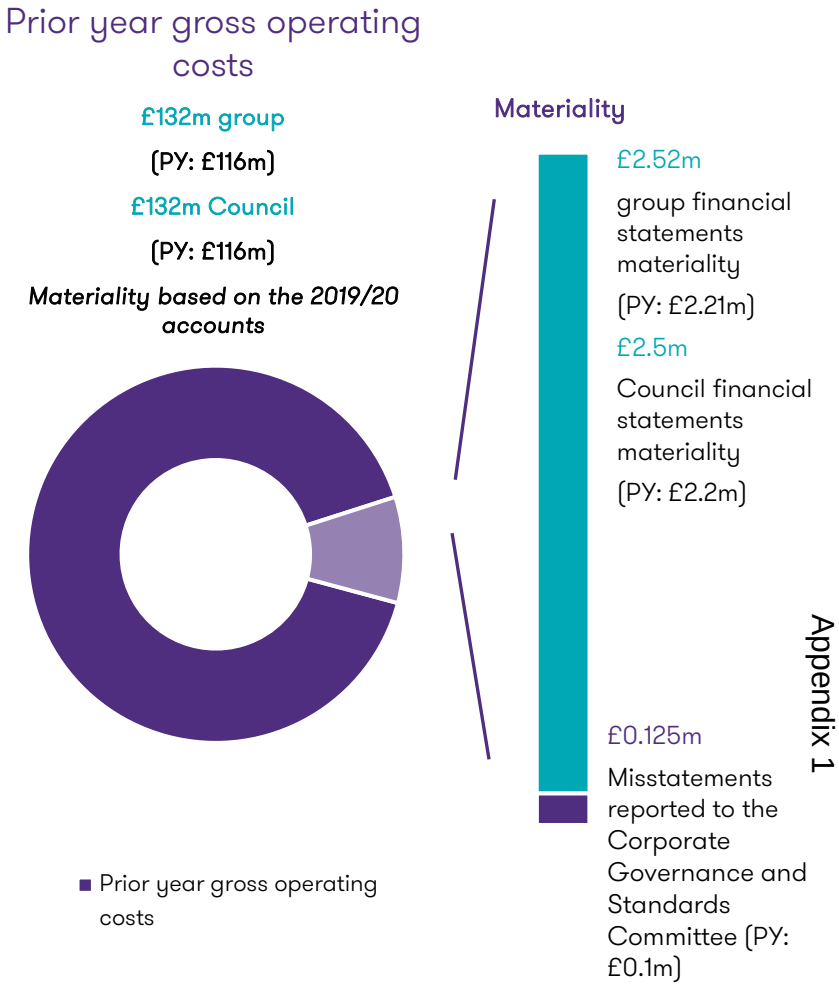
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £2.52m (PY £2.21m) for the group and £2.5m (PY £2.2m) for the Council, which equates to 1.9% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision, however given the low value of the triviality figure for the Council we are satisfied this will capture misstatements at a sufficient level across the accounts.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Corporate Governance and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.125m (PY £0.1m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Standards Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out to the right:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements, we have highlighted further key areas of focus which are listed below. We may be required to raise recommendations as a result of our findings. The potential different types of recommendations we could make are set out in the second table below.

As part of our planning work, we have considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We have:

- Met with your senior officers to discuss the current risk profile and outlook for the Council and to discuss and understand any recent changes to the Council's arrangements for securing VFM;
- Reviewed publicly available reports and documentation (including minutes of all significant Council meetings), relating to both financial and operational areas of the Council's functions;
- Reviewed risk registers to understand the Council's own view and assessment of the severity of the risks it faces in the current unprecedented times.

We have not identified any risks of this nature from our initial planning work. However we have identified some specific areas of focus where we will need to obtain a deeper understanding of your arrangements in our ongoing detailed work, these are:

- The reasonableness of the assumptions underpinning the medium term financial plan from 2021/22 onwards;
- The Council's arrangements for addressing the identified gap of £6 million;
- The Council's arrangements for delivering Future Guildford, a major transformation programme;
- The Council's governance arrangements over North Downs Housing and the investment of a further £5 million in 2020/21; and
- The Council's arrangements to deliver the substantial capital programme where the 2020/21 budget was £181 million and slippage of £42 million has been experienced.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Should this additional work identify risks of significant weakness then we may need to make recommendations following the completion of our work.

The potential different types of recommendations we could make are also set out below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

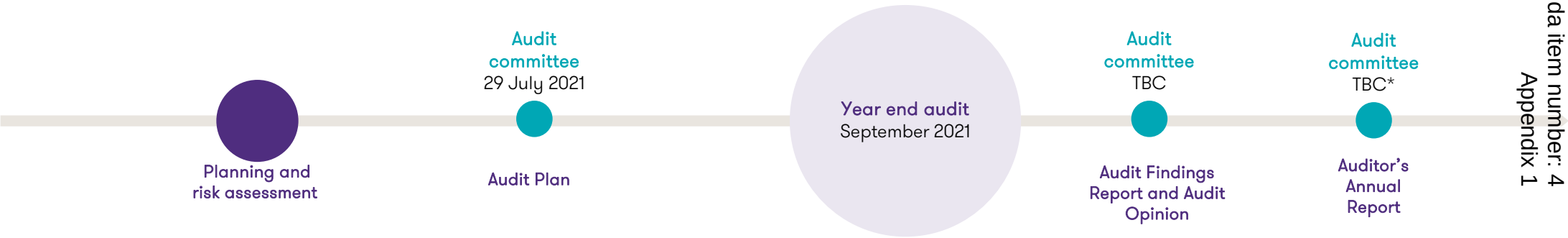
Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Paul Cuttle, Engagement Lead

Responsible for overall client relationship, quality control, provision of accounts opinions, meeting with key internal stakeholders and final authorization of reports. Attendance of Corporate Governance & Standards Committee meetings supported by Manager as required.

Emily McKeown, Audit Manager

Emily will work with the senior members of the finance team ensuring the delivery of the final accounts audit and VFM conclusion. Emily will attend Corporate Governance and Standards Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

*NAO Guidance has advised that the Auditor's Annual Report can be provided up to 3 months after the signing of the audit opinion.

Audit fees

In 2018, PSAA awarded a contract of audit for Guildford Borough Council to begin with effect from 2018/19. The fee agreed in the contract was £44,300. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 22, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21 is set out below and detailed overleaf. As part of its response to the Redmond Review in December 2020, MHCLG committed an extra £15m to support the delivery of local audit in 2020/21. We understand that the Council will receive a grant to support 2020/21 audit fees.

	Actual Fee 2019/20	Proposed fee 2020/21
Guildford Borough Council Audit	£66,657	£80,300

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	Commentary	19/20	20/21
Scale fee published by PSAA		£44,300	£44,300
Additional fees relating to 2018/19 only			
Recurring variation to scale fee (first identified in 2019/20) e.g. PPE valuation and pensions		£10,500	£10,500
Non-recurring variation to scale fee (identified in 2019/20):			
Covid-19	Reported in AFR – additional requirements related to Covid-19	£7,000	
New developments 19/20	Accounting standard change	£1,500	
Variation to scale fee (identified in 2020/21):			
Value for Money (VfM)	Change in the National Audit Office Code of Practice		£9,000
New system implementation	Additional IT support required plus part year implementation requires additional testing		£10,000
New developments 20/21	Auditing standard developments on estimates		£6,500
Total audit fees (excluding VAT)		**£66,657**	**£80,300**

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy	16,000	Self-Interest because this is a recurring fee	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Pooling housing capital receipts	5,000	Self-Interest because this is a recurring fee	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

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Corporate Governance and Standards Committee Report

Ward(s) affected: n/a

Report of the Director of Resources

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Lead Councillor responsible: Tim Anderson

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Email: tim.anderson@guildford.gov.uk

Date: 29 July 2021

Capital and Investment outturn report 2020-21

Executive Summary

This annual outturn report includes capital expenditure, non-treasury investments and treasury management performance for 2020-21.

Capital programme
In total, expenditure on the General Fund capital programme was £29.4 million against the original budget of £171.5 million, and revised budget of £28.8 million. Details of the revised estimate and actual expenditure in the year for each scheme are given in **Appendix 3**.

The budget for Minimum Revenue Provision (MRP) was £1.64 million and the outturn was £1.29 million. This was due to slippage in the capital programme in 2019-20.

Councillors will be aware that one of the strands of the Council's savings strategy is to review the projects in the capital programme. There are three schemes that officers are recommending are removed due to the length of time they have been in the programme, and as such the original proposal is no longer relevant and a new business case will need to be prepared if the scheme is to come forward in the future. These are:

- Guildford Gyratory and Approaches - £10.967 million on the provisional capital programme in 2024-25
- Stoke Park Office Accommodation - £665,000 on the provisional programme in 2024-25
- Stoke Park – Home Farm redevelopment - £4 million on the provisional programme in 2024-25

Non-treasury investments
The Council's investment property portfolio stood at £155 million at the end of the year. Our rental income was £8.1 million, and our income return 5.8% against the benchmark of 4.6%.

Treasury management

The Council's cash balances have built up over several years, and reflect our strong balance sheet, with considerable revenue and capital reserves. Officers carry out the treasury function within the parameters set by the Council each year in the Capital and Investment Strategy. As at 31 March 2021, the Council held £159.1 million in investments, £118.5 million of short-term borrowing, and £192 million of long term borrowing so net debt of £88 million.

We borrowed short-term from other local authorities for cash flow purposes and aim to minimise any cost of carry on this. We did not take out any additional long-term borrowing during the year. The Council had £310.9 million borrowing at 31 March 2021, of which £118.5 million was short-term borrowing for cash purposes, and the long-term borrowing relating to the HRA.

This report (section 8) confirms that the Council complied with its prudential indicators, treasury management policy statement and treasury management practices (TMPs) for 2020-21. The policy statement is included and approved annually as part of the Capital and Investment Strategy, and the TMPs are approved under delegated authority.

The treasury management performance over the last year, compared to estimate, is summarised in the table below. The report highlights the factors affecting this performance throughout the report, and in **Appendix 1**.

	Estimate %	**Actual %**	**Estimate (£000)**	**Actual (£000)**
General fund Capital Financing Requirement (CFR)			207,109	116,524
Housing Revenue Account CFR			217,024	199,204
Total CFR			**424,133**	**315,728**
Return on investments	2.18	1.08	1,685	2,167
Interest paid on external debt			5,650	5,274
Total net interest paid			**3,965**	**3,107**

There was slippage in the capital programme which resulted in a lower CFR than estimated (more information in **Appendix 1**, section 3).

Interest paid on debt was lower than budget, due to less long-term borrowing taken out on the general fund because of slippage in the capital programme.

The yield returned on investments was lower than estimated, but the interest received was higher due to more cash being available to invest in the year – a direct result of the capital programme slippage. Officers have been reporting higher interest receivable and payable and a lower charge for MRP during the year as part of the budget monitoring when reported to councillors during the year.

Detailed information on the return on investments, and interest paid on external debt can be found in section 7 of this report.

Recommendation

The Committee is asked to submit any comments it may wish to make to the Executive when it considers this matter on 24 August 2021.

The Executive will be asked to approve the removal of the following schemes from the General Fund Capital Programme:

(1) Guildford Gyratory and Approaches
(2) Stoke Park office accommodation
(3) Stoke Park – Home Farm redevelopment

The Executive will be asked to recommend to Council (5 October 2021):

(1) That the Treasury Management Annual Report for 2020-21 be noted.

(2) That the actual prudential indicators reported for 2020-21, as detailed in **Appendix 1** to this report, be approved.

Reason for Recommendation:
To comply with the Council's treasury management policy statement, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on treasury management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

1.1 The Local Government Act 2003 states that the Council has a legal obligation to have regard to both the CIPFA code of practice on treasury management and the Ministry of Housing, Communities, and Local Government (MHCLG) investment guidance.

1.2 The CIPFA treasury management code of practice, and the MHCLG investment guidance requires public sector authorities to produce an annual capital strategy (incorporating capital expenditure, non-treasury investments and treasury management activity.

1.3 This report covers the outturn of the elements of the strategy and the requirement to report on the prudential and treasury indicators for the year. The position of the Council's investment property portfolio is also presented along with progress on the capital programme.

1.4 The Council borrows and invests substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risks. The Council holds a substantial amount of investment property and has a large capital programme, all of which have risk.

1.5 Treasury management is a highly complex, technical, and regulated aspect of local government finance. We have included a glossary of technical terms (**Appendix 10**), to aid the reading of this report.

2. Strategic Priorities

2.1 Treasury management and capital expenditure are key functions in enabling the Council to achieve financial excellence and value for money. It underpins the achievement of all the Corporate Plan 2018-2023 themes.

2.2 This report details the activities of the treasury management function and the effects of the decisions taken in the year in relation to the best use of its resources. It also presents the outturn position for the year of the capital programme, and the performance on non-treasury investments.

3. Background

3.1 Treasury management is defined by CIPFA as:

"the management of the council's investments, borrowing and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks"

3.2 The Council has overall responsibility for treasury management. Treasury management contains a number of risks. The effective identification and management of those risks are integral to the council's treasury management objectives, as is ensuring that borrowing activity is prudent, affordable and sustainable.

3.3 The Council has a statutory requirement, under the Local Government Act 2003, to adopt the CIPFA Prudential Code and produce prudential indicators.

3.4 The objectives of the prudential code are to ensure, within a clear framework, that capital investment plans are affordable, prudent and sustainable, and the treasury management decisions are taken in accordance with good professional practice.

3.5 The Council has a large capital programme and a large investment property portfolio on its balance sheet. These, together with treasury management, are the management of the Council's cash and assets.

3.6 The Council operates its treasury management function in compliance with this Code and the statutory requirements.

3.7 This annual report, and the appendices attached to it, set out:

- a summary of the economic factors affecting the approved strategy and counterparty updated (sections 4 and 5 with details in **Appendix 5**)
- a summary of the approved strategy for 2020-21 (section 6)

- a summary of the treasury management activity for 2020-21 (section 7 with detail in **Appendix 1**)
- compliance with the treasury and prudential indicators (section 8 with detail in **Appendix 1**)
- non-treasury investments (section 9)
- capital programme (section 10)
- risks and performance (section 11)
- Minimum Revenue Provision (MRP) (section 12)
- details of external service providers (section 13)
- details of training (section 14)

4. Economic Environment

4.1 This section includes the key points of the economic environment for 2020-21, to show the treasury management activity in context. **Appendix 5** contains more detail.

- Coronavirus dominated 2020-21, leading to vastly reduced economic activity across the world.
- Bank of England cut bank rate to 0.1%
- UK Government provided a range of fiscal stimulus measures
- A Brexit trade deal was agreed
- Quantitative easing extended by £150 billion in November 2020 to £895 billion
- Unemployment rose, despite furlough
- Inflation has remained low

4.2 The key points relevant to investment property are:

- Industrial sector remained resilient
- Office supply declining in Guildford, there has been a departure of key corporate occupiers, which has not helped the office market
- There has been a shift in the demand for High Street retail premises, leading to declining rents and increased vacancy levels.
- Retail was the weakest category going into lockdown and is anticipated to be the worst affected.

5. Regulatory Changes

5.1 A new accounting standard – IFRS16 – accounting for leases was due to be implemented on 1 April 2020. This means that the Council needs to account for its leases differently, as operating leases are no longer an applicable category for lessees. This will impact on the Council's CFR and asset base as all these assets will need to be included on the Council's balance sheet. The Government decided to delay the implementation until 1 April 2021.

6. Approved strategy and budgets for 2020-21 – a summary

6.1 Council approved the Capital and Investment strategy for 2020-21 in February 2020.

6.2 The strategy showed an underlying need to borrow in 2020-21 for the General Fund (GF) capital programme of £145.8 million.

6.3 The strategy set out how we would manage our cash. It allowed for internally managed investments for managing cash flow and externally managed and longer-term investments for our core cash (cash not required in the short or medium term). See **Appendix 9** for background.

6.4 It highlighted the need to continue to diversify our investment portfolio to reduce credit risk. The approved strategy set the minimum long-term credit rating of A- (or equivalent) for investments in counterparties to be determined as 'high credit' using the lowest denominator principal for the three main credit rating agencies.

6.5 Investment property risks were examined in the strategy.

7. Treasury management activity in 2020-21

7.1 The treasury position at 31 March 2021, compared to the previous year is:

		31 March 2020 (£'000)	Average Rate	31 March 2021 (£'000)	Average Rate
Fixed Rate Debt	PWLB	147,665	3.22%	147,435	3.22%
Variable Rate Debt	PWLB	45,000	0.96%	45,000	0.48%
Temporary borrowing	LAs	44,000	0.83%	118,500	0.51%
Total Debt		**236,665**	**2.43%**	**310,935**	**2.00%**
Fixed Investments		(66,600)	1.40%	(103,600)	1.06%
Variable Investments		(28,023)	0.82%	(42,545)	0.24%
Externally managed		(12,988)	4.17%	(22,728)	3.71%
Total Investments		**(107,611)**	**1.56%**	**(168,872)**	**1.08%**
Net Debt / (Investments)		**129,054**		**142,063**	

7.2 PWLB is the Public Works Loans Board and is a statutory body operating as an executive of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies.

7.3 The above table shows investments have increased by £61 million and loans by £74 million. Therefore, net debt has increased by £13 million. Short-term borrowing has increased due to uncertain cash flows during the year, and to fund the capital programme. We were able to take advantage of some very low borrowing rates from other authorities in the year. We have a range of maturities in 2021-22 to keep cash flows smooth.

7.4 We budgeted a return of 2.18% for the year and achieved 1.08%.

7.5 The Council's budgeted investment income was £1.68 million, and actual interest was £2.17 million (£490,000 higher). This is mostly due to interest received as a result of paying 3-year pension contributions upfront and a reduction in the amount of interest on investments payable to the HRA due to the very low interest rate environment.

7.6 Our budgeted debt interest payable was £5.6 million. £5.05 million relates to the HRA. The outturn was £5.23 million (£4.9 million for the HRA).

7.7 All our external funds are distributing funds, and they achieved an overall weighted average return of 4.17%, split as follows:

Fund	Balance at 31 March £000	Average return	Type of fund
M&G	3,528,656	4.45%	Equity focussed
Schroders	697,631	7.04%	Equity focussed with at least 80% on FTSE all share companies
Funding Circle	504,603	6.51%	Investments in SMEs up to a max of £2,000
UBS	2,203,598	3.95%	Multi asset
RLAM	2,332,194	2.19%	Global bond fund
Fundamentum	1,970,000	0.00%	Supported housing
CCLA	6,491,179	4.81%	Property

7.8 The only movements in fund value in the year is the change in fair value

7.9 Our external fund portfolio is diverse, and we invest in a range of products and markets. The capital value of the funds can go up as well as down. Across all funds still held at the end of the year, there was a capital gain of £424,000 recovering part of the £1.4 million lost at the end of March 2020 due to the Coronavirus.

7.10 We are invested in bond, equity, multi-asset, and property funds. During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31 March 2020 fund valuations with every fund / most funds registering negative capital returns over a 12-month period. Since March 2020 there here has been improvement in market sentiment which is reflected in an increase in capital values of these short-dated, strategic bond, equity and multi-asset income funds in the Authority's portfolio. The recovery in UK equities has lagged those of US and European markets.

7.11 Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities' Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.

7.12 Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with

the confidence that over a three to five-year period total returns will exceed cash interest rates.

7.13 Following the cut in Bank rate from 0.75% to 0.1% in March 2020, the Authority had expected to receive significantly lower income from its cash and short-dated money market investments, including money market funds in 2020-21, as rates on cash investments are close to zero percent. Income from most of the Authority's externally managed funds will also be lower than in 2019-20 and earlier years. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that had weighed on UK equities were encouraging developments, dividend and income distribution was dependent on company earnings in a very challenging and uncertain trading environment as well as enforced cuts or deferral required by regulatory authorities.

7.14 The Council also invested more in our subsidiaries and now holds £10.157 million of equity investment in Guildford Borough Council Holdings Ltd and £8.418 million in North Downs Housing Ltd.

7.15 The Council agreed an interest rate of base rate plus 5% (currently 5.1%) on the investment in North Downs Housing Ltd. This is higher than the treasury investments held as it reflects the risk associated with holding such investments. The interest is currently rolled up in the loan of the company.

7.16 The equity investment in Guildford Borough Council Holdings Ltd will be subject to a dividend if a profit is achieved.

7.17 The Council has received various grants from Government related to Covid-19. Those not spent at the end of the financial year have been invested as part of our overall investment portfolio.

Capital programme

7.18 The actual underlying need to borrow for the year, and the amount of internal borrowing actually taken, for the GF capital programme was £13.05 million, which is lower than budgeted of £102.8 million because of slippage in the capital programme, and also unbudgeted for capital contributions received. We will continue to support service managers with the scheduling of schemes in the capital programme to ensure it is kept up to date when project timescales change.

7.19 The Council must charge a Minimum Revenue Provision (MRP) on its internal borrowing, which is setting aside cash from council tax to repay the internal borrowing. MRP charged to the revenue account for the year was £1.288 million, against an original budget of £1.639 million.

7.20 Our overall underlying need to borrow, as measured by the Capital Financing Requirement (CFR) was £315.7 million (£116.5 million relates to the GF).

Benchmarking and performance indicators

7.21 Arlingclose also provide benchmarking data across their clients ("client universe"). It highlights the effect of changes in our investment portfolio and

compares the basis of size of investment, length of investment and the amount of credit risk taken.

7.22 The benchmarking shows a snapshot of our average running yield on all investments, also split between internally managed and externally managed. The latest benchmarking data (at 31 March 2021), shows our average rate of investments for our total portfolio as being 0.94% against the client universe of 0.90%. The table shows that we have outperformed our internally managed investments of the client universe by quite some margin.

Benchmark	Guildford	Client Universe
Internally managed return	0.54%	0.15%
Externally managed (return only)	3.37%	3.85%
Total Portfolio	0.94%	0.90%
% of investments subject to bail in	28%	63%
No. of counterparties/funds	42	13

7.23 The difference in our return as part of the benchmarking (0.94%) and our own return (1.08%) is due to a different calculation in the way Arlingclose put the benchmarking return together.

7.24 The table above shows how far the Council has come to mitigate bail in risk – closing the year at 28% of investments subject to bail in. This percentage will change during the course of the year depending on the level of cash we have and what we are invested in.

7.25 One of our key areas in our treasury strategy has been to increase diversification in the portfolio. The number of counterparties and funds we are investing in are far higher than the client universe and shows that we have achieved our aim. Again, this level of diversification will change at different points in the year.

8. Non-treasury investments

8.1 **Appendix 2** sets out the Council investment property fund portfolio report for 2020-21. The key points are summarised below.

8.2 The current portfolio is:

Sector	No. of assets	Sub-category	No. of assets
Office	9		
Industrial	134		
Retail	8	Shops Shopping centres	6 2
Leisure	6	Restaurants Nightclubs	5 1
Other Commercial	10	Educational Theatre	3 1

Sector	No. of assets	Sub-category	No. of assets
		Barn Petrol station Sui Generis Car Park Water treatment works	2 1 1 1 1
TOTAL	**167**		

8.3 Fund statistics are:

Fund Performance (total return) *

Rental income					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	2,679,571	1,831,900	1,750,254	885,636	7,147,361
2016/17	3,057,302	1,858,638	1,447,672	1,062,137	7,425,749
2017/18	3,493,405	3,186,048	1,426,317	1,080,786	9,186,556
2018/19	3,619,808	3,038,548	1,459,048	1,129,361	9,246,765
2019/20	3,369,452	2,135,460	1,459,548	1,139,397	8,103,857
2020/21	3,565,449	2,112,620	1,284,638	1,139,397	8,102,104
Capital value**					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	39,077,755	19,227,500	34,270,000	11,233,500	103,808,755
2016/17	42,922,450	25,915,000	25,908,500	15,963,500	110,709,450
2017/18	51,509,000	49,574,000	26,065,000	17,471,500	144,619,500
2018/19	66,970,000	49,159,000	26,097,000	18,843,000	161,069,000
2019/20	72,295,790	35,609,000	26,097,000	18,143,000	152,144,790
2020/21	77,670,905	34,165,000	24,527,000	18,540,500	154,903,405
Income return					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	8.0%	7.5%	5.6%	7.5%	6.8%
2016/17	7.1%	7.2%	5.6%	6.7%	6.7%
2017/18	8.0%	7.4%	5.2%	5.8%	6.6%
2018/19	6.8%	6.6%	5.9%	5.8%	6.3%
2019/20	6.9%	5.3%	5.9%	5.9%	6.0%
2020/21	6.5%	5.4%	5.6%	5.8%	5.8%
Benchmark return					
	Industrial	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	6.1%	4.7%	5.4%	4.7%	5.2%
2016/17	5.4%	4.1%	5.0%	5.5%	4.8%
2017/18	4.9%	4.1%	5.1%	5.3%	4.8%
2018/19	4.4%	4.0%	5.1%	5.0%	4.6%
2019/20	4.4%	4.0%	5.4%	5.1%	4.7%
2020/21	4.4%	4.0%	5.6%	4.8%	4.6%

* Excludes Finance leases
**Capital Values as at 31/01/2020

8.4 The performance shows that our portfolio has performed better than our benchmark.

8.5 In response to the PWLB's new rules we have amalgamated the asset investment fund into the strategic acquisition fund and will be assessing all

potential acquisitions against the strategic property acquisition procedure approved by the Executive in January 2021.

9. General Fund Capital programme

9.1 **Appendix 3** sets out the actual expenditure on capital schemes, compared to the updated estimates, together with reasons for variances. Overall, we spent £142 million (83%) less on capital schemes than we originally estimated and £164 million (85%) less than the revised estimate, the schemes with more than £1 million variance to budget relate to:

- Vehicle replacement (they are on order and being delivered in 2021-22),
- Museum and Castle development (now cancelled),
- investment in NDH and Guildford Borough Council Holdings – (slightly fewer purchases in year),
- Midleton Industrial Estate (delays due to Covid),
- Strategic property purchases (delayed due to Covid),
- Westfield/Moorfield Road resurfacing (links in with WUV and new timescale to be arranged),
- Guildford West (feasibility study delayed due to resources being allocated to other projects) and
- Guildford Gyratory and Approaches (recommended for cancellation).

There are significant variations on other approved schemes under £1 million, as detailed in the appendix.

9.2 The table below summarises our capital expenditure and variances in the year:

	Original estimate (£m)	**Revised estimate (£m)**	**Actual (£m)**	**Variance to revised (£m)**
GF approved programme	84.2	102.3	27.7	(92.6)
GF provisional programme	83.3	64.3	0.0	(64.3)
GF Schemes financed from reserves	4.0	8.9	1.7	(7.2)
Total	**171.5**	**193.5**	**29.4**	**(164.1)**

9.3 Councillors will recall that the Executive, at its meeting held on 26 January 2021, approved the removal of the following schemes from the capital programme:

- Museum £18.26 million
- Public realm £1.6 million
- Bike Share £530,000
- Town centre gateway regeneration £3.473 million

9.4 As part of the Council's savings strategy, one of the strands is to review the schemes on the capital programme. The cost of capital schemes on the general

fund revenue account include borrowing costs – interest and debt repayment and potential ongoing maintenance costs (for example). Whilst reviewing the schemes on the capital programme is an ongoing exercise, there has been a lot of change with the new governance processes the Council has implemented, and a change in the Corporate Plan and strategic priorities. Officers recommend the following schemes are removed from the GF capital programme because the original business case is either no longer relevant, is being included in a wider scheme, or is no longer coming forward. If the schemes are reinvigorated in future, a new mandate and business case will be produced and resubmitted for approval. These schemes are below. Please note that they were all re-profiled into 2024-25 because we were uncertain as to whether they were going to be delivered and we did not want to overinflate the impact of the capital programme in the short-term:

- P14(p) Guildford Gyratory and Approaches (£10.967 million on the provisional programme)
- PL41(p) Stoke Park office accommodation (£665,000 on the provisional programme)
- PL51(p) Stoke Park – Home Farm redevelopment (£4 million on the provisional programme)

10. Compliance with treasury and prudential indicators

10.1 The CIPFA prudential code and treasury management code of practices require local authorities to set treasury and prudential indicators.

10.2 The objectives of the Prudential Code, and the indicators calculated in accordance with it, provide a framework for local authority capital finance that will ensure

- capital expenditure plans are affordable
- all external borrowing and other long-term liabilities are within prudent and sustainable limits
- treasury management decisions are taken in accordance with professional good practice and
- in taking the above decisions, the Council is accountable by providing a clear transparent framework

10.3 The Prudential Code requires the Council to set a number of prudential indicators for the following and two subsequent financial years, and to monitor against the approved indicators during the year. We can revise these indicators during the year but need full Council approval.

10.4 Officers can confirm that the Council has complied with its prudential indicators for 2020-21, (see **Appendix 1** for the outturn figures), its treasury management policy statement and its treasury management practices.

10.5 Section 6 outlines the approved treasury management strategy. We have adhered to the strategy by:

- financing of capital expenditure from government grants, usable capital resources, revenue contributions and cash flow balances rather than from external borrowing
- taking a prudent approach in relation to the investment activity in the year, with priority given to security and liquidity over yield
- maintaining adequate diversification between counterparties
- forecasting and managing cash flow to preserve the necessary degree of liquidity

11. Risk and performance

11.1 The Council considers security, liquidity, and yield, in that order, when making investment decisions.

11.2 The Council has complied with all the relevant statutory and regulatory requirements, which limit the level of risk associated with its treasury management activities. In particular, its adoption and implementation of both the prudential code and treasury management code of practice means our capital expenditure is prudent, affordable and sustainable, and our treasury practices demonstrate a low-risk approach.

11.3 Short-term interest rates and likely movements in these rates, along with our projected cash balances, determine our anticipated investment return. These returns can be volatile and whilst, loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

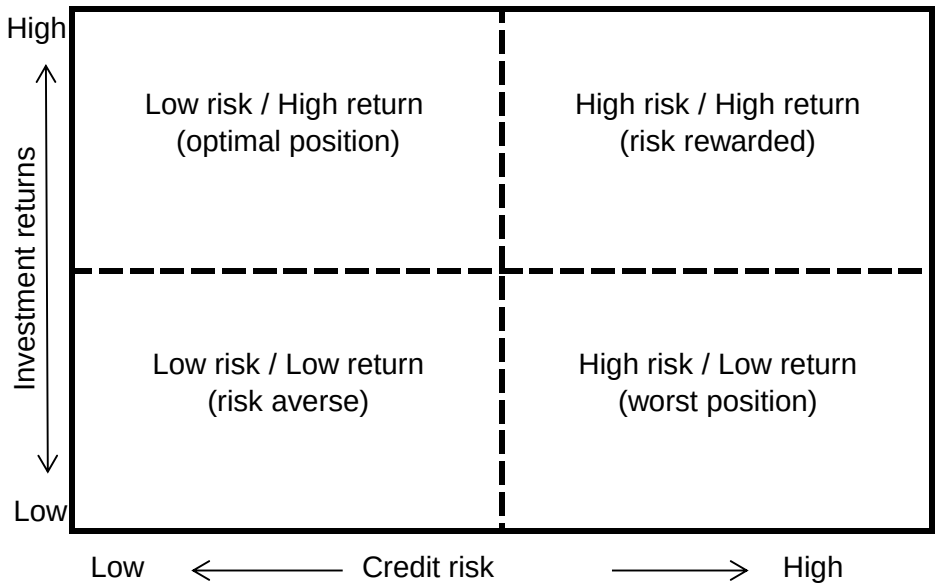
11.4 If the Council were to lose any of its investments, the GF will carry the loss, even if the cash lost is HRA cash. Therefore, to compensate the GF for this, we apply a credit risk adjustment to the rate of interest we apply on the HRA balances and reserves and SPA reserves. Therefore, a lower interest rate is applied than the weighted average investment return for the year. For 2020-21 this is the DMO (Debt management office investment with the Government and is the base “risk-free” investment rate) which is 0.01%

11.5 The Council invests in externally managed funds. These are more volatile than cash investments but can come with a higher return. Officers continually review our funds to ensure they still have a place in the portfolio. We view most of our funds over a three to five-year time horizon to take account of their potential volatility – they are not designed to be short-term investments, despite being able to get the money from them quickly.

Credit developments and credit risk management during the year

11.6 Security of our investments is our key objective when making treasury decisions. We therefore manage credit risk through the limits and parameters we set in our annual treasury management strategy. One quantifiable measure of credit quality we use is to allocate a score to long-term credit ratings. **Appendix 8** explains the scoring in more detail.

11.7 This is a graphical representation used in the Arlingclose benchmarking.



11.8 Typically, we should aim to be in the top left corner of the chart where we get a higher return for lower risk. In the actual benchmarking, for average rate versus credit risk (value weighted) we were above the average of all clients and were in the top left box towards the middle vertical line. For time weighted we are well within the top left box (see **Appendix 6** for the two charts).

11.9 We set our definition of high credit quality as a minimum long-term credit rating of A-, which attracts a score of 7. The lower the score, the higher the credit quality of the investment portfolio.

11.10 The table below shows that at each quarter date, the weighted average score of our investment portfolio, on a value weighted and a time weighted basis is well within our definition of high credit quality, ending the year at 3.95 (AA-) and 2.04 (AA-).

Date	Value Weighted Avg Credit Risk Score	Value Weighted Avg Credit Rating	Time Weighted Avg Credit Risk Score	Time Weighted Avg Credit Rating	Average Life (days)
31-03-20	3.95	AA-	2.04	AA+	261
30-06-20	4.04	AA-	2.46	AA+	292
30-09-20	4.20	AA-	2.82	AA	185
31-12-20	4.50	A+	2.90	AA	146
31-03-21	4.63	A+	4.06	AA-	199

11.11 We have maintained security throughout the year within the portfolio on a value weighted basis. We also have a lower risk score on the time weighted average than the Arlingclose client universe (4.63/AA- and 4.53/A+). We do, however, have a much longer duration (ours is 199 days compared to the universe of 14 days) and this is due to us having a large portion of investments of covered bonds in the portfolio, which can be sold on the secondary market if required.

The longer duration is with AAA rated covered bonds, so this has enhanced the security of the portfolio.

12. Minimum Revenue Provision (MRP)

12.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 (SI 2003 No 414) place a duty on local authorities to make a prudent provision for debt redemption. Making an MRP reduces the Capital Financing Requirement (CFR) and leaves cash available to replenish reserves used for internal borrowing or making external debt repayments. There are three options for applying MRP available to us:

- asset life method
- depreciation method
- any other prudent method

12.2 Any other prudent method means we can decide on the most appropriate method depending on the capital expenditure.

12.3 The latest MRP policy was approved by Council in February 2020, and stated that:

- the Council will use the asset life method as its main method, but will use annuity for investment property
- in relation to expenditure on development, we may use the annuity method starting in the year after the asset becomes operational
- where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained, and will not charge MRP during construction, refurbishment or redevelopment
- We will apply a life of 50 years for the purchase of land and schemes which are on land (for example transport schemes)
- Where loans are made to other bodies for their capital expenditure, no MRP will be charged, where the other body is making principal repayments of that loan as well as interest. However, the capital receipts generated by the loan principal repayments on those loans will be put aside to reduce the CFR
- For investments in shares classed as capital expenditure, we will apply a life related to the underlying asset in which the share capital has been invested

12.4 The unfinanced capital expenditure in 2020-21 of £13.05 million related to Weyside Urban Village project and loan/equity to North Downs Housing Ltd.

13. External service providers

13.1 The Council reappointed Arlingclose as our treasury management advisers in March 2015. The contract is for a period of 7 years. The Council is clear what services it expects and what services Arlingclose will provide under the contract.

13.2 The Council is clear that overall responsibility for treasury management remains with the Council.

14. Training

14.1 CIPFA's revised treasury management code of practice suggests that best practice is achieved by all councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, receiving appropriate training relevant to their needs and that they should fully understand their roles and responsibilities.

14.2 The MHCLG's revised investment guidance also recommends that a process is in place for reviewing and addressing the needs of the Council's treasury management staff for training in investment management.

14.3 Following the revised CIPFA code of practice and the stated requirement that a specified body be responsible for the implementation and regular monitoring of the treasury management policies, we use the Corporate Governance and Standards Committee to scrutinise the treasury management activity of the Council.

14.4 Training on treasury management will be given to new councillors and in particular the group leaders and members of the Corporate Governance and Standards Committee.

14.5 Officer training is undertaken on a regular basis, by attending workshops held by Arlingclose, and seminars or conferences held by other bodies, such as CIPFA. On the job training and knowledge sharing are undertaken when required. Those involved in treasury management are either a fully qualified accountant, or AAT qualified. The Lead Specialist for Finance, and Deputy s151 officer holds the 'Certificate in International Treasury Management for Public Finance' qualification, which is a joint qualification between the ACT (Association of Corporate Treasurers) and CIPFA.

14.6 Certain officers of the Council are deemed professional by the financial industry and therefore demonstrate the level of skill and expertise in the treasury function to ensure the Council retains professional status under the MiFID II regulations.

15. Consultations

15.1 Officers have consulted with the Lead Councillor for Resources about the contents of this report.

16. Equality and Diversity Implications

16.1 There are no equality and diversity implications

17. Financial Implications

17.1 The detailed financial implications are summarised above and in **Appendix 1**.

18. Legal Implications

18.1 A variety of professional codes, statutes and guidance regulate the Council's treasury management activities. These are:

- the Local Government Act 2003 ("the Act") provides the powers to borrow and invest. It also imposes controls and limits on these activities
- the Act permits the Secretary of State to set limits on either the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken. There are no current restrictions
- statutory instrument 3146 (2003 ("The SI"), as amended, develops the controls and powers within the Act
- the SI requires the council to undertake any borrowing with regard to the prudential code. The prudential code requires indicators to be set – some of which are limits – for a minimum of three forthcoming years
- the SI also requires the council to operate the treasury management function with regard to the CIPFA treasury management code of practice
- under the terms of the Act, the Government issued "investment guidance" to structure and regulate the council's investment activities. The emphasis of the guidance is on the security and liquidity of investments.

19. Human Resource Implications

19.1 There are no human resource implications arising from this report other than the training discussed in section 14, which is already in place.

20. Summary of Options

20.1 We could have invested in lower credit quality investments, but this would have increased our risk exposure.

20.2 We could have borrowed longer-term for our capital programme, but would have suffered a cost of carry due to the slippage in the programme.

21. Conclusion

21.1 The Council has complied with the objectives of the CIPFA treasury management code of practice by maintaining the security and liquidity of its investment portfolio.

21.2 We maintained the security of our investment portfolio, and did not borrow long-term in advance of need.

21.3 We have also complied with the requirements of the prudential code by setting, monitoring and staying within the prudential indicators set, except the variable limit on net investments due to higher investment balances than when the indicator was set.

22. Background Papers

- CIPFA Treasury Management in the Public Services – Code of Practice and Cross Sectoral Guidance Notes (2018 edition)
- CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2018 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities (2018 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners (2018 edition)
- Treasury management annual strategy report 2020-21

23. Appendices

Appendix 1: Treasury management activity, treasury and prudential indicators 2020-21
Appendix 2: Investment property fund portfolio report 2020-21
Appendix 3: capital programme
Appendix 4: schedule of investments at 31 March 2021
Appendix 5: economic background – a commentary from Arlingclose
Appendix 6: benchmarking graphs
Appendix 7: credit score analysis
Appendix 8: credit rating equivalents and definitions
Appendix 9: background to externally managed funds
Appendix 10: glossary

Treasury Management activity and treasury and prudential indicators 2020-21

1. Introduction

1.1 The treasury management service is an important part of the overall financial management of the council. Whilst the prudential indicators consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions.

1.2 Strict regulations, such as statutory requirements and the CIPFA treasury management code of practice (the TM Code) govern the council's treasury activities, and the Prudential Code and MHCLG Investment Guidance non-treasury investments.

1.3 The Council holds a substantial amount of Investment property (non-treasury investment) and has a large capital programme which directly impacts on the treasury management decisions the Council may make.

2. Treasury management activity

2.1 The council has an integrated capital and investment strategy and manages its cash as a whole in accordance with its approved strategy. Therefore, overall borrowing may arise because of all the financial transactions of the council (for example, borrowing for cash flow purposes) and not just those arising from capital expenditure reflected in the Capital Financing Requirement (CFR).

Investments

2.2 The Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance requires local authorities to focus on security and liquidity rather than yield.

2.3 Both the CIPFA Code and government guidance requires local authorities to invest funds prudently, and to have regard to the security and liquidity of investments before seeking the highest rate of return, or yield. The main objective, therefore, when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitable low investment income.

2.4 Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

2.5 Security of capital remains our main objective when placing investments. We maintained this during the year by following our investment policy, as approved in our

treasury management strategy 2020-21, which defined “high credit quality” counterparties as those having a long-term credit rating of A- or higher.

2.6 Investments during the year included:

- investments in AAA rated constant net asset money market funds
- call accounts and deposits with banks and building societies systemically important to each country’s banking system. We do have some investments with overseas banks, but in sterling
- other local authorities
- corporate bonds
- non-rated building societies
- covered bonds
- pooled funds without a credit rating, but only those subject to an external assessment

2.7 We divided our investments into three types

- short-term (less than one-year) internally managed cash investments
- long-term internally managed investments
- externally managed funds

2.8 Cash balances consisted of working cash balances, capital receipts, and council reserves.

2.9 The table below shows our investment portfolio, at 31 March 2021, compared to 31 March 2020. **Appendix 4** contains a detail schedule of investments outstanding at the end of the year.

Investment details	Balance at 31-03-20 £m	Weighted Avg Return for Year	Balance at 31-03-21 £m	Weighted Avg Return for Year
Internally Managed Investments				
Fixed Investments < 1 year to cover cash flow	20.00	0.99%	67.00	0.94%
Corporate bonds	1.00	1.26%	2.00	0.17%
Long term bonds	18.10	1.06%	16.10	0.00%
Notice Accounts	8.00	0.90%	3.00	0.39%
Call Accounts	0.53	0.40%	0.33	0.07%
Money Market Funds	14.50	0.74%	39.22	0.13%
Revolving credit facility	5.00	1.26%	0.00	1.47%
Long term investments > 1 year	27.50	1.65%	18.50	1.21%
Externally Managed Funds				
Funding circle	0.53	6.35%	0.50	6.51%
CCLA	6.51	4.41%	6.49	4.81%
RLAM	2.23	2.42%	2.33	2.19%
M&G	1.13	2.54%	3.53	4.45%
Schroders	0.57	7.31%	0.70	7.04%
UBS	2.02	4.71%	2.20	3.95%
City Financials	0.00	0.00%	1.97	0.85%
Total Investments	**107.61**	**1.03%**	**168.87**	**1.08%**

2.10 Our level of investments increased during 2020-21, and we achieved a higher return than last year. Interest rates continue to be at an all time low.

2.11 The Councils also holds £10.157 million equity investments in Guildford Holdings Ltd and £8.418 million in North Downs Housing Ltd.

2.12 We are earning an interest return of base rate plus 5% (currently 5.10%) on the investment in North Downs Housing. This is higher than the return earned on treasury investments but reflects the additional risks to the Council of holding the investment.

Security of investments

2.13 Counterparty credit quality was assessed and monitored with reference to credit ratings; financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices; financial statements; information on potential government support and reports in the quality financial press.

2.14 We also considered the use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

2.15 The minimum long-term counterparty credit rating for 'high quality counterparties' approved for 2019-20 was A-/A3 across all three main credit rating agencies (Fitch, S&P, and Moody's).

2.16 The overall minimum long-term credit rating in the treasury strategy is BBB+. The strategy set different limits for different counterparty credit ratings both in maximum duration and exposure in monetary terms.

2.17 We also can invest in non-rated institutions subject to due diligence.

Liquidity of investments

2.18 In keeping with the MHCLG's Guidance on Investments, the council maintained a sufficient level of liquidity using money market funds, call accounts, the maturity profile of fixed investments and short-term borrowing from other local authorities.

2.19 We use PSlive as our daily cash flow forecasting software to determine the maximum period for which funds may prudently be committed.

Yield of investments

2.20 The council sought to optimise returns commensurate with its objective of security and liquidity. The Bank of England base rate decreased to 0.10% in March 2020, and it has remained at that level throughout the year.

2.21 We invested in longer-term covered bonds, which increased the return of the portfolio and the duration. Bonds can be sold in the secondary market should we need the liquidity.

2.22 The council's budgeted investment income for the year was £1.684 million and actual interest was £2.376 million, at a weighted average yield of 1.08%.

Externally managed funds

2.23 We estimate to have cash balances over the medium-term (our "core" cash as identified in the Councils liability benchmark), and as such we have continued investing in pooled (cash-plus, bond, equity, multi-asset and property) funds. These funds have allowed us to diversify into asset classes other than cash without the need to own and manage the underlying investments. These funds operate on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short term. All of our pooled funds are in the respective funds distributing share class, which pay out the income generated. They have no defined maturity date, but are available for withdrawal, some with a notice period.

2.24 We regularly monitor all our external funds' performance and continued suitability in meeting our investment objectives.

Borrowing and debt management

2.25 The council's debt portfolio is detailed in the table below. Our loan portfolio increased by £74 million due to more short-term loans at the end of the year.

Interest calc	Lender	Loan type	Principal £'000	Initial loan period (yrs)	Period remaining years	Maturity date	Rate
Long-term							
Variable	PWLB	Maturity	45,000	10	1.0	28/03/2022	0.48%
Fixed	PWLB	Maturity	10,000	12	3.0	28/03/2024	2.70%
Fixed	PWLB	Maturity	10,000	13	4.0	28/03/2025	2.82%
Fixed	PWLB	Maturity	10,000	14	5.0	28/03/2026	2.92%
Fixed	PWLB	Maturity	10,000	15	6.0	28/03/2027	3.01%
Fixed	PWLB	Maturity	25,000	17	8.0	28/03/2029	3.15%
Fixed	PWLB	Maturity	25,000	20	11.0	28/03/2032	3.30%
Fixed	PWLB	Maturity	25,000	25	16.0	28/03/2037	3.44%
Fixed	PWLB	Maturity	15,000	29	20.0	28/03/2041	3.49%
Fixed	PWLB	Maturity	17,435	30	21.0	28/03/2042	3.50%
Short-term							
Fixed	West Yorkshire CA	Maturity	10,000	0.76	0.0	06/04/2021	0.60%
Fixed	Cardif Pinnacle Insurance PLC	Maturity	5,000	0.83	0.0	15/04/2021	0.37%
Fixed	Hampshire Fire And Rescue Authority	Maturity	1,000	0.84	0.1	04/05/2021	0.29%
Fixed	PCC Hampshire & IOW - Winchester	Maturity	2,500	0.84	0.1	04/05/2021	0.29%
Fixed	Hampshire County Council	Maturity	1,500	0.84	0.1	04/05/2021	0.29%
Fixed	Cardif Pinnacle Insurance PLC	Maturity	5,000	0.83	0.1	06/05/2021	0.37%
Fixed	London Borough of Tower Hamlets	Maturity	5,000	0.88	0.2	28/05/2021	0.30%
Fixed	West Yorkshire CA	Maturity	5,000	0.75	0.2	02/06/2021	0.50%
Fixed	Local Government Assocoation	Maturity	1,500	1.00	0.2	08/06/2021	0.40%
Fixed	North of Tyne Combined Authority	Maturity	10,000	1.00	0.3	02/07/2021	0.78%
Fixed	London Borough of Newham	Maturity	5,000	1.00	0.3	02/07/2021	0.35%
Fixed	St Helens Metropolitan BC	Maturity	10,000	1.00	0.3	12/07/2021	0.40%
Fixed	Wokingham BC	Maturity	10,000	1.00	0.3	19/07/2021	0.40%
Fixed	North Yorkshire CC	Maturity	5,000	0.41	0.3	26/07/2021	0.10%
Fixed	Cambridge City Council	Maturity	5,000	0.50	0.4	09/08/2021	0.05%
Fixed	Merseyside Fire & Rescue	Maturity	2,000	1.00	0.4	18/08/2021	0.30%
Fixed	LB Wandsworth	Maturity	5,000	0.92	0.9	22/02/2022	0.12%
Fixed	North Yorkshire CC	Maturity	5,000	1.00	0.9	25/02/2022	0.15%
Fixed	Warwickshire CC	Maturity	10,000	1.00	0.9	28/02/2022	0.15%
Fixed	Sheffield CC	Maturity	10,000	1.00	1.0	15/03/2022	0.12%
Fixed	LB Wandsworth	Maturity	5,000	1.00	1.0	25/03/2022	0.20%
Total			**310,935**				

2.26 Our primary objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should our long-term plans change being a secondary objective.

2.27 The rate on the variable rate loan is the average for the year.

2.28 We also have short-term loans outstanding at the end of the year which we took out for cash flow purposes, from other local authorities. Temporary and short-dated loans borrowed during the year from other local authorities remained affordable and attractive.

2.29 Affordability and the “cost of carry” remained important influences on our long-term borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would be invested at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained low, and are likely to remain low at least over the forthcoming two years, lower than long-term

rates, the council determined it was more cost effective in the short-term to use internal resources and borrow short-term to medium-term instead.

2.30 The Councils borrowing position is monitored regularly as to whether it is more beneficial to externalise borrowing now or whether to continue internal borrowing based on predicted future borrowing costs (which are likely to be higher). Arlingclose assist us with this 'cost of carry' and break-even analysis.

2.31 The PWLB raised the cost of the certainty borrowing rate by 1% to 1.8% above UK Gilt yields as HM Treasury were concerned about the overall level of local authority debt. PWLB borrowing remains available, but at a margin of 180bp above gilts appear expensive. Market alternatives are available and new products will be developed but the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

2.32 The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields. The value of this discount is 1% below the rate at which the authority usually borrows from the PWLB), available from 12th March 2020 and £1.15 billion of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process. We made a successful bid for access to the Local Infrastructure Rate for WUV and have a £100 million facility at gilts plus 0.60% to help fund the project.

2.33 In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

2.34 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.

2.35 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders

3. Treasury and prudential indicators

3.1 The Local Government Act 2003 requires local authorities to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the

Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury decisions are taken in accordance with good professional practice. To demonstrate the Council has fulfilled these objectives, the Prudential Code sets various indicators that must be set and monitored each year.

3.2 The CFO confirms that we have complied with our prudential indicators for 2020-21, which were approved in February 2020 as part of the treasury management strategy statement. The CFO also confirms that we have complied with our treasury management policy statement and treasury management practices during 2020-21.

Balance sheet and treasury position prudential indicator

3.3 The capital financing requirement (CFR) measures the council's underlying need to borrow for a capital purpose. Over the medium-term, borrowing must be only for a capital purpose, although in the short-term, we can borrow for cash flow purposes, which does not affect the CFR.

3.4 The council's CFR for 2020-21 is shown in the following table

Capital Financing Requirement	**2020-21 Approved Estimate £000**	**2020-21 Revised Estimate £000**	**2020-21 Actual £000**
HRA			
Opening balance (01 Apr 20)	207,024	207,024	197,024
Movement in year: Unfinanced cap exp	10,000	10,000	2,180
Closing balance (31 Mar 21)	217,024	217,024	199,204
General Fund			
Opening balance (01 Apr 20)	130,464	105,100	106,939
Movement in year: Unfinanced cap exp	78,285	60,270	11,000
Movement in year: MRP	(1,640)	(1,640)	(1,288)
Closing balance (31 Mar 21)	207,109	163,730	116,651
Total			
Opening balance (01 Apr 20)	337,488	312,124	303,963
Movement in year: Unfinanced cap exp	88,285	70,270	13,180
Movement in year: MRP	(1,640)	(1,640)	(1,288)
Closing balance (31 Mar 21)	424,133	380,754	315,855
Balances and Reserves	(188,850)	(188,850)	(133,189)
Cumulative net borrowing requirement / (investments)	**235,283**	**191,904**	**182,666**

3.5 The GF unfinanced capital expenditure mainly relates to WUV and loan / equity to North Downs housing. This is lower than budgeted because of the slippage in the capital programme – we projected some slippage during the year, which is shown by the revised estimate (as in the strategy report presented to Council in February 2021).

3.6 We budgeted an underlying need to borrow of £42.8 million for 2020-21, and our actual underlying need to borrow was £13.1 million because of slippage in the capital programme and also a higher amount of capital receipts than anticipated.

3.7 We also appropriated the remaining 2/3 of land from the GF to the HRA for the Guildford Park Car Park project which has led to an increase in the HRA CFR and a reduction in the GF CFR. This land appropriation cannot be used against the 141 Right to Buy scheme.

Gross debt and the CFR

3.8 We monitor the CFR to gross debt continuously to ensure that, over the medium term, borrowing is only for a capital purpose and does not exceed the CFR. This is a key indicator of prudence. We will report any deviations to the CFO for investigation and appropriate action. The following table shows the council is in a net internal borrowing position and gross debt does not exceed the CFR over the period.

Gross Debt and the CFR	**2020-21 Actual £000**
General Fund CFR	116,651
HRA CFR	199,204
Total CFR (at 31 March)	**315,855**
Gross External Borrowing	(310,935)
Net (external) / internal borrowing position	**4,920**

3.9 Actual debt levels are monitored against the operational boundary and authorised limit for external debt, detailed in paragraph 3.20 to 3.25.

3.10 We are showing as being internally borrowed up to £5 million in at the end of March 2021.

Capital expenditure prudential indicator

3.11 This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on council tax or housing rent levels for the HRA.

3.12 The following table shows capital expenditure in the year, compared to the original estimate approved by the Executive in January 2020.

Projects	Original Estimate (£'000)	Actual (£'000)	Variance (£'000)
Housing Revenue Account			
HRA Capital Programme	27,387	12,685	(14,702)
Total Housing	**27,387**	**12,685**	**(14,702)**
General Fund			
Vehicles purchase	4,220	3,144	(1,076)
Museum project	1,020	0	(1,020)
Town centre gateway regeneration	3,480	0	(3,480)
SMC	2,975	374	(2,601)
A331 hotspots	3,146	82	(3,064)
Ash road bridge & Foorbridge	21,154	1,006	(20,148)
NDH/GHL	7,500	4,932	(2,568)
Midleton redevelopment	5,500	3,424	(2,076)
Strategic property	20,000	1,285	(18,715)
WUV	860	11,450	10,590
Provisional schemes	83,301	0	(83,301)
Other General Fund Projects	18,372	3,744	(14,628)
Total General Fund	**171,528**	**29,440**	**(142,088)**
Total Capital Programme	**198,915**	**42,125**	**(156,790)**

3.13 The table shows that there was a lot of slippage in the capital programme. This was mainly over a few larger schemes including:

- provisional schemes were re-profiled during the year, and include:
  - various transport schemes
  - ash road bridge
  - Guildford park car park
  - Midleton redevelopment

3.14 The following table shows the financing of capital expenditure in the year, compared with the original approved estimate.

CAPITAL EXPENDITURE - SUMMARY	Original Estimate (£'000)	Actual (£'000)
General Fund Capital Expenditure		
- Main programme	166,719	26,951
- Reserve & s106 Capital Schemes	3,984	1,730
- General Fund Housing	825	759
HRA Capital expenditure		
- Main programme	27,387	12,685
Total Capital Expenditure	**198,915**	**42,125**
CAPITAL EXPENDITURE - SUMMARY	**Original Estimate (£'000)**	**Actual (£'000)**
General Fund Capital Expenditure Financed by:		
- Borrowing/Use of Balances	(118,907)	(13,053)
- Capital Receipts	0	(6,295)
- Capital Grants/Contributions	(41,368)	(7,070)
- Capital Reserves/Revenue	(11,253)	(3,022)
HRA Capital Expenditure Financed by:		
- Capital Receipts	(6,783)	(2,607)
- Capital Reserves/Revenue	(20,604)	(8,479)
Financing - Totals	**(198,915)**	**(42,125)**

3.15 GF borrowing was less than budgeted because of slippage in the capital programme, and an increase in the opening of available capital resources which reduced the need for internal borrowing in the year.

Ratio of financing costs to the net revenue stream prudential indicator

3.16 This is an indicator of affordability and highlights the revenue impact of capital expenditure by identifying the proportion of the revenue budget required to meet the financing costs associated with capital spending. Financing costs include interest on borrowing, MRP, premium or discount on loans repaid early, investment income and depreciation where it is a real charge.

3.17 Depreciation is not a real charge to the GF but has been to the HRA since April 2012.

3.18 The ratio is based on costs net of investment income.

3.19 The net revenue stream for the GF is the total budget requirement and for the HRA is total income. Where the figure is negative, it is because there is a net investment position (more investments than debt). The total budget requirement for the GF used is the 2020-21 budget.

	2020-21 Original Estimate	2020-21 Actual
General Fund	10.61%	-8.20%
HRA	33.09%	33.52%

3.20 The figure for the GF is negative because interest received is higher than financing costs (interest payable, debt management costs and MRP). The budget assumed a

large amount of external borrowing for the capital programme which was not required and was reported throughout the year as part of budget monitoring.

The authorised limit prudential indicator

3.21 The Local Government Act 2003 requires the council to set an affordable borrowing limit, irrespective of the indebted status. This is a statutory limit, which we cannot breach.

3.22 The limit is the maximum amount of external debt we can legally owe at any one time. It is expressed gross of investments and includes capital expenditure plans, the CFR and cash flow expenditure. It also provides headroom over and above for unexpected cash movements.

3.23 The limit was set at £531 million for the year and the highest level of debt was £311 million.

3.24 We measure the levels of debt on an ongoing basis during the year for compliance. The CFO confirms there were no breaches to the authorised limit in 2020-21.

The operational boundary prudential indicator

3.25 The operational boundary, based on the same estimates as the authorised limit, reflects the most likely, prudent but not worst case scenario. It does not allow for additional headroom included in the authorised limit.

3.26 The limit was set at £577 million for the year and the highest level of debt was £311 million.

Maturity structure of fixed rate borrowing treasury indicator

3.27 The aim of this indicator is to control our exposure to refinancing risk (large concentrations of fixed rate debt needing refinancing at once). We calculate this as the amount of fixed rate borrowing maturing in each period as a percentage of fixed rate borrowing.

	Upper Limit	Lower Limit	Actual at 31 March 2021	Value of loans maturing
Under 12 months	15%	0%	44.56%	118,500,000
1-2 years	20%	0%	0.00%	0
3 to 5 years	25%	0%	3.76%	10,000,000
6 to 10 years	50%	0%	20.68%	55,000,000
11-15 years	100%	0%	9.40%	25,000,000
16-20 years	100%	0%	9.40%	25,000,000
21-25 years	100%	0%	12.20%	32,435,000
Over 26 years	100%	0%	0.00%	0

3.28 The above table shows the amount of debt maturing in each period and its percentage of total fixed rate loans. The targets were set to give us flexibility for drawing down new loans on a fixed or variable rate basis. If a lower upper limit for fixed rate debt were set, the council would be giving itself a greater exposure to interest rate changes by having more variable rate debt. The upper limit for under 12

months was set to cover any short-term borrowing for cash flow purposes and for allowing for the principal loan repayments falling in that period.

3.29 The limit for that maturing within 12 months is higher due to short-term borrowing levels. 69% of our fixed rate debt matures within the next 10 years, with the majority of long-term loans being in years 6-10. This gives the council stability in its interest payments over that time, and time to consider refinancing options. The first fixed rate loan matures in 2024.

Actual external debt treasury indicator

3.30 This indicator comes directly from our balance sheet. It is the closing balance for actual gross borrowing (short and long term) plus other deferred liabilities. It is measured in a manner consistent for comparison with the authorised limit and operational boundary.

3.31 Actual external debt (as per 3.7) stood at £311 million.

Upper limit for total principal sums invested over 1 year

3.32 The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the council having to seek early repayment of the sums invested.

3.33 Our limit was set at £50 million, we ended the year with exposure of £35 million.

3.34 As mentioned earlier in the report, many of our long-term investments are covered bonds, which can be sold on the secondary market. There could be a price differential if they were sold, but it is unlikely to be material.

GBC INVESTMENT PROPERTY FUND PORTFOLIO ANNUAL REPORT 2020/21

Current Fund Summary – 2020/21

OBJECTIVE OF FUND

The Investment Property Fund aims to provide a high and secure level of income with the prospect of income growth and to maintain the capital value of the properties held in the Fund. This is achieved by keeping vacancy and associated costs to a minimum and by generating income growth through rental increases, refurbishments, active asset management and new lettings, as well as investing in a diversified commercial property portfolio.

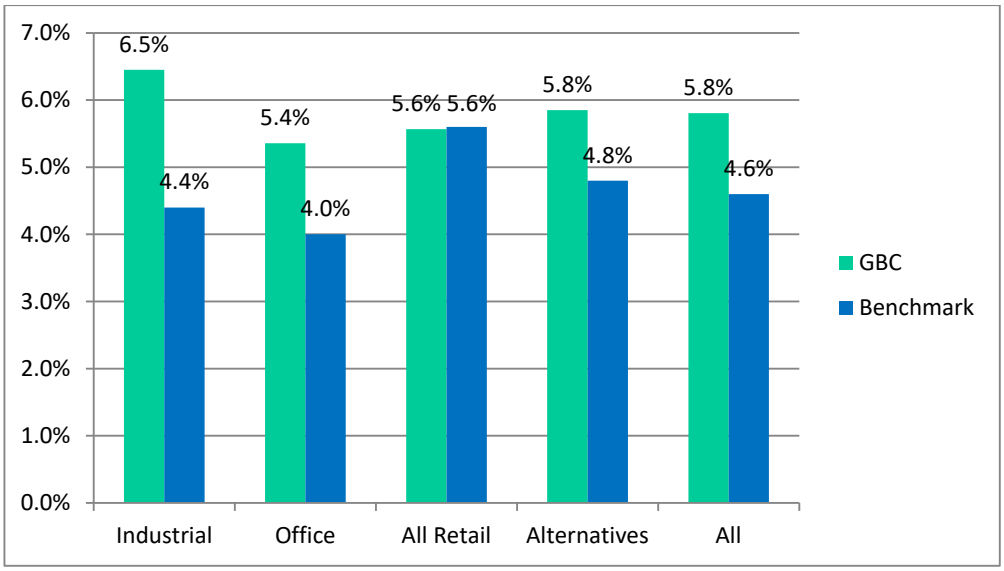
KEY POINTS – 31 MARCH 2021

- Fund size c.£155 million.
- Rental income of £8.1 million pa.
- 168 properties over the 4 main sectors
- High yielding (5.8% net of costs/voids)
- Low vacancy rate (5.76%)
- Long average unexpired lease terms

TOP FIVE SINGLE INVESTMENTS

1. Wey House, Farnham Rd
2. The Billings, Walnut Tree Clse
3. Moorfield Point, Slyfield
4. Friary Street, West Side
5. Friary Centre

FUND PERFORMANCE AGAINST UK BENCHMARK 2020/21



KEY ACQUSITIONS/DISPOSALS 2020/21

1 Midleton Industrial Estate
Acquired in September 2020 for £500,000 this prominent motor trade property with frontage to the A25 Woodbridge Road, is the gateway to Midleton Industrial Estate and will allow GBC to erect signage up for the new development. Currently let on a short-term lease, representing a GIY of over 8% whilst planning redevelopment.

Aldershot Rd 121B (The Co-Op) (HRA account)
Long lease to Co-operative Group at £200pa, sold in August 2020 for £250,000 with a restrictive covenant requiring the provision a food retail store on the site with a net sales area of not less than 3,000 sq.ft.

GBC INVESTMENT PROPERTY FUND PORTFOLIO ANNUAL REPORT 2020/21

Property Investment Fund – 2020/21

FUND STRATEGY

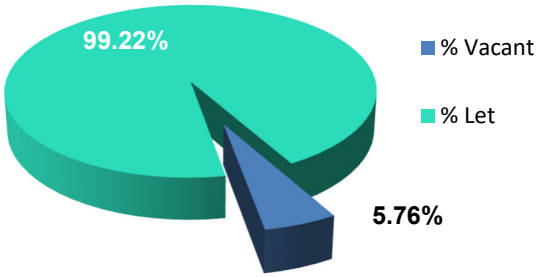
The Fund comprises the principal commercial property sectors: office, retail, industrial and alternatives (hotels, car showrooms, petrol stations, leisure, etc.).

Officers aim to achieve an above average income return by keeping vacancy and associated costs (such as empty rates, service charges, repairs and insurance) to a minimum and by generating income growth through rental increases, refurbishments, active asset management and new lettings. The vacancy rate is currently 5.76%[1].

VACANCY RATE

Based on days per property

Qtr 1	Qtr 2	Qtr 3	Qtr 4	Year
5.34%	7.02%	5.93%	4.70%	5.76%



PERFORMANCE

The fund was valued at c.£155 million at the beginning of 2020. This is up from last year by over £2.7million mainly due to the increase in industrial values across the portfolio and the acquisition of 1 Midleton (Fox's). Rental held level with a total rent roll of £8.1 million per annum, representing a total net return of 5.8%.

Factors that affected the portfolio in 2020/21 include:

- **COVID-19** – The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, led to national and international lockdowns and impacted global financial markets. Market activity was impacted in many sectors. Despite this the impact on overall performance of the portfolio was minimal for several reasons. The Council's asset valuation date preceded the deepening of the Coronavirus epidemic and therefore only had a small impact on asset values. However, the Council's Valuers did report that given the unprecedented events it was felt that future impact that COVID-19 might have on the real estate market was unknown. The valuations were therefore reported on the basis of 'material valuation uncertainty'. Consequently, less certainty, and a higher degree of caution, should be attached to the valuation than would normally be the case.

  In terms of income, in general only rent deferments were granted[2]. In exceptional cases, for the worst affected commercial tenants, rent concessions were agreed but many of these have yet to be documented and, as such, did not affect the bottom line for 2020/21. Officers are taking steps to ensure that any knock-on effect in 2021/22 is minimised.

[1] Excluding intentional voids and Finance leases.
[2] As this report is based on a high-level snapshot view of performance rent deferments don't affect the bottom-line.

GBC INVESTMENT PROPERTY FUND PORTFOLIO ANNUAL REPORT 2020/21

Fund Performance (total return) *

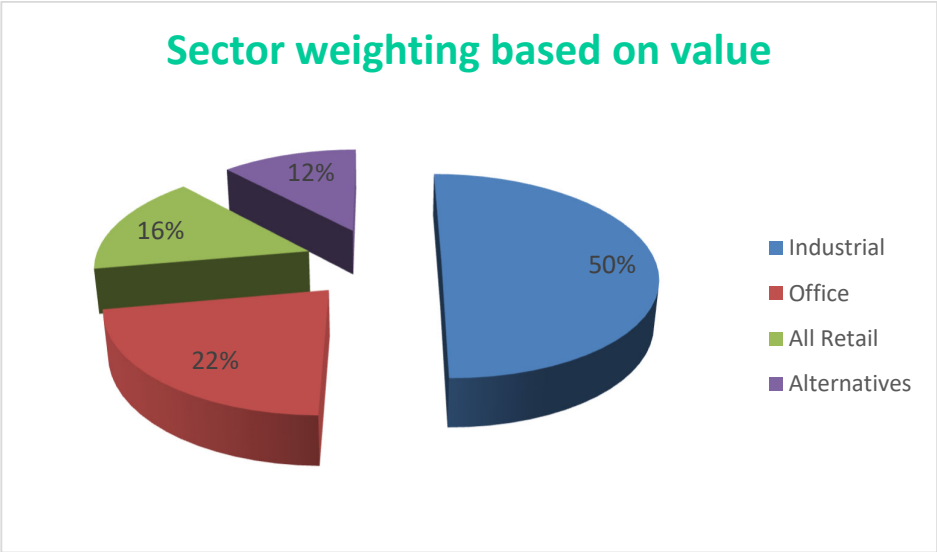
Rental income	Industrial	Office	All Retail	Alternatives	All
2015/16	2,679,571	1,831,900	1,750,254	885,636	7,147,361
2016/17	3,057,302	1,858,638	1,447,672	1,062,137	7,425,749
2017/18	3,493,405	3,186,048	1,426,317	1,080,786	9,186,556
2018/19	3,619,808	3,038,548	1,459,048	1,129,361	9,246,765
2019/20	3,369,452	2,135,460	1,459,548	1,139,397	8,103,857
2020/21	3,565,449	2,112,620	1,284,638	1,139,397	8,102,104
Capital value**	**Industrial**	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	39,077,755	19,227,500	34,270,000	11,233,500	103,808,755
2016/17	42,922,450	25,915,000	25,908,500	15,963,500	110,709,450
2017/18	51,509,000	49,574,000	26,065,000	17,471,500	144,619,500
2018/19	66,970,000	49,159,000	26,097,000	18,843,000	161,069,000
2019/20	72,295,790	35,609,000	26,097,000	18,143,000	152,144,790
2020/21	77,670,905	34,165,000	24,527,000	18,540,500	154,903,405
Income return	**Industrial**	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	8.0%	7.5%	5.6%	7.5%	6.8%
2016/17	7.1%	7.2%	5.6%	6.7%	6.7%
2017/18	8.0%	7.4%	5.2%	5.8%	6.6%
2018/19	6.8%	6.6%	5.9%	5.8%	6.3%
2019/20	6.9%	5.3%	5.9%	5.9%	6.0%
2020/21	6.5%	5.4%	5.6%	5.8%	5.8%
Benchmark return	**Industrial**	**Office**	**All Retail**	**Alternatives**	**All**
2015/16	6.1%	4.7%	5.4%	4.7%	5.2%
2016/17	5.4%	4.1%	5.0%	5.5%	4.8%
2017/18	4.9%	4.1%	5.1%	5.3%	4.8%
2018/19	4.4%	4.0%	5.1%	5.0%	4.6%
2019/20	4.4%	4.0%	5.4%	5.1%	4.7%
2020/21	4.4%	4.0%	5.6%	4.8%	4.6%

* Excludes Finance leases
**Capital Values as at 31/01/2020

- **Sector Weighting** – Industrial was the strongest sector going into the lockdown and the sector expected to hold up best. Officers have worked hard over the years to ensure that the investment fund has a high weighting of industrial investments in comparison to and office retail and alternatives. This helped to mitigate the effect of the pandemic with industrial values increasing, enabling the portfolio as a whole to not only hold its value, but increase despite the fall in value on other sectors. Due to the increase in value, the weighting of industrial now represents 50% of the portfolio.

- **Midleton Redevelopment** – Whilst the increased demand for industrial property and lack of supply led to an increase in value for the Council's industrial assets across the board, sites required for the Midleton redevelopment were temporarily de-valued as they were vacated and demolished to make way for developments. This also affected

income; whilst some rent was collected for units in 2020/21 at the time of this snapshot report rent was recorded as nil return.



- **Revaluation of High Street Assets** – The shift away from High Street retailing was accelerated in 2020/21 due to COVID-19 lockdowns resulting in rents declining further and vacancy levels increasing in the market. This led to some of the assets having to be marginally de-valued. However, longer leaseholds with secure income retained their value. Income was affected on the High Street assets but elsewhere the Council managed to produce small uplifts in rent.

- **Rent reviews** – Several rents that were due for review during the pandemic were put on hold to assist tenants during this unprecedented time. These will be reviewed in 2021/22.

- **Voids/Lettings** – A number of properties that became void in 2019/20 remained so due to the pandemic, this included 126 High Street, two floors at 2 The Billings (one now under-offer), 2 Thornberry Way (now under-offer), 126 High Street (now re-let) and 40A Castle Street (moth balled for disposal - awaiting Museum review). However, these were off-set by successful new lettings despite the difficult market (see key 5 transactions).

Whilst the income of the portfolio has stayed level this year as a result of the above, due to mitigating income generation through rent reviews, new lettings and active asset management the fund continues to perform well and significantly above benchmark.

ASSET INVESTMENT FUND 2020-23

A new Asset Investment Fund of £40 million was approved by the Executive in January 2020 as part of the Capital and Investment Strategy 2020-21 to 2024-2025. The Asset Investment Strategy which was due to go to the Executive in March 2020 was delayed due to COVID-19 but finally approved by the Executive in September 2020. However, due to the pandemic there has been a lack of suitable stock in the market which resulted in only one acquisition taking place in 2020/21. It is hoped that with the relaxation of the COVID-19 restrictions the markets may open-up more in 2021/22 to allow further acquisitions. The Council's ability to source the right investment stock at the right price continues to be the biggest driver of performance.

GBC INVESTMENT PROPERTY FUND PORTFOLIO ANNUAL REPORT 2020/21

KEY 5 TRANSACTIONS

	Property	Transaction
	10 Midleton	Void since 2019. New 15-year lease from 14/10/2020 at £326,729pa.
	The Hub, 1 Thornberry Way, Slyfield	Acquired in August 2019. New 10-year lease from 27/01/21 at £233,200pa.
	Fox's Garage, Midleton	Acquired in Sept 2020 for £500,000. New 5-year lease from 25/01/2021 at £40,600pa (GIY of 8%).
	1 North Moors, Slyfield	Surrendered at nil cost to Council in October 2019. New 20-year lease from 16/09/2020 at £40,000pa (100% increase in rental).
	23 Woodbridge Meadows	New 125-year lease from 26/10/2020 at £15,000pa to allow redevelopment of this and adjoining site.

LOCAL PROPERTY MARKET 2020/21 REVIEW

Activity across the UK commercial property sector ended a tumultuous year with capital values and rents becoming increasingly divergent at the sector level. Industrial uses strengthening while retail and office vacancy rates rose at record pace; a trend exacerbated by the response to the COVID-19 pandemic.

Industrial

Strong investment demand for industrial drove yields down to new levels. This was mainly due to the UK logistics market which witnessed a record year; the pandemic and ensuing lockdowns accelerated the shift to online. This led to a surge in demand from Ecommerce and Post & Parcel operators (e.g. Amazon). Despite not having a large logistics offering, industrial property within Guildford continued to perform well. A scarcity of supply, particularly for smaller sub-10,000 sq. ft. units, limited new build and strong levels of take up resulted in rental and capital value growth during the year.

The Council's redevelopment of Midleton (see section 'Major Projects' below) is one of very few pipeline developments in the Borough with the only other notable development being Aviva Investors' refurbishment of a 30,000 sq ft unit at Slyfield, to be launched in Q2 2021. Further news is awaited regarding land at Burnt Common which was released as employment land in the recent Local Plan and is the subject of a planning application.

Office

The trend for companies downsizing/reducing overheads, increasing tech / decreasing office numbers and increasing home working was intensified by COVID-19 and home working. Whilst many people started to return to the office in some form at the end of 2020/21, office

occupiers were (and still are) unsure about space requirements and what they may need going forward. As a result, the availability of office space rose, seeing the strongest rate of increase since the global financial crisis[3]. Take-up in Guildford was at an all-time low in 2020, reported to be under 50,000 sq. ft, less than half the annual average take-up level in Guildford since the 2008 crash and almost a third of the pre-2008 average. The largest recorded deal in 2020 was the acquisition of the 29,170 sq ft Riverworks office for educational purposes by Department for Education generating a sale of £12.7m.

The absence of transactional evidence suggests that top rents are unchanged yet increasing incentives could be masking the falling effective rental levels. That said, there has been a slow increase in requirements which will hopefully transition to take-up later in the year (e.g. Unit 2, The Billings which is under offer at full market rent).

On a positive note, there is more interest in prime office demand, especially at the smaller suite end, where companies are downsizing or seeking to extract themselves from the capital but looking more for quality. Guildford has proven popular with gaming companies; Wargaming let additional space in 2020 in order to establish their UK Headquarters.

Retail

Retail property was undoubtedly strongly affected COVID-19 but this simply accelerated the existing structural challenges around online and omni-channel retailing. The crisis gripping the high street saw more retailers filing for CVAs and administrations, with Debenhams and Arcadia among the most notable casualties. Multiple/chain retailers were relatively inactive with Landlords favouring independent retailers looking for opportunities to open. However, these occupiers have a maximum rent and Guildford saw a reduction in rental levels from over £300psf ITZA in 2018 to c.£175 psf ITZA in 2020/21. Unsurprisingly, the online sector continued to perform strongly. Out of town retail warehousing was arguably the most defensive part of UK retailing against the rise of online retail sales, driven by affordability and stronger demands from retailers. There continued to be occupational activity particularly at the value end of the market (e.g. Lidl, Aldi, The Range, Home Bargains, etc.).

PROPERTY MARKET – OUTLOOK

There continues to be a range of forecasts, but recovery is expected to be strong as the economy gets back in gear, bolstered by the UK's highly successful vaccination programme. That's not to dismiss the still significant challenges faced by some sectors though, with structural forces set to considerably impact the way office and retail space is utilised over the longer term.

It is felt the office market will have a greater emphasis on health & wellbeing with fewer desks (but more desk space) alongside a greater share of collaboration and meeting space. Outdoor areas, amenities and fit-out will be top priorities and investment in environmental, social and governance (ESG) will accelerate with smart building technology and net zero carbon upgrades.

The speed of recovery in retail will depend on how quickly consumers spend the savings amassed during the pandemic. The next months will also provide a gauge on the propensity of some consumers to keep shopping online post-lockdown. However, many within the industry continue to advocate a wider reform of the business rates system.

The re-purposing of retail assets, the future demand for offices, and the growing importance of ESG issues and the evolving impact of Brexit are likely to be key issues for 2021.

[3] RICS UK Commercial Market Survey, Q4 2020

GBC INVESTMENT PROPERTY FUND PORTFOLIO ANNUAL REPORT 2020/21

MAJOR PROJECTS

Midleton Industrial Estate Redevelopment

The Council progressed the phased redevelopment of Midleton Industrial Estate during 2020/21 despite the issues regarding the pandemic.

Phase 1 – This phase, the development of a pair of semi-detached industrial/warehouse units c. 10,000 sq.ft, with offices, was completed in 2020/21. Both units were let to a single tenant (new to Guildford) in April 2021 on a 10-year lease at £126,063pa.

Phase 2/3 - Demolition works of plots 12-15 were completed in 2020/21 and construction works are progressing at pace. It is hoped works will be completed in Autumn with some units already under offer.

Phase 4 - Design work for plots 3-5 and 9 got underway and a planning application was submitted and has subsequently been approved. It is hoped that the Council will be going out to tender for the works in Summer 2021.

Unit 2, The Billings, Walnut Tree Close

During 2020 the Council undertook a full refurbishment of Unit 2, including full internal redecoration to first, ground and lower ground floors, communal area and roof works. The refurbishment works successfully attracted two good lettings in a very difficult market. The lower ground floor let in November 2020 at a rent of £39,500 pa; and the first-floor accommodation is under offer.

The Hub, 1 Thornberry Way, Slyfield

In 2020 a refurbishment of The Hub was completed which included, stripping out the mezzanine floor and full warehouse racking, undertaking repairs to the concrete slab where necessary, and a full refurbishment of the office and kitchen area. The property was then successfully let in January 2021 at £233,200 pa.

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G. F. CAPITAL PROGRAMME - EXPENDITURE **2020-21** 21.06.21

Service Unit / Scheme	Original Estimate £	Outturn Estimate £	Actual £ p	Variance (o/s = overspend) £
1. APPROVED CAPITAL PROGRAMME SCHEMES				
COMMUNITY DIRECTORATE				
Mandatory DFG	605,000	635,985	339,701.74	(296,282.90)
Better Care Fund	-	0	254,569.41	254,569.41
Home Improvement Grants (w.e.f. 2003)	-	0	8,199.79	8,199.79
Solar Energy Loans			6,000.00	6,000.00
BCF TESH project	-	0	0.00	-
BCF Prevention grant		0	27,513.70	27,513.70
SHIP: Equity Loans Scheme Imps	-	0		-
General	100,000	0		-
General	120,000	122,769		(122,768.82)
Bright Hill CP	0	0	35,063.20	35,063.20
Garage Sites - General	0	0	1,837.50	1,837.50
Japonica Court/Shawfield Day Centrw	0	1,633	1,633.24	-
STTE B10b Feasibilty	0	0	501.00	501.00
Redevelopment bid 13	0	0	83,733.88	83,733.88
Void investment property refurbishment works	170,000	0		-
Unit 2 The Billings void works (complete)	0	47,786	47,786.10	-
5 High Street void works	0	5,854	5,854.17	-
1 Midleton void works		5,619	5,618.50	-
10 Midleton void works		214,930	214,929.98	-
Energy efficiency compliance - Council owned properties	137,000	313	312.80	-
Bridges -Inspections and remedial works	0	4,433		(4,432.80)
Bridges - Millmead Lattice		0	3,112.80	3,112.80
Bridges - general			1,320.00	1,320.00
Electric Theatre - new boilers (complete)	0	120,000	120,000.00	-
The Billings roof	175,000	1,975	1,975.00	-
Broadwater cottage	0	206,271	206,270.92	-
Gunpowder mills - scheduled ancient monument(complete)	52,000	186,539	186,538.63	-
Guildford House Exhibition lighting	50,000	0	0.00	-
Rodboro Buildings - electric theatre through road and parking	280,000	10,135	10,134.78	-
Cladding of Ash Vale units (no longer reqd)	92,000	0	0.00	-
Tyting Farm Land-removal of barns and concrete hardstanding(complete)	0	135,378	135,378.39	-
Foxenden Tunnels safety works	0	5,601	5,600.64	-
Holy Trinity Church boundary wall	0	43,219	43,219.25	-
SMP Ph1 Calorifer replacement	28,000	0		-
SMP Main pavilion amenity club	50,000	3,135	3,135.00	-

G. F. CAPITAL PROGRAMME - EXPENDITURE **2020-21** 21.06.21

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance *(o/s = overspend)*
	£	£	£ p	£
SMP cricket pavilion	120,000	3,740	3,740.00	-
COMMUNITY DIRECTORATE - Totals	**1,979,000**	**1,755,314**	**1,753,680.42**	**-1,633.24**
ENVIRONMENT DIRECTORATE				
Flood resilience measures (use in conjunction with grant funded schemes)	21,000	0		-
Vehicles, Plant & Equipment Replacement Programme	4,220,000	3,143,519	3,143,519.00	-
Flood resilience measures (use in conjunction with grant funded schemes)	0	100,000		(100,000.00)
Litter bins replacement (complete)	153,000	0		-
Merrow lane grille & headwall construction	57,000	0		-
Spectrum Roof replacement	0	102,985	102,985.29	-
Infrastructure works: Guildford Commons	0	836	836.00	-
Westnye Gardens play area (complete)	0	5,271	5,271.43	-
Redevelopment of Westborough and Park barn play area	295,000	0		-
Stoke cemetry re-tarmac	47,000	0		-
Woodbridge rd sportsground replace fencing(complete)	0	15,659	15,658.79	-
Pre-sang costs	0	6,250	6,250.00	-
Museum and castle development (no longer reqd)	1,020,000	0	0.00	-
Parks and Countryside - repairs and renewal of paths,roads and car parks	0	29,529	29,529.31	-
Kings college astro turf (complete)	0	17,821	17,820.90	-
Shalford Common - regularising car parking/reduction of encroachments	99,000	4,300	4,300.00	-
Allen House Pavillion - Roof Works	0	30,000	30,000.00	-
Traveller encampments - Bellfields Green	10,000	20,000	20,000.00	-
Traveller encampments	5,000	0		-
Traveller encampments - Christchurch Spectrum	5,000	5,000		(5,000.00)
ENVIRONMENT DIRECTORATE - Totals	**5,932,000**	**3,481,171**	**3,376,170.72**	**-105,000.00**
FINANCE DIRECTORATE				
Capital contingency fund	5,000,000	0	**0.00**	-
FINANCE DIRECTORATE- Totals	**5,000,000**	**0**	**0.00**	**0.00**
DEVELOPMENT - INCOME GENERATING ETC				
Guildford Park - Housing for Private and infrastructure works (move to HRA)	3,462,000	-2,844,608	-2,844,607.80	-
Investment in North Downs Housing (60%)	4,500,000	2,958,627	2,958,627.01	-
Equity shares in Guildford Holdings ltd (40%)	3,000,000	1,973,418	1,973,418.00	-
Middleton Ind Est Redevelopment	5,500,000	3,423,945	3,423,945.24	-
Property acquisitions	20,000,000	1,284,845	1,284,844.64	-

G. F. CAPITAL PROGRAMME - EXPENDITURE **2020-21** 21.06.21

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance (o/s = overspend)
	£	£	£ p	£
Walnut Bridge replacement	1,593,000	1,279,857	1,279,856.98	-
Rebuild Crematorium	0	528,315	528,315.46	-
Internal Estate Road - CLLR Phase 1	0	342,724	342,724.21	-
Slyfield Area Regeneration Project (SARP)	700,000	3,217,486	3,217,486.03	-
WUV - Allotment relocation	160,000	454,118	454,118.49	-
WUV - New GBC Depot	0	59,142	59,141.98	-
WUV - Thames Water relocation	0	6,628,326	6,628,325.77	-
WUV - Land Purchase	0	1,090,590	1,090,589.75	-
North Street Development / Guild Town Centre regeneration	736,000	275,251	275,250.99	-
Town Centre Gateway Regeneration(no longer reqd)	3,480,000	0		-
SMC(West) Phase 1	2,975,000	374,371	374,371.00	-
A331 hotspots	3,146,000	81,788	81,788.20	-
Town Centre Approaches	816,000	446,436	446,435.59	-
Ash Road Bridge	20,654,000	976,584	976,584.19	-
Ash Road Footbridge	500,000	29,420	29,420.00	-
DEVELOPMENT INCOME GENERATING ETC - Totals	**71,222,000**	**22,580,636**	**22,580,635.73**	**0**
Approved programme total	**84,133,000**	**27,817,120**	**27,710,486.87**	**-106,633**
COMMUNITY DIRECTORATE				
Old Manor House - replacement windows (no longer reqd)	193,000	0		-
Guildford Museum (no longer reqd)	16,810,000	0		-
Methane gas monitoring system	150,000	0		-
Energy efficiency compliance - Council owned properties	950,000	0		-
Bridges	370,000	0		-
Westfield/Moorfield rd resurfacing	3,152,000	0		-
New House works (no longer reqd)	416,000	0		-
Energy & CO2 reduction in Council non HRA properties	268,000	0		-
COMMUNITY DIRECTORATE - Totals	**22,309,000**	**0**	**0.00**	**0.00**
ENVIRONMENT DIRECTORATE				
Vehicles, Plant & Equipment Replacement Programme	780,000	0		-
Stoke pk office accomodation & storage buildings	665,000	0		-
Stoke Park Masterplan enabling costs	100,000	0		-
Parks and Countryside - repairs and renewal of paths,roads and car parks	400,000	0		-
Sports pavillions - replace water heaters	28,000	0		-
Traveller encampments moved to approved as new named	115,000	0		-

G. F. CAPITAL PROGRAMME - EXPENDITURE **2020-21** 21.06.21

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance *(o/s = overspend)*
	£	£	£ p	£
ENVIRONMENT DIRECTORATE - Totals	**2,088,000**	**0**	**0**	**0**
DEVELOPMENT - INCOME GENERATING ETC				
Guildford Park - Housing for Private and infrastructure works	4,380,000	0	**0.00**	-
Redevelop Midleton industrial estate	5,557,000	0	**0.00**	-
North Street development	29,090,000	0	**0.00**	-
Bright Hill Development	500,000	0	**0.00**	-
Guildford West (PB) station	1,700,000	0	**0.00**	-
Property acquisitions	9,492,000	0	**0.00**	-
Guildford Gyratory & approaches	3,500,000	0	**0.00**	-
Bus station relocation	500,000	0	**0.00**	-
Ash Road Footbridge	4,300,000	0		-
DEVELOPMENT - INCOME GENERATION - Totals	**59,019,000**	**0**	**0**	**0**
Provisional total	**83,416,000**	**0**	**0.00**	**0**
3. PROJECTS FUNDED FROM RESERVES etc.				
ENERGY PROJECTS per SALIX RESERVE:(PR220)	0	0		-
LED lighting	44,000	70,050		(70,050.00)
MILLMEAD HOUSE & FARNHAM ROAD CP - PV	0	70,050	70,273.39	223.39
Park Barn Day Centre - air source heat pump (complete)			2,884.66	
SMP - air source heat pump	28,000	320	**0.00**	(320.00)
ENERGY RESERVES - Totals	**72,000**	**140,420**	**73,158.05**	**-70,146.61**
BUDGET PRESSURES RESERVE				
Future Guildford implementation team	1,600,000	0		-
BUDGET PRESSURES RESERVE TOTAL	**1,600,000**	**0**	**0**	**0**
				-
FINANCE DIRECTORATE				-
IT Renewals				
Hardware / software budget	500,000	652,874		(652,874.24)
Hardware	0	0	13,491.90	13,491.90
Software	0	0	609,821.06	609,821.06
ICT infrastructure improvements	0	0		28,289.25
Hardware	0	0	1,272.03	1,272.03
Software	50,000	375	28,289.25	27,914.25

G. F. CAPITAL PROGRAMME - EXPENDITURE **2020-21** 21.06.21

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance (o/s = overspend)
	£	£	£ p	£
Future Guildford ICT	0	545,486	108,922.92	(436,563.08)
Salesforce			436,772.94	436,772.94
BUSINESS SYSTEMS - IT Renewals Reserve - Totals	**550,000**	**1,198,735**	**1,198,570.10**	**28,124.11**
CAR PARKS RESERVE				
- Deck Millbrook car park(no longer reqd)	1,000,000	0		-
Lift replacement (PR000293)	187,000	368,974	369,322.82	348.82
Additional barriers Farnham Rd	15,000	0		-
Deck surface replacement (stair cores)Farnham Rd	70,000	0		-
Deck surface replacement Leapale Rd	400,000	8,000	7,500.00	(500.00)
Signage replacement Leapale Rd(no longer reqd)	30,000	0		-
Structural repairs roof turret timbers Castle St	60,000	0		-
Car Park Reserves- Totals	**1,762,000**	**376,974**	**376,822.82**	**-151.18**
Reserves total	**3,984,000**	**1,716,129**	**1,648,550.97**	**-42,174**
4. PROJECTS FUNDED FROM S106				
ENVIRONMENT DIRECTORATE				
Gunpowder mills - signage, access and woodland imps	0	748	1,380.00	632.00
Chantry Wood Campsite	0	0		-
Foxenden Quarry	0	2,728	2,800.00	72.00
SMP outdoor gym equipment COMPLETE	0	395	395.00	-
Fir Tree Garden	0	1,235	587.93	(647.07)
Boardwalk Heathfield Nature Reserve	0	244		(244.00)
Albury Playground Equip (PC)	0	17,000	17,393.56	393.56
West Horsley Planters		6,748	6,748.00	-
Worplesdon Office accom		51,528	51,528.46	0.46
ENVIRONMENT DIRECTORATE - Totals	**0**	**80,626**	**80,833**	**207**
S106 total	**0**	**80,626**	**80,833**	**207**

G. F. CAPITAL PROGRAMME SCHEMES - EXPENDITURE **2020-21**

SERVICE UNIT - SUMMARY	Original Estimate	Updated Estimate	Actual	Variance (o/s = overspend)

Agenda item number: 6
Appendix 3

G. F. CAPITAL PROGRAMME - EXPENDITURE **2020-21** 21.06.21

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance *(o/s = overspend)*
	£	£	£ p	£
	£	£	£ p	£
GRAND TOTALS (INCL PROVISIONAL)				
COMMUNITY	24,288,000	1,755,314	1,753,680.42	(1,633)
ENVIRONMENT	8,020,000	3,561,797	3,457,003.67	(104,793.05)
FINANCE	5,000,000	-	0.00	-
DEVELOPMENT INCOME GENERATING ETC	130,241,000	22,580,636	22,580,635.73	-
ENERGY RESERVES	72,000	140,420	73,158.05	(67,261.95)
IT Reserve	550,000	1,198,735	1,198,570.10	(165.14)
Car Parks Reserve	1,762,000	376,974	376,822.82	(151.18)
Capital Reserve	1,600,000	-	0.00	-
TOTAL	**171,533,000**	**29,613,875**	**29,439,870.79**	**-174,004.56**

Agenda item number: 6
Appendix 3

Schedule of investments at 31 March 2021

Counterparty	Principal £	Rate	Start	End
Fixed investments				
LA - LB Islington	5,000,000	1.0000%	07-Apr-20	06-Apr-21
LA - Birmingham City Counci	5,000,000	1.1000%	27-Apr-20	26-Apr-21
Metropolitian Housing Trust	2,000,000	1.5000%	28-May-20	28-May-21
LA - Plymouth Council	5,000,000	0.1200%	05-Jan-21	05-Jul-21
LA - Wokingham BC	5,000,000	0.2700%	10-Nov-20	09-Nov-21
LA - Thurrock Council	2,000,000	0.3800%	04-Jan-21	04-Jan-22
LA - Thurrock Council	4,000,000	0.3800%	13-Jan-21	12-Jan-22
LA - Aberdeen City	5,000,000	0.1000%	18-Jan-21	17-Jan-22
LA - IOW	5,000,000	0.1000%	20-Jan-21	19-Jan-22
LA - Thurrock Council	4,000,000	0.3800%	02-Feb-21	01-Feb-22
LA - Warrington BC	10,000,000	0.3000%	12-Mar-21	11-Mar-22
LA - PCC Sussex	4,000,000	0.0500%	30-Mar-21	28-May-21
	56,000,000			
Short-term Bonds				
London Stock Exchange	2,000,000	0.1720%	19-Jan-21	02-Nov-21
	2,000,000			
Long-term Covered bonds				
National Australia Bank	2,000,000	1.1250%	10-Nov-16	10-Nov-21
Commonwealth Bank of Austr	2,000,000	1.1250%	18-Jan-17	22-Dec-21
CIBC	2,000,000	1.1250%	17-Jul-17	30-Jun-22
Santander UK plc	1,000,000	0.3034%	16-Nov-17	16-Nov-22
Barclays Bank UK PLC	1,000,000	0.4771%	23-Oct-18	09-Jan-23
Nationwide	850,000	0.4729%	12-Apr-18	12-Apr-23
United Overseas Bank	1,000,000	0.3040%	01-Feb-19	28-Feb-23
Santander UK plc	1,000,000	0.7850%	12-Feb-19	12-Feb-24
Nationwide	1,500,000	0.6070%	10-Jan-20	10-Jan-25
Leeds BS	750,000	0.5967%	15-Jan-20	15-Jan-25
Coventry BS	500,000	0.5767%	15-Jan-20	15-Jan-25
Lloyds	1,500,000	0.4255%	03-Feb-20	03-Feb-23
National Australia Bank	1,000,000	0.5555%	04-Feb-20	04-Feb-25
	16,100,000			

Counterparty	Principal £	Rate	Start	End
Long-term investments				
Staffordshire Moorlands	1,500,000	1.3000%	20-May-20	20-May-22
LB Croydon	5,000,000	0.9500%	05-May-20	04-May-21
Highland Council	5,000,000	2.0000%	14-Apr-20	14-Apr-21
Rugby Borough Council	2,000,000	2.0500%	15-Apr-20	15-Apr-21
Southern Housing Group Ltd (	6,000,000	1.4500%	09-Mar-21	09-Sep-21
Uttlesford DC - Saffron Walde	3,000,000	0.4500%	24-Nov-20	24-May-22
	22,500,000			
Notice Accounts				
Barclays	3,000,000			
	3,000,000			
Call Account				
HSBC	325,500			
	325,500			
Money market funds				
Aberdeen	7,029,000			
BNP	5,203,000			
Aviva	8,466,000			
CCLA	7,000,000			
Federated	11,521,000			
	39,219,000			
Total internally managed	**139,144,500**			
Externally managed				
CCLA	6,491,179			
Federated Cash Plus	5,000,000			
Royal London	2,332,194			
M&G	3,528,656			
Schroders	697,631			
Fundamentum (REIT)	1,970,000			
UBS	2,203,598			
Funding Circle	508,476			
Total Externally managed	**22,731,734**			
Total investments	**161,876,234**			

Economic background – a commentary from Arlingclose

Economic background: The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March. A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over $5 trillion. The Federal Reserve cut its main interest rate to between 0% and 0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative)

while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

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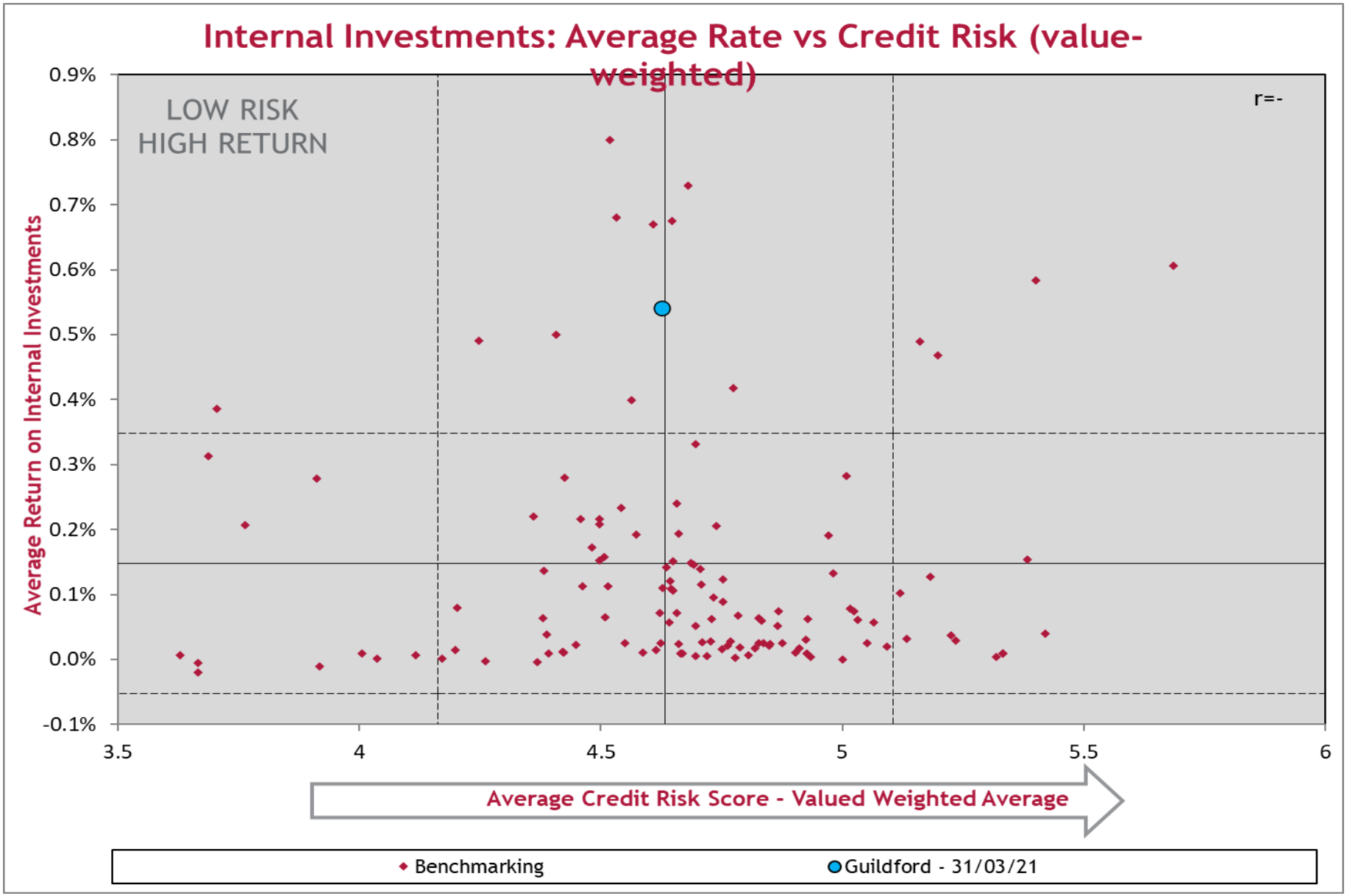
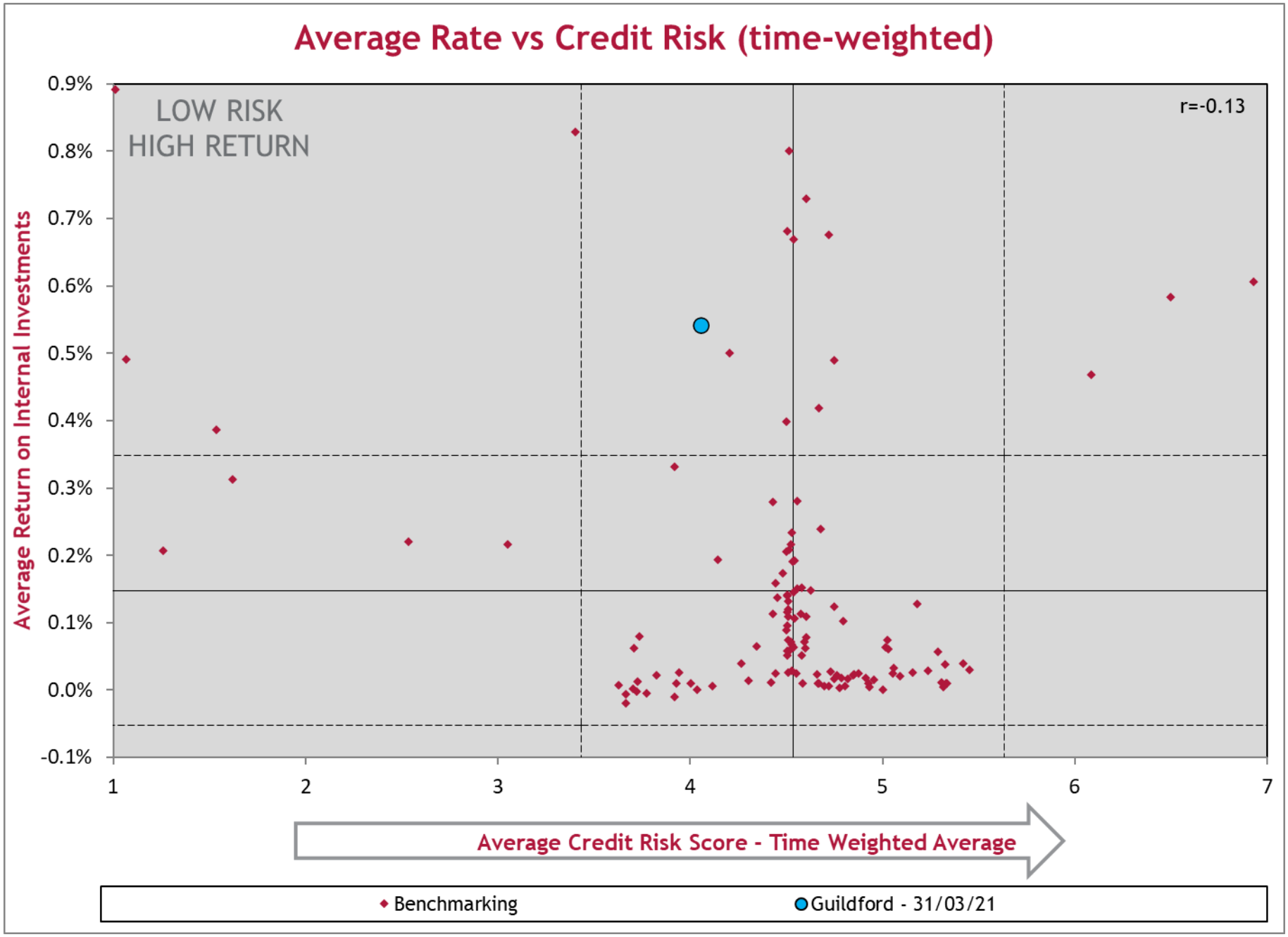

Internal Investments: Average Rate vs Credit Risk (value-weighted)
LOW RISK
HIGH RETURN
r=-
Average Return on Internal Investments
0.9%
0.8%
0.7%
0.6%
0.5%
0.4%
0.3%
0.2%
0.1%
0.0%
-0.1%
3.5
4
4.5
5
5.5
6
Average Credit Risk Score - Valued Weighted Average
Benchmarking
Guildford - 31/03/21


Average Rate vs Credit Risk (time-weighted)
LOW RISK
HIGH RETURN
r=-0.13
Average Return on Internal Investments
0.9%
0.8%
0.7%
0.6%
0.5%
0.4%
0.3%
0.2%
0.1%
0.0%
-0.1%
1
2
3
4
5
6
7
Average Credit Risk Score - Time Weighted Average
Benchmarking
Guildford - 31/03/21

Credit score analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

The value-weighted average reflects the credit quality of investments according to the size of the deposit. The time-weighted average reflects the credit quality of investments according to the maturity of the deposit

The Authority aimed to achieve a score of 7 or lower, to reflect the council's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

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Credit Rating Equivalents and Definitions

	Fitch	Moody's	Standard & Poor's
Long Term Investment Grade	AAA	Aaa	AAA
	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-
	A+ A A-	A1 A2 A3	A+ A A-
	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-
Sub Investment Grade	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-
	B+ B B-	B1 B2 B3	B+ B B-
	CCC+ CCC CCC-	Caa1 Caa2 Caa3	CCC+ CCC CCC-
	CC+ CC CC-	Ca1 Ca2 Ca3	CC+ CC CC-
	C+ C C-	C1 C2 C3	C+ C C-
	D		D or SD

Fitch	Moody's	Standard & Poor's
AAA Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in the case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.	**Aaa** Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.	**AAA** An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard & Poors.
AA Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	**Aa** Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.	**AA** An obligator rated 'AA' has very strong capacity to meets its financial commitments. It differs from the highest rated obligators only to a small degree.
A High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.	**A** Obligations rated A are considered upper-medium grade and are subject to low credit risk.	**A** An obligator rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligators in higher rated categories.
BBB Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category.	**Baa** Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.	**BBB** An obligator rated 'BBB' has adequate capacity to meets its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligator to meet its financial commitments.

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Background to externally managed funds

CCLA – The Local Authorities Property Fund

The fund's objective is to generate long-term growth in capital and a high and rising income over time.

The aim is to have high quality, well-diversified commercial and industrial property portfolio, in the UK, focussing on delivering attractive income and is actively managed to add value.

The fund will maintain a suitable spread between different types of property and geographical location. Importance will be attached to location, standard of construction and quality of covenant with lease terms preferably embodying upwards only rent reviews at intervals of not more than five years.

M&G Global Dividend Fund

The fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. It aims to grow distributions over the long-term whilst maximising total return (a combination of income and growth of capital).

Exposure to global equities may be gained by using derivatives. The fund may invest across a wide range of geographies, sectors and market capitalisations. It may also invest in other assets including collective investment schemes, other transferrable securities, cash and near cash, deposits, warrants, money market instruments and derivatives.

The fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. The fund seeks to invest in companies that understand capital discipline, have the potential to increase dividends over the long-term and are undervalued by the stock market. Dividend yield is not the primary consideration for stock selection.

The fund manager aims to create a diversified portfolio with exposure to a broad range of countries and sectors designed to perform well in a variety of market conditions. It usually holds around 50 stocks with a long-term investment view and a typical holding period of 3-5 years.

<u>Risk and reward profile</u>

Low risk ⟷ High risk

Typically lower reward — Typically higher reward

1	2	3	4	5	6	7

The fund's risk factor based on historical data and may not be the same moving forward. It is rated a 5 because of the investments the fund makes:

- Value of investments, and income from them, will fluctuate and will cause the fund price to rise or fall
- Currency exchange rate fluctuations will impact the value of the investment

- There is a risk that a counterparty may default on its obligations or become insolvent, which may have a negative impact on the fund
- Investments in Emerging markets tend to have larger price fluctuations than more developed countries.
- There is a risk that one or more countries will exit the Euro and re-establish their own currencies. There is an increased risk of asset prices fluctuating or losing value. It may also be difficult to buy and sell securities and issuers may be unable to repay the debt. In addition, there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the fund.

Schroder Income Maximiser Fund
The funds objective is to provide income with potential capital growth primarily through investment in equity and equity related securities of UK companies. The fund will also use derivative instruments to generate income.

The manager may selectively sell short dated call options over securities or portfolios of securities held by the fund or indicies, in order to generate additional income by setting target 'strike' prices at which those securities may be sold in the future. The manger may also, for the purpose of efficient management, use derivative instruments which replicate the performance of a basket of short dated call options or a combination of equity securities and short dated call options. Investment will be in directly held transferable securities. The fund may also invest in collective investment schemes, derivatives, cash, deposits, warrants and money market transactions.

The fund aims to deliver a target yield of 7% per year, although this is an estimate and is not guaranteed. There are four quarterly distributions in a year, each calculated by dividing the quarterly distribution amount by the unit price at the start of that quarter.

UBS Multi-Asset Income Fund
The fund seeks to provide income, through a diversified portfolio of investments. Capital growth will not be a primary consideration, although opportunities for growth may occur if market conditions are favourable.

The fund will invest in a mix of transferrable securities including domestic and international equities and bonds, units in collective investment schemes, warrants, money market instruments, deposits, and cash or near cash, as the Investment Manager deems appropriate. There are no geographical restrictions on the countries of investment.

The Fund may use a range of derivative instruments which include foreign exchange, forward and futures contracts, swaps and options and other derivatives for investment purposes and / or to manage interest rate and currency exposures.

Index futures and other derivatives are used to manage market exposure inherent in an invested portfolio. Increasing or reducing market and currency exposure will entail the use of long or net short positions in some derivative instruments.

<u>Risk profile</u>
The main risks arising from the funds instruments are market price risk and foreign currency risk. Market price risk is the uncertainty about future price movements of the financial instruments the fund is invested in. Foreign currency risk is the risk that the value in the funds investments will fluctuate as a result in foreign exchange rates. Where the fund invests in overseas securities, the balance sheet can be affected by these funds due to movements in foreign exchange rates.

Investments in less developed markets may be more volatile than investments in more established markets. Less developed markets may have additional risks due to less established market practices. Poor liquidity may result in a holding being sold at a less favourable price, or another holding having to be sold instead.

Bonds carry varying levels of underlying risk, including default risk, dependent upon their type. These range from gilts, which carry limited levels, to speculative/non-investment grade corporate bonds, that carry higher levels of risk but with the potential for greater capital growth.

Over 35% of the fund may be invested in securities issued by any one body.

The fund will use derivatives as part of its investment capabilities. This allows it to take 'short positions' in some investments and it can sell a holding they do not own, on the anticipation that its value will fall. These instruments carry a material level of risk and the fund could potentially experience higher levels of volatility should the market move against them.

In order to trade in derivative instruments they enter into an agreement with various counterparties. Whilst they assess the credit worthiness of each counterparty, the fund is at risk that it may not fulfil its obligations under the agreement.

In aiming to reduce the volatility of the fund they utilise a risk management process to monitor the level of risk taken in managing the portfolio, however there is no guarantee that this process will work in all instances

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Glossary

Affordable Housing Grants – grants given to Registered Providers to facilitate the provision of affordable housing.

Arlingclose – the Council's treasury management advisors

Asset Quality Review (AQR) – a review conducted by the ECB and national competent authorities examine whether assets were properly valued on a banks' balance sheet at 31 December 2013. It made banks comparable across national borders, by applying common definitions for previously diverging concepts and a uniform methodology when assessing balance sheets. The review provides the ECB with substantial information on the banks that will fall under its direct supervision and will help its efforts in creating a level playing field for supervision in future.

Authorised Limit – the maximum amount of external debt at any one time in the financial year

Bail in risk – following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail-in" a bank before taxpayers are called upon.

A bail in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.

Balances and Reserves – accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure

Bank of England – the central bank for the UK. It has a wide range of responsibilities, including act as the Government's bank and the lender of last resort, it issues currency and, most importantly, oversees monetary policy.

Bank Rate – the Bank of England base rate

Bank Recovery and Resolution Directive (BRRD) – this directive ensures that EU member states have a harmonised toolkit to deal with the failure of banks and investment firms. It will make the EU financial system less vulnerable to shocks and contagion

Banks – Secured – covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the banks assets, which limits the potential losses in the unlikely event of insolvency and means they are exempt from bail in.

Banks – Unsecured – accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. Subject

to the risk of credit loss via a bail in should the regular determine that the bank is failing or likely to fail.

Bonds – bonds are debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.

Capital expenditure – expenditure on the acquisition, creation or enhancement of capital assets

Capital Financing Requirement (CFR) – the Council's underlying need to borrow for a capital purpose, representing the cumulative capital expenditure of the Council that has not been financed

CCLA – the local authority property investment fund

Certainty rate – the government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.

Certificates of deposit – Certificates of deposit (CDs) are negotiable time deposits issued by banks and building societies and can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.

CIPFA - the Chartered Institute of Public Finance and Accountancy. The institute is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, in public service bodies, in the national audit agencies and major accountancy firms.

CLG – department of Communities and Local Government

Consumer Price Index (CPI) – measures changes in the price level of a market basket of consumer goods and services purchased by households.

Corporates – loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent.

Corporate bonds – corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.

Cost of Carry - costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.

Counterparty – the organisation the Council is investing with

Covered bonds – a bond backed by assets such as mortgage loans (covered mortgage bond). Covered bonds are backed by pools of mortgages that remain on the issuer's balance sheet, as opposed to mortgage-backed securities such as collateralised mortgage obligations (CMOs), where the assets are taken off the balance sheet.

Credit default swaps (CDS) – similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. The buyer effectively pays a premium against the risk of default.

Credit Rating – an assessment of the credit worthiness of an institution

Creditworthiness – a measure of the ability to meet debt obligations

Deposit Guarantee Scheme Directive (DGSD) – directive which requires EU member states to introduce at least one deposit guarantee scheme in their jurisdiction to provide protection for depositors and to reduce the risk of bank runs.

Derivative investments – derivatives are securities whose value is derived from the some other time-varying quantity. Usually that other quantity is the price of some other asset such as bonds, stocks, currencies, or commodities.

Derivatives – financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.

Diversification / diversified exposure – the spreading of investments among different types of assets or between markets in order to reduce risk.

DMADF – Debt Management Account Deposit Facility operated by the DMO where users can place cash in secure fixed-term deposits. Deposits are guaranteed by the government and therefore have the equivalent of the sovereign credit rating.

DMO – debt management office. An Executive Agency of Her Majesty's Treasury (HMT) with responsibilities including debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.

EIP Loans – Equal Instalments of Principal. A repayment method whereby a fixed amount of principal is repaid with interest being calculated on the principal outstanding

European Central Bank (ECB) – the central bank responsible for the monetary system of the European Union (EU) and the euro currency. Their responsibilities include to formulate monetary policy, conduct foreign exchange, hold currency reserves and authorise the issuance of bank notes.

European Investment Bank (EIB) – the European Investment Bank is the European Union's non-profit long-term lending institution established in 1958 under the Treaty of Rome. It is a "policy driven bank" whose shareholders are the member states of the EU. The EIB uses its financing operations to support projects that bring about European integration and social cohesion.

Federal Reserve Bank (Fed) – the central bank of the US and the most powerful institution of the world.

Finance Lease - a finance lease is a lease that is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease. The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets. The classification of a lease (as an operating or finance lease) also affects how it is reported in the accounts.

Floating rate notes – floating rate notes (FRNs) are debt securities with payments that are reset periodically against a benchmark rate, such as the three month London inter-bank offer rate (LIBOR). FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.

FTSE – a company that specialises in index calculation. Co-owners are the London Stock Exchange and the Financial Times. The FTSE 100 is an index of blue chip stocks on the London Stock Exchange.

Gilts – long term fixed income debt security (bond) issued by the UK Government and traded on the London Stock Exchange

Government – loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail in, and there is an insignificant risk of insolvency.

Gross Domestic Product – the monetary value of all finished goods and services produced within a country's borders in a specific time period, although it is usually calculated on an annual basis.

Housing Grants – see Affordable Housing Grants

Illiquid – cannot be easily converted into cash

Interest rate risk – the risk that unexpected movements in interest rates have an adverse impact on revenue due to higher interest paid or lower interest received.

Liability benchmark – the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero)

LIBID – London Interbank BID Rate – the interest rate at which London banks are willing to borrow from one another

LIBOR - London Interbank Offer Rate – the interest rate at which London banks offer one another. Fixed every day by the British Bankers Association to five decimal places.

Liquidity risk – the risk stemming from the inability to trade an investment (usually an asset) quickly enough to prevent or minimise a loss.

M&G – M&G Global Dividend fund. The fund invests mainly in global equities.

Market risk – the risk that the value of an investment will decrease due to movements in the market.

Mark to market accounting – values the asset at the price that could be obtained if the assets were sold (market price)

Maturity loans – a repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.

Minimum Revenue Provision (MRP) - the minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing

Moody's - a credit rating agency. They provide international financial research on bonds issued by commercial and government entities. They rank the creditworthiness of borrowers using a standardised ratings scale which measures expected investor loss in the event of default. They rate debt securities in several markets related to public and commercial securities in the bond market.

Money Market - the market in which institutions borrow and lend

Money market funds – an open-end mutual fund which invests only in money markets. These funds invest in short-term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (e.g. £1 per unit) but the interest rates does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- Constant net asset value (CNAV) refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at £1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share class), though some may choose to accumulate the income, or add it on to the NAV (accumulating share class). The NAV of accumulating CNAV funds will vary by the income received.
- Variable net asset value (VNAV) refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Money Market Rates – interest rates on money market investments

Monetary Policy Committee – the regulatory committee of the Central Bank that determine the size and rate of growth of the money supply, which in turn, affects interest rates.

Multilateral Investment banks – International financial institutions that provide financial and technical assistance for economic development

Municipal Bonds Agency – an independent body owned by the local government sector that seeks to raise money on the capital markets at regular interval to on-lend to participating local authorities.

Non Specified Investments - all types of investment not meeting the criteria for specified investments.

Operational Boundary – the most likely, prudent but not worst case scenario of external debt at any one time

Pooled Funds – investments are made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

Project rate – the government has reduced by 40 basis points (0.40%) the interest rates on loans via the Public Works Loans Board (PWLB) for lending in respect of an infrastructure project nominated by a Local Enterprise Partnership (LEP).

Prudential Code – a governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.

Prudential Indicators – indicators set out in the Prudential Code that calculates the financial impact and sets limits for treasury management activities and capital investment

Prudential Regulation Authority (PRA) – is responsible for the prudential regulation and supervision of around 1,700 banks, building societies, credit unions, insurers, and major investment firms. It sets standards and supervises financial institutions at the level of the individual firm.

PWLB (Public Works Loans Board) - a central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.

Quantitative easing (QE) – a type of monetary policy used by central banks to stimulate the economy when standard monetary policy has become ineffective. It is implemented by buying specified amounts of financial assets from commercial banks and other private institutions, raising the prices of those financial assets and lowering their yield, while simultaneously increasing the monetary base.

Registered Providers (RPs) – also referred to as Housing Associations.

Repo - a repo is an agreement to make an investment and purchase a security (usually bonds, gilts, treasuries or other government or tradeable securities) tied to an agreement to sell it back later at a pre-determined date and price. Repos are secured investments and sit outside the bail-in regime.

Reserve Schemes – category of schemes within the General Fund capital programme that are funded from earmarked reserves, for example the Car Parks Maintenance reserve or Spectrum reserves.

SME (Small and Midsize Enterprises) – a business that maintains revenue or a number of employees below a certain standard.

Sovereign – the countries the Council are able to invest in

Specified Investments - Specified investments are defined as:

a. denominated in pound sterling;
b. due to be repaid within 12 months of arrangement;
c. not defined as capital expenditure; and
d. invested with one of:
    i. the UK government;
    ii. a UK local authority, parish council or community council, or
    iii. a body or institution scheme of high credit quality

Stable Net Asset Value money market funds – the principle invested remains at its invested value and achieves a return on investment

Standard & Poors (S&P) – a credit rating agency who issues credit ratings for the debt of public and private companies, and other public borrowers. They issue both long and short term ratings.

Subsidy Capital Financing Requirement – the housing capital financing requirement set by the Government for Housing Subsidy purposes

SWAP Bid – a benchmark interest rate used by institutions

SWIP – SWIP Absolute Return Bond fund. They invest in fixed income securities, index linked securities, money market transactions, cash, near-cash and deposits.

Temporary borrowing – borrowing to cover peaks and troughs of cash flow, not to fund spending

Treasury Management – the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities and the pursuit of optimum performance with those risks.

Treasurynet – the Council's cash management system

Treasury Management Practices – schedule of treasury management functions and how those functions will be carried out

Treasury Management Strategy Statement – also referred to as the TMSS.

Voluntary Revenue Provision (VRP) – a voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.

Working capital – timing differences between income and expenditure (debtors and creditors)

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Corporate Governance and Standards Committee Report

Report of Director of Resources

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Lead Councillors responsible: Julie McShane (Lead Councillor for Community and Housing) and Tim Anderson (Lead Councillor for Resources)

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Date: 29 July 2021

Housing Revenue Account Final Accounts 2020-21

Executive Summary

The Housing Revenue Account (HRA) records all the income and expenditure associated with the provision and management of Council owned residential dwellings in the Borough. The requirement to maintain a Housing Revenue Account is set out in the Local Government and Housing Act 1989 and the requirements to publish final accounts is set out in the Accounts and Audit Regulations 2003.

This report sets out the actual level of revenue spending on day-to-day services provided to tenants recorded in the HRA in 2020-21.

The actual net income of revenue services in 2020-21 was £1.319 million lower than the budget of £15.810 million (paragraph 5.1). This variation represents 3.97% of the total turnover of £33.20 million. The final outturn (subject to audit) shows a surplus for the year of £9.95 million compared to a budgeted surplus of £11.6 million. This includes the HRA working balance at year-end remains £2.5 million.

The Chief Finance Officer, in consultation with the Leader of the Council and Lead Councillor for Community and Lead Councillor for Resources have used their delegated authority to transfer £2.5 million to the reserve for future capital programmes, with the balance of £7.45 million transferred to the new build reserve. This continues the policy adopted in previous years, whereby the year-end surplus is applied to each of the above two reserves.

Recommendation to Committee

The Committee is asked to submit any comments it wishes to make on the HRA Final Accounts for 2020-21 to the Executive.

Subject to any such comments, the Executive, at its meeting on 24 August 2021, will be asked to note the final outturn position and endorse the decision, taken under delegated authority to transfer £2.5 million to the reserve for future capital, and £7.45 million to the new build reserve from the revenue surplus of £9.95 million in 2020-21.

Reason for Recommendation
To allow the Statutory Statement of Accounts to be finalised and subject to external audit prior to approval by the Council.

Is the report (or part of it) exempt from publication? No

1 Purpose of Report

1.1 This report sets out the final position on the Housing Revenue Account for the 2020-21 financial year. It explains the major variances and reports how the available balance has been used.

2 Strategic Priorities

2.1 The Council is the largest social housing landlord in the borough, our activities contribute to each of the Council's strategic priorities. The Council's Fundamental Theme of 'Place-making' contained in the Corporate Plan 2018-2023 includes a key priority to provide the range of housing that people need, particularly affordable homes. This report helps to achieve this priority.

3 Revised timelines for Certification and Audit of the Accounts – COVID19

3.1 The Secretary of State's announced on 8 March 2021 his intention to extend the statutory audit deadlines for 2021-22.

3.2 In accordance with that decision and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 it has been decided that:

- the publication date for final, audited, accounts will move from 31 July to 30 September 2021 for all local authority bodies.
- no later than 31 July the Chief Finance Officer (CFO) must sign and date the statement of accounts and certify that it presents a true and fair view
- the audit will take place after 31 July and conclude before the final accounts are presented to councillors for approval
- to give local authorities more flexibility, local authorities must commence the public inspection period on or before the first working day of August 2021. Therefore, before completion of the audit, the accounts will be open for scrutiny by the public for 30 working days. The accounts will be open for inspection from 2 August 2021 to 10 September 2021 and we will publish the dates on our website
- the CFO must re-certify the statement of accounts prior to its approval by the Council or a committee
- no later than 30 September, the Council or a committee must consider and approve the statement of accounts, which are then signed by the person presiding at the meeting. The Corporate Governance and Standards Committee will be asked to consider and approve the audited accounts at its meeting on 23 September 2021.
- we must publish the audited accounts by 30 September 2021.

3.3 This report sets out the final position on the Housing Revenue Account.

3.4 Officers have included the impact of the final position in the statutory statement of accounts, which the Chief Financial Officer will sign on or before 30 July 2021. Grant Thornton will conclude the external audit before September.

3.5 The HRA is an integral part of the Statement of Accounts.

4 Background

4.1 The Local Government and Housing Act require the Council to keep a HRA that records all revenue expenditure and income relating to the provision of council residential dwellings and related services. The use of this account is heavily prescribed by statute and the Council is not allowed to fund any expenditure for non-housing related services from this account.

4.2 Since April 2012, the HRA has operated independently of the previous national income redistributive system. The Council made a one-off payment to the Government of £192.3 million as part of the settlement, this was funded through a portfolio of loans from the Public Works Loan Board.

4.3 The HRA Business Plan seeks to maximise the advantages of the new financial environment and the associated flexibility it offers.

4.4 The business plan objectives are set out below.

- operate a sound, viable housing business in a professional and cost-effective manner
- provide good quality homes in settled communities for as long as needed by tenants, consistent with our Tenancy Strategy
- increase the supply of affordable homes, including by direct provision where it is appropriate and viable to do so
- continue to strengthen communities by making our estates places people value and want to live
- value and promote tenant involvement in decision making
- widen the range of housing options open to tenants, ensuring they can make informed choices.

The 2020-21 budget reflected these objectives and priorities.

5 Summary

5.1 The table below summarises the net cost of revenue services in 2020-21.

Heading	Estimate 2020-21	Actual 2020-21	Variance 2020-21
Net Cost of Services (per income & expenditure account, Appendix A)	**(15,810,410)**	**(15,212,598)**	**(597,812)**
Amortisation and revaluation gains & losses – reverse impact on services	0	(143,347)	(143,347)
IAS 19 Pension charge - reverse impact on services	0	(473,168)	(473,168)
Decrease in depreciation charge – reverse impact on services	0	(161,291)	(161,291)
Net cost of revenue services	**(15,810,410)**	**(14,434,792)**	**(1,375,618)**

5.2 The operating surplus for the HRA account in 2020-21 is approximately £10.2million.

5.3 The table below shows the main variances between the budgeted and actual operating surplus for 2020-21 under the key headings.

	£000
Budgeted HRA outturn (surplus) / deficit 2020-21 *Represented by the budgeted contribution to the Reserve for Future Capital and the New Build reserve [£2.500m + £8.43m]*	**(10,933)**
Variance from budgeted position (major variances)	
Employee related [incl. write out of added years and pension strain costs]	(82)
Investment Income and Interest charge payable	368
Capital adjustments (depreciation, revaluation, REFCUS)	(86)
Premises (Repairs & maintenance, utilities, cleaning etc)	(291)
Allowance for Bad Debt impairment	67
Rental income	1,007
Total	**983**
Operating (surplus)/deficit available to transfer to reserve in 2020-21 *Represented by the proposed contribution to the Reserve for Future Capital and the New Build reserve (£2.500m + £7.45m)*	**(9,950)**

5.4 Officers propose to transfer £2.5 million to the reserve for future capital, with the balance of £7.45 million transferred to the new build reserve.

6 Outturn position and major variances

Revenue

6.1 Gross expenditure on services was 100.85% of the budgeted level, whilst income receivable totalled 97.4% of the budgeted level. The reasons for this are set out in paragraphs 6.4 to 6.10 below and summarised in **Appendix 1**.

6.2 The operating surplus for the HRA account in 2020-21 is approximately £9.9 million, which is significantly better than would have been the case under the previous redistributive regime. This surplus, however, makes no provision for the repayment of debt principal; in line with the approach set out in the HRA business plan approved by the Executive.

6.3 The HRA would still have an operating surplus if we had made provision to repay the debt over the 30-year plan period. To repay the debt over the 30-year plan period a sum in the region of £6.4 million would need to be set aside from the operating surplus each year, reducing the level of available capital to invest to a figure in the region of £3.8 million. This is an overly simplistic representation designed to highlight the underlying surplus. It ignores the impact of any premium and discounts arising on the early redemption of debt, and more significantly the impact inflation would have on the debt, which is fixed in cash terms and would erode in real terms as the result of inflation.

6.4 Rental income from dwellings was £29,002,041 (3.3%) below the estimate (Appendix A). The service has seen rent loss due to voids but rent collection levels on occupied property remains good.

6.5 Employee related expenditure was £88,565 higher than estimated and includes the in-year benefit of writing out accrued added years and pension strain costs.

6.6 Each year the Ministry of Housing, Communities and Local Government (MHCLG) sets a formula rent for each Council to apply to its housing stock along with a guideline rent increase/decrease. When our rents are higher than the prescribed "limit rent" then rent rebate subsidy limitation (RRSL) applies. RRSL is a mechanism that ensures that councils do not simply increase rents above the guideline level in the knowledge that the cost of doing so would fall on the Department of Work and Pensions (DWP) in higher housing benefit costs. The actual average rent for 2020-21 was below the prescribed limit rent; consequently, no RRSL charge has been applied to the HRA.

6.7 Expenditure on repairs & maintenance exceeded the budget by £353,000 or 5.8%. The budget provides for both planned and responsive repairs, so an element of demand driven cost is inherent in the expenditure. The service has seen expenditure on void properties increase in 2020-21. Void units typically incur additional repair and improvement expenditure in order to prepare them for reletting and these costs are often significant.

6.8 Total investment in the stock, including both revenue and capital funded maintenance and improvement works was £9.993 million.

6.9 Rent arrears remain at consistent levels, in contrast to the overall housing sector, which is experiencing an increase in the level of arrears. Although a number of welfare reform changes have now taken effect, migration delay in the roll out of universal credit has deferred any potential impact on arrears levels. As a result, a contribution of £66,700 has been made to the provision for bad debt in 2020-21. The budgeted contribution for 2020-21 was £300,000. This approach equates to a provision coverage ratio of 75%.

6.10 The table below sets out the outturn for the headline categories across the HRA.

Account	Budget £	Draft Actual £	Variance £
Employee related	3,113,920	3,202,485	(88,565)
Premises related	6,034,690	6,386,373	(351,683)
Supplies and services	1,199,820	1,401,974	(202,154)
Support services	1,392,960	1,417,581	(24,620)
Transport related	75,930	57,647	18,283
Expenditure	**11,817,320**	**12,466,060**	**(648,740)**
Income (including recharges)	**(33,142,260)**	**(33,209,844)**	**(67,584)**
Net Expenditure/(Income)	**(21,324,940)**	**(20,743,784)**	**(581,165)**

Comparison to net cost of services in Appendix 1			
Depreciation	5,525,000	5,686,291	161,291
Recharge to general fund for Housing Advice service	256,800	284,690	27,890
IAS 19 pension adjustment	0	473,168	473,168
Revaluation and other capital items	0	(143)	(143)
Sub Total	**(15,543,140)**	**(14,299,778)**	**(1,500,162)**
Comparison to budgeted reserve contribution variance			
Corporate & democratic core charge	256,800	284,690	27,890
Investment income	(598,260)	(11,437)	586,283
Interest payable	5,142,230	4,923,857	218,373
Transfer from reserve: Revaluation	0	174,584	174,584
Transfer from reserve: REFCUS	0	(64,567)	(64,567)
Transfer from reserve: Pension contribution	0	0	0
Transfer from reserve: Intangible assets	0	(31,237)	(31,237)
Transfer from reserve: Income from sale of assets	0	(16,050)	(16,080)
Revenue funded from capital (REFCUS – specific item)	0	64,567	64,567
Total	**(10,742,370)**	**(8,992,651)**	**(1,749,719)**

Appendix 1 sets out the position across the main service areas in detail.

6.11 **Right to Buy (RTB) sales and one-for-one receipts:** Under the Government's one-for-one homes replacement scheme, the Council is able to retain an element of the RTB capital receipt to invest in the provision of new dwellings (the amount retained in 2020-21 is shown in the table in paragraph 6.16).

6.12 A maximum of 30% of the overall cost of new home provision could be funded from the one-for-one receipts reserve before March 2021 (40% from 1 April 2021). If the Council is unable to deliver new homes within the timeframe set by Government, the receipt must be returned with interest. As a result, the first source of funding for new homes provision will be the one-for-one receipt reserve, with the balance (70%) being funded from the new build reserve or the reserve for future capital.

6.13 Nine properties were sold under RTB in 2020-21. In relation to the number of properties held by the HRA, this is not a material number. However, a continuation or acceleration in RTB sales, without the addition of new stock replacing RTB losses is cause for concern. Over a sustained period, net stock losses will increase the fixed overhead costs attributable to each unit of stock. This would reduce our ability to generate operating surpluses to support our development programme.

6.14 Councillors will be aware that the expenditure on the provision of new homes has been less that it should have been in the past and as such, we have had to previously repay the Government 141 RTB receipts. This money has been recycled by the Government to others who have been able to spend the capital money. A summary of RTB for 2020-21 is in the table below

	£
Receipts in year	1,749,729.58
Admin costs	-11,700.00
Gross receipts	**1,738,029.58**
Pooled in year	-689,475.52
Net receipts before 141 repay	**1,048,554.06**
141 repaid to Govt	0
Total retained in 2020-21	**1,048,554.06**

Based on us selling 20 properties each year and spending £18.2 million by March 2025 we will not start having to repay 141 receipts until 2028-29.

6.15 **Reserves:** The HRA holds a number of reserves each for a specific purpose. They allow the Council to fund peaks in future years projected expenditure and will be a key funding source for the Council's development programme.

6.16 The table below shows the balance on each reserve at the start of 2020-21, along with the expenditure financed in year and the proposed transfers arising from the appropriation of the revenue surplus in 2020-21.

	Balance 1 April 20	**Transfer in 20-21**	**Used in 20-21**	**Balance 31 March 2021**	**Proposed tfr from revenue surplus 20-21**	**Closing balance 20-21**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Reserve for future capital	35,828	-	-	**35,828**	2,500	**38,328**
New build reserve	56,113	-	- 4,817	**51,296**		**51,296**
Major repairs reserve	9,852	5,686	- 3,661	**11,877**	-	**11,877**
Total Earmarked Reserves	**101,793**	**5,686**	**- 8,478**	**99,001**	**2,500**	**101,501**

	Balance 1 April 20	Transfer in 20-21	Used in 20-21	Balance 31 March 2021	Proposed tfr from revenue surplus 20-21	Closing balance 20-21
	£000	£000	£000	£000	£000	£000
Usable capital receipts (HRA debt)	4,216			**4,216**		**4,216**
Usable capital receipts (141 receipts)	6,004			**6,004**		**6,004**
Usable capital receipts (housing & regen) pre 2013-14	3,618	-	- 3,618	**-**	-	**-**
Usable capital receipts (housing & regen statutory) post 2013-14	-			**-**		**-**
Total capital receipts reserves	**13,838**	**-**	**- 3,618**	**10,220**	**-**	**10,220**
Total of all Housing reserves						

6.17 **Use of operating surplus:** An operating balance of £2.5 million will be retained. This is a prudent approach and provides a degree of in-year flexibility.

6.18 The Council has clearly stated its ambition to increase the number of affordable homes in the borough and work is underway to bring forward a number of development opportunities. A combination of useable one-for-one receipts, and capital receipts have been used to finance capital expenditure on the new build programme which in 2020-21.

6.19 With this in mind, officers are proposing that £7.45 million is transferred to the new build reserve.

6.20 It is critical that we properly maintain our asset base to secure future income streams. A depreciation charge based on the value of the housing assets employed is made in the HRA. The 2020-21 depreciation charge was £5.589 million and the cost of maintaining the stock £3.661 million. We would normally expect to fully utilise this depreciation charge in the year with an additional contribution from the reserve for future capital to fund the difference, but in 2020-21, we used £1.927 million less than the calculated charge, leaving a balance of £11.779 million in the major repairs reserve, as shown in the table in paragraph 6.16. The major repairs reserve (MRR) is ring fenced for improvements to existing stock.

6.21 The outcome of recent stock condition surveys indicates, in the short term, the level of depreciation charge will significantly exceed the level of investment 0required in the existing stock. This will result in an increased balance on the MRR, which could be used to repay debt. Any recommendation to repay debt would be considered in the context of an updated HRA business plan, as well as by treasury management considerations at that time.

6.22 As a result of changes in the legislative and regulatory framework particularly in connection to the housing stock and the health and safety of residents the Council is reviewing the impact of these changes and it is expected that as result of these there will

need to change to the current programme of work to reflect these issues. These will however be reported through the normal budgetary reporting framework.

7 Financial implications

7.1 The report covers the financial implications.

8 Legal implications

8.1 The Accounts and Audit (England) Regulations 2015 state that the Council must prepare, in accordance with proper practices in relation to accounts, a statement of accounts for each year, which must include such of the following accounting statements as are relevant to the functions of the relevant body:

- Housing Revenue Account
- Collection Fund
- any other statements relating to each and every other fund in relation to which the body is required by any statutory provision to keep a separate account

8.2 The proper practice referred to above is the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice (the Code).

8.3 The Code is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/Local Authority Scotland Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board (FRAB). It constitutes a proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

8.4 The Chief Finance Officer will sign the Statement of Accounts on or before 31 August. Our external auditors, Grant Thornton will then audit the accounts before they are presented to the Corporate Governance and Standards Committee for consideration and approval on 23 September 2021. Specifically the role of the committee is to " review the annual statement of accounts with specific emphasis on whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council".

8.5 The Accounts and Audit (England) Regulations 2015 require the Chief Financial Officer to re-certify the accounts before approval and for the person presiding at the meeting (i.e. the chairman of Corporate Governance and Standards Committee) to sign and date them after approval. We must then publish the Statement of Accounts, together with any certificate, opinion or report issued by the external auditor.

9 Human Resource Implications

9.1 There are no human resource implications.

10 Summary of Options

10.1 As the treatment of the year-end balance has been decided under delegated authority, there are no options to consider.

11 Conclusion

11.1 The HRA delivered an operating surplus of £9.95 million. No provision for the repayment of debt principal is included in this figure.

11.2 The HRA is better placed under the new financial regime than it was under the old national redistributive system.

11.3 The outturn is broadly in line with the assumptions set out in the approved 2015-45 HRA Business Plan. The HRA can support the initial development programme outlined in the development strategy and has the capacity to support material contributions to both the new build reserve and the reserve for future capital programmes.

12 Background Papers

HRA Budget Report 2020-21 and 2015-2045 HRA Business Plan
Accounts and Audit (England) Regulations 2015
Code of Practice on Local Authority Accounting
Accounts and Audit (Coronavirus) (Amendment) Regulations 2020

13. Appendices

Appendix 1: HRA Summary statement: draft actual 2020-21

HRA Summary statement: draft actual 2020-21

2019-20 Actual £	Analysis **Borough Housing Services**	2020-21 Estimate £	2020-21 Projection £
793,019	Income Collection	689,870	765,342
1,164,320	Tenants Services	889,510	1,290,976
122,998	Tenant Participation	148,900	125,133
107,717	Garage Management	101,710	99,023
41,744	Elderly Persons Dwellings	75,280	20,474
575,851	Flats Communal Services	513,530	798,748
414,254	Environmental Works to Estates	444,460	453,369
6,265,983	Responsive & Planned Maintenance	5,858,670	6,007,241
137,128	SOCH & Equity Share Administration	139,820	135,039
9,623,015		**8,861,750**	**9,695,344**
	Strategic Housing Services		
485,497	Advice, Registers & Tenant Selection	716,800	778,473
201,203	Void Property Management & Lettings	212,360	202,153
5,120	Homelessness Hostels	5,120	5,120
175,717	Supported Housing Management	160,730	167,504
527,717	Strategic Support to the HRA	382,440	543,528
1,395,255		**1,477,450**	**1,696,489**
	Community Services		
883,927	Sheltered Housing	915,270	839,424
	Other Items		
5,640,147	Depreciation	5,525,000	5,686,291
5,059,974	Revaluation and other Capital items	0	(143,347)
160,590	Debt Management	150,000	217,061
36,359	Other Items	402,380	5,985
22,799,267	**Total Expenditure**	**17,331,850**	**17,997,246**
(32,532,978)	Income	(33,142,260)	(33,209,844)
(9,733,711)	**Net Cost of Services(per inc & exp a/c)**	**(15,810,410)**	**(15,212,598)**
251,530	HRA share of CDC	**256,800**	**284,690**
(9,482,181)	**Net Cost of HRA Services**	**(15,553,610)**	**(14,927,908)**
(598,260)	Investment Income	(598,260)	(11,437)
5,131,995	Interest Payable	5,142,230	4,923,857
(4,948,446)	**Deficit/(Surplus) for Year on HRA Services**	**(11,009,640)**	**(10,015,488)**
67,919	REFCUS - Revenue funded from capital	0	64,567
2,500,000	Contrib to/(Use of) RFFC	2,500,000	2,500,000
2,380,528	Contrib to/(Use of) New Build Reserve	8,433,504	7,450,921
0	Tfr (fr) to Pensions Reserve	0	0
0	Tfr (from)/to CAA re: Voluntary Revenue Provision	0	0
0	Tfr (from)/to CAA re: Revaluation	0	0
0	Tfr (from)/to CAA re: REFCUS	0	0
0	Tfr (from)/to CAA re: Intangible assets	0	0
0	Tfr (from)/to CAA re: rev. inc. from sale of asset	0	0
0	**HRA Balance**	**(76,136)**	**0**

(2,500,000)	Balance Brought Forward	(2,500,000)	(2,500,000)
(2,500,000)	**Balance Carried Forward**	**(2,576,136)**	**(2,500,000)**

2019-20 Projection £	**Analysis** **Borough Housing Services**	**2020-21 Estimate £**	**2020-21 Projection £**
(29,570,473)	Rent Income - Dwellings	(29,977,450)	(29,002,041)
(208,349)	Rent Income - Rosebery Hsg Assoc	(208,350)	(66,251)
(225,551)	Rents - Shops, Buildings etc	(316,830)	(456,414)
(753,058)	Rents - Garages	(759,740)	(731,091)
(30,757,431)	**Total Rent Income**	**(31,262,370)**	**(30,255,797)**
(113,577)	Supporting People Grant	(144,180)	(202,608)
(1,098,353)	Service Charges	(1,116,020)	(1,106,280)
(15,339)	Legal Fees Recovered	(28,840)	45
(53,277)	Service Charges Recovered	(57,730)	(253,835)
(495,001)	Miscellaneous Income	(533,120)	(1,391,369)
(32,532,978)	**Total Income**	**(33,142,260)**	**(33,209,844)**

Corporate Governance and Standards Committee

Ward(s) affected: All

Report of Chief Financial Officer

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Date: 29 July 2020

Revenue Outturn Report 2020-21

Executive Summary

General Fund (GF) Revenue Account

Overall, the outturn on the General Fund was £6,498,122 more than we originally budgeted, which reflects our continued efforts to deal with the pandemic. The report sets out the major reasons for the variance. Reserves will be utilised to maintain balance in line with the information presented in the outline budget 2021-22 to the Executive at its meeting on 24 November 2020.

Our net income from interest receipts is £1.417 million higher than estimated and the minimum revenue provision (MRP) for debt repayment is £351,107 lower than estimated.

The general fund summary is set out at **Appendix 1** and reasons for the major variances by service are set out in **Appendix 2** (which excludes depreciation and capital charges).

The Chief Finance Officer, in consultation with the Leader of the Council and the Lead Councillor for Resources will use their delegated authority to deal with the overspend and transfer the necessary resources from reserves.

Earmarked reserves

The closing balance on each of the Council reserves are set out in **Appendix 3**, before appropriations to resolve the overspend, together with the ongoing policy for each.

Collection Fund

The Business Rates balance on the Collection Fund is particularly susceptible to movements in the number and value of appeals those businesses have made against their rateable values. We have no control over these appeals and have limited information from the Valuation Office to help us assess the potential impact.

The Collection Fund revenue account for the year is set out in **Appendix 4**. There is an overall deficit on the Collection fund of £62.394 million.

The outturn position will be included in the Statement of Accounts signed by the Chief Financial Officer on or before 31 July 2021 which will be subsequently audited by Grant

Thornton. The Corporate Governance and Standards Committee will review the draft accounts at its meeting on 29 July 2021 and will review the audited accounts at its meeting on 23 (or 28) September 2021.

Recommendation to Committee

The Committee is asked to submit any comments it may wish to make to the Executive when it considers this matter on 24 August 2021.

The Executive will be asked to agree the following recommendation:

That the Executive note the Council's final outturn position and endorse the decisions, taken under delegated authority to transfer the amounts set out in Section 5 of the report to or from the relevant reserves.

Reason for Recommendation:

- To note the final outturn position and delegated decisions taken by the Chief Financial Officer which will be included within the statutory accounts the Chief Financial Officer will sign at the end of July.
- To facilitate the on-going financial management of the Council.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

1.1 This report gives the final position on the General Fund and the Collection Fund revenue accounts for the 2020-21 financial year. It explains the major variances from the General Fund revised estimate.

1.2 The outturn position on the General Fund Capital Programme and the Housing Revenue Account has been included in separate reports within the agenda papers.

2. Strategic Priorities

2.1 Good financial management underpins the achievement of the council's strategic framework.

3. Background

3.1 The Secretary of State announced an extension to the statutory audit deadlines for 2020-21, after taking into consideration the ongoing impact of COVID-19.

3.2 In accordance with that decision and the Accounts and Audit (Amendment) Regulations 2021 it has been decided that:

- the publication date for final, audited, accounts will move from 31 July to 30 September 2021 for all local authority bodies.

- no later than 31 July the Chief Finance Officer (CFO) must sign and date the statement of accounts and certify that it presents a true and fair view.
- the audit will take place after 31 July and conclude before the final accounts are presented to councillors for approval.
- to give local authorities more flexibility, local authorities must commence the public inspection period on or before the first working day of August 2021. Therefore, before completion of the audit, the accounts will be open for scrutiny by the public for 30 working days. The accounts will be open for inspection from 2 August 2021 to 10 September 2021 and we will publish the dates on our website.
- the CFO must re-certify the statement of accounts prior to its approval by the Council or a committee.
- no later than 30 September, the Council or a committee must consider and approve the statement of accounts, which are then signed by the person presiding at the meeting. The Corporate Governance and Standards Committee will be asked to consider and approve the audited accounts at its meeting on 23 September 2021.
- we must publish the audited accounts by 30 September 2021.

3.3 This report sets out the final position on two revenue accounts – General Fund and Collection Fund.

3.4 Officers have included the impact of the final position in the statutory statement of accounts, which the Chief Financial Officer will sign on or before 31 July 2021. Grant Thornton will conclude the external audit before September.

4. General Fund Revenue Account

Summary of Outturn Position

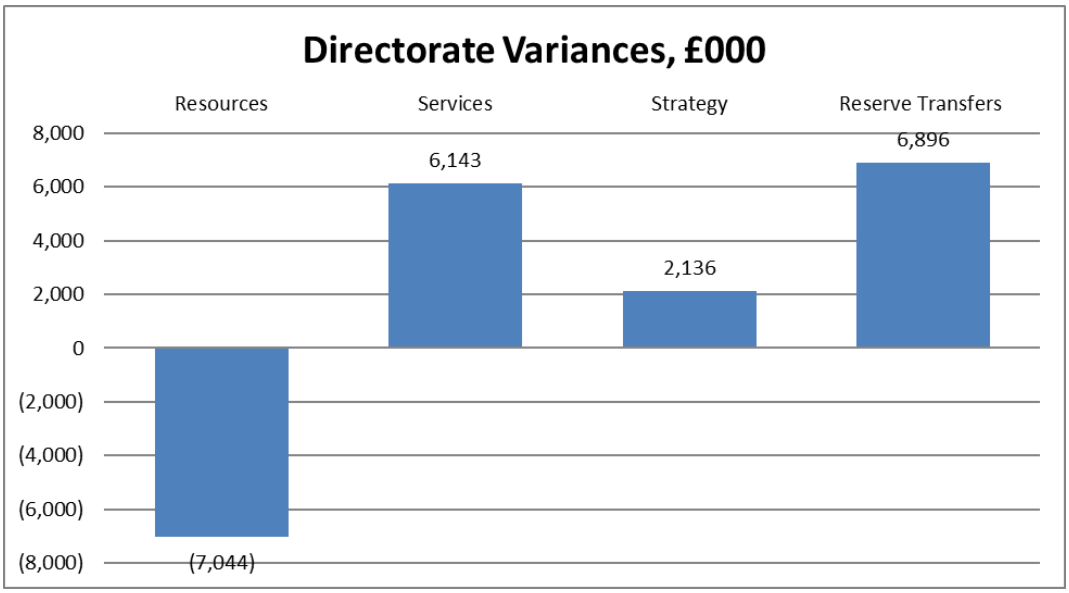
4.1 The overall variance on the General Fund is net expenditure £6,486,122 greater than budget. Reserves will be used to balance this position in accordance with the information laid out in the outline budget report presented to Executive on 24 November 2020. Paragraph 5.1 gives a breakdown of the reserves and the amounts used.

4.2 The overall variance arises from four areas; the Directorates, external interest received, the Minimum Revenue Provision cost and non-specific government grants. This is set out in the table below:

	Revised Estimate £000	Actual £000	Variance £000
Directorate Level Expenditure (including transfers to reserves)	19,778	28,617	8,839
Interest Receivable	(641)	(2,058)	(1,416)
Minimum Revenue Provision	1,639	1,288	(351)
Government Grants	(500)	(1,209)	(709)
Business Rates Retention Scheme	(7,829)	(7,830)	(1)
	12,447	18,808	6,362

Directorates

4.3 The directorates, excluding capital charges and before reserve transfers, are approximately £8.8 million over budget overall. However, there are differences in the position of each directorate, as shown in the chart below.



4.4 The main reason for the large variance in the services directorate is mainly the cost of dealing with the pandemic.

4.5 **Appendix 2** provides explanations of any service variances above £100,000 within each directorate. As expected, a significant amount of the variances within services are related to dealing with the pandemic. The major variances across services are listed in the table below.

Service	Budget (£)	Outturn (£)	Variance (£)
Off Street Parking	(4,678,475)	2,036,830	6,715,305
On Street Parking	(336,250)	413,187	749,437
Development Control	830,460	1,629,938	799,478
Countryside and Parks	2,153,720	3,183,284	1,029,563
Leisure Management	1,344,180	2,451,287	1,107,107
Refuse and Recycling	3,976,430	4,700,757	724,327
			11,125,217

Interest receivable

4.6 The weighted average interest rate achieved on our investment portfolio was 1.42% against a budget, which was 1.61%. We had higher balances than we estimated when we set the budget and therefore net interest received (after paying interest on external loans) was £1,416 million more than revised estimate. The higher balances come from having more cash than estimated at the start of the year and slippage in the 2018-19 capital programme.

4.7 The General Fund pays interest to the Housing Revenue Account (HRA) on its balances. The 2020-21 interest to the HRA was £520,113 lower than budgeted because the Council incurred interest charge from the Government for not spending

enough HRA capital spend on new build under the 141 replacement homes agreement. This was charged to the HRA.

4.8 Overall, net interest received by the General Fund was £1.416 million more than estimated.

Minimum Revenue Provision (MRP)

4.9 Minimum Revenue Provision is a charge to the revenue account for unfinanced capital expenditure. The 2020-21 budget was based on the estimated capital-financing requirement (CFR) at the end of the previous year (31 March 2020) and was £1,639,171 based on an estimated CFR of £149.5 million. The actual General Fund CFR at 31 March 2020 was £124.36 million, which generated a minimum revenue provision of £1,288,064 (£351,107 lower than the revised budget).

Transfers to reserves

4.10 Many transfers to and from reserves are opposite accounting entries to either Revenue Contributions to Capital Outlay (RCCO) or items within the service accounts (and therefore do not affect the overall position). The transfers that are not service related and affect the total net expenditure that were included in the 2019-20 budget are:

- New Homes Bonus (NHB) reserve; The Council has also used £355,581 of the NHB reserve in year to pay for schemes detailed in paragraph 6.10.

4.11 We also contributed around £270,530 to the carry forward reserve for projects that were on going at the end of the financial year.

4.12 Appendix 3 gives a full list of the balances on earmarked reserves and the purpose for which they were established.

COVID-19

4.13 COVID19 has continued to impact the Council in 2020-2021. The Council continues to have a vitally important role in responding locally to COVID19, having a duty to ensure that crucial council services continue to operate under these unprecedented circumstances.

4.14 The direct expenditure incurred by the Council in the 2020-2021 financial year stands at £3.8 million. Government support continues to contribute to both the direct and indirect costs of the pandemic.

4.15 The government recognised that Covid-19 has impacted councils' ability to generate income across many services because of lockdowns, government restrictions and social distancing measures. The government devised a scheme that partly compensates for irrecoverable and unavoidable losses in relation to income (sales, fees and charges) in the financial year 2020-21.

4.16 The indirect costs associated with the pandemic are reflected in the services forecasting and final year position. Central government has compensated the council for a proportion of losses suffered in income, resulting in support of £4.511 million. This compensation will be reflected across those services affected.

4.17 Council, at its meeting of 5 May 2020 approved an emergency budget to deal with the impact of Covid-19 should government support fall short of the final costs of the pandemic. This has had to be applied in 2020-21 and paragraph 5.1 details the resources used.

4.18 Additional costs incurred in the 2020-21 financial year total £3.8 million with more expenditure in 2021-22 anticipated. The expenditure incurred is broken down in the table below.

Description	**£**
Leisure (Spectrum), Heritage and Tourism	2,557,448
Personal Protective Equipment	235,545
Shielding	767,814
Lockdown compliance and enforcement	56,860
Health	(51,577)
Emergency accommodation	185,509
ICT	55,531
Income recovery	(139,846)
Expenditure	**3,788,762**

Overall Position

4.19 The overall position on the General Fund was £6,498,122 net expenditure than originally budgeted.

4.20 The table below summarises the overall position on the General Fund. The figures exclude various accounting adjustment items such as capital charges, International Accounting Standard 19 (IAS 19) adjustments relating to Pension Funds, and other items that do not have any effect on the Council's net budget. The service unit figures include budgeted and actual contributions to service-related earmarked reserves where appropriate.

	Revised Estimate	**Actual**	**Variance to rev est**
	2020-21 £000	**2020-21 £000**	**2020-21 £000**
Directorate Level Expenditure (excluding depreciation & capital charges. Major variances by directorate are explained in Appendix 2)	18,921	20,156	1,235
Transfers to reserves (included in Directorate expenditure)	857	8,461	7,604
Directorate Level Expenditure (excluding depreciation, capital charges and reserve transfers)	**19,778**	**28,617**	**8,839**
Net interest receivable (paragraph 4.6 to 4.8)	(641)	(2,058)	(1,416)
Minimum Revenue Provision (paragraph 4.9)	1,639	1,288	(351)
Business rates retention scheme - net position after transfer to business rates equalisation reserve (paragraph 4.13 to 4.18)	(7,829)	(7,830)	(1)
New Homes Bonus (net of transfer to reserve, paragraph 4.10)	(500)	(1,207)	(707)
Transition grant and s31 council tax grant (paragraph 4.19)	0	(2)	(2)
Collection Fund Council Tax (surplus) / Deficit	0	0	0
TOTAL net budget (excl parish precepts)	**12,447**	**18,808**	**6,362**

5. Treatment of overspend

5.1 The Chief Financial Officer, under delegated authority in consultation with the Leader of the Council and the Lead Councillor for Finance has utilised earmarked reserves to balance the general fund in accordance with information presented to the Executive in November 2020. The table below identifies the earmarked reserves and the amounts that will used to address the overspend.

Earmarked Reserve	Amount to be Used £
New Homes Bonus	2,400,000
Carry forward reserve	1,100,000
Car Parks Maintenance reserve	1,500,000
Legal actions reserve	300,000
Invest to save reserve	600,000
Budget Pressures reserve	598,122
Total	6,498,112

6. Major earmarked reserves

6.1 The Code of Practice on Local Authority Accounting that controls the production of the Council's statutory accounts does not require us to include a complete list of the Council's Reserves and Balances in the Statement of Accounts. A complete list of earmarked reserves is detailed in **Appendix 3**.

6.2 All of these reserves have been set up for a specific purpose and the appendix shows the current policy related to each.

6.3 The reserves are cash backed and the accounts include the interest earned on the balances in the revenue account.

6.4 The following table and paragraphs summarise movements on the major reserves (those with an opening or closing balance of more than £1 million). All the balances quoted are before the transfers suggested in section five above.

	Balance at 31 March 2020	Transfers in Year	Transfers out in Year	Balance at 31 March 2021
	£000	£000	£000	£000
General Fund				
Interest Rate Movements	-1,196,970	0	0	-1,196,970
New Homes Bonus	-3,490,087	-851,019	1,206,600	-3,134,506
Carried Forward Items	-1,654,219	0	826,192	-828,028
Invest to Save	-4,265,882	-250,000	3,846,523	-669,359
Spectrum	-1,823,017	-188,843	0	-2,011,860
Car Parks Maintenance	-4,235,964	-649,950	458,378	-4,427,536
Park & Ride	-1,650,000	0	0	-1,650,000
Business Rates equalisation	-5,715,527	-25,754,430	7,884,129	-23,585,828
Special Protection Area (SPA) Sites	-9,768,207	-472,069	27,729	-10,212,548
Budget Pressures	-1,754,415	0	328,000	-1,426,415
BR Covid discount	0	-5,770,350	0	-5,770,350
Covid Reserve	0	0	6,497,702	6,497,702
TOTAL	**-35,554,288**	**-33,936,661**	**21,075,253**	**-48,415,697**

Budget pressures reserve

6.5 This reserve was set up as part of closing the 2014-15 accounts to help manage unforeseen expenditure pressure during the year. £328,000 was financed from this reserve in the year.

Business Rates Equalisation reserve

6.6 This reserve was set up in 2013-14 to help accommodate the potential volatility of the Business Rate Retention Scheme and to mitigate the effects on our business rates income of any town centre redevelopment.

Carried forward items (within other earmarked reserves)

6.7 This reserve is shown as part of 'other reserves' and allows the budget for items that we have not completed in the year to be carried forward so they can be finalised in later years without affecting that years' budget. In 2020-21, the Council used £826,000 of the reserve relating to items carried forward at the end of 2019-20. The balance on the reserve as at 31 March 2021 is £828,000.

Car Parks Maintenance and Improvement

6.8 This reserve funds repairs, maintenance, and improvements in the Council's off-street car parks. The Council approves its use annually as part of the Car Parks Business Plan.

Invest to Save Reserve

6.9 This reserve funds investment opportunities (that will allow us to achieve ongoing savings) and short-term increases in revenue costs during periods of transition. We made a budgeted contribution of £250,000. We financed revenue expenditure of £3.846 million from the reserve, mainly relating to redundancy and pension fund strain costs resulting from the Future Guildford transformation programme.

New Homes Bonus

6.10 New Homes Bonus (NHB) is a general grant that we receive from the government. It is not ring fenced for any specific purpose and is financed nationally mainly by reductions in revenue support grant. We financed expenditure of £1.2 million, £774,000 on Guildford Gyratory – Walnut Bridge and £433,000 on the town centre masterplan in line with the Council's NHB policy. The closing balance is £3.135 million of which £400,000 is committed to the town centre masterplan, £120,000 to the Ripley Village Hall homes building and £177,000 to other infrastructure and regeneration projects. The Council's policy is to transfer any increase in NHB to reserve to fund specific short to medium term projects or capital projects as identified in the approved capital programme. The Council approved the New Homes Bonus Policy in February 2016, which informs the allocation of this grant during the budget setting process to specific projects each year.

Park and Ride

6.11 This reserve was established in 2008-09 in lieu of a s106 contribution from the Queen Elizabeth Park development, which was used to fund park and ride site expenditure at Merrow and Artington. This reserve is used to support Park and Ride services.

SPA reserves – Effingham, Riverside, Chantry Woods, Lakeside & Parsonage Meadows

6.12 The Council is obliged to hold SPA endowment funds in reserve to pay for the revenue costs of SPA sites over an 80-year period. The reserves also receive interest on balances during the year.

Spectrum

6.13 This reserve is available to finance structural repairs and improvements.

7. Collection Fund

7.1 Appendix 4 shows the final figures for the Collection Fund. Because of the introduction of the BRRS, we now show the transactions for Council Tax and National Non-Domestic Rates (NNDR) separately.

National Non-Domestic Rates (NNDR) or Business Rates

7.2 With the introduction of the BRRS, we have a balance on the fund that we will have to take account of when setting future year's budgets, in the same way that we do for Council Tax.

7.3 The collection rate for the 2020-21 financial year was 95.48% at 31 March 2021 (97.84% for 2019-20).

Council Tax

7.4 The Local Council Tax Support Scheme (LCTSS), introduced by the government in 2013-14, continues to make it difficult to estimate our Council Tax income. Some people who had previously received housing benefit now receive a reduction in their Council Tax instead and some now pay at least some Council Tax where they did not under the Housing Benefit system. These reliefs can change throughout the year as people move in and out of employment.

7.5 The final figure for Council Tax receivable was lower than the original estimate resulting in a reduction in the collection fund position to leave a closing deficit balance of £2,451,000. (TBC).

7.6 The collection rate for the 2020-21 financial year was 97.53% at 31 March 2021 (98.60% for 2019-20).

Balance on Collection Fund

7.7 The overall balance carried forward on the Collection Fund Revenue Account, is a deficit of £62.39 million. In relation to Business Rates the deficit (£59.94 million) is shared between the relevant major preceptors and Central Government (Business Rates only) as part of setting the 2021-22 budget.

8. Consultations

8.1 Officers have consulted the Lead Councillor for Finance about the recommendations in this report.

9. Executive Advisory Board

9.1 Because of the tight timescale set down in legislation for the preparation and approval of the accounts it is not possible for the Executive Advisory Board to consider this report prior to the Executive.

10. Equality and Diversity implications

10.1 There are no direct equality and diversity implications because of this report.

11. Financial implications

11.1 We have included the financial implications within the various sections of this report.

12. Legal implications

12.1 The Accounts and Audit (England) Regulations 2015 state that the Council must prepare, in accordance with proper practices in relation to accounts, a statement of accounts for each year, which must include such of the following accounting statements as are relevant to the functions of the relevant body:

- Housing Revenue Account
- Collection Fund
- any other statements relating to each and every other fund in relation to which the body is required by any statutory provision to keep a separate account

12.2 The proper practice referred to above is the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice (the Code).

12.3 The Code is based on International Financial Reporting Standards (IFRSs) and has been developed by the CIPFA/Local Authority Scotland Accounts Advisory Committee (LASAAC) Code Board under the oversight of the Financial Reporting Advisory Board (FRAB). It constitutes a proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

12.4 The Chief Finance Officer will sign the Statement of Accounts on or before 31 July. Our external auditors, Grant Thornton will then audit the accounts before they are presented to the Corporate Governance and Standards Committee for consideration and approval on 23 September. Specifically the role of the committee is to " review the annual statement of accounts with specific emphasis on whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council".

12.5 The Accounts and Audit (England) Regulations 2015 require the Chief Financial Officer to re-certify the accounts before approval and for the person presiding at the meeting (i.e. the chairman of Corporate Governance and Standards Committee) to sign and date them after approval. We must then publish the Statement of Accounts, together with any certificate, opinion or report issued by the external auditor.

13. Human Resource Implications

13.1 There are no human resources implications.

14. Summary of Options

14.1 As the treatment of the year-end balance has been decided under delegated authority, there are no options to consider.

15. Conclusion

15.1 2020-21 has continued to be a year of continuing challenge and change for the Council and it is pleasing that we have maintained our strong record of financial management throughout.

16. Background Papers

Accounts and Audit (England) Regulations 2015
Accounts and Audit (Amendment) Regulations 2021

17. Appendices

Appendix 1: General Fund Summary
Appendix 2: General Fund Variances by Service
Appendix 3: List of earmarked reserve balances
Appendix 4: Collection Fund Revenue Account

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GENERAL FUND SUMMARY 2020 - 2021

	Actual 2019-20 £	GENERAL FUND SUMMARY	Original Estimate 2020-21 £	Latest Estimate 2020-21 £	Projected Outturn 2020-21 £
	0	Strategy Directorate	0	2,117,202	18,543,228
	0	Services Directorate	0	17,127,612	26,375,088
	0	Resources Directorate	0	7,890,365	2,790,974
	3,850,231	Community Services	-314,990	0	0
	17,680,547	Planning and Regeneration	3,142,170	0	0
	12,557,225	Environment	11,556,920	0	0
	3,579,422	Management Directorate	783,410	0	0
	6,221,257	Finance	11,820,880	0	0
	43,888,682	**Total Directorate Level**	**26,988,390**	**27,135,179**	**47,709,290**
		Growth to be allocated to services	964,000	0	0
		Savings to be allocated to services	-2,471,425	0	0
	-26,601,575	Depreciation (contra to Service Unit Budgets)	-8,813,830	-8,213,830	-27,553,497
	17,287,107	**Directorate Level excluding depreciation**	**16,667,135**	**18,921,349**	**20,155,793**
	-1,180,245	External interest receivable (net)	-1,172,935	-1,172,935	-2,069,098
	356,027	Housing Revenue Account	531,550	531,550	11,437
	926,640	Minimum Revenue Provision	1,639,171	1,639,171	1,288,064
	-30,417	Revenue income from sale of assets	0	0	0
		Revenue Contributions to Capital Outlay (RCCO)			
	893,630	Met from: Capital Schemes reserve	0	0	599,781
	2,299,990	Other reserves	537,000	537,000	2,419,065
	0	General Fund	0	0	0
	20,552,732	**Total before transfers to and from reserves**	**18,201,921**	**20,456,135**	**22,405,041**
(from)		**Transfers to and from reserves**			
to		Capital Schemes reserve			
	-893,630	*Funding of Revenue Contribution to Capital Outlay*	0	0	**-599,781**
		Contribution in year			
	-174,269	Budget Pressures reserve	0	0	-328,000
	-2,103,206	Business Rates Equalisation reserve	-946,454	-946,453	18,420,301
	-469,494	Car Park Maintenance reserve	272,950	272,950	191,572
	-124,268	Election Costs reserve	62,500	62,500	62,500
	-15,177	Insurance reserve	0	0	0
	-538,252	IT Renewals reserve	542,710	542,710	-122,679
	-1,721,421	Invest to Save reserve	-10,000	-10,000	-3,596,523
	-36,904	New Homes Bonus reserve	351,019	351,019	-355,581
	31,563	Energy Management reserve	0	0	44,326
	109,467	On Street Parking reserve	-260,070	-260,070	0
	-5,495,884	Pensions reserve (Statutory)	0	0	2,929,168
	-150,000	Recycling reserve	0	0	0
	185,140	Spectrum reserve	188,843	188,843	188,843
	-206,110	Carry Forward Items	0	0	-826,192
	0	Covid Reserve	0	0	6,493,702
	3,234,252	Other reserves	-477,090	-477,090	1,005,458
	12,184,540	**Total after transfers to and from reserves**	**17,926,329**	**20,180,545**	**45,912,156**
		Business Rates Retention Scheme payments			
	31,332,993	Business Rates tariff payment	33,119,290	33,119,290	31,843,510
	1,383,117	Business Rates levy payment to / (safety net from) MHCLG	810,933	810,933	-260,687
	0	Business Rates tariff payment from MHCLG	0	0	0
	0	Business Rates pilot gain from Surrey Pilot Pool	0	0	0
		Non specific government grants			
	-2,401,199	s31 grant re BRR scheme	-1,959,000	-1,959,000	-18,978,993
	-24,170	s31 grant re council tax	0	0	0
	-25,587	New Burdens grant	0	0	-1,640
	0	Other government grant	0	0	0
	-1,039,201	New Homes Bonus grant	-851,019	-851,019	-851,019
	41,410,493	**GUILDFORD BOROUGH COUNCIL NET BUDGET**	**49,046,533**	**51,300,749**	**57,663,327**
	1,740,697	Parish Council Precepts	1,741,000	1,741,000	1,876,544
	43,151,190	**TOTAL NET BUDGET**	**50,787,533**	**53,041,749**	**59,539,871**
	-34,941,330	Business Rates - retained income	-34,713,245	-34,713,245	-34,713,245
	1,493,170	Collection Fund Deficit - Business Rates	-4,140,430	-4,140,430	-4,140,430
	85,997	Collection Fund Surplus - Council Tax	0	0	0
	9,789,027	**COUNCIL TAX REQUIREMENT**	**11,933,858**	**14,188,074**	**20,686,196**
		Projected (under)/over spend			**6,498,122**
		Movement in MRP and External Interest			**(1,247,270)**
		Underlying (under) / overspend on services			**7,745,392**

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Services Detail Summary

Service	Original Budget	Revised Budget	Actual Spend YTD	Variance	Commentary
AUDIT - Audit Management	-41,990	2,240	-69,009	-71,249	
CASEWRK - Resources Caseworker	-227,310	-174,738	290,760	465,498	Salaries including agency staff, Recharges, Printing
CORFIN - Corporate Financial	277,390	277,380	286,131	8,751	
CORSER - Corporate Services	1,016,010	985,905	1,430,897	444,992	Consultancy and Audit Fees
FEASTU - Feasibility Studies	40,470	40,470	26,847	-13,623	
FINAMN - Lead Specialist - Finance	-46,020	-47,290	207,130	254,420	Overspend as a result of higher Agency and consultancy costs than budgeted for
HR - Lead Specialist - HR	-176,120	-176,750	-21,551	155,199	Agency, IAS adjustment and Staff costs higher than budget
ICT - Lead Specialist - ICT	42,840	42,200	962,242	920,042	Contribution to reserves, Telephones & Broadband, Software
INSREV - Insurance Revenue Account	0	0	0	0	
ITREV - ICT Investment and Renewal Fund	21,190	21,190	-77,976	-99,166	
LEGAL - Lead Specialist - Legal	-224,400	-208,487	73,894	282,381	Underachievement of income in relation to Covid and consultancy costs.
MISEXE - Miscellaneous Expenses	897,890	920,617	-1,408,868	-2,329,485	Costs of Covid and grant income are included in this service. Includes compensation for loss of incoemwhich will be distributed across all relevant service areas.
OTHEMP - Other Employee Costs	99,950	99,690	50,903	-48,787	
PARISH - Parish Liasion	195,540	195,540	266,627	71,087	
UNALLO - Unallocatable Central Overhead	6,237,660	5,737,660	772,975	-4,964,686	Pension fund strain and backfunding and contribution to provision
RESOURCE - Resources Directorate	8,113,100	7,715,627	2,791,002	-4,924,626	
ARTDEV - Arts Development	118,030	125,420	92,617	-32,803	
BUICON - Building Control	366,890	365,830	631,647	265,817	Employee related expenditure £45,900 over budget as agency staff filled vacant posts. Consultancy over budget by £18,000 to cover vacant positions too. Income under budget by £128,250, Superannuation adj £67,600.
BUIMAI - Building Maintenance	48,120	47,870	334,581	286,711	Superannuation Adj, Services. Fees & Recharges not received.
BUSRAT - Business Rates	-22,040	-22,920	-77,629	-54,709	
CARSIT - Traveller Caravan Sites	-103,010	-78,040	-72,023	6,017	
CCTV - Town Centre CCTV	100,700	100,700	91,553	-9,147	n/a
CEMETE - Cemeteries	213,240	244,024	165,529	-78,495	n/a
CIVEMS - Civil Emergencies	61,470	61,440	66,141	4,701	
CREMAT - Crematorium	-829,060	-816,860	1,635,693	2,452,553	Additional income of £95,000. Irrecoverable VAT budget not needed so saving of £159,600. Superannuation adj of £51,800. Unbudgeted capital charges of £2,571,900.
CTAX - Council Tax	533,360	532,410	606,235	73,825	
CUST - Customer Services	-67,520	-67,950	144,392	212,342	Agency costs, IAS adjustment & contribution to provision.
DAYSER - Day Services	559,360	558,360	839,071	280,711	Salaries £192k under-estimated (Inc. overtime)

DEVCON - Development Control	800,610	830,460	1,629,938	799,478	Employee related expenditure £92,170 over budget due to agency staff costs. Consultancy over budget by £152,200 but some that is recovered through PPA income. Income is under budget by £208,300. Superannuation adj £314,800.
DIGITAL - Digital Services	238,850	238,770	314,672	75,902	
EMECOM - Emergency Communications	-123,650	-123,790	-20,827	102,963	Less income achieved through recharges & Grants. Superannuation adj
EMISER - EMI Services	111,400	111,370	242,713	131,343	Salaries (Inc. Superannuation adj, Overtime)
ENGTRA - Engineeing and Transportation Services	-41,470	-41,570	80,562	122,132	There are salary savings of £95,480 and a subsequent recharge shortfall of £177,400. Superannuation adj £29,400
ENVHEA - Environmental Health	453,930	453,680	534,997	81,317	
FAMSUP - Family and Refugee Support Programme	106,470	106,270	169,771	63,501	
FLEMAN - Fleet Management	15,130	15,120	18,771	3,651	
FOODSF - Food Safety	375,280	375,070	307,832	-67,238	
GLIVE - G Live	1,722,570	1,722,570	1,798,724	76,154	
GUIHOU - Guildford House	400,040	399,961	302,947	-97,014	
GUILDH - Guildhall	146,560	146,632	128,952	-17,680	
HBEN - Housing Benefits	438,150	436,250	-5,254,436	-5,690,686	£260k additional grant Income recieved.
HEASAF - Corporate Health and Safety	9,310	9,200	27,955	18,755	
HOMLES - Homelessness Support	858,000	857,890	425,623	-432,267	£725k additional grant Income received
HOUADV - Housing Advice	350,160	350,160	316,790	-33,370	
HOUASS - Affordable Housing	114,220	114,190	107,122	-7,068	
HOUSURV - Housing Surveying	0	-240	218,431	218,671	Less income achieved through recharges. Salaries (Inc. superannuation adj)
LANCHA - Land Charges	-13,630	-13,670	-32,661	-18,991	
LANDRA - Land Drainage	294,970	294,970	90,763	-204,207	The service is mostly reactive which has resulted this year in savings in both contractor payments and the engineeers recharge.
LEICOM - Leisure and Community	115,360	115,805	116,468	663	
LEIMAN - Leisure Management Contract	1,299,210	1,344,180	2,451,287	1,107,107	Loss of fee income as a result of the pandemic
LEIPLY - Leisure Play	215,910	215,790	161,692	-54,098	
LEIRAN - Leisure Rangers	231,260	231,260	226,205	-5,055	
LEISPO - Leisure Sports	101,720	101,610	62,593	-39,017	
LICENS - Licensing	162,480	162,140	258,988	96,848	
MILLH - Millmead House	-271,280	-231,096	-267,599	-36,503	
MOTBAY - MOT Bay	2,220	2,210	47,108	44,898	
MOWTPT - Community Meals and Transport	196,850	196,700	139,064	-57,636	
MUSEUM - Guildford Museum	528,780	630,225	786,761	156,536	Repairs and maintenance are over budget and there is a superannuation adj too.
NDH - North Downs Housing	0	0	-99,066	-99,066	
OFFSTR - Off Street Parking	-4,682,080	-4,678,475	2,036,830	6,715,305	Superannuation adj £115,300. There are repairs and maintenance and depreciation savings of £117,600 and £94,300 respectively. There is an income shorfall of £6.999 m.

ONSTR - On Street Parking	-335,450	-336,250	413,187	749,437	Superannuation adj are £159,800. The income shorfall was £812,000 but there were savings in agency agreement costs of £186,800
OSMAP - Ordnance Survey and Mapping	8,070	8,070	4,915	-3,155	n/a
PARKS - Countryside and Parks Services	2,122,660	2,153,720	3,183,284	1,029,563	There are salary savings of £95,700. The superannuation adj is £293,800. Asset maintenance and building expenses are £265,300 over budget as is grounds maintenance by £84,300 but these are off set by recharge income of £404,820. Income is under budget by £487,500. There are savings in Parks Countryside Management that off set other budget overspend as the two services were treated as one in 2020-21, before the Future Guildford re-structure.
PARKSCS - Parks Countryside Management	1,663,780	1,798,380	1,300,449	-497,931	There are salary savings of £68,900. The superannuation adj is £68,725. Income is under budget by £42,500. There are other savings in this service that off set expenditure in Countryside and Parks Services as the two services were treated as one in 2020-21, before the Future Guildford re-structure.
PARRID - Park and Ride Service	843,620	844,655	612,375	-232,280	The contribution to SCC for the running of bus services is reduced By £170,650 as Onslow P & R was used as a Covid testing centre.
PESCON - Pest Control	1,000	990	-14,798	-15,788	
PRIHOU - Private Sector Housing Maintenance	98,410	97,850	93,261	-4,589	
PRIHOUS - Private Sector Housing	305,350	305,010	893,140	588,130	Overspend largely relates to revenue expenditure funded by capital under statute adjustments nade at the year end.
PUBCON - Public Conveniences	351,230	351,454	279,350	-72,104	n/a
PUBHEA - Public Health	384,720	384,210	658,512	274,302	Salaries (Inc. Superannuation adj)
REFYCL - Refuse and Recycling	3,976,680	3,976,430	4,700,757	724,327	Although there are salary savingsof £36,250, agency costs are over budget by £219,000. Vehicle operating costs are higher than budgeted. Superannuation adj is £384,300.
RIVCON - River Control	27,240	27,240	25,598	-1,642	n/a
ROAFOO - Roads and Footpaths	109,690	109,690	73,593	-36,097	n/a
SNOICE - Snow and Ice	-21,120	-21,120	18	21,138	n/a
SPASIT - SPA Sites	24,550	24,550	-300,783	-325,333	Income is dependant on the commencement of third party developments which cannot be easily budgeted for and 2020-21 saw unbudgeted income of £517,400. Capital charges are £113,400 over budget.
STRCLE - Street Cleansing	2,316,710	2,316,560	2,208,836	-107,724	There are salary savings, including agency, of £273,100. Supplies and services are £60,000 under budget (mainly due to savings in the use of outside contractors). Superannuation adjustments are £212,870.
STRFUR - Street Furniture	111,390	111,390	85,152	-26,238	n/a
TAXLIC - Taxi Licensing	92,900	92,660	85,577	-7,083	
TIC - Tourist Information Centre	256,170	255,280	349,400	94,120	n/a
VEHMAI - Vehicle Maintenance	5,390	5,360	78,043	72,683	n/a
WASDEV - Waste and Fleet Business Development	-628,670	-628,690	-343,013	285,677	Salaries including agency are over budget by £69,300. Vehicle repair costs are £96,700 over budget. Trade income is £293,600 under budget although garden waste income exceeds budget by £206,200. Superannuation adj of £32,000.
WRD - Woking Road Depot	106,350	103,250	212,820	109,570	Repairs and maintenance are over budget (£71,000) and there is a superannuation adj too.

WRDSTO - Woking Road Depot Stores	-40	-110	-11,360	-11,250	
SERVICES - Service Delivery Directorate	16,957,500	17,404,505	26,375,088	8,970,583	
BUSFOR - Business Forum	26,820	26,820	27,829	1,009	
BUSIMP - Business Improvement	-81,240	-81,430	4,425,574	4,507,004	Costs related to GBC tranformation programme - Future Guildford.
CITADV - Citizens Advice Bureau	284,710	284,710	284,793	83	
CIVEXP - Civic Expenses	256,360	256,110	176,878	-79,232	
CLIMAT - Climate Change	100,080	100,030	-213,914	-313,944	Income £145 and Consultancy £183k costs under-estimated
COMDEV - Community Development	150,910	175,770	175,055	-715	
COMGFD - About Guildford	51,910	51,900	8,981	-42,919	
COMLOT - Community Lottery	-100	-100	-1,923	-1,823	
COMOUB - Public Relations	321,810	321,630	355,045	33,415	
COMSAF - Community Safety	163,620	163,520	50,330	-113,190	Salaries, Grants & Subscriptions
COMSUP - Council and Committee Support	425,750	425,190	398,033	-27,157	
CORPRO - Corporate Programmes	1,573,950	1,461,432	478,646	-982,786	Asset maint - Virement requirement of budget. Exp low due to COVID
DEMREP - Democratic Representation	818,990	818,820	776,691	-42,129	
ELECTI - Elections	94,910	94,800	92,552	-2,248	
ELECTO - Electoral Registration	276,430	275,670	182,229	-93,441	
EVENTS - Events	6,450	6,450	4,752	-1,698	
GRANTH - Grants to Voluntary Organisations	483,550	483,540	394,591	-88,949	
GRANTL - Leisure Grants to Voluntary Organisations	393,060	393,060	378,088	-14,972	
INDEST - Industrial Estates	-2,587,580	-2,552,228	-6,837,701	-4,285,473	Revaluation Gains/Losses
INFORO - Lead Specialist - Information Governance	4,370	4,330	21,528	17,198	
INVPRO - Investment Properties	-4,327,250	-4,326,024	665,193	4,991,217	Revaluation Gains/Losses, Asset Maint, Building Expenses, REFCUS
MAJPRO - Major Projects	670,710	2,106,646	13,861,332	11,754,686	£12.5m relates to capital charges reversed elsewhere in the General Fund Summary: Weyside Urban Village £10.36m, Ash Road Bridge £1.0m, Town Centre Development £722k , SMC £374k A331 Hotspots £82k (REFCUS) Consultants costs underspend £1.025m (£905k committed) Employee related expenditure £226k over budget due to agency staff costs
MARKET - Markets	-3,590	-3,600	4,291	7,891	
OSHRA - Housing Outside the HRA	59,630	59,630	85,422	25,792	
OTHPRO - Other Property	-580,920	-473,413	776,126	1,249,539	Revaluation Gains/Losses
POLICY - Policy, Community and Events	1,316,970	1,430,199	1,051,271	-378,928	Employee related savings of £259,020 due to vacancies- Savings in printing and consultancy costs in Policy (CIL) and Local Plan of £194,100. There is a superannuation adj of £117,400
PROASP - Project Aspire	0	0	22,038	22,038	
SAFGUI - Community Wellbeing	325,880	324,800	367,341	42,541	
TOUDEV - Tourism & Development	400,990	403,615	498,740	95,125	
TOWMAN - Town Centre Management	-216,830	-216,840	33,219	250,059	Sponsorship underachieved mainly due to Covid
YOUCOU - Youth Council	10	10	199	189	
STRATEGY - Strategy Directorate	410,360	2,015,047	18,543,228	16,528,181	

Grand total	25,480,960	27,135,179	41,215,588	14,080,408	

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Summary of Reserves 2020-2021

		2019-20	2020-21			
		Closing balance, £000	Receipts in Year	Transfers out in Year	Closing balance, £000	Purpose of the Reserve / Policy on use
		31/03/2020	£000	£000	31/03/2021	
General Fund						
Election Costs	U01008	-94,440.26	-62,500.00	0.00	-156,940.26	Contributions are made in non election years to offset the additional costs in the year that borough elections are held.
Interest Rate Movements	U01012	-1,196,969.60	0.00	0.00	-1,196,969.60	To allow for changes in predicted interest rates after the budget for the year has been set.
Concurrent Functions Grant Aid	U01021	-88,774.55	-4,958.00	15,372.00	-78,360.55	Set up from Concurrent Function grant aid not required by Parish Councils, to allow urgent requests to be considered during the year.
HLS projects	U01023	-171,533.39	-40,417.40	32,105.00	-179,845.79	To receive grants from Natural England prior to financing approved schemes in parks and countryside.
New Homes Bonus	U01026	-3,490,087.09	-851,019.00	1,206,600.42	-3,134,505.67	To receive balance of new homes bonus grant received and not used in the year. Should be used in line with NHB Policy approved Council Feb 2016.
Capital Schemes	U01030	-599,780.63	0.00	599,780.63	0.00	Financing of General Fund capital schemes within approved programmes.
Carried Forward Items	U01031	-1,654,219.44	0.00	826,191.50	-828,027.94	To finance expenditure in future years that was budgeted for but not able to be progressed in the year and which is still required.
Collection Fund Balance	U01033	-150,000.00	0.00	0.00	-150,000.00	Use as appropriate to smooth out the effects on the General Fund of a surplus or deficit on the Collection Fund.
Insurance	U01040	-975,993.01	0.00	0.12	-975,992.89	Maintain at level recommended by professional advisors. Receives or pays out the balance on the revenue account in the year and finances un-insured claims and
Invest to Save	U01041	-4,265,882.09	-250,000.00	3,846,523.31	-669,358.78	To be used to fund investment opportunities in services that will allow ongoing savings to be achieved and accommodate short term increases in revenue costs during periods of
Salix	U01042	-357,676.98	-178,152.38	73,158.05	-462,671.31	Match funding for Salix (Carbon Trust) grant. Consists of two separate reserves in order to comply with the requirements of the Carbon Trust.
IT Renewals	U01043	-666,647.88	-1,075,891.00	1,198,570.10	-543,968.78	Receives repayments from services to fund expenditure as set out in the ICT Strategy.
LABGI	U01044	-214,521.67	0.00	0.00	-214,521.67	Set up with income received from Local Authority Business Growth Incentive grant. This money will be used to support schemes that will also benefit the businesses in the Borough.
Spectrum	U01050	-1,823,017.49	-188,843.00	0.00	-2,011,860.49	Maintained in order to provide funds for structural repairs and improvements. Under the Leisure Management contract responsibility for the fabric of the buildings remains with the Council.
Car Parks Maintenance	U01054	-4,235,964.01	-649,950.00	458,377.82	-4,427,536.19	Financing of repairs, maintenance and improvements in off street car parks.
Land Charges	U01056	27,240.00	-50,600.46	0.00	-23,360.46	Balance on the land charges account for the year. Legislation requires that the Land Charges service breaks even over a three year period.
Park & Ride	U01057	-1,650,000.00	0.00	0.00	-1,650,000.00	Created in 2008/09 in lieu of a s106 contribution from the Queen Elizabeth Park development used to fund park and ride expenditure at Merrow and Artington.
Slyfield Area Regeneration Project (SARP)	U01059	0.00	0.00	0.00	0.00	Receives contributions from partners involved in the SARP and finances partnership expenditure.
Ash Manor AWP	U01062	0.00	0.00	0.00	0.00	To provide for replacement of Ash Manor All Weather Pitch, as required by agreement with the Football Foundation.
Ash Manor Renewals	U01063	-2,520.04	0.00	0.00	-2,520.04	To receive one third of any operational surplus on Ash Manor sports centre, as part of the tri-partite agreement in place.
Ash Manor Facilities Development	U01064	-2,520.04	0.00	0.00	-2,520.04	To receive one third of any operational surplus on Ash Manor sports centre, as part of the tri-partite agreement in place.
Pension Reserve (GBC)	U01066	-975,000.00	0.00	0.00	-975,000.00	Set up as part of closing the 2010-11 accounts in order to provide for a potential backfunding liability for staff transferred under TUPE to the Leisure Management
G Live sinking fund	U01067	-100,000.00	-10,000.00	0.00	-110,000.00	Required by the G Live operator agreement.
Leisure Management Contract	U01068	-45,686.00	0.00	0.00	-45,686.00	Receives a minimum of 50 per cent of any surplus on the Leisure Management contract (excluding Ash manor) as required by the contract.
Legal actions	U01071	-812,223.00	0.00	0.00	-812,223.00	Available to finance legal costs and awards made because of actions taken against the Council, including judicial review.
Liongate rent top-up	U01073	0.00	0.00	0.00	0.00	To allow for the accounting treatment of an investment property where the purchase price was reduced by an amount for rental income compensation.
Family support programme	U01074	-181,867.22	0.00	132,798.65	-49,068.57	To hold the balance of funds supplied by Surrey County Council for the Family Support programme, prior to expenditure being incurred.
Local Plan	U01075	-234,083.00	0.00	0.00	-234,083.00	To fund communications support work on the Local Plan and a contribution to the University of Surrey for the International Music Festival. The transfer out in the year
Salix admin	U01076	-33,795.63	0.00	0.00	-33,795.63	

Energy Management Schemes	U01077	-131,628.36	-44,326.29	0.00	-175,954.65	Funding for energy management schemes similar to Salix schemes but for which match funding is not available.
Preventing Homelessness	U01078	-301,270.09	-449,607.69	0.00	-750,877.78	Received grant from Department of Communities and Local Government (DCLG) for use in partnership work across Surrey to prevent homelessness in future years.
Preventing Reposession	U01079	-621,346.39	0.00	0.00	-621,346.39	Received grant from DCLG to fund preventing repossession work in future years.
Civil Parking Enforcement - GBC/GLC shared cont	U01080	-0.00	0.00	0.00	-0.00	To receive net funds due to Guildford and finance expenditure as allowed under the Civil Parking Enforcement agreement with Surrey County Council. Controlled jointly be
Business Rates equalisation	U01081	-5,715,526.79	-25,754,430.00	7,884,129.00	-23,585,827.79	To be used as appropriate to smooth out the effects of the Business Rates Retention Scheme, including those related to regeneration projects.
Job Evaluation	U01082	-300,000.00	0.00	0.00	-300,000.00	To accommodate the medium term effects of salary changes should the Council choose to implement Job Evaluation following completion of the Pay and Grading exercise in
Masterplan	U01084	-194,487.52	0.00	0.00	-194,487.52	To finance the preparation of a Master plan for the borough.
SPA - Effingham	U01085	-2,023,858.47	-409,222.42	0.00	-2,433,080.89	Receives s106 contributions for the Effingham SPA, prior financing expenditure on approved schemes.
SPA - Riverside	U01086	-923,570.15	-91.16	24,010.00	-899,651.31	Receives s106 contributions for the Riverside Park SPA, prior financing expenditure on approved schemes.
SPA - Chantry Wood	U01087	-4,355,880.73	-62,509.61	0.00	-4,418,390.34	Receives s106 contributions for the Chantry Wood SPA, prior financing expenditure on approved schemes.
SPA - Lakeside	U01088	-560,546.98	-55.87	3,719.00	-556,883.85	Receives s106 contributions for the Lakeside SPA, prior financing expenditure on approved schemes.
SPA - Parsonage Water	U01089	-1,904,350.92	-190.44	0.00	-1,904,541.36	Receives s106 contributions for the Parsonage Water SPA, prior financing expenditure on approved schemes.
Community Centres	U01090	-114,507.22	0.00	0.00	-114,507.22	To finance works on Community Centres
SCC Prevention partnership fund	U01091		0.00	0.00	0.00	To hold grants given by Surrey County Council prior to expenditure being incurred.
Capital movements reserve	U01092	-333,000.00	0.00	0.00	-333,000.00	To protect the revenue account against sale of investments at a capital loss.
Investment Property rent	U01093	-77,200.00	0.00	0.00	-77,200.00	To offset any shortfall in investment property rental income in the year.
Recycling	U01094	0.00	0.00	0.00	0.00	To protect the revenue account against adverse movement in the income generated from recylable materials
Budget Pressures	U01095	-1,754,414.68	0.00	328,000.00	-1,426,414.68	To facilitate the management of pressure on the General Fund revenue budget.
Civil Parking - GBC control	U01096	-322,090.12	-5,055.28	0.00	-327,145.40	To receive income from on-street parking, as agreed under the Civil Parking Enforcement agreement with Surrey County Council and finance any approved
Taxi Licensing	U01097	0.00	0.00	0.00	0.00	Previously included with the carry forward reserve. To receiv or fund any balance on the Taxi Licensing services (except irrecoverable costs). Legislation requires that the
Project Aspire	U01098	-94,508.09	0.00	22,037.53	-72,470.56	To finance the costs of Project Aspire.
Refugee Support	U01100	-62,386.23	-114,915.62	0.00	-177,301.85	Reserve holds unspent specific grant monies awarded by government to the Council to spend on supporting families that the Council has housed through the national refugee
Prevention Partnership Fund	U01101		0.00	0.00	0.00	Reserve holds unspent specific grant monies awarded by government to the Council to spend on preventing extremism
Community Housing Fund	U01102	-60,962.00	0.00	0.00	-60,962.00	Reserve holds unspent specific grant monies received by the Council from Government for expenditure on supporting community housing projects
Planning Policy	U01103	-49,735.00	0.00	0.00	-49,735.00	
Covid Reserve		0.00	0.00	6,497,702.00	6,497,702.00	Grants carried forward to offset future expediture
TOTAL		**-43,897,232.76**	**-30,202,735.61**	**23,149,075.13**	**-50,950,893.24**	

Collection Fund 2020-2021

2019-20 £000 Council Tax	2019-20 £000 Business Rates		2020-21 £000 Council Tax	2020-21 £000 Business Rates
		Income		
	87,917	Income from Business Ratepayers - Note 2		45,241
110,267		Council Taxes	115,246	
		Distribution of prior year estimated deficit:		
	5,986	Central Government		685
86		Surrey County Council	-	
621		Surrey Police and Crime Commissioner	-	
104	1,493	Guildford Borough Council	-	-
111,078	**95,396**	**Total Income**	**115,246**	**45,927**
		Expenditure		
		Precepts		
11,499		Surrey County Council	12,069	
82,552		Surrey Police and Crime Commissioner	87,129	
14,799		Guildford Borough Council	15,597	
		Payment of Business Rates shares:		
	43,677	Central Government		43,392
	8,735	Surrey County Council		8,678
	34,941	Guildford Borough Council		34,713
	(101)	Transitional Protection payments		87
	227	Charge to General Fund for collecting NDR		231
352		Provision for council tax bad debts	3,600	
	857	Provision for business rates bad debts		2,300
	(1,108)	Provision for business rates appeals		4,055
		Distribution of prior year estimated surplus:		
	6,492	Central Government		6,208
		Surrey County Council		0
		Surrey Police and Crime Commissioner		0
		Guildford Borough Council		4,140
109,202	**93,720**	**Total Expenditure**	**118,395**	**103,804**
		Collection Fund Balance		
		Balance at the beginning of the year	697	(2,064)
		Surplus/(deficit) for the year	(3,149)	(57,878)
697	**(2,064)**	Balance at the end of the year	**(2,452)**	**(59,942)**

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Corporate Governance and Standards Committee Report

Wards affected: n/a

Report of the Director of Strategic Services

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Date: 29 July 2021

Annual Governance Statement 2020-21

Executive Summary

The Accounts and Audit Regulations 2015 require the Council to prepare an Annual Governance Statement (AGS) detailing the governance framework and procedures that have operated at the Council during the year, a review of their effectiveness, significant governance issues that have occurred and a statement of assurance. This report outlines the background to the AGS; and sets out in Appendix 1, the AGS for 2020-21. The AGS is underpinned by the Annual Opinion Report (April 2020 to March 2021) prepared by KPMG, who are the Council's internal audit managers, which was considered by the Committee at its meeting held on 25 March 2021.

The draft AGS will be included in the Council's statement of accounts for 2020-21. The AGS acknowledges the significant challenges (both financial and organisational) placed on the Council due to the Covid 19 pandemic, which came at a time when the Council was undergoing a major organisational transformation (Future Guildford), and the need to return to the good governance practices and processes that the Council normally prides itself upon. The significant governance issues identified during the year, are reported in Appendix 1 section 6.

Where we have identified areas for further improvement, we will take the necessary action to implement changes that will further develop our governance framework.

This report was also considered by the Executive at its meeting on 20 July 2021. The Executive has commended the AGS to the Committee for adoption, subject to the following comments:

(a) In Part A of the table in Section 3 of the AGS, the Corporate Governance & Standards Committee does not appear to have considered the Email Signature Guidance for Councillors proposed by the Corporate Governance Task Group.

(b) In Part B of the table in Section 3 of the AGS, add the following:
- "The Council has a petition scheme to enable anyone who lives, works, or studies in the borough to create paper petitions, or use the e-petition

facility, to ask the Council to take action in respect of any matter on which we have functions, powers, or duties."

(c) The Corporate Governance and Standards Committee to receive a mid-year update report on significant governance issues that arose in the financial year relating to the AGS.

Recommendation to Committee:

That, subject to consideration of the comments from the Executive, the Committee adopts the Council's Annual Governance Statement for 2020-21, as set out in Appendix 1 to this report, and publishes the Annual Governance Statement alongside the adopted statement of accounts for 2020-21.

Reason for Recommendation:
To comply with the Accounts and Audit Regulations 2015, the Council must prepare, approve, and publish an Annual Governance Statement.

Is the report (or part of it) exempt from publication? No

1. Purpose of Report

1.1 This report explains the requirement for the Council to prepare an Annual Governance Statement (AGS), which the Committee is asked to approve, and the Leader and Managing Director to sign on behalf of the Council.

2. Strategic Framework

2.1 Ensuring long-term financial stability and sound financial governance is a key priority under the 'Your Council' theme within the Corporate Plan.

3. Background

3.1 The Council has a responsibility to ensure that it conducts its business in accordance with the law and proper standards, that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

3.2 In discharging these overall obligations, the Council is responsible for putting in place appropriate arrangements for the governance of its affairs and ensuring that there is a sound system of internal control that facilitates the effective exercise of its functions and includes arrangements for the management of risk. The overall system of controls across the Council contributes to the effective corporate governance of the organisation.

3.3 The Democratic Services and Elections Manager has drafted the statement in consultation with the Head of Paid Service, the Chief Finance Officer, the Monitoring Officer, and Neil Hewitson of KPMG (as the Council's internal audit manager).

3.4 Good governance is about getting things right first time by focusing on the things that matter most. It is about:

- demonstrating leadership and respect for the democratic process and the purpose of public bodies making proper, timely, and transparent decisions
- managing risk and allocating resources effectively
- knowing your customers and stakeholders
- being open, honest, and taking responsibility and accountability for your decisions
- demonstrating high standards of integrity and behaviour both as an individual and as a corporate body.

3.5 Good governance is the responsibility of everyone within the organisation and impacts on all the activities of the Council and how we deliver our services.

3.6 The Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) have defined a common governance framework and a set of principles for all public services, called *Delivering Good Governance in Local Government*. During 2016, they issued an update to the framework. The AGS attached at **Appendix 1** follows the 2016 updated framework and the key principles of good governance provided therein.

3.7 As part of the AGS, we have identified a number of significant governance issues that the Council is working on resolving. These are outlined in section 6 of Appendix 1.

4. Financial Implications

4.1 There are no financial implications related to this report

5. Legal Implications

5.1 In order to comply with Regulation 6 (1) (b) of the Accounts and Audit Regulations 2015, the Council must prepare an AGS in respect of each financial year. A committee of the Council, or the Council itself, may approve the AGS.

5.2 At its extraordinary meeting on 6 July 2021, the Council agreed to amend the terms of reference of this Committee to include the consideration and approval of the AGS in advance of the formal approval of the Council's Statement of Accounts.

5.3 Regulation 10 of the 2015 Regulations requires the Council to publish the AGS alongside the adopted statement of accounts each year.

5.4 The government introduced changes to the 2015 Regulations as a consequence of the pandemic to extend the statutory audit deadline for 2020-21 and 2021-22 for all local authorities. The publication date for audited accounts will move from 31 July to 30 September 2021 for all local authority bodies.

6. Human Resource Implications

6.1 There are no human resource implications to this report.

6.2 We will work with the Communications team on any communications issues that arise.

7. Conclusion

7.1 During 2020-21, the Council faced unprecedented challenges from COVID, with significant and varied operational pressures. In addition, the Future Guildford programme of transformation and re-organisation remains ongoing and as part of this the Council has further system implementations. Against this challenging backdrop of the pandemic alongside organisational transformation, during 2020-21 the Council received seven 'partial assurance with improvements required' reports, including in the areas of core financial control, risk management and data quality.

7.2 With the pandemic restrictions coming to an end and the organisational transformation and new systems being embedded, the Council will strive to make significant improvements in its governance framework moving forward.

8. Background Papers

Delivering Good Governance in Local Government (2016) (CIPFA/SOLACE)

9. Appendices

Appendix 1: Annual Governance Statement 2020-21

Annual Governance Statement 2020-21

1. SCOPE OF RESPONSIBILITY

1.1. Guildford Borough Council is responsible for ensuring that it conducts its business in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency, and effectiveness.

1.2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs to facilitate the effective exercise of its functions, including arrangements for the management of risk.

1.3. The Council has considered the principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government* (2016), including compliance with the CIPFA publication on *The Role of the Chief Financial Officer in Local Government* (2016) in the preparation of this statement.

1.4. This statement explains how the Council has complied with the code and meets the requirements of regulation 4 of the Accounts and Audit Regulations 2015 in relation to internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems, processes, culture, and values by which the authority is directed and controlled and the activities through which it accounts to, engages with, and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and impact should those risks be realised and to manage those risks efficiently, effectively and economically.

2.3 The governance framework has been in place for the year ended 31 March 2021 and up to the date of approval of the statement of accounts.

3. GOVERNANCE FRAMEWORK

3.1 The Council is a complex organisation with an appropriately comprehensive governance framework that works in a dynamic environment and keeps its processes under constant review. A description of how the Council puts the principles of good governance, set out in the CIPFA/SOLACE framework into practice is set out in the following table along with recent achievements, developments, and areas for improvement.

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	• Council's Constitution, includes: ▪ Council procedure rules for conduct at meetings ▪ financial and procurement procedure rules ▪ codes of conduct for Officers (reviewed in 2019) and Councillors ▪ protocol on decision making by lead councillors ▪ Protocol on Councillor/Officer Relations ▪ arrangements for dealing with allegations of misconduct by councillors ▪ Probity in planning local code of practice (reviewed in 2019) • Induction for new councillors and staff on standards of behaviour expected • Staff performance framework includes behavioural framework & behaviour profiles are included within job descriptions • Regular staff performance review in place • Declarations of interest made and recorded at meetings • Register of councillors' interests maintained • Register of gifts and hospitality maintained for Councillors and staff • Anti-Fraud and Corruption Strategy • Anti-Bribery Policy • Whistle blowing policy	*The Corporate Governance Task Group has reviewed and made recommendations to relevant decision-making bodies on the following matters:* *(a) the Councillors' Code of Conduct, including the policy on acceptance of gifts and hospitality (Council on 6 October 2020 and 19 May 2021)* *(b) the 15 best practice recommendations of the Committee on Standards in Public Life (CGSC[1] on 30 July 2020/Executive on 22 September 2020/ Council on 6 October 2020)* *(c) guidance on the use of social media by councillors (Executive on 22 September 2020)* *(d) the Protocol on Councillor/ Officer Relations (Council on 6 October 2020)* *(e) the draft Council Size Submission to the Local Government Boundary Commission for England*

[1] Corporate Governance and Standards Committee

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
	• Officer corporate governance group to monitor compliance with laws and council policies • Officer health and safety group in place to monitor health and safety compliance • Complaints policy in place • Customer services manager monitors and reports on complaints performance to corporate management team and CGSC as part of the Corporate Performance Monitoring report • Corporate Governance and Standards Committee (CGSC) in place whose remit is set out within the Constitution • Overview and Scrutiny Committee (OSC) review of decision making • Procurement strategy, policy and toolkit in place (updated in 2018) • An officer Corporate Procurement Board (CPB) monitors compliance with the procurement strategy and policy • All committee reports to Executive and Council require review of legal and financial implications to be completed and signed off by Monitoring Officer (MO) and Chief Finance Officer (CFO) • Executive advisory boards in place to advise Executive on matters of strategic importance to the Council • Monitoring Officer provisions in place	*(Council on 17 December 2020)* *(f) approved draft Email Signature Guidance for councillors referred to the Corporate Governance and Standards Committee for approval.* The Task Group is currently working on, or has yet to review the following areas: • the effectiveness of internal communications between officers and councillors • proposals to promote transparency, and effective communications and reporting, including the Council's Communications Protocol. • review of anomalies in the Constitution

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
		Corporate Procurement Board has met fortnightly throughout 2020-21 to improve governance arrangements around procurement, particularly where exemptions have been applied. A new procurement strategy was agreed by the Executive in June 2020 and revised and updated Procurement Procedure Rules were adopted by the Council in May 2021.
B. Ensuring openness and comprehensive stakeholder engagement	• The Council's vision and priorities are set out in the corporate plan • Consultation policy and community engagement strategy in place which adheres to consultation standards • Freedom of Information Act performance monitored by corporate management team and CGSC. Log of FOI responses is published on the website • Online council tax information published • Transparency information published on website • Records of decision making maintained and published on website • Forward programme of committee meeting dates and agenda items published on-line with reporting dates adhered to • Citizens' panel in place and regularly consulted with	*In 2020 we undertook a public consultation on the Council's priorities for services and spending as part of the budget process. This was used to inform the savings strategy. The corporate plan is currently being updated.*

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
	• Active programme of focus groups and surveys undertaken for specific service initiatives • Active use of social media and on-line tools to engage customers • Regular council newsletter About Guildford issued electronically on a quarterly basis • Consultation responses published on the Council's website (e.g. Local Plan) • Recognition of the importance of and active engagement in key strategic partnerships such as Guildford Surrey Board, Health and Wellbeing Board, Local Enterprise Partnership (EM3) and service specific partnerships	
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits	• Corporate Plan 2018-2023 which sets out the Council's vision, key themes and priorities • Performance Monitoring Reports against corporate plan priorities reported to Corporate Management Team and CGSC • New Programme and project management system in place, and undergoing development • Community engagement strategy • Corporate risk register in place • Financial risk register in place and used to inform the financial sustainability of the budget and adequacy of the level of reserves • Monitoring of key performance indicators undertaken by corporate management team	Internal Audit of Risk management in 2020-21 found partial assurance and action plan for improvement is in place. The risk management framework, strategy and policy need significant update.

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
	• Committee report template now includes Climate Change/Sustainability Implications • Business planning process and capital programme development aligned to the corporate plan through the new service planning and project and programme governance framework, bids for funding scored against achievement of corporate plan priorities • Future Guildford Transformation Programme in place, overseen by the Future Guildford Board and regularly reported to Overview and Scrutiny Committee	Internal Audit of performance monitoring also provided with partial assurance. The new framework introduced in 2020-21 needs to be embedded. *Future Guildford Phase B finally completed and transition to the new structure took place within 2020-21.*
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	• Medium term financial strategy and plan in place, reviewed annually and published as part of the Council's budget book • Business planning process in place to align financial resources with corporate plan priorities • New mandate and business case process introduced for new projects and policies • Business planning guidance for managers in place and reviewed annually • Scrutiny of the budget and business planning bids by Joint Executive Advisory Board and Councillor task group • Forward Plan maintained on a rolling 12 month basis • Regular corporate management team and Executive liaison meetings held to discuss strategy • Directors and senior officers hold regular 1:1 meetings with Lead Councillors	

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
	• Corporate management team hold regular directorate level feedback sessions • Service Leaders' group in place • Transformation Board in place which monitors the transformation programme • Major Projects Board in place to monitor the delivery of major projects • Property Review Group in place to review all assets on a rolling programme and optimise property asset utilisation and performance • Capital Programme Monitoring Group in place to monitor progress of capital projects, which are not major projects • Consequences of COVID Pandemic and the Council's response reported to Executive and Council in May 2020 and then monitored by Overview and Scrutiny Committee throughout the year.	*Due to the COVID pandemic the Major Projects Portfolio Board did not meet in 2020-21*
E. Developing capacity, including the capability of leadership and the individuals within it	• Organisational development framework includes continuous performance and development reviews of staff through one to one meetings and clear job role profiles with behavioural profiles. • The constitution sets out the role of statutory officers and the role of the Leader • The Council is compliant with CIPFA guidance on the Role of the Chief Finance Officer (CFO) • Head of Paid Service (HoPS), CFO, and MO are part of the corporate management team and always attend Executive-Management Team Liaison Group and full Executive meetings	

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
	• Professionally trained staff in relevant fields in place and continuing professional development encouraged as part of performance and development framework • Regular staff development training programme in place • Active support for staff to obtain external qualifications • Scheme of delegation and financial procedure rules in place • Councillor development steering group in place which develops and implements an active programme of Councillor training • Achievement of the South East Charter accreditation for Elected Member Development (January 2020) • Recognition of the importance of and active engagement in key strategic partnerships such as Guildford Surrey Board, Health and Wellbeing Board Local Enterprise Partnership (EM3) and service specific partnerships • Work with partners through the Local Resilience Forum	Financial Procedure Rules need to be reviewed in 2021-22 *Engagement with Key strategic partnership boards temporarily suspended during 2020-21 and the COVID pandemic. However, the Council has worked with partners through the multi-agency Local Resilience Forum and its Strategic Co-ordinating Group as required through the Surrey Emergency Plan*
F. Managing Risks and performance through robust internal control and strong public financial management	• Internal audit work programme informed by risks • Internal audit is outsourced, fully resourced and effective • Compliance the CIPFA code on managing the risk of fraud and corruption • Role of the overview and scrutiny committee is clearly set out in the constitution and its work programme is developed by the chairman, vice-chairman, and officers and agreed by the committee. Agendas and minutes are published online. • Regular MO and CFO meetings in place to address statutory responsibilities	Risk management framework needs significant update as found by internal audit. Risk management at service and project level needs review and embedding and corporate risk register needs to be updated and regularly reported to CMT/CGSC.

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
	• Officer corporate governance group oversees key governance, data protection and risk management information and receives reports from the health and safety group • Role of the Corporate Governance and Standards Committee (CGSC) is clearly set out in the constitution and has an active work programme informed by the officer corporate governance group and agreed by the committee. Agendas and minutes are published online. • A summary of internal and external audit reports is reported to CGSC on a regular basis along with annual Head of Internal audit opinion • Progress against audit plan and individual audit recommendations are monitored and reported to CGSC • Council has comprehensive data protection policies and a designated data protection officer who monitors compliance with legislation • Information security risk group, led by the Senior Information Risk Owner in place which reviews the Council's information governance procedures and any necessary improvements • CGSC receives regular financial monitoring reports • All projects require a risk register and project board	
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	• The Council publishes significant information on its website • 'Style guide' in place to encourage officers to write reports in plain English • Annual financial statements include a narrative summary on the Council's performance during the year as well as reporting the financial position	*The Council does not currently produce a formal annual report; however, the CFO's Narrative Statement in the Council's Statement of Accounts reports the majority of information that an annual report would be expected to cover.*

Principles of Good Governance	Arrangements the Council has for delivering good governance	Recent *achievements, developments* and areas for improvement
	• Effective internal audit function in place which complies with public sector audit standards and the CIPFA statement on the Role of the Head of Internal Audit • Community engagement strategy in place • Council has reaffirmed, and adopted as best practice, the position that all committee reports are made public unless there are unequivocal legal or commercial reasons to the contrary and that where practicable, information within a report which is legally exempt from publication should be isolated from the body of the report as a restricted appendix, with the remainder of the report made available to the public. • All restricted committee reports now clearly and precisely state at the point the agenda is published all of the following: (a) why the content is to be treated as exempt from the access to information publication rules. (b) to whom within the Council the content is restricted (c) when, following a period of exemption, the exempt information can be expected to be made public. (d) details of how the decision to maintain the exemption may be challenged. • Working group reports and minutes made available to all councillors.	*The Council is compliant with the mandatory elements of the Local Government Transparency Code 2015 in respect of the publication of data.* The Corporate Governance Task Group, referred to above, will also be examining proposals to promote transparency and effective communications

4. REVIEW OF EFFECTIVENESS

4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and by comments made by the external auditors and other review agencies and inspectorates.

4.2. The Head of Internal Audit (HoIA) is required to provide an annual opinion in accordance with Public Sector Internal Audit Standards (PSIAS), based upon and limited to the work performed on the overall adequacy and effectiveness of the Council's risk management, control and governance processes (i.e. the system of internal control). This is achieved through a risk-based programme of work, agreed with Management and approved by the Corporate Governance and Standards Committee, which can provide assurance, subject to the inherent limitations.

4.3. The purpose of the HoIA Opinion is to contribute to the assurances available to the Accountable Officer[2] and the Council which underpin the Council's own assessment of the effectiveness of the system of internal control. The opinion does not imply that the HoIA has covered all risks and assurances relating to the Council. The opinion is derived from the conduct of risk-based plans generated from a robust and Management-led Assurance Framework. As such it is one component that the Council takes into account in writing this Annual Governance Statement.

4.4. The HoIA Opinion for 2020-21 is one of: '**Partial assurance with improvements required'**. Whilst internal audit have noted robust aspects of the Council's system of internal control, for example the 'significant assurance with minor improvement opportunities' achieved in 2020-21 in respect of the payroll control environment, there are multiple areas that received 'partial assurance with improvements required' and will require prioritised attention in 2021-22, for example, implementing and embedding the new risk management framework and the performance monitoring framework.

5. INTERNAL AUDIT STATEMENT

5.1 The HoIA Opinion was presented to the Council's Corporate Governance and Standards Committee on 25 March 2021 (see HoIA Opinion[3]). In 2020-21, there were 11 planned pieces of work. Over the year, 9 reviews were completed, and two reviews were deferred to the 2021-22 audit plan. The results of the work carried out in the year to 31 March 2021 are shown in the table below:

Assurance Rating	Number of Audits	
Significant Assurance	0	0%
Significant Assurance with minor improvement opportunities	1	11%
Partial assurance with improvements required	7	78%
No Assurance	0	0%
No Opinion (one-off projects) Value for Money	1	11%
In progress (Inc. fundamental service reviews)	0	0%

[2] The Chief Finance Officer
[3] The Opinion forms part of Appendix 1 of Agenda Item 7

5.2 Internal audit reports provide management recommendations designed to address weaknesses in the system of internal control. The outcomes of these audits are reported on a summary basis to the CGSC every quarter giving councillors an opportunity to understand the Council's compliance with key controls and to discuss any areas of concern with the auditors. We also update councillors on the progress with implementation of recommendations. In 2020-21, Internal Audit raised 6 high priority recommendations as follows:

- 2 high priority recommendations relate to our local risk management review: these related to the introduction of a consistent council-wide local risk management framework and the implementation and roll-out of the newly designed risk management processes and procedures that were in progress at the time of the audit review
- 2 high priority recommendations relate to performance monitoring KPIs. These related to the implementation of the newly designed internal performance reporting framework and the staff sickness absence KPI.
- 2 high priority recommendations relate to the Income and Accounts Receivable and Expenditure and Accounts Payable reviews. These relate to the availability of evidence to support that controls have operated in line with design. Due to the implementation of Business World and the compounding difficulties that have arisen due to the Covid-19 pandemic. There has been difficulty accessing the required documentation to facilitate completion of the compliance testing and the reviews were therefore limited to reviewing the design of controls. These review areas will be revisited in the 2021-22 audit plan to complete compliance testing in these areas.

5.3 During 2020-21 the Council faced unprecedented challenges from COVID, with significant and varied operational pressures. In addition, the Future Guildford programme of transformation and re-organisation remains ongoing and, as part of this, the Council has further system implementations. Against this challenging backdrop of the pandemic alongside organisational transformation, during 2020-21 the Council received seven 'partial assurance with improvements required' reports, including in the areas of core financial control, risk management and data quality.

6. SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN

6.1. This year has been unprecedented; the Council has undertaken a period of transformational change whilst at the same time responding to the COVID 19 pandemic and continues to face on-going financial pressures. As a result of this challenging environment, it is recognised that there has been a reduction in the good governance arrangements the Council normally prides itself upon. Where we have identified areas for further improvement, we will take the necessary action to implement changes that will further develop our governance framework.

Progress on Governance Issues reported in the 2019-20 Annual Governance Statement:

6.2. The significant governance issues arising in 2019-20 and progress made against them are shown in table below:

Area	Actions Agreed	Progress Made
Openness and Transparency	To implement the Council motion from October 2019 Set up a task group to implement concerns raised.	Task group has met a number of times and reported its findings. A summary of progress is set out in the table in paragraph 3.1 above
Governance support for GBC Holdings Ltd and North Downs Housing Ltd	Concerns over Finance and Legal involvement in the governance and financial arrangements of the two companies established by the Council. However, the external auditor had acknowledged that the core business processes operated satisfactorily. The Business Plan is currently out of date and is in the process of being reviewed and updated.	KPMG carried out an audit of the companies which was completed in 2020-21 and reported to the CGSC on 14 January 2021. The audit gave partial assurance with improvements required and an action to address identified improvements. There was one high priority improvement relating to terms of reference for the company boards and the Council's governance around performance reporting. The recommendations will be subject to Audit follow up review in 2021-22.
Project Management	The Major Projects Portfolio Board was working well and was raising corporate awareness of project management and providing a new overview of the process. However, not all projects had boards and were not operating as well as they could. There were concerns that several projects with considerable contingency funds were overspending and that information and cost reports were not being fed back to Finance. We need to ensure that there are consistent processes and measurable outcomes.	The Strategy and Communications team have recently implemented revised Programme and Project Governance Framework and are collating all projects across the Council for monitoring purposes.

Area	Actions Agreed	Progress Made
Procurement	We are a complex authority and we recognise that the procurement processes need to be as efficient as possible. We control certain areas of spend very tightly but we need to achieve economies of scale by rationalising contracts and understanding more fully our category spend.	A new procurement strategy has been approved by Executive along with an updated set of procurement procedure rules during 2020-21. This includes a gateway approval process for high value contracts. The Corporate Procurement Board is overseeing procurement compliance across the Council.
ICT Asset Management	Following reports of a discrepancy in some of the Council's ICT equipment we carried out an audit review which found that there were inconsistent asset management controls which resulted in a loss of some equipment and, if not rectified, would have put the Council's assets at risk. However, the financial controls that were in place operated as intended and highlighted the issue.	Asset management of portable ICT equipment is carried out through the NetHelpDesk system in the Resources case team.

6.3 In addition, there were a number of follow-up reviews from 2019-20, which were revisited in 2020-21. The follow up audit revealed that of the recommendations made in the previous year, 9 had been fully implemented, 6 recommendations were partially implemented and 9 were not yet implemented. These will be subject to further follow up review during 2021-22.

New Governance Issues arising in 2020-21:

Impact of COVID-19 pandemic

6.4 Although the lockdown due to the coronavirus outbreak started in the last week of the 2019-20 financial year, the subsequent impact on the Council's services and governance arrangements has been considerable, occurring as it did at a time of organisational transformation, and ongoing financial uncertainties regarding the future funding of services and major projects. The impact has continued through 2020-21 as various easing and then tightening of restrictions have been made by government. It is anticipated that some impact will continue into 2021-22 and possibly the medium-term.

6.5 The Council has adhered, and responded at pace, to government guidance in response to the pandemic. Priorities were necessarily changed to focus on the need to support our most vulnerable residents, local businesses, and essential services. More recently the Council has been supporting the vaccination programme. Business as usual changed substantially to accommodate new expectations and services introduced by government and to work with our partners in the Local Resilience Forum, but key processes and functions have been maintained. The impact of the

pandemic will inform the review of our key priorities in the Council's Corporate Plan, which commenced in 2019, and our medium-term financial plan.

6.6 The Council's response to the pandemic was discussed, at length, at various meetings of the Overview and Scrutiny Committee during the year, at which the Managing Director outlined the ongoing impact of the crisis on local residents and businesses, and the help and support provided by the Council. The Committee was reminded of timelines and governance relating to COVID-19 and advised of the Council services that had been maintained and suspended in the crisis. In addition, the Managing Director informed the Committee of the new and extended services delivered by the Council during the emergency. The financial impact of the pandemic on the Council has been monitored through both the Overview and Scrutiny Committee and the Corporate Governance and Standards Committee. A new COVID monitoring report to monitor economic indicators associated with the response and recovery was introduced and regularly reported to Councillors via email.

6.7 The government introduced changes to the Accounts and Audit Regulations 2015 as a consequence of the pandemic to extend the statutory audit deadline for 2020-21 and 2021-22 for all local authorities. The publication date for audited accounts will move from 31 July to 30 September 2021 for all local authority bodies.

6.8 The government also made regulations under the Coronavirus Act 2020 to allow councils to conduct meetings and take decisions in ways other than face to face so that decisions can still be made to maintain good governance, and principles of openness and accountability. The Council initially adapted its approach by assessing which decisions could be delayed and re-scheduled and which decisions needed to be made to deal with the pandemic. Remote meetings were then instigated in April 2020 to ensure that transparency and good governance prevailed and also to allow access to the public and press. Remote meetings have continued to May 2021.

6.9 Demands on IT systems and staff will be considerable as most office-based staff continued to work remotely for significant periods of time. Procedures are in place to deal with a phased and safe return to work as lockdown restrictions are eased but to also transition the Council to a more agile working policy for the longer term.

6.10 The continued financial uncertainty regarding government funding of local government beyond 2020-21 has, to a large extent, been over-ridden by the financial challenges associated with funding the effects of the COVID-19 pandemic, which creates a significant challenge in terms of budget setting and medium-term financial planning.

6.11 An ongoing assessment of the impact of the COVID-19 pandemic on the Council's services and systems will be needed to ensure good governance.

<u>Compliance with CIPFA Financial Management (FM) Code</u>

6.12 2020-21 is a 'shadow year' for the implementation of the CIPFA FM Code. As such, an assessment of the extent to which the authority complies with the Code has been undertaken by the Director of Resources. The authority is confident that it is generally compliant with the Code but has identified some key areas where improvements could be made as follows:

(a) Further financial training and guidance for budget managers and staff across

the authority is required

(b) A review of the performance of the Corporate Governance and Standards Committee against the CIPFA Audit Committee Guidance would be beneficial

(c) The Council could benefit from a formal external financial resilience assessment

(d) Financial benchmarking reports should be reported to Councillors on an annual basis

(e) The Council should establish a long-term 10 to 20-year financial plan and vision, which should include scenario planning

(f) The Council's asset management framework, policy and guidance should be updated along with introducing a formal asset management plan.

Risk Management

6.13 During 2020-21, an internal audit review of risk management found partial assurance with improvements required. The audit recommended introduction of a consistent council-wide risk management framework. It found that there are no central processes or specific guidance mandating how risk should be managed at a local or project level. As a result, the auditors recommended updating the existing 'Risk management strategy and framework' on a more regular basis and communicating this to relevant staff so that there is a clear, consistent approach to risk management. The audit also recommended that a revised risk management framework be implemented; formally devising a plan that unifies the risk management documents, processes and required actions at a corporate and local risk level.

Performance Management and Monitoring

6.14 During 2020-21, an internal audit review of performance management found partial assurance with improvements required. The audit recommended implementation of the internal performance reporting framework through development of the new performance reporting framework – ensuring that there is a clear schedule of KPIs to be reported, including definitions of KPIs, roles and responsibilities for preparation and frequency of reporting. The audit also found a need to improve the collection and quality of data and systems used to calculate some performance indicators.

Core Financial Systems

6.15 During 2020-21, an internal audit review of core financial systems found partial assurance with improvements required. The audit raised two high priority recommendations related to the availability of evidence to support controls operating. Implementation of Business World coupled with COVID has impacted the availability of the required documentation. Financial records with relevant supporting evidence must be available to demonstrate that the Council has maintained a robust control environment at all times.

6.16 During 2020-21, the Council has carried out regular payroll reconciliations to ensure that net pay totals are correct and have been reconciled to the payment run summary sheets. However, regular reconciliations of payroll deductions posted into the General Ledger via the payroll control account were not undertaken. BusinessWorld is an integrated Enterprise Resource Planning system and entries into the general ledger via the payroll control account are automatic, so there had been an assumption that reconciliation may not be necessary. Issues recently identified in relation to payroll costing into the general ledger has identified a need

to still complete a reconciliation between the general ledger and the Payroll Control Account.

7. ASSURANCE SUMMARY

7.1 Good governance is about running things properly. It is the means by which the Council shows it is taking decisions for the good of the people of our area in an equitable and open way. It recognises the standards of behaviour that support good decision-making: collective and individual integrity, openness and honesty. It is the foundation for the delivery of good quality services and fundamental to showing that public money is well spent.

7.2 During 2020-21, the Council faced unprecedented challenges from COVID, with significant and varied operational pressures. In addition, the Future Guildford programme of transformation and re-organisation remains ongoing and as part of this the Council has further system implementations. Against this challenging backdrop of the pandemic alongside organisational transformation, during 2020-21 the Council received seven 'partial assurance with improvements required' reports, including in the areas of core financial control, risk management and data quality.

7.3 We confirm, to the best of our knowledge and belief, that this Statement provides an accurate and fair view.

Signed:

Leader of the Council on behalf of Guildford Borough Council

Signed:

Managing Director on behalf of Guildford Borough Council

Corporate Governance and Standards Committee Report

Ward(s) affected: n/a

Report of Director of Strategic Services

Author: John Armstrong, Democratic Services and Elections Manager

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Date: 17 June 2021

Corporate Governance and Standards Committee – 12 month rolling Work Programme

Recommendation

That the Committee considers and approves its updated 12 month rolling work programme, as detailed in Appendix 1 to this report.

Reason for recommendation:
To allow the Committee to maintain and update its work programme.

Is the report (or part of it) exempt from publication? No

1. Purpose of report

1.1 The draft work programme attached as Appendix 1 sets out the items scheduled to be considered by this Committee at its meetings over the next 12 months.

2. Draft work programme

2.1 The draft work programme for the Corporate Governance and Standards Committee is set out in Appendix 1 to this report. The timing of the reports contained in the work programme is subject to change, in consultation with the chairman. The items to be considered include decisions to be made by the Executive and/or full Council, with consideration of any comments or recommendations made by this Committee.

3. Financial Implications

3.1 There are no financial implications arising directly from this report.

4. Legal Implications

4.1 There are no legal implications arising directly from this report.

5. Human Resource Implications

5.1 There are no human resources implications arising directly from this report.

6. Background Papers

- Guildford Borough Council Forward Plan
- Corporate Management Team Forward Plan

7. Appendices

Appendix 1: Corporate Governance and Standards Committee 12 month rolling work programme

CORPORATE GOVERNANCE AND STANDARDS COMMITTEE: 12 MONTH ROLLING WORK PROGRAMME

26 August 2021
(special meeting)

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Financial Monitoring 2021-22 Period 3 (April/June 2021)	To note the results of the Council's financial monitoring for the period April/May 2021	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Summary of Internal Audit Reports October 2020 – March 2021	To consider the summary of internal audit reports for the period October 2020 to March 2021, including an update on complaints to the Local Government Ombudsman for that period	Corporate Governance and Standards Committee	Neil Hewitson (KPMG) 0207 311 1791
Corporate Governance matters considered by the Corporate Governance Task Group	To consider draft Email Signature Guidance for councillors	Corporate Governance and Standards Committee	John Armstrong 01483 444102

CORPORATE GOVERNANCE AND STANDARDS COMMITTEE: 12 MONTH ROLLING WORK PROGRAMME

23 September 2021 or 28 September 2021 (dependent on progress with finalising the audited statement of accounts)[1]

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
2020-21 Audit Findings Report: Year ended 31 March 2021	To note the external auditor's findings and management's response in the Action Plan	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Final 2020-21 Audited Statement of Accounts	To approve the 2020-21 Statement of Accounts	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Planning Appeals	To monitor the Council's performance at appeals against refusal of planning permission by the Planning Committee (both in respect of officer recommendations for refusal and Committee overturns) including, where appeals are upheld, details of costs awarded against the Council and other associated legal/external adviser costs.	Corporate Governance and Standards Committee	Tim Dawes 01483 444650
Financial Monitoring 2021-22 Period 4 (April to July 2021)	To note the results of the Council's financial monitoring for the period April to July 2021	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Corporate Performance Monitoring	To receive a quarterly report setting out the Council's performance against its Key Performance Indicators	Corporate Governance and Standards Committee	Amanda Hargreaves 01483 444276
Councillor Training and Development Update	To consider a report from the Councillors' Development Steering Group relating to councillor training and development	Corporate Governance and Standards Committee	Sophie Butcher 01483 444056
Data Protection and Information Security Update Report	To consider a six-monthly update on compliance with statutory requirements	Corporate Governance and Standards Committee	Ciaran Ward 01483 444072
Freedom of Information Compliance update	To consider the update report on the Council's performance in dealing with Freedom of Information requests (January to June 2021)	Corporate Governance and Standards Committee	Ciaran Ward 01483 444072
The Council's Constitution	To review and update Financial Procedure	Corporate Governance and	Victoria Worsfold

[1] As agreed by the Committee on 14 January 2021

CORPORATE GOVERNANCE AND STANDARDS COMMITTEE: 12 MONTH ROLLING WORK PROGRAMME

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
	Rules	Standards Committee Council: 5 October 2021	01483 444834

18 November 2021

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Financial Monitoring 2021-22: Period 6 (April to October 2021)	To note the results of the Council's financial monitoring for the period April to October 2021	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Summary of internal audit reports (April to September 2021)	To consider the summary of internal audit reports and progress on the internal audit plan for April to September 2021, including update on complaints to the Local Government Ombudsman for that period.	Corporate Governance and Standards Committee	Neil Hewitson (KPMG) 0207 311 1791
Corporate Performance Monitoring	To receive a quarterly report setting out the Council's performance against its Key Performance Indicators	Corporate Governance and Standards Committee	Amanda Hargreaves 01483 444276
Appointment of External Auditors	To consider options for the appointment of external auditors	Council 7 December 2021	Claire Morris 01483 444827

CORPORATE GOVERNANCE AND STANDARDS COMMITTEE: 12 MONTH ROLLING WORK PROGRAMME

20 January 2022

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Annual Audit Letter 2020-21	To review the letter and make any comments to the Executive as appropriate.	Corporate Governance and Standards Committee Executive: 25 January 2022	Claire Morris 01483 444827
Capital and investment strategy (2022-23 to 2025-26)	To comment on various recommendations to the Executive and Council	Corporate Governance and Standards Committee Executive: 25 January 2022 Council: 9 February 2022	Victoria Worsfold 01483 444834
Financial Monitoring 2021-22 Period 8 (April to November 2021)	To note the results of the Council's financial monitoring for the period April to November 2021	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Gender Pay Gap Report 2022-23	To note the Council's gender pay gap report	Corporate Governance and Standards Committee	Francesca Smith 01483 444014
Corporate Performance Monitoring	To receive a quarterly report setting out the Council's performance against its Key Performance Indicators	Corporate Governance and Standards Committee	Amanda Hargreaves 01483 444276
Freedom of Information Compliance - Annual Report 2021	To consider the annual report for 2021 on the Council's performance in dealing with Freedom of Information requests.	Corporate Governance and Standards Committee	Ciaran Ward 01483 444072

CORPORATE GOVERNANCE AND STANDARDS COMMITTEE: 12 MONTH ROLLING WORK PROGRAMME

24 March 2022

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Annual Governance Statement 2021-22	To adopt the Council's Annual Governance Statement 2021-22	Executive: 26 April 2022	John Armstrong 01483 444102
Financial Monitoring 2021-22 Period 10 (April 2021 to January 2022)	To note the results of the Council's financial monitoring for period April 2020 to January 2021	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Corporate Performance Monitoring	To receive a quarterly report setting out the Council's performance against its Key Performance Indicators	Corporate Governance and Standards Committee	Amanda Hargreaves 01483 444276
Audit Report on the Certification of Financial Claims and Returns 2020-21: Housing Benefit Subsidy and Pooling Housing Capital Receipts	To note the position regarding the certification of financial claims and returns for 2020-21	Corporate Governance and Standards Committee	Belinda Hayden 01483 444867
Planning Appeals	To monitor the Council's performance at appeals against refusal of planning permission by the Planning Committee (both in respect of officer recommendations for refusal and Committee overturns) including, where appeals are upheld, details of costs awarded against the Council and other associated legal/external adviser costs.	Corporate Governance and Standards Committee	Tim Dawes 01483 444650

CORPORATE GOVERNANCE AND STANDARDS COMMITTEE: 12 MONTH ROLLING WORK PROGRAMME

21 April 2022

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
External Audit Plan and Audit Update and Fee Letter 2021-22	To approve the external audit plan for 2021-22, and to note the content of the External Auditor's update report and make any appropriate comments. To consider the planned audit fee.	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Data Protection and Information Security Update Report	To consider a six-monthly update on compliance with statutory requirements	Corporate Governance and Standards Committee	Ciaran Ward 01483 444072
Equality Scheme Action Plan	Annual monitoring report on the implementation of the actions in the Equality Scheme action plan approved in June 2021	Corporate Governance and Standards Committee	Ali Holman 01483 444008

June 2022

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Corporate Performance Monitoring	To receive a quarterly report setting out the Council's performance against its Key Performance Indicators	Corporate Governance and Standards Committee	Amanda Hargreaves 01483 444276
Review of Task Groups reporting to the Committee	To review the work carried out by the task groups over the past 12 months and work to be carried put in the next 12 months and appoint councillors to the groups	Corporate Governance and Standards Committee	John Armstrong 01483 444102

CORPORATE GOVERNANCE AND STANDARDS COMMITTEE: 12 MONTH ROLLING WORK PROGRAMME

July 2022

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Draft 2021-22 Statement of Accounts	To approve the draft 2021-22 Statement of Accounts for consultation	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Capital and Investment outturn report 2021-22	To submit any comments to the Executive.	Executive: August 2022 Council: October 2022	Victoria Worsfold 01483 444834
Revenue Outturn Report 2021-22	To submit any comments to the Executive.	Executive: August 2022	Victoria Worsfold 01483 444834
Housing Revenue Account Final Accounts 2020-21	To submit any comments to the Executive	Executive: August 2022	Victoria Worsfold 01483 444834
Financial Monitoring 2022-23 Period 2 (April/May 2022)	To note the results of the Council's financial monitoring for the period April/May 2022	Corporate Governance and Standards Committee	Victoria Worsfold 01483 444834
Summary of Internal Audit Reports October 2021 – March 2022	To consider the summary of internal audit reports for the period October 2021 to March 2022, including an update on complaints to the Local Government Ombudsman for that period	Corporate Governance and Standards Committee	Neil Hewitson (KPMG) 0207 311 1791

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