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Contact Officer:

John Armstrong, Democratic Services Manager  
Tel: 01483 444102

6 June 2018

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, 14 JUNE 2018 at 7.00 pm.**

Yours faithfully

James Whiteman  
Managing Director

**MEMBERS OF THE COMMITTEE**

Chairman: Councillor Richard Billington  
Vice-Chairman: Councillor Alexandra Chesterfield

Councillor Nils Christiansen  
Councillor Colin Cross  
Councillor Andrew Gomm  
Councillor Mike Hurdle  
Councillor Nigel Kears

+Mrs Maria Angel MBE  
^Mr Charles Hope  
^Ms Geraldine Reffo  
^Mr Ian Symes

\*Independent member

^ Parish member

**Authorised Substitute Members:**

Councillor David Goodwin  
Councillor Liz Hogger  
Councillor Christian Holliday  
Councillor Susan Parker

Councillor Dennis Paul  
Councillor David Quelch  
Councillor David Reeve  
Councillor Caroline Reeves

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**QUORUM 3**



## 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:

- |                     |  |
|---------------------|--|
| <b>Place-making</b> | 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   |
| <b>Community</b>    | Supporting older, more vulnerable and less advantaged people in our community  |
|                     | Protecting our environment   |
|                     | Enhancing sporting, cultural, community, and recreational facilities   |
| <b>Innovation</b>   | 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.

## AGENDA

### 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.

**3 MINUTES (Pages 1 - 8)**

To confirm the minutes of the meeting of the Corporate Governance and Standards Committee held on 29 March 2018.

**4 ANNUAL GOVERNANCE STATEMENT 2017-18 (Pages 9 - 30)**

**5 INTERNAL AUDIT PLAN 2018-19 (Pages 31 - 38)**

**6 EXTERNAL AUDIT 2018-19 FEE LETTER (Pages 39 - 44)**

**7 CAPITAL AND INVESTMENT OUTTURN REPORT 2017-18 (Pages 45 - 120)**

**8 REVENUE OUTTURN REPORT 2017-18 (Pages 121 - 150)**

**9 HOUSING REVENUE ACCOUNT FINAL ACCOUNTS 2017-18 (Pages 151 - 160)**

**10 REVIEW OF ARRANGEMENTS FOR DEALING WITH MISCONDUCT AGAINST COUNCILLORS (Pages 161 - 188)**

**11 REVIEW OF THE COUNCILLORS' DEVELOPMENT STEERING GROUP (Pages 189 - 196)**

**12 WORK PROGRAMME (Pages 197 - 204)**

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# CORPORATE GOVERNANCE AND STANDARDS COMMITTEE

29 March 2018

- \* Councillor Gordon Jackson (Chairman)
- \* Councillor Jo Randall (Vice-Chairman)

- |                                     |                      |
|-------------------------------------|----------------------|
| * Councillor Alexandra Chesterfield | Mrs Maria Angel MBE  |
| * Councillor Colin Cross            | Mr Charles Hope      |
| Councillor Mike Hurdle              | * Ms Geraldine Reffo |
| Councillor Nigel Kears              | * Mr Ian Symes       |
| Councillor Nigel Manning            |                      |

\*Present

The Lead Councillor for Infrastructure and Governance, Councillor Matt Furniss and the Lead Councillor for Finance and Asset Management, Councillor Michael Illman, were also in attendance.

## **CGS47 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

Apologies for absence were received from Councillors Mike Hurdle, Nigel Kears, and Nigel Manning and from Maria Angel MBE and Chares Hope.

Councillor Richard Billington attended as a substitute for Councillor Manning.

## **CGS48 LOCAL CODE OF CONDUCT - DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

## **CGS49 MINUTES**

The Committee confirmed as a correct record the minutes of the meeting held on 18 January 2018. The Chairman signed the minutes.

## **CGS50 DISCUSSIONS WITH THOSE CHARGED WITH GOVERNANCE**

The Committee noted that, in carrying out their annual audit of the Council, Grant Thornton comply with the International Standards on Auditing (ISAs) as adopted by the UK Financial Reporting Council (FRC). ISAs required the auditor to make inquiries of Those Charged With Governance (TCWG) to determine whether they had knowledge of any actual, suspected or alleged fraud affecting the entity. These inquiries were made, in part, to corroborate the responses to the inquiries of management.

Grant Thornton had sent the Council a questionnaire setting out their inquiries of TCWG. Officers had prepared a response to the questionnaire, on behalf of the Chairman of this Committee. The questionnaire and the Council's proposed responses were set out in Appendix 1 to the report submitted to the Committee.

Having considered the report, the Committee

**RESOLVED:** That the responses to Grant Thornton provided in the Discussions with Those Charged with Governance document at Appendix 1 to the report submitted to the Committee, be approved, subject to the following corrections:

- (a) in the comment on item a of the questionnaire, substitute the following in place of the fourth and fifth paragraphs:

*“Also Surrey Chief Accountants Group, and Surrey Treasurers share fraud experiences which would highlight any areas of potential fraud.*

*Appropriate officers receive National Fraud Awareness Network bulletins on a regular basis which alerts them to potential threats.”*

(b) in the comment on item p of the questionnaire, delete “*and are accredited by Lexcel*”.

Reason:

To enable the Council’s external auditors, Grant Thornton, to carry out their duties under the Local Audit and Accountability Act 2014, the auditors must be provided with the necessary assurances required under International Standards on Auditing (ISA), particularly, ISA 260, Communication with Those Charged with Governance.

**CGS51 AUDIT REPORT ON THE CERTIFICATION OF FINANCIAL CLAIMS AND RETURNS 2016-17: HOUSING BENEFIT SUBSIDY AND POOLING HOUSING CAPITAL RECEIPTS**

The Committee considered an audit report on the certification of financial claims and returns for 2016-17.

The audit covered claims returns relating to expenditure of £39.85 million, spanning Housing Benefit Subsidy worth £34.5m and Pooling of Housing Capital Receipts worth £5.35m.

Although it had been necessary to qualify the Subsidy claim, the auditor had found a minimal number of errors. The auditor’s report had been very favourable towards the performance of the Benefits service, highlighting the improvements made compared to last year – with no new error types identified, and a reduction in errors found. The auditors had carried out a lower volume of additional testing compared to last year and, as a result, there was no additional audit fee to approve, the additional work being covered within the set scale fee.

The Council had provided assurance to the Department for Work and Pensions (DWP) that it was continuing with its checking regime and looking for ways to reduce errors further. The auditor had no issues to report in respect of the total capital receipts.

Having considered the report, the Committee

RESOLVED: That the position regarding the certification of claims and returns for 2016-17 be noted.

Reason:

To formally sign off the claims and returns for 2016-17.

**CGS52 EXTERNAL AUDIT PLAN 2017-18**

The Committee considered the annual external audit plan for 2017-18, which had been prepared by the Council’s external auditors, Grant Thornton.

The plan contained details of the programme of work that Grant Thornton intended to carry out during 2017-18, the approach they would adopt and significant risks that they would review as part of the audit. The Audit Plan outlined:

- the elements of the audit cycle and the dates by which the work would be carried out
- the fee that Grant Thornton would charge in respect of the external audit of the Council. The overall fee for the core audit was the same as the fee charged in 2016-17 and was within budget as reported to the Committee at its meeting on 15 June 2017.

The Committee was reminded that, for audits of the accounts from 2018-19 Public Sector Audit Appointments (PSAA) were responsible for appointing an auditor to principal local government and police bodies that had chosen to opt into its national auditor appointment arrangements. At its meeting on 6 December 2016, full Council had resolved to opt-in to the appointing person arrangements made by PSAA. Grant Thornton UK LLP had been successful in winning a contract in the procurement process and had been recommended by PSAA as the Council's auditors for a period of five years from 2018-19. This appointment was made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015, and had been approved by the PSAA Board at its meeting on 14 December 2017.

Grant Thornton had also been appointed as auditors to nine Surrey Boroughs/ Districts and Surrey County Council. Having noted that there were no issues in respect of independence or any other reasons that would prevent the appointment of Grant Thornton as auditors, the Committee

RESOLVED: That the external audit plan submitted by Grant Thornton, including the audit fees set out on page 11 of the plan, be approved.

The Committee further

RECOMMEND (to Council: 10 April 2018):

That, following conclusion of the tendering exercise conducted through Public Sector Audit Appointments Ltd, Grant Thornton UK LLP be appointed as the Council's auditors for a period of five years commencing with the audit of the 2018-19 Statement of Accounts.

Reasons:

- To enable the Committee to consider and comment on the planned audit fee, work programme and update report
- To comply with regulation 13 of the Local Audit (Appointing Person) Regulations 2015

**CGS53 FINANCIAL MONITORING 2017-18 PERIOD 10 (APRIL 2017 TO JANUARY 2018)**

The Committee considered a report that set out the financial monitoring position for period 10 (April 2017 to January 2018).

The report summarised the projected outturn position for the Council's general fund revenue account, based on actual and accrued data for this period. Officers were projecting a reduction in net expenditure on the general fund revenue account of £1,915,464. This was the result of a combination of factors, which included a reduction in employee and consultancy expenditure across all services, higher than assumed levels of grant support and a reduction in the statutory Minimum Revenue Provision (MRP) charge to the General Fund to make provision for the repayment of past capital debt. This lower than budgeted MRP charge reflected a re-profiling of capital schemes, which also had a positive impact on the level of cash balances and assumed external borrowing costs, which had combined to produce higher than budgeted net interest receipts.

A surplus on the Housing Revenue Account, due to lower staffing and repairs and maintenance costs would enable a projected transfer of £9.61 million to the new build reserve and £2.5 million to the reserve for future capital at year-end, which had been £1,377,854 higher than budgeted.

Officers were making progress against significant capital projects on the approved programme as outlined in section 7 of the report. The Council was expected to spend £26.3 million on its capital schemes by the end of the financial year.

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The Council's underlying need to borrow to finance the capital programme was expected to be £10.9 million by 31 March 2018, against an estimated position of £87.7 million, which was due to slippage on both the approved and provisional capital programme.

The Council held £154.9 million of investments and £239.7 million of external borrowing as at 31 January 2018, which included £193 million of HRA loans. Officers confirmed that the Council had complied with its Prudential indicators in the period, which had been set in February 2017 as part of the Council's Treasury Management Strategy.

Having considered the report, the Committee

RESOLVED: That the results of the Council's financial monitoring for the period April 2017 to January 2018 be noted.

Reason:

To allow the Committee to undertake its role in relation to scrutinising the Council's finances.

**CGS54 ANNUAL REPORT OF THE MONITORING OFFICER REGARDING MISCONDUCT ALLEGATIONS**

The Committee received and noted the Monitoring Officer's annual report about decisions taken on standards allegations against borough and parish councillors for the 12-month period ending 31 December 2017.

The chairman drew the Committee's attention to the information on the Supplementary Information sheet circulated at the meeting which set out details of the findings and approved sanctions in respect of the complaints of misconduct against Councillor David Reeve, considered by the Hearings Sub-Committee on 11 September 2017.

The Committee recognised that a number of lessons could be learned from this matter and accordingly the Monitoring Officer and the Democratic Services Manager had met with the Committee Chairman to discuss an approach to the review of the 'Arrangements for dealing with allegation of misconduct by Councillors' and the handling of confidential information. The Monitoring Officer indicated that the Council's Independent Persons would be consulted as part of the review, which would also look into the criteria for the initial assessment test within the Arrangements. A report on this would be submitted to the Committee in due course, together with suggested recommendations.

The Committee noted that the outcome of the initial assessment of three of the four complaints recorded during the year, resulted in no further action on the basis that the comments made by the subject member were considered to be an expression of disagreement rather than a personal attack and that this was part of the 'cut and thrust' of politics and lively debate. In response to comments from the Committee, the Monitoring Officer defined 'cut and thrust' in this context.

There were no other areas of concern upon which the Committee would like further information and/or further work carried out.

Accordingly, the Committee

RESOLVED: That the cases referred to in Appendix 1 to the report submitted to the Committee, be noted and that the outcome of the review of the Arrangements for dealing with allegations of misconduct, including suggested recommendations, be reported to the Committee for consideration.

Reasons:

- To ensure members of the Committee and others to whom the report is circulated are kept up to date



- To consider learning points for the future
- To seek to promote and maintain high standards of conduct amongst Members

### **CGS55 LOCAL GOVERNMENT ETHICAL STANDARDS: STAKEHOLDER CONSULTATION**

The Committee considered a report on a review of local government ethical standards, which was currently being undertaken by The Committee on Standards in Public Life (CSPL). As part of this review, the CSPL was holding a public stakeholder consultation, which would close on 18 May 2018.

A copy of the consultation paper was attached to the report.

In order to inform the Committee's consideration of this matter, all councillors had been sent a copy of the consultation paper and asked to submit any comments to the Monitoring Officer in time for this meeting. Similarly, the consultation had also been drawn to the attention of all parish councils in the borough and they too had been invited to submit comments.

The only response received had been submitted by Albury Parish Council, a copy of which was appended to the report.

Following the introduction of the item by officers, the Chairman invited Mr Bernard Quoroll, who was one of the Council's statutory Independent Persons in respect of ethical standards matters, to address the meeting. Mr Quoroll's view was that the process was not fit for purpose, not just in respect of whether there were sufficient penalties for those who misbehaved but also the wider issue relating to behaviour in public life.

In relation to the Council's response to the consultation, bearing in mind the 18 May deadline, it was suggested that the draft response could be circulated to the Committee for comments prior to submission, or if necessary, convening a special meeting for the purpose of approving the response.

The Committee agreed, in view of the poor response from parish councils to date, that they be requested to submit their individual responses directly to the CSPL, and send a copy to the Monitoring Officer.

During the debate, the Committee noted the following points:

- It was not merely whether there were sufficient sanctions available but also the extent to which they could be enforced
- Albury Parish Council had highlighted the lack of ethical standards related training for parish councillors

Having considered the matter, the Committee

**RESOLVED:**

- (1) That, taking into account the comments received and referred to above, the Monitoring Officer be authorised, in consultation with the Chairman and the Lead Councillor, to draft the Council's formal response to the CSPL's consultation on ethical standards in local government.
- (2) That the draft response be circulated to members of the Corporate Governance and Standards Committee for comment prior to submission to the CSPL.
- (3) That, if necessary, a special meeting of the Committee be convened in advance of the 18 May deadline for the purpose of formally approving the Council's response.

Reason:

To assist in maintaining robust standards arrangements to safeguard local democracy, to maintain high standards of conduct, and protect ethical practice in local government.

**CGS56 REVIEW OF THE COUNCIL'S COVERT SURVEILLANCE POLICY**

Following a series of recommendations set out in an external audit report by the Investigatory Powers Commissioner's Office (IPCO) in August 2017, a number of amendments to the Council's Covert Surveillance Policy had been proposed and these were set out in a revised policy, which was the subject of a report to the Committee.

Having considered the revised Policy, the Committee

RESOLVED: That the Executive be commended:

- (1) to approve the amended Covert Surveillance Policy, as set out in Appendix 1 to the report submitted to the Committee; and
- (2) to appoint the Managing Director as the Senior Responsible Officer and the ICT Manager and Audit & Business Improvement Manager as the Council's official Authorising Officers for covert surveillance operations.

Reason:

The recommendations have been advised by IPCO, the regulatory body responsible for covert surveillance.

**CGS57 GENERAL DATA PROTECTION REGULATION (GDPR) UPDATE**

The Committee received and noted an update report on progress, since the last meeting, on action taken towards implementation of the requirements of the General Data Protection Regulation by 25 May 2018.

All staff and councillors had received a GDPR update in February. This update covered what the Council needed to do to ensure compliance with GDPR; mandatory training opportunities for all staff; reviewing and cleaning up data and it explained who to contact and where to go for more information and help.

A mandatory training and awareness programme for staff had commenced and, to date, over 500 staff had been trained. Senior Managers and CMT would receive training on 16 and 18 April. It was also mandatory for all staff to complete an E-learning module, including a test, within 14 days of attending the direct training.

Councillors and Parish Councillors had received training in March and a repeat session was being planned for those who had been unable to attend the session on 20 March. The Chairman suggested that any councillor who does not attend the training should ensure that they watch the webcast of the training and confirm to Committee Services that they have done this.

The Committee noted that the Council had offered to assist parish councils in the borough with the appointment of an officer who would act as data processing officer for participating parish councils.

Alongside the training programme, the next key focus was to test the Council's current processes and develop new processes for the new personal rights that would be available under the Data Protection Act 2018.

The Council would also review the processes and procedures around data sharing, both internally and externally.

The Committee

RESOLVED: That the update report be noted.

Reason:

To review the Council's progress in complying with the GDPR by 25 May 2018.

**CGS58 WORK PROGRAMME**

The Committee, having considered its work programme for the 2018-19 municipal year

RESOLVED: That the work programme for the 2018-19 municipal year, 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 meeting finished at 8.28 pm

Signed .....

Chairman

Date .....

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Corporate Governance and Standards Committee Report

Report of the Managing Director

Author: Claire Morris

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Lead Councillor responsible: Matt Furniss

Tel: 07891022206

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Date: 14 June 2018

## Annual Governance Statement

### Executive Summary

The Accounts and Audit (England) Regulations 2015 require the Council to prepare an Annual Governance Statement 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 Annual Governance Statement and provides the Annual Governance Statement for 2017-18 at **Appendix 1**. The Annual Governance Statement is underpinned by the Audit and Performance Manager's (as Head of Internal Audit) Annual Opinion Report April 2017 to March 2018. The opinion is shown at **Appendix 2**.

The draft Annual Governance Statement has been included in the Council's statement of accounts for 2017-18. The statement concludes that we are a well-run Council with good governance processes in place; however, there have been a number of significant governance issues during the year, which are reported in **Appendix 1** section 6.

### Recommendation to Corporate Governance and Standards Committee:

That the Committee considers the Council's Annual Governance Statement as set out in Appendix 1 to this report and refers any comments that it feels appropriate to the Executive.

### Reason for Recommendation:

To comply with Regulation 10 of the Accounts and Audit (England) Regulations 2015, the Executive must approve an Annual Governance Statement.

### 1. Purpose of Report

- 1.1 This report explains the requirement for the Council to prepare an Annual Governance Statement, which the Executive is asked to approve and the Leader and the Managing Director to sign on behalf of the Council.

- 1.2 This report invites this Committee to review the draft statement and refer comments to the Executive

## 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 Director of Finance (Chief Financial Officer) has drafted the statement. Officers of the Corporate Governance Group have reviewed the statement. The Managing Director has then reviewed the document and made amendments and additions. Internal Audit, through the Audit and Business Improvement Manager, has provided independent assurance over the system of internal control.

- 3.4 Good governance is about getting things right first time by focussing 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. CIPFA/SOLACE. During 2016 they issued an update to the framework. The Annual Governance Statement attached at **Appendix 1** follows the 2016 updated framework and the key principles of good governance provided in it.

- 3.7 The Annual Governance Statement is underpinned by the Audit and Performance Manager's (as Head of Internal Audit) Annual Opinion Report April 2017 to March 2018. The opinion is shown at **Appendix 2**.
- 3.8 As part of the Annual Governance Statement, 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 10 of the Accounts and Audit (England) Regulations 2015, the Council must approve an Annual Governance Statement.

#### **6. Human Resource Implications**

- 6.1 There are no human resource implications to this report.
- 6.2 We will work with PR and marketing on any communications issues that arise.

#### **7. Conclusion**

- 7.1 We are a well-run Council with good governance processes in place. However we must continue to improve and in 2018-19 will be concentrating on:
1. Business Continuity and Emergency Planning
  2. Fire Risk Assessments
  3. Cyber Security
  4. Legionella and Asbestos Management

#### **8. Background Papers**

Accounts and Audit (England) Regulations 2015  
Delivering Good Governance in Local Government Framework 2016  
(CIPFA/SOLACE)

#### **9. Appendices**

Appendix 1: Annual Governance Statement  
Appendix 2: Head of Internal Audit Annual Opinion

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## **ANNUAL GOVERNANCE STATEMENT 2017-18**

### **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 Statement 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 2018 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 code 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 <i>achievements, developments</i> and areas for improvement
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<ul style="list-style-type: none"> <li>• Council’s constitution, includes:               <ul style="list-style-type: none"> <li>▪ codes of conduct for councillors and staff</li> <li>▪ financial and procurement procedure rules</li> <li>▪ protocol on decision making by lead councillors</li> <li>▪ Council procedure rules for conduct at meetings</li> <li>▪ Protocol on Councillor/Officer relations</li> <li>▪ local code of practice for probity in planning</li> <li>▪ arrangements for dealing with allegations of misconduct by councillors</li> </ul> </li> <li>• Induction for new members and staff on standard of behaviour expected</li> <li>• Staff performance framework includes behavioural framework &amp; behaviour profiles are included within job descriptions</li> <li>• Regular staff performance review in place</li> <li>• Declarations of interest made at meetings</li> <li>• Register of interests (including gifts and hospitality) for Councillors maintained</li> <li>• Register of gifts and hospitality for staff maintained</li> <li>• Police protocol for referral of complaints</li> <li>• Anti-Fraud and Corruption Strategy</li> <li>• Anti-Bribery Policy</li> <li>• Whistle blowing policy</li> <li>• Officer corporate governance group monitors compliance with laws and</li> </ul>	<p><i>Constitution updated March 2018 following Senior Management Restructure</i></p> <p><i>Further review of Arrangements for dealing with allegations of councillor misconduct is ongoing following Hearings Sub-Committee in 2017.</i></p> <p><i>The Council has responded to a national consultation from the Committee for Standards in Public Life regarding Ethical Standards in Local Government</i></p> <p>The CPAP has not regularly met during 2017-18, as a result the Organisational arrangements for procurement are currently</p>

	<p>council policies</p> <ul style="list-style-type: none"> <li>• Officer health and safety group in place to monitor health and safety compliance</li> <li>• Complaints policy in place</li> <li>• Complaints and improvement officer monitors and regularly reports on performance to corporate management team</li> <li>• Corporate Governance and Standards Committee (CG&amp;SC) in place whose remit is set out within the Constitution</li> <li>• Overview and Scrutiny Committee (O&amp;SC) review of decision making and holding decision-makers to account</li> <li>• Procurement strategy, policy and toolkit in place</li> <li>• An officer Corporate Procurement Advisory Panel (CPAP) monitors compliance with the procurement strategy and policy</li> <li>• 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 Financial Officer (CFO)</li> <li>• Executive Advisory Boards in place to advise Executive on topics</li> <li>• Monitoring Officer provisions in place</li> </ul>	<p>being reviewed following the appointment of a new Monitoring Officer in 2018</p>
<p>B. Ensuring openness and comprehensive stakeholder engagement</p>	<ul style="list-style-type: none"> <li>• The Council’s vision and priorities are set out in the corporate plan</li> <li>• Consultation policy and community engagement strategy in place which adheres to consultation standards</li> <li>• Freedom of Information Act performance monitored by corporate management team and CG&amp;SC</li> <li>• Online council tax information published</li> <li>• Transparency information published on website</li> <li>• Records of decision making maintained</li> </ul>	<p>The Council does not currently publish all FOI responses on its website</p> <p><i>FOI performance is improving – 91.5% responded to within 20 working days during 2017</i></p>

	<ul style="list-style-type: none"> <li>• Protocol on decision making within the Council's constitution</li> <li>• Report templates include the requirement that all committee reports to Executive and Council require review legal and financial implications to be completed and signed off by the MO and CFO</li> <li>• Forward programme of committee meeting dates and agenda items published on line with reporting dates adhered to</li> <li>• Citizens panel in place and regularly consulted with</li> <li>• Active programme of focus groups and surveys undertaken for specific service initiatives</li> <li>• Active use of social media and on-line tools to engage customers</li> <li>• Regular council newsletter <i>About Guildford</i> issued quarterly</li> <li>• Consultation responses published on the Council's website (e.g., local plan)</li> <li>• 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</li> </ul>	<p><i>In light of the 2017 LGA peer review, a new corporate plan for 2018 to 2023 was adopted by the Council in May 2018 following public consultation</i></p> <p><i>Significant community engagement has been undertaken as part of the Your Stories, Your Museum project to aid the development of the Museum.</i></p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<ul style="list-style-type: none"> <li>• Corporate Plan 2015-2020 which sets out the Council's vision, key themes and priorities</li> <li>• Monitoring reports against the corporate plan reported to corporate management team</li> <li>• Programme and project management system in place, captures project level risks and performance reporting</li> <li>• Community engagement strategy</li> <li>• Risk management policy and strategy in place</li> <li>• Corporate risk register in place and monitored by corporate management team</li> </ul>	<p><i>Most recent monitoring report for the corporate plan during 2017-18 reveals that 3.7% of actions to be delivered from 2015 to 2020 are complete and 66.7% are on track.</i></p> <p><i>Risk Management Policy and Framework updated in July 2017</i></p> <p><i>The Councillor-Officer transformation board has</i></p>

	<ul style="list-style-type: none"> <li>• Financial risk register in place and used to inform the financial sustainability of the budget and adequacy of the level of reserves</li> <li>• Monitoring of key performance indicators undertaken by corporate management team</li> <li>• Business planning process and capital programme development aligned to the corporate plan, bids for funding scored against achievement of corporate plan priorities</li> <li>• Transformation Programme in place including fundamental service reviews, overseen by the transformation board</li> </ul>	<p><i>continued to monitor the transformation programme and the realisation of benefits during 2017-18</i></p> <p>A recent internal audit review of project management arrangements has given reasonable assurance over our arrangements but has found there is scope for improvement</p>
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	<ul style="list-style-type: none"> <li>• Medium term financial strategy and plan in place, reviewed annually and published as part of the Council's budget book</li> <li>• Business planning process in place to align financial resources with corporate plan priorities</li> <li>• Business planning guidance for managers in place and reviewed annually</li> <li>• Scrutiny of the budget and business planning bids by Executive Advisory Board and Councillor working group</li> <li>• Transformation programme in place including fundamental service reviews which include options appraisals for services</li> <li>• Forward programme for committee decisions</li> <li>• Regular corporate management team and Executive liaison meetings to discuss strategy held</li> <li>• Directors and senior leaders hold regular 1:1 meetings with Lead Councillors</li> <li>• Corporate management team hold regular directorate level feedback sessions</li> <li>• Senior Leaders' group in place</li> </ul>	<p><i>New service planning process implemented in 2017.</i></p> <p>However, monitoring of service plan progress and KPIs at service level could still improve</p>

	<ul style="list-style-type: none"> <li>• Transformation Board in place which monitors the transformation programme</li> <li>• Major Projects Board in place to monitor the delivery of major projects</li> <li>• Property review group in place to review all assets on a rolling programme and optimise property asset utilisation and performance</li> <li>• Capital Programme Monitoring Group in place to monitor progress of capital projects which are not major projects</li> <li>• Risk management protocol in place</li> </ul>	
<p>E. Developing capacity, including the capability of leadership and the individuals within it</p>	<ul style="list-style-type: none"> <li>• Organisational development framework includes twice-yearly performance and development reviews of staff, one to one meetings and clear job descriptions with behavioural profiles.</li> <li>• Managing Director and Leader of the Council hold joint staff briefing sessions</li> <li>• The Constitution sets out the role of statutory officers and the role of the Leader</li> <li>• The Council is compliant with CIPFA guidance on the Role of the Chief Financial Officer (CFO)</li> <li>• Head of Paid Service (HoPS) and CFO are part of the corporate management team and always attend Executive-Management team liaison and full Executive meetings</li> <li>• Professionally trained staff in relevant fields in place and continuing professional development encouraged as part of performance and development framework</li> <li>• Regular staff development training programme in place</li> <li>• Active support for staff to obtain external qualifications</li> <li>• Scheme of delegation and financial procedure rules reviewed annually</li> <li>• Council awarded investors in people bronze level</li> <li>• Councillor development steering group in place which develops and</li> </ul>	<p>Due to staff changes and senior management restructuring, the Monitoring Officer is not a member of corporate management team but does have regular 1:1 meetings with the Head of Paid Service and Chief Financial Officer and attends the Executive Liaison and Executive meetings.</p>

	<p>implements an active programme of Councillor training</p> <ul style="list-style-type: none"> <li>• Achievement of the South East Charter accreditation for Elected Member Development</li> <li>• 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</li> </ul>	
<p>F. Managing Risks and performance through robust internal control and strong public financial management</p>	<ul style="list-style-type: none"> <li>• Risk management strategy and protocol in place approved by corporate governance and standards committee</li> <li>• Internal audit work programme informed by risks</li> <li>• Internal audit is fully resourced and effective</li> <li>• Compliance the CIPFA code on managing the risk of fraud and corruption</li> <li>• Corporate risk register regularly monitored by corporate management team</li> <li>• The Council uses IDEA software to interrogate data systems for audit and risk management purposes</li> <li>• Role of the overview and scrutiny committee is clearly set out in the constitution and its work programme is developed by the chairperson and officers. Agendas and minutes are published on line.</li> <li>• Regular MO and CFO meetings in place to address statutory responsibilities</li> <li>• Officer corporate governance group oversees key governance, data protection and risk management information and receives reports from the health and safety group</li> <li>• Role of the Corporate Governance and Standards Committee (CG&amp;SC) is clearly set out in the constitution and has an active work programme informed by the officer corporate governance group and agreed by the chairperson. Agendas and minutes are published on line.</li> <li>• A summary of internal and external audit reports are reported to CG&amp;SC</li> <li>• Progress against audit plan and individual audit recommendations are</li> </ul>	<p>The Council has not recently reviewed the role and performance of the CG&amp;SC against CIPFA best practice <i>although previous reviews in relation to the old Audit Committee found the committee were compliant with best practice</i></p> <p>Corporate Management Team does not regularly monitor corporate KPIs. However, the data is collected and monitored by Surrey Chief Executives Group quarterly.</p> <p><i>Data protection policies and procedures are currently being reviewed in line with the General Data Protection Regulations (GDPR). The Council has made</i></p>

	<p>monitored and reported to CG&amp;SC</p> <ul style="list-style-type: none"> <li>• Council has comprehensive data protection policies and a designated data protection officer who monitors compliance with legislation</li> <li>• 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</li> <li>• CG&amp;SC receive regular financial monitoring reports</li> </ul>	<p><i>significant progress in implementing GDPR. Including mandatory training for all staff and Councillors.</i></p> <p><i>CG&amp;SC are actively monitoring GDPR compliance.</i></p>
<p>G. Implementing good practices in transparency, reporting and audit to deliver effective accountability</p>	<ul style="list-style-type: none"> <li>• The Council published significant information on its website</li> <li>• ‘Style guide’ in place to encourage officers to write reports in plain English</li> <li>• Annual financial statements includes a narrative summary on the Council’s performance during the year as well as reporting the financial position</li> <li>• 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</li> <li>• Community engagement strategy in place</li> </ul>	<p>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</p> <p><i>The Council has significantly improved its compliance with the transparency code following an internal audit giving limited assurance in 2016-17</i></p>



**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. Internal Audit has conducted an ongoing review of the Council’s Corporate Governance processes and carried out audits according to the annual Audit Plan, which was approved by the Corporate Management Team, and the Corporate Governance and Standards Committee (CG&SC). We base the Audit Plan on a risk assessment that provides guidance as to the frequency of audits. It covers four main themes (Financial Control, Asset Management, Management Control and ICT) specifically to address the main concerns of corporate governance.
- 4.3. Internal Audit has produced an annual report on Corporate Governance, which is an assessment of corporate governance against CIPFA guidelines. They also review standards of internal control including risk and performance management. The overall conclusion is that the Council’s systems of governance, risk management and Internal Control for the period to 31 March 2018 were generally sound and operates consistently across departments.
- 4.4. We have used all of this activity to inform the Annual Governance Statement.

**5. INTERNAL AUDIT STATEMENT**

- 5.1 In 2017-18 there were 45 planned audits, including service and lean reviews and some contingency work. Over the year we have completed or are working on 42 audits which represents 93 per cent of the audit plan. The work carried out so far shows that there is no indication of any material or significant issues arising from this work that affect this statement. The results of the work carried out in the year to 31 March 2018 are shown below:

<b>Assurance Rating</b>	<b>Number of Audits</b>	
Substantial	8	18%
Reasonable	15	33%
Limited	7	16%
No Assurance	0	0%
No Opinion (one-off projects)	6	13%
In progress(Inc. fundamental service reviews)	6	13%
Deferred to 2018-19	3	7%

- 5.2 Where appropriate the audit report provides management recommendations designed to address weaknesses in the system of internal control. We report the outcomes of these audits to the CG&SC every six months giving councillors an opportunity to understand the Council’s compliance with key controls and to discuss

Appendix 1

any areas of concern with the auditors. We also update councillors on the progress of recommendations. In 2017-18, there was evidence of sound controls and substantial assurance over our major financial systems. All of the main financial systems that feed into the Council's financial statements have good controls in place and have been given satisfactory assurance following the audit reviews. There were no control weaknesses found in the audits which represent a significant or material risk to the Council.

- 5.3 There are no material governance, or internal control issues of which Internal Audit have been made aware during the year, which cause any qualification of the above opinion. The main issue and priority from an audit perspective, as recognised by management, is that the Council sustains and completes the programme of transformational change and embeds improvement across the Council whilst maintaining service delivery and the effective operation of key controls. The work over the year identified some governance areas where there were a number of medium risks and the resulting recommendations will be subject follow-up reviews in 2018-19.

**6. SIGNIFICANT GOVERNANCE ISSUES AND ACTION PLAN**

- 6.1. This year has been a period of change and there have been ongoing financial pressures. Despite this challenging environment, there have been significant achievements and continuing improvement in the Council's overall governance arrangements as described in section 3. Where we have identified areas for further improvement we will take the necessary action to implement changes that will further develop our governance framework.
- 6.2. In 2016-17 we reported that an internal audit review of the Council's compliance with the requirements under the Local Government Transparency Code 2015 for the publication of data, which the code mandates 'must be published' has given limited assurance that the Council was compliant.
- 6.3. As of December 2017, the Council believes is it now largely compliant with the transparency code 2015 although the results of the follow up audit will confirm this in due course.
- 6.4. The Council's legal services team reported proposals to Council in summer 2017 regarding revised arrangements the Council needed to put into place to meet its obligations as a sole trustee of a number of charitable trusts and as shareholder of a wholly owned company. As a result, the Executive Trustee and Shareholder sub-Committee was established and is now responsible for making decisions where the Council is acting as sole trustee or shareholder.
- 6.5. The Council has an ambitious programme of major projects. We have introduced programme management software, which is used to monitor progress for both the major projects, the Corporate Plan as well as service projects. There are regular reports to the Corporate Management Team and the Major Projects Board.
- 6.6. As reported in Section 4, the Council is now making significant progress on data quality, following the limited assurance found during an audit in 2016-17. The Council is making significant progress against the implementation of General Data Protection Regulations (GDPR). The progress against GDPR is monitored by the officer Corporate Governance Group and the Corporate Governance and Standards Committee.

6.7. The Openness of Local Government Bodies Regulations, adopted in August 2014, and The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 place a requirement on Councils to publish on its website and make available to the public for inspection, reports on certain decisions taken under authority delegated to Officers or Councillors. During 2017-18 the Council introduced reporting such decisions on its website through Modern.Gov.

**Governance Issues arising in 2017-18**

6.8. The significant governance issues arising in 2017-18 are listed in the table below:

<b>CYBER SECURITY</b>		
<b>RECOMMENDATIONS</b>	<b>ACTIONS AGREED</b>	<b>IMPLEMENTATION DATE</b>
The Council must migrate all IT devices onto operating systems that are supported by the developer. Where this is not possible, the devices running unsupported operating systems must be isolated from the Council's IT network.	The on-going remediation work includes the retirement of a number of legacy systems. The residual risk will be managed via the use of hardware based security measures to isolate any unsupported systems which cannot be decommissioned prior to the full refresh programme.	April 2018
There should be a defined ICT patch management procedure in place.	Work was already underway prior to the audit to address this in a proportionate manner and whilst this is not fully automated significant improvements have been made in assessing and applying patches. The ICT refresh programme fully addresses patch management.	March 2018
<b>FIRE RISK ASSESSMENTS (FRA)</b>		
<b>RECOMMENDATIONS</b>	<b>ACTIONS AGREED</b>	<b>IMPLEMENTATION DATE</b>
A procedure should be established to review the FRAs annually, in line with the requirements of the Corporate Fire Safety Policy.  All residential properties should be identified and managed. The list should include the date of the latest FRA and the next assessment due date for each property. The listing should be kept up to date to reflect the status of the FRA for each property.	The new Fire Safety Group has been tasked with ensuring the Council has up to date fire risk assessments which will be reviewed annually in accordance with the recommendations in the Council's Corporate Fire Safety Policy.	31 May 2018
Following the completion of a FRA, management should develop an action plan to ensure that all recommendations raised are RAG-rated and prioritised..  The action plan should be kept up to date to reflect the status of recommendations.	An action plan is being developed to ensure the Council can clearly identify and sign off what actions need to be undertaken in accordance with the latest fire risk assessments. Outstanding actions will be reviewed by the Fire Safety Group.	31 May 2018

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<b>ASBESTOS AND LEGIONELLA</b>		
<b>RECOMMENDATIONS</b>	<b>ACTIONS AGREED</b>	<b>IMPLEMENTATION DATE</b>
The Council should ensure there is an up-to-date register, which clearly details all properties owned by the Council where asbestos containing materials (ACM) are present	An up-to-date asbestos register is being developed which will identify all properties where asbestos containing materials have been detected. This will provide a clear record identifying what actions need to be undertaken in accordance with the latest asbestos management surveys and will allow re-inspections to be dated and signed.	30/04/18
<p>The Council should ensure that accountability for asbestos management and appropriate responsibilities are assigned to a named individual within the Council.</p> <p>The Council should establish a Corporate Asbestos Management Group – with individual working groups feeding into it, whereby responsibility of asbestos is clearly assigned.</p>	A new Asbestos Management Group is being established with representatives from service areas. The Group will agree Terms of Reference as well as reviewing and updating the Corporate Asbestos Policy. In addition they will ensure that corporate processes, procedures and training are put in place to provide full and safe management of asbestos. There is a designated responsible officer who together with the Group will review outstanding actions on the asbestos registers. Performance will be monitored by the Corporate Management Team.	30 April 2018
<b>BUSINESS CONTINUITY</b>		
<b>RECOMMENDATIONS</b>	<b>ACTIONS AGREED</b>	<b>IMPLEMENTATION DATE</b>
<p>CMT considers the findings of the audit report and decides how it wants to approach Business Continuity.</p> <p>If the decision is that the Council should have a robust and resilient Business Continuity Plan, it is recommended that a new BCP is developed.</p> <p>Appropriate resources should be identified and allocated to drawing up and maintaining a new BCP based on the findings of the audit report.</p>	There is now a corporate review to update all business continuity plans and revise the current processes and carry out the recommendations of the report	This will go to service leaders in May 2018 for roll out

## 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. From the review, assessment and monitoring work undertaken and the ongoing work of internal audit we have reached the opinion that overall key systems are operating soundly and that there are no fundamental control weaknesses.
- 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

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## **Guildford Borough Council**

### **Head of Internal Audit Annual Opinion**

**1 April 2017 to 31 March 2018**

#### **1. Introduction**

- 1.1 It is the duty of the Head of Internal Audit to give an opinion, at least annually, on the adequacy and effectiveness of the system of internal control. This is based on the standard of control observed from internal audits, which have been carried out in accordance with the annual Audit Plan and other advice work on control systems. The results of our investigation work and the work of other internal and external reviews also informs my opinion.
- 1.2 My opinion on the adequacy and effectiveness of internal control informs and should be read alongside the Annual Governance Statement, which is incorporated into the Council's Statement of Accounts.
- 1.3 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the organisation's objectives.
- 1.4 An effective internal audit service is critical in delivering the Council's strategic objectives by:
1. Championing best practice in governance,
  2. Objectively assessing the adequacy of governance and management of existing risks,
  3. Commenting on responses to emerging risks and proposed developments; and
  4. Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- 1.5 It objectively examines, evaluates and reports on the adequacy of the governance and control environment as a contribution to the proper, economic and effective use of resources. The control environment comprises the organisation's policies, procedures and operations in place to:
1. Establish, and monitor the achievement of, the organisation's objectives.
  2. Identify, assess and manage the risks to achieving the organisation's objectives.
  3. Facilitate policy and decision making.
  4. Ensure the economical, effective and efficient use of resources.
  5. Ensure compliance with established policies, procedures, laws and regulations.
  6. Safeguard the organisation's assets and interests from losses of all kind, including those arising from fraud, irregularity or corruption.
- 1.6 One of the main aims of the internal audit team is to provide assurance on the Council's overall system of internal control. This is achieved in part through the delivery of the annual audit plan which is designed to:
1. Satisfy the requirements of the Corporate Governance and Standards Committee
  2. Ensure the delivery of a programme of audits on a risk based needs assessment.
  3. Support the Director of Finance and Managing Director as the Responsible Financial Officer and S151 Officer in discharging their statutory duties.

## 2. Assurance on Internal Control

2.1 To quantify my opinion on the adequacy of internal control, I have collated the assurance ratings based on for the outcome of each review undertaken in 2017-18. The results are shown in the table below.

### Levels of Audit Assurance:

	Assurance Rating	Assurance Criteria
1	Substantial	Assurance that the controls are suitably designed consistently applied and effective
2	Reasonable	Assurance that the controls are suitably designed consistently applied and effective but we have identified issues that if not addressed, increase the likelihood of risk materialising in this area
3	Limited	Some assurance that the controls are suitably designed and effective but inconsistently applied and action needs to be taken to ensure risks in this are managed
4	No Assurance	Fundamental control weaknesses that need immediate action
5	No Opinion	Results of one-off investigations or consultancy work

2.2 In 2017-18 there were 45 planned audits, including service and lean reviews and some contingency work. Over the year we have completed or are currently working on 42 audits which represents 93 per cent of the audit plan. The work carried out so far shows that there is no indication of any material or significant issues arising from this work that affect this statement. The results of the work carried out in the year to 31 March 2018 are shown below:

Assurance Rating on Productive Audit Work	No. of Audits	
Substantial	8	18%
Reasonable	15	33%
Limited	7	16%
No Assurance	0	0%
No Opinion (one-off projects)	6	13%
In Progress (inc. FSR and Lean reviews)	6	13%
Deferred to 2018-19	3	7%
Total audit coverage	45	

2.3 The Internal Audit work programme is based on a risk assessment, which is updated after each audit.

2.4 The Council has very high levels of assurance in respect of all the main financial systems. All of the main financial systems that feed into the Council's financial statements have good controls in place and have been given assurance following both internal and external audit reviews.

2.5 There were no financial control weaknesses found in the audits which represent a significant or material risk to the Council.

2.6 There are no material governance, risk management and internal control issues of which Internal Audit have been made aware during the year, which cause any



qualification of the above opinion. The main issue and priority from an audit perspective, as recognised by management, is that the Council promotes and sustains good governance processes and completes the programme of transformational change to embed improvement across the Council whilst maintaining service delivery and the effective operation of key controls.

- 2.7 We have received 15 Ombudsman complaints within the year none of which have been upheld.
- 2.8 The key governance, risk management and internal control areas where I consider good progress has been made and which are integral to continued improvement are:
1. Improved performance management of our progress against the Corporate Plan with a reporting schedule to Corporate Management Team, Scrutiny and Executive,
  2. the development of a new corporate risk register which recognises the emerging priorities and risks for the Council including on-going financial pressures,
  3. a new risk management strategy,
  4. an in depth review of elections resulting in improved controls and systems,
  5. a focus on tenancy fraud which has resulted in increased awareness and training for front line staff,
  6. a revised anti-money laundering policy,
  7. increased customer focus through more efficient and outward facing service delivery,
  8. a transformation programme including a programme of fundamental service reviews which will cover all services,
  9. channel shift by transferring front line administrative work and queries into the Customer Service Centre therefore releasing resources within the service to concentrate on professional and technical activities,
  10. review of our readiness for the introduction of the General Data Protection Regulations which come into force in May 2018,
  11. an on-going review of programme and project management,
  12. a review of the Council's procurement processes,
  13. the development of Project Aspire which aims to empower and improve the lives of the most disadvantaged in our community,
  14. a review of the implications and controls relating to IR35 status for consultancy and interim staff working as self-employed or through a service company following new legislation,
  15. Introduction of IDEA analytical software to improve data accuracy and which can be embedded within the Council systems to highlight anomalies and problems at an early stage.

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- 2.9 The work over the year focused on some of our corporate and governance risks in a number of areas. The audits identified a number of areas which were given a limited opinion. The recommendations arising from these reviews have been agreed and action plans put in place. Some recommendations have already been implemented but are monitoring progress. We will carry out follow-up reviews in 2018-19. Areas for improvement include:
1. Business continuity and emergency planning
  2. Fire Risk Assessments
  3. Cyber Security
  4. Legionella and Asbestos
  5. Contract Management
- 2.10 There have been continuing changes over the last year with the focus on transformation and re-organisation of some major services. We recognise that risk always increases in times change but there is no evidence that where changes have taken place or are planned there are any control issues.
- 2.11 In a Council of Guildford's size and complexity, with its significant change agenda and the on-going financial pressures, there is a greater risk of breakdown of control particularly where roles and systems are changing. We have worked actively with management to identify and examine these areas of potential risk. Where audit work has highlighted areas for improvement recommendations have been made to address any control implications. Overall, internal audit considers that appropriate actions are being taken to address recommendations but will continue to monitor and report progress.
- 2.12 There were a number of service requests for work which were not on the audit plan and this is covered in our contingency budget so there was limited impact on the work undertaken during the period which was focussed on governance and high risk compliance areas in order to provide assurance on the Council's overall system of internal control.
- 2.13 I can therefore provide substantial assurance that the Council's systems of governance, risk management and internal control in operation until 31 March 2018 were generally sound and operate consistently across departments.

Joan Poole

Chief Internal Auditor

Corporate Governance and Standards Committee Report

Report of Chief Internal Auditor

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Date: 14 June 2018

## Internal audit plan 2018-19

### Recommendation

The Committee is recommended to approve the audit plan for 2018-19 set out in Appendix 1.

Reason for Recommendation: To ensure an adequate level of audit coverage

### 1. Purpose of Report

- 1.1. To present the draft audit plan for 2018-19. This report also gives an update on the changes for the delivery of the audit plan in 2018-19.

### 2. Strategic Priorities

- 2.1. The audit of Council services supports the priority of providing efficient, cost effective and relevant quality public services that give the community value for money.

### 3. Background

- 3.1. Internal Audit is a statutory function. Under S.151 of the Local Government Act 1972, councils are required to have a current Internal Audit function. However, the Act does not specify how Internal Audit should be provided. Over the last few years, Internal Audit has been delivered through a mixed service provision with internal resources supported by an external contractor.
- 3.2. For the last 18 months there has been real pressures on the Internal Audit team because of the long-term absence of a senior auditor and the retirement during the year of the another senior member of staff. Our attempts to cover the vacancies with either, agency or permanent staff were unsuccessful because of the suitability of the candidates or the inability to match London Authority or private sector salaries.

- 3.3. As a result, we became increasingly reliant on our contractor to deliver the work in the audit plan and this provided an opportunity to consider alternative delivery models, which would provide a more sustainable internal audit solution for the future.
- 3.4. Following an internal review we decided to outsource the internal audit function with effect from 1 April 2018. A contractor will now be responsible for completing the Audit Plan over the coming year. The Audit and Business Improvement Manager will act as the client-side officer.
- 3.5. The Council is fortunate in that the Business Improvement Team includes staff with Internal Audit experience including an officer who has 10 years audit experience and a trainee who is doing both audit and change management professional qualifications. Therefore, the new structure will have multi-skilled staff with both audit and business improvement experience within the same team. The proposed structure will produce year on year savings of approximately £90,000 for a similar level of audit coverage.
- 3.6. The contract for internal audit went out to tender and we have appointed KPMG as our audit contractors. We will expect them to work with our services in the same manner as an internal member of staff but we retain the in-house capability and skills for projects and the more sensitive work.
- 3.7. This solution will provide the Council with the assurance, experience and flexibility that is needed while, still retaining in-house audit expertise within the Business Improvement Team. The proposed structure will not only fulfil the governance and assurance obligations of the internal audit function, but is practical and sustainable and value for money.

#### **4. Audit Plan 2017-2018**

- 4.1. We always base the plan on risk assessments in line with best practice. We aim to audit the majority of services at least once every three years although we review the major systems annually. We update the risk assessment after each audit. The planning process is an assessment of the areas of risk and the resources available. The audit plan is a balance between supply and demand and is affected by unplanned events even though there is a contingency budget.
- 4.2. The audit resources on the establishment in 2017-18 were:

In-house resources (1 vacant post)	2.67 FTE
Senior Auditor (Temp) and Contractor (vacant post)	0.75 FTE
Total resources	3.42 FTE

In reality, we had 2.0FTE and the contractor covered the rest of the work.

- 4.3. The planning process includes:
1. identifying the audit universe (all of the areas that require audit attention)
  2. carrying out a risk assessment to identify the level of risk and the appropriate frequency of audit
  3. an estimate of the resources required to carry out the audits
  4. reviewing how we resource the plan
  5. producing the audit plan based on the available resources.
- 4.4. The audit plan includes a certain amount of contingency to allow for unplanned work because the actual requirements will vary from year to year. We base the planned figure on records from previous years but it can only ever be an estimate.
- 4.5. The aim of the audit plan is to cover areas that support the Council's strategic priorities, governance issues and financial probity. We also have to reflect the current changes and major projects within the Council. These changes bring both opportunities and challenges for us. Audit skills are relevant to many of the new initiatives across the Council and we have become involved in both lean and fundamental service reviews, which are part of the overall business improvement programme. While this is not traditional audit work it affords an in-depth knowledge of the services that a purely systems audit would not always provide and is therefore an important source of information about the Council. This information feeds into the risk assessments.
- 4.6. There is always increased risk in times of change. Over the last year, there have been significant changes both within the senior management team and service structures. There are also continuing financial pressures on the Council to provide value for money. This means being more efficient and effective and looking for innovative ways of working. The challenge for audit is to help services become leaner and more effective within a controlled environment.
- 4.7. Change always raises the level of risk. The uncertainty affects staff and increases the risk of system failure, the relaxation or circumvention of the expected controls and fraudulent activity. We need to ensure that the appropriate control measures are in place and applied consistently across all services and that we have good governance arrangements to ensure that we are operating within both the legal framework and our own protocols and standards.
- 4.8. The 2018-19 plan is extracted from the audit planning system and shows a resource requirement for 400 days. The full year's plan is set out in Appendix 1.

- 4.9 The plan shows the latest risk assessment based on the updated risk assessment. The risk ratings and frequency of audits are shown in the table below:

Risk score	Audit frequency
A	Annual audit
B	Audit every two years
C	Audit every three years
D	Audit every five years

- 4.10. There are many challenges ahead for the Council and we try to strike a balance between reviewing the basic financial and management controls, the major governance areas that we must get right and the smaller services where historically the risk of system breakdown is higher. In addition, the plan includes value for money audits and specific areas where there is an increasing risk of fraud. As part of our remit to identify efficiency, effectiveness and economy, we work with managers to help them identify and deliver different service options. This could include channel shift, automation or a more radical change such as shared services but, whichever the preferred option, we ensure there is an appropriate level of control.

## 5. Progress against the plan 2017-18

- 5.1. The table below summarises progress against the Audit Plan. In 2017-18, there were 45 planned audits, including service and lean reviews. Over the year, we have completed or are currently working on 42 audits, which represent 93 per cent of the audit plan. The results of the work carried out in the year to 31 March 2018 are shown below:

Assurance Rating on Productive Audit Work	No. of Audits	
Substantial	8	18%
Reasonable	15	33%
Limited	7	16%
No Assurance	0	0%
No Opinion (one-off projects)	6	13%
In Progress (inc. FSR and Lean reviews)	6	13%
Deferred to 2018-19	3	7%
Total audit coverage	45	

5.2. There have been 15 Local Government Ombudsman (LGO) complaints in 2017-18. None were upheld by the Ombudsman. A summary of the cases is set out below:

Decision Date	GBC File Ref. No.	Complaint Category	Finding
19.05.17	AJ/17/0001	Corporate & Other Services	Closed after initial enquiries – out of jurisdiction
13.06.17	AJ/17/0002	Environmental Services & Public Protection & Regulation	Closed after initial enquiries – no further investigation
08.06.17	AJ/17/0003	Housing	Premature
16.06.17	AJ/16/0017	Planning & Development	Not upheld: no maladministration
30.05.17	AJ/17/0005	Housing	Closed after initial enquiries – no further action
24.05.17	AJ/17/0006	Corporate & Other Services	Closed after initial enquiries – out of jurisdiction
27.06.17	AJ/17/0004	Housing	Closed after initial enquiries – no further action
10.11.17	AJ/17/0007	Planning & Development	Premature
14.11.17	AJ/17/0008	Housing	Premature
06.12.17	AJ/17/0009	Planning & Development	Closed after initial enquiries – no further action
14.02.18	AJ/17/0012	Benefits & Taxation	Upheld: no further action
15.03.18	A/17/0014	Benefits & Taxation	Closed after initial enquiries – no further action
2.03.18	AJ/17/0015	Planning & Development	Closed after initial enquiries – out of jurisdiction
28.03.18	AJ/17/0011	Planning & Development	Not upheld: no maladministration
16.04.18	AJ/1/0018	Environmental Services & Public Protection & Regulation	Closed after initial enquiries – out of jurisdiction

5.3. In 2017-18, we continued to work on a number of lean projects and service reviews. Audit has been supporting the established Business Improvement Team to provide added impetus and experience. The reviews are significant pieces of work but they are all at different stages so it would not be appropriate to go into detail at this stage. The outcomes will be reported to the Committee when they are complete.

## 6. CONCLUSION

6.1. Over the last year there have been a number of changes in the Council. Services and structures are evolving and the pressure and uncertainty that change brings increases the risk of the degradation or breakdown of the control environment. We have continued to work with management to identify and examine these areas of potential risk.

6.2. Internal Audit has been part of that change. We have reviewed the audit service and the new model which uses a contractor will provide resilience, flexibility and assurance but we have retained in-house expertise and experience within the new service to deal with sensitive or specialist issues. We are continuing to work with services not only through the traditional audit route but also through lean reviews

and business process re-engineering. The audit plan for 2018-19 is structured to reflect the changing needs and priorities of the Council.

**7. Financial Implications**

- 7.1. The financial implications of the new structure were the subject to an internal review, which has been agreed, and the structure is now in place.

**8. Legal Implications**

- 8.1. The Local Government Act 1972 (S151) requires that a local council “shall make arrangements for the proper administration of their financial affairs”.
- 8.2. The 1972 Act is supported by the Accounts and Audit Regulations 2011 which state that “A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control”.
- 8.3. The internal audit plan is necessary to satisfy these legal obligations.

**9. Human Resources**

- 9.1. The new structure will be in place for 2018-19 and this has been factored into the Plan. Any changes will be reported to the Committee.

**10. Background Papers**

None

**11. Appendices**

Appendix 1: Audit Plan 2018-19



	Audit Plan 2018-19	Days	Risk Rating	Audit Type
	<b>Governance</b>			
1	Safeguarding	15	A	Compliance with legislation
2	GDPR	10	A	Compliance with legislation
3	Fire Risk	8	A	Follow-up
4	Legionella	8	A	Follow-up
5	Asbestos	8	A	Follow-up
6	Health and Safety	8	A	Follow-up
7	Business Continuity	12	A	Follow-up
8	Transparency Reporting	8	A	Follow-up
9	Project Management	15	A	Compliance
	<b>Services</b>			
10	Rents	10	B	Income, debt control, performance management
11	Treasury Management	8	A	Process controls and conflict of interest and segregation of duties
12	Payroll	10	B	Segregation Controls counter fraud controls
13	Creditors	12	B	Purchase to Pay system implementation
14	S106 Funding	10	A	Compliance with best practice
15	Development Control	10	B	Performance Management
16	Debtors	8	B	Income, debt control, performance management
17	Major Capital Projects	10	A	Performance Monitoring and Reporting
18	Parking	15	A	PCNs and Performance Reporting
19	Housing Advice	12	A	Performance Monitoring and Reporting
20	Homelessness	10	A	Compliance with legislation
21	Licensing	10	B	Performance Management/Fee setting
	<b>Contract Management</b>			
22	Housing (Term Contracts)	15	B	Contractor Performance and Monitoring
23	Stores	15	B	System processes and stock control

	<b>ICT</b>			
<b>24</b>	Network Controls	10	A	Systems Audit and Follow-up on Cyber Security
<b>25</b>	ICT Project Management Controls	10	A	Systems Audit
	<b>Counter Fraud</b>			
<b>26</b>	Council Tax (Single Person Discount)	15	A	
<b>27</b>	Housing Tenancy Fraud	15	A	
<b>28</b>	Housing Benefit	15	A	
<b>29</b>	Money Laundering	15	A	
	<b>Other</b>			
<b>30</b>	Ombudsman	10		In house staff
<b>31</b>	Lean & Projects	25		In house staff
<b>32</b>	FOI/SAR	8		In house staff
<b>33</b>	Contingency	30		In house staff
		400	<b>Days</b>	

Corporate Governance and Standards Committee Report

Report of the Director of Finance

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Date: 14 June 2018

## External Audit 2018-19 Fee Letter

### Executive Summary

The Council's external auditors, Grant Thornton, have submitted their audit fee letter for 2018-19. The letter, which is attached as **Appendix 1**, provides a broad summary of the programme of work that Grant Thornton intend to carry out during 2018-19. The overall fee for the core audit has reduced from the fee charged in 2017-18. The fee for grant certification work will be dealt with separately. The fee for the core audit can be managed within the overall budget for the finance directorate.

### Recommendation to Committee

The Committee is asked to approve the external audit fee submitted by Grant Thornton and make any comments it feels relevant.

#### Reason for Recommendation:

To enable the Committee to consider and comment on the planned audit fee.

### 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 2018-19 accounts, value for money opinion and the grant certification work as set out in the fee letter 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 One of the Values for our Residents within the new Corporate Plan 2018-23 is to deliver quality and value for money services. The annual audit by Grant Thornton contributes to the achievement of this value.

**3. Background**

- 3.1 The fee for the 2018-19 core audit will be £44,300, a 23% reduction on the 2017-18 core audit fee of £57,533. Grant Thornton will prepare and produce a detailed audit plan for submission to the Corporate Governance and Standards Committee in March 2019; however, the fee letter contains details of the scope of work covered by the core audit fee.
- 3.2 The external auditor charges a separate fee for Grant Certification work, which will be contracted separately in due course.

**4. Financial Implications**

- 4.1 There is budget provision in the 2018-19 estimates for the audit fees and the fees for other services provided by Grant Thornton.

**5. Legal Implications**

- 5.1 The Local Audit and Accountability Act 2014 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 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 issued by the Audit Commission in 2010. The code adopts the International Standards of Auditing (ISAs) as issued by the FRC.

**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 fee letter for 2018-19. The audit fee has reduced since 2017-18.

**8. Background Papers**

None

**9. Appendices**

Appendix 1: Grant Thornton Letter: Planned Audit Fee for 2018-19



Claire Williams-Morris  
Guildford Borough Council  
Millmead  
Guildford, Surrey  
GU2 4BB

27 April 2018

Dear Claire

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Haslett Avenue West  
Crawley  
RH10 1HS  
T +44 (0)20 7383 5100

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### **Planned audit fee for 2018/19 – Guildford Borough Council**

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 all grant work, including housing benefit certification, now falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

### **Scale fee**

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23 percent from the fees applicable for 2017/18. Further details are set out on the [PSAA website](#). The Council's scale fee for 2018/19 has been set by PSAA at £44,300.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

There are no changes to the overall work programme for audits of local government audited bodies for 2018/19. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2018/19 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

Agenda item number: 6  
Appendix 1

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2018	11,075
December 2018	11,075
March 2019	11,075
June 2019	11,075
<b>Total</b>	<b>44,300</b>

### Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2018 to February 2019. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2019 and work on the whole of government accounts return in July 2019.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2018 to February 2019	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June to July 2019	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.

VfM conclusion	January 2019 to July 2019	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2019	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2019	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

**Our team**

The key members of the audit team for 2018/19 are:

	Name	Phone Number	E-mail
Engagement Lead	Sarah Ironmonger	01293 554072	<a href="mailto:sarah.l.ironmonger@uk.gt.com">sarah.l.ironmonger@uk.gt.com</a>
Manager	Sebastian Evans	020 7728 3451	<a href="mailto:sebastian.evans@uk.gt.com">sebastian.evans@uk.gt.com</a>

**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner, via [paul.dossett@uk.gt.com](mailto:paul.dossett@uk.gt.com).

Yours sincerely

**Sarah Ironmonger**  
Engagement Lead  
For Grant Thornton UK LLP

Item	Item description	Item status	Item priority	Item category	Item sub-category	Item code	Item value	Item date	Item location	Item notes
1	Item 1 description	Item 1 status	Item 1 priority	Item 1 category	Item 1 sub-category	Item 1 code	Item 1 value	Item 1 date	Item 1 location	Item 1 notes
2	Item 2 description	Item 2 status	Item 2 priority	Item 2 category	Item 2 sub-category	Item 2 code	Item 2 value	Item 2 date	Item 2 location	Item 2 notes
3	Item 3 description	Item 3 status	Item 3 priority	Item 3 category	Item 3 sub-category	Item 3 code	Item 3 value	Item 3 date	Item 3 location	Item 3 notes
4	Item 4 description	Item 4 status	Item 4 priority	Item 4 category	Item 4 sub-category	Item 4 code	Item 4 value	Item 4 date	Item 4 location	Item 4 notes
5	Item 5 description	Item 5 status	Item 5 priority	Item 5 category	Item 5 sub-category	Item 5 code	Item 5 value	Item 5 date	Item 5 location	Item 5 notes
6	Item 6 description	Item 6 status	Item 6 priority	Item 6 category	Item 6 sub-category	Item 6 code	Item 6 value	Item 6 date	Item 6 location	Item 6 notes
7	Item 7 description	Item 7 status	Item 7 priority	Item 7 category	Item 7 sub-category	Item 7 code	Item 7 value	Item 7 date	Item 7 location	Item 7 notes
8	Item 8 description	Item 8 status	Item 8 priority	Item 8 category	Item 8 sub-category	Item 8 code	Item 8 value	Item 8 date	Item 8 location	Item 8 notes
9	Item 9 description	Item 9 status	Item 9 priority	Item 9 category	Item 9 sub-category	Item 9 code	Item 9 value	Item 9 date	Item 9 location	Item 9 notes
10	Item 10 description	Item 10 status	Item 10 priority	Item 10 category	Item 10 sub-category	Item 10 code	Item 10 value	Item 10 date	Item 10 location	Item 10 notes



Corporate Governance and Standards Committee Report

Ward(s) affected: all

Report of Chief Finance Officer

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Lead Councillor responsible: Michael Illman

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Date: 14 June 2018

## Capital and Investment outturn report 2017-18

### Executive Summary

Following the new capital and investment strategy for 2018-19, this annual treasury management report now encompasses capital and non-treasury investments, to meet the requirements of the revised Prudential and Treasury Codes of Practice and the Ministry of Housing, Communities, and Local Government (MHCLG) updated Investment Guidance.

#### Capital programme

In total, expenditure on the General Fund capital programme was £13.9 million. This was less than the revised budget by £20.2 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 £1.229 million and the outturn was £573,852. This was due to slippage in the capital programme in 2016-17.

#### Non-treasury investments

The Council's investment property portfolio stood at £147.4 million at the end of the year. Our rental income was £9.17 million, and our income return 6.59% against the benchmark of 4.2%.

#### Treasury management

The Council's cash balances have built up over a number of 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 2018, the Council held £133.6 million in investments, £43.5 million of short term borrowing so net investments of £90.1 million.

The Council considers, security, liquidity and yield when making treasury investment decisions. The most important part of making investments is the security of capital – ensuring we get our money back. Next, we consider liquidity – getting our money back when we need it. Once we are comfortable with both the security and liquidity of the investment, we review the return on the investment.

For borrowing, we borrow short-term from other local authorities for cash flow purposes and ensure there is no cost of carry on this. We undertake longer-term borrowing in line with our liability benchmark and the capital programme. The Council had £241.6 million borrowing at 31 March 2018, of which £43.5 million was short-term borrowing for cash purposes.

This report (section 8) confirms that the Council complied with its prudential indicators, treasury management policy statement and treasury management practices (TMPs) for 2017-18. 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.

	Estimate %	Actual %	Estimate (£000)	Actual (£000)
General fund Capital Financing Requirement (CFR)			368,251	75,781
Housing Revenue Account CFR			197,024	197,024
<b>Total CFR</b>			<b>565,275</b>	<b>272,805</b>
Return on investments	1.71	1.23	1,473	1,853
Interest paid on external debt		2.23	6,112	5,261
<b>Total net interest paid</b>			<b>4,639</b>	<b>3,408</b>

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 the variable loan rate being reset lower than expected.

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.

At its meeting on 19 June 2018, the Executive will also consider this report and will be invited to recommend to full Council on 24 July 2018:

- (1) That the treasury management annual report for 2017-18 be noted.
- (2) That the actual prudential indicators reported for 2017-18, as detailed in **Appendix 1** to this report, be approved.

### **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 19 June 2018.

#### 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.

## **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 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), and as a minimum, report to councillors on treasury activity mid-year and after the year-end.
- 1.3 This report covers the activity of the treasury management function in 2017-18. It also covers 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 taking 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 2017-18 (section 6)
- a summary of the treasury management activity for 2017-18 (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 2017-18, to show the treasury management activity in context. **Appendix 5** contains more detail.

- US and Eurozone economies gaining momentum
- US raised their policy rate a number of times
- UK economy slowing with GDP increasing at the same level as in 2016
- Year-on-year CPI rose due to the price of Sterling falling
- Real earnings growth became negative
- Unemployment fell to 4.3% in January 2018
- General election in June 2017 resulted in a lot of political uncertainty
- Unclear Brexit negotiations – transition will now span Q2 2019 and Q4 2020
- Bank of England base rate increased by 0.25% to 0.50% in November 2017
- Gilt yields were volatile with the change in sentiment in the Bank of England's outlook for interest rates

4.2 The key points relevant to investment property are:

- Brexit uncertainty – unclear economic growth therefore investors remain with a cautious outlook over all sectors
- Risk aversion is the overriding theme
- Inward movement of prime yields for the logistics sector
- Downward pressure on the multi let sector
- Property remains a safe haven for capital preservation, and demand for prime, secure investments continues
- A shortage of prime stock is leading investors to seek secure income in alternative assets

#### 5. Counterparty update

5.1 This section provides the key points of the changes in the counterparties on the Council's lending list during the year. These changes can have a direct impact on our treasury management activities in that recommended durations and counterparties can change, as can yields on new investments.

- UK's rules on banks' ring-fencing were finalised with an implementation date of 1 January 2019, causing uncertainty over which banking entities the Council would be dealing with once implemented. Arlingclose reduced the duration of unsecured investments to six months
- Moody's made the following credit rating changes
  - UK Sovereign downgraded from Aa1 to Aa2 in September 2017, sub sovereigns followed (including the Council)
  - Standard Chartered downgraded from Aa3 to A1
  - Downgraded Rabobank, the major Canadian banks and the large Australian banks

- S&P made the following changes
  - Upgraded Barclays when it announced its ringfencing plans
  - Downgraded Transport for London following a deterioration in its financial position
  - Upgraded ING Bank
- Fitch downgraded Nationwide Building Society

5.2 In February 2018, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a Section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget. They have subsequently been re-added to our lending list.

## **6. Regulatory Changes**

6.1 CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes were introduced as part of the 2018-19 Capital and Investment Strategy, approved by Council in February.

6.2 In the 2017 Treasury Management Code, the definition of 'Investments' now includes financial assets as well as non-financial assets held primarily for financial returns, such as investment property. These, along with other investments made for non-treasury management purposes, such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the strategy. Additional risks of these investments are to be clearly set out and the impact on financial sustainability is to be identified and reported.

6.3 In February 2018, the MHCLG published revised guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

6.4 Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (for example temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduced the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

6.5 The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any new calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

6.6 MiFID II: As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3 January 2018, local authorities were automatically treated as retail clients but could "opt-up" to professional client status (our default status prior to the introduction of MIFID II), providing certain criteria were met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least

a year's relevant professional experience. In addition, the regulated financial service firms to whom this directive applies, have had to assess that the person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

- 6.7 The Council has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

## 7. Approved strategy and budgets for 2017-18 – a summary

- 7.1 Council approved the treasury management strategy for 2017-18 in February 2017.
- 7.2 The strategy showed an underlying need to borrow in 2017-18 for the General Fund (GF) capital programme of £87.1 million.
- 7.3 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.
- 7.4 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.

## 8. Treasury management activity in 2017-18

- 8.1 The treasury position at 31 March 2018, compared to the previous year is:

		31 March 2017 (£'000)	Average Rate	31 March 2018 (£'000)	Average Rate
Fixed Rate Debt	PWLB	148,355	3.22%	148,125	3.22%
	Market	0	0.00%	0	0.00%
Variable Rate Debt	PWLB	45,000	0.57%	45,000	0.66%
	Market	0	0.00%	0	0.00%
Long-term	LAs	10,000	1.35%	5,000	1.29%
Temporary borrowing	LAs	30,000	0.39%	43,500	0.42%
<b>Total Debt</b>		<b>233,355</b>	<b>2.26%</b>	<b>241,625</b>	<b>2.23%</b>
Fixed Investments		(87,060)	0.90%	(91,132)	0.94%
Variable Investments		(17,294)	0.51%	(22,260)	0.58%
Externally managed		(22,563)	3.53%	(20,245)	3.30%
<b>Total Investments</b>		<b>(126,917)</b>	<b>1.21%</b>	<b>(133,637)</b>	<b>1.23%</b>
<b>Net Debt / (Investments)</b>		<b>106,438</b>		<b>107,988</b>	

- 8.2 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.

- 8.3 The above table shows investments have increased by £6.7 million and loans by £8.2 million. Therefore, net debt has increased by £1.5 million. Short-term borrowing has increased, partly replacing the long-term local authority loan that matured in the year. We sold one of our externally managed funds, and invested in more long-term investments.
- 8.4 We budgeted a return of 1.71% for the year and achieved 1.23%. Our return is lower because the BoE cut the base rate and investments yields were lower.
- 8.5 The Council's budgeted investment income was £1.474 million, and actual interest was £1.853 million (£379,000 higher). We had been projecting higher interest receipts throughout the financial year. This is because we had more cash available to invest than we had budgeted, and we hold some longer higher yielding secure investments. Our external funds returned £165,000 more than budgeted, and cash investments £214,000.
- 8.6 Our budgeted debt interest payable was £6.112 million. £5.14 million relates to the HRA. The outturn was £5.261 million (£5 million for the HRA). We assumed we would borrow long-term for the GF capital programme but slippage in the schemes meant that we did not need to and therefore realised a saving in the debt interest payable against budget.
- 8.7 All our external funds are distributing funds, and they achieved an overall weighted average return of 3.3%, split as follows:

<b>Fund</b>	<b>Balance at 31 March £000</b>	<b>Average return</b>	<b>Type of fund</b>
M&G	2,571,638	2.86%	Equity focussed
Schroders	884,202	7.38%	Equity focussed with at least 80% on FTSE all share companies
SWIP	0	1.21%	Fixed income focussed
Funding Circle	490,323	7.54%	Investments in SMEs up to a max of £2,000
UBS	2,336,174	3.92%	Multi asset
City Financials	2,303,351	3.26%	Multi asset
Payden	5,007,350	0.69%	Cash plus
CCLA	6,652,274	4.83%	Property

- 8.8 Our external fund portfolio is now very 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, there was a capital loss of £90,000, the biggest contributor being the City Financial fund losing £165,000, M&G fund lost £98,000, and UBS fund lost £80,000 in the year. The CCLA property fund increased over the year by £302,000. We decreased our exposure to the Funding circle by £421,000 to reduce potential risks moving forward of the impact on Brexit on small businesses and the SWIP fund by the balance of £1.8 million because we felt the fund had not performed as we had anticipated in either income or capital value so decided to sell the exposure.



- 8.9 The Council also invested more in our subsidiaries and now holds £1.803 million of equity investment in Guildford Holdings Ltd and £2.698 million in North Downs Housing Ltd.
- 8.10 The Council agreed an interest rate of base rate plus 5% (currently 5.50%) 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.
- 8.11 The equity investment in Guildford Holdings will be subject to a dividend if a profit is achieved.

*Capital programme*

- 8.12 The actual underlying need to borrow for the year, and the amount of internal borrowing actually taken, for the GF capital programme was £7.17 million, which is lower than budgeted of £87.7 million because of slippage in the capital programme. 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.
- 8.13 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 £573,852, against an original budget of £1,228,584.
- 8.14 Our overall underlying need to borrow, as measured by the Capital Financing Requirement (CFR) was £273.445 million (£76.78 million relates to the GF).

**Benchmarking and performance indicators**

- 8.15 The Council is a member of the CIPFA treasury management benchmarking club.
- 8.16 Arlingclose also provide benchmarking data across their clients. 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.
- 8.17 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 2018), shows our average rate of investments for our total portfolio as being 1.28% against the client universe of 1.08%. 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	0.99%	0.63%
Externally managed (return only)	3.23%	3.22%
Total Portfolio	1.28%	1.08%
% of investments subject to bail in	25%	55%
No. of counterparties/funds	45	15

8.18 The difference in our return as part of the benchmarking and our own return is due to a different calculation in the way Arlingclose put the benchmarking return together.

8.19 The table above shows how far the Council has come to mitigate bail in risk – closing the year at 25% 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.

8.20 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.

8.21 We set our own performance indicators:

Indicator	Target	Actual	Variance
Cashflow investment returns above base rate	0.65%	0.29%	-0.36%
Long-term investment returns above base rate	0.94%	0.77%	-0.17%
Externally managed funds above base rate	2.63%	2.94%	0.31%
Combined funds above base rate	1.03%	0.87%	-0.16%
% of daily balances within the range +/- £50,000	70.00%	74.79%	4.79%
The daily current account bal to be +/- £50,000	+/-£50,000	£29,605	

8.22 Overall performance was slightly below target in most areas.

8.23 The Council's daily bank balance target was +/- £50,000 for 70% of days. The average balance in the year was £29,605 and 74.79% of days were +/- £50,000, so we were well within our target.

## 9. Non-treasury investments

9.1 **Appendix 2** sets out Council investment property fund portfolio report for 2017-18. The key points are summarised below.

9.2 Investment in property has been more subdued but there remains a demand for prime assets and secure income streams.

9.3 Guildford remains in a strong position going forward, with solid economic and property fundamentals. The town was placed 6<sup>th</sup> in Lambert Smiths Hampton's

2018 UK Vitality Index with top ten placements in the sections for highly educated and fastest growing towns.

- 9.4 The key themes for the Thames Valley area office market over the last year have been:
- the rise of the tech market;
  - increase in co working spaces;
  - non-existent grade c stock and
  - average transaction sizes falling
- 9.5 In Guildford, most of the larger corporates are focussed on working more efficiently and reducing the space they occupy. Guildford office supply increased from 260,000 sq ft in 2010 to 337,000 sq ft in 2017. New supply is being delivered by refurbishment of existing buildings, with the proportion of grade A space increasing from 0% in 2011 to 65% in 2017.
- 9.6 There is now an increased reliance on the SME companies for new demand. Guildford has a wide base of SME occupiers and an increasing tech sector. This mixed economic base provides stability and will maintain activity in the market, despite a lack of larger requirements. Demand will focus on high-spec interior refurbished and new buildings in the town centre.
- 9.7 Retail remained one of the worst performing sectors in the investment market last year. There is a common belief that the uncertainty over Brexit and the ceiling for on-line sales will mean that the market will continue the trend of flexible leases, with shorter terms, break clauses and also increasingly trying to secure turnover rents. Many retailers will also continue to rationalise with a rolling programme of closures and downsizings, counterbalanced by selective re-locations and strategic new openings.
- 9.8 Due to the historic High Street and lack of out-of-town development, Guildford remains a resilient prime affluent retail market and retains its attraction for investors and occupiers alike with its quality of catchment.
- 9.9 Industrial investment was the strongest performer across the commercial sectors in 2017. Going forward, prime and secondary industrial are generally expected to see near term rent increases across the UK. This is expected in Guildford because of the low supply of existing stock across all size ranges.
- 9.10 The current portfolio is:

Sector	No. of assets	Sub category	No. of assets
Office	8	Shops	7
		Shopping centre	2
		Supermarket	1
Industrial	129	Restaurant	5
		Nightclub	1
Retail	10	Educational	3
		Theatre	2
		Barn	2
		Petrol station	1
		Sui Generis	1
		Car Park	1
		Water treatment works	1
Leisure	6		
Other Commercial	11		
<b>TOTAL</b>	<b>164</b>		

9.11 Fund statistics are:

<u>Rental income</u>	<b>Industrial</b>	<b>Office</b>	<b>All Retail</b>	<b>Other</b>	<b>All</b>
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	1,070,786	9,176,556

<u>Capital value</u>	<b>Industrial</b>	<b>Office</b>	<b>All Retail</b>	<b>Other</b>	<b>All</b>
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

<u>Income return</u>	<b>Industrial</b>	<b>Office</b>	<b>All Retail</b>	<b>Other</b>	<b>All</b>
2015-16	8.03%	7.46%	5.60%	7.52%	6.84%
2016-17	7.12%	7.17%	5.59%	6.65%	6.71%
2017-18	7.96%	7.39%	5.23%	5.76%	6.59%

<u>Benchmark retu</u>	<b>Industrial</b>	<b>Office</b>	<b>All Retail</b>	<b>Other</b>	<b>All</b>
2015-16	6.10%	4.70%	5.40%	4.70%	5.23%
2016-17	5.40%	4.10%	5.00%	5.50%	4.80%
2017-18	7.90%	3.90%	2.50%	2.50%	4.20%

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

## 10. Capital programme

10.1 **Appendix 3** sets out the actual expenditure on capital schemes, compared to the updated estimates, together with reasons for variances. Overall, we spent £86.06 million (86%) less on capital schemes than we originally estimated and £6.3 million (31%) less than the revised estimate, the majority of which related to SARP, Walnut Bridge, and Spectrum CHP although there are significant variations on other approved schemes as detailed in Appendix 3.

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

	<b>Revised estimate (£m)</b>	<b>Actual (£m)</b>	<b>Variance (£m)</b>
Non-housing approved programme	14.717	9.885	(4.832)
Non-housing provisional programme	0.019	0.019	(0)
Schemes financed from reserves	4.442	3.305	(1.137)
Projects financed from s106 receipts	0.439	0.09	(0.349)
Private sector and affordable housing grants	0.665	0.645	(0.02)
<b>Total</b>	<b>20.282</b>	<b>13.944</b>	<b>(6.338)</b>

10.3 We significantly re profiled schemes during the year, and under spent by £6.3 million on the revised estimate.

## 11. Compliance with treasury and prudential indicators

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

11.2 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

11.3 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.

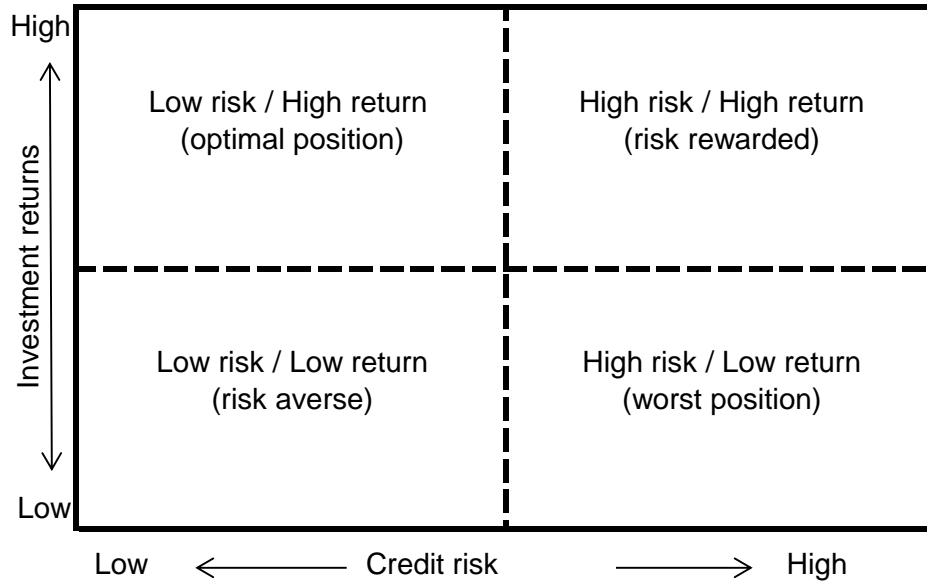
- 11.4 Officers can confirm that the Council has complied with its prudential indicators for 2017-18, (see **Appendix 1** for the outturn figures), its treasury management policy statement and its treasury management practices.
- 11.5 Section 6 outlines the approved treasury management strategy. We have 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

## **12. Risk and performance**

- 12.1 The Council considers security, liquidity and yield, in that order, when making investment decisions.
- 12.2 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.
- 12.3 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.
- 12.4 We set a target return of 1.71% and returned 1.23%. This shows that we did not increase the level of risk taken over what we had budgeted for.
- 12.5 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.
- 12.6 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**

- 12.7 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.
- 12.8 This is a graphical representation used in the Arlingclose benchmarking.



- 12.9 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).
- 12.10 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.
- 12.11 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 3.86 (AA-) and 2.63 (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)
31-03-17	3.47	AA	2.34	AA+	417
30-06-17	3.67	AA-	2.57	AA	353
30-09-17	3.83	AA-	2.93	AA	370
31-12-17	3.76	AA-	2.85	AA	390
31-03-18	3.86	AA-	2.63	AA	302

12.12 We have maintained security throughout the year within the portfolio. We also have a lower risk score on both elements than the Arlingclose client universe (4.24/AA- and 4.03/AA-). We do, however, have a much longer duration (ours is 302 days compared to the universe of 35 days) and this is due to the addition 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.

### 13. Minimum Revenue Provision (MRP)

13.1 The Local Authorities (Capital Financing and Accounting) (England) (Amendment) Regulations 2008 (SI No 414 of 2008) 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

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

13.3 The revised MRP policy was approved by Council in February 2017. It 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
- where expenditure is incurred pending receipt of an alternative source of finance we will not charge MRP
- we will use 75-years for freehold land purchased for development purposes, and any new buildings or similar structures on that land



- where loans are made to other bodies for their capital expenditure, no MRP will be charged
- we will apply a 100-year life for investments in shares classed as capital expenditure

13.4 The unfinanced capital expenditure in 2017-18 of £7.17 million related mainly to Spectrum roof, Guildford Park car park and SARP.

13.5 The MHCLG MRP guidance has suggested some limits and as such we need to amend our policy going forward. This only applies from 2019-20 budget year and will be reported, along with the implications, as part of the Capital and Investment Strategy 2019-20 to 2023-24.

#### **14. External service providers**

14.1 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.

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

#### **15. Training**

15.1 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.

15.2 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.

15.3 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.

15.4 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 main post holder responsible for the treasury management function 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.

- 15.5 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 remains professional status under the MiFID II regulations.

**16. Consultations**

- 16.1 Officers have consulted with the Lead Councillor for Finance and Asset Management about the contents of this report.

**17. Equality and Diversity Implications**

- 17.1 There are no equality and diversity implications

**18. Financial Implications**

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

**19. Legal Implications**

- 19.1 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. The HRA debt cap is the only restriction that applied in 2017-18
  - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI No 3146 of 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.

**20. Human Resource Implications**

- 21.1 There are no human resource implications arising from this report other than the training discussed in section 15, which is already in place.

**21. Summary of Options**

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

- 21.2 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.

## **22. Conclusion**

- 22.1 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.
- 22.2 We maintained the security of our investment portfolio, and did not borrow long-term in advance of need.
- 22.3 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.

## **23. Background Papers**

- CIPFA Treasury Management in the Public Services – Code of Practice and Cross Sectoral Guidance Notes (2017 edition)
- CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2011 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities (2017 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners (2013 edition)
- Treasury management annual strategy report 2017-18

## **24. Appendices**

- Appendix 1: Treasury management activity, treasury and prudential indicators 2017-18
- Appendix 2: Investment property fund portfolio report 2017-18
- Appendix 3: Capital Programme
- Appendix 4: Schedule of Investments at 31 March 2018
- 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

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## **Treasury Management activity and treasury and prudential indicators 2017-18**

### **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 treasury management 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 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 2017-18, which defined "high credit quality" counterparties as those having a long-term credit rating of A- or higher.
- 2.5 Investments during the year included:
  - investments in AAA rated constant net asset money market funds

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- call accounts and deposits with banks and building societies systemically important to each country's banking system. We did place some investments with overseas banks
- 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 by Arlingclose

2.6 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

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

2.8 The table below shows our investment portfolio, at 31 March 2018, compared to 31 March 2017. **Appendix 2** contains a detail schedule of investments outstanding at the end of the year.

Investment details	Balance at 31-03-17 £m	Weighted Avg Return for Year	Balance at 31-03-18 £m	Weighted Avg Return for Year
<b>Internally Managed Investments</b>				
Fixed Investments < 1 year to cover cash flow	34.00	0.76%	29.00	0.71%
Corporate bonds	4.06	0.54%	2.00	0.59%
Certificates of deposit	2.00	0.56%	3.00	0.59%
Notice Accounts	13.00	0.49%	11.00	0.56%
Call Accounts	0.48	0.33%	0.44	0.21%
Money Market Funds	1.32	0.28%	8.32	0.31%
Revolving credit facility	2.50	2.25%	2.50	2.25%
Long term investments > 1 year	47.00	1.15%	57.13	1.12%
<b>Externally Managed Funds</b>				
Payden & Rygel	5.03	0.75%	5.01	0.69%
Funding circle	0.87	4.92%	0.49	7.54%
CCLA	6.35	6.10%	6.65	4.83%
SWIP	1.85	0.59%	0.00	1.21%
M&G	2.67	3.57%	2.57	2.86%
Schroders	0.91	7.22%	0.88	7.38%
UBS	2.42	3.73%	2.34	3.92%
City Financials	2.47	2.73%	2.30	3.26%
<b>Total Investments</b>	<b>126.92</b>	<b>1.03%</b>	<b>133.64</b>	<b>1.23%</b>

2.9 Our level of investments increased during 2017-18, and we achieved a higher return than last year.

2.10 The Councils also holds £1.803 million equity investments in Guildford Holdings Ltd and £2.698 million in North Downs Housing Ltd.

2.11 We are earning an interest return of base rate plus 5% (currently 5.5%) 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**

- 2.12 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.
- 2.13 We also considered the use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 2.14 The minimum long-term counterparty credit rating for 'high quality counterparties' approved for 2017-18 was A-/A3 across all three main credit rating agencies (Fitch, S&P, and Moody's).
- 2.15 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.

### **Liquidity of investments**

- 2.16 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 certificates of deposits and short-term borrowing from other local authorities.
- 2.17 We use treasury.net as our daily cash flow forecasting software to determine the maximum period for which funds may prudently be committed.

### **Yield of investments**

- 2.18 The council sought to optimise returns commensurate with its objective of security and liquidity. The Bank of England base rate increased from 0.25% to 0.50% in November 2017 during the year. Short-term money market rates also remained at very low levels, which continued to have an impact on investment returns.
- 2.19 We invested in longer-term covered bonds, which increased the return of the portfolio and the duration. Covered bonds have a secondary market and can be sold should we need the liquidity.
- 2.20 The council's budgeted investment income for the year was £1.473 million and actual interest was £1.853 million.

### **Externally managed funds**

- 2.21 We estimate to have substantial 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

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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.

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

### Borrowing and debt management

- 2.23 The council's debt portfolio is detailed in the table below. Our loan portfolio increased by £8.27 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
<b>Long-term</b>							
Fixed	PWLB	EIP	690	10	3.0	31/03/2021	3.60%
Variable	PWLB	Maturity	45,000	10	4.0	28/03/2022	0.66%
Fixed	PWLB	Maturity	10,000	12	6.0	28/03/2024	2.70%
Fixed	PWLB	Maturity	10,000	13	7.0	28/03/2025	2.82%
Fixed	PWLB	Maturity	10,000	14	8.0	28/03/2026	2.92%
Fixed	PWLB	Maturity	10,000	15	9.0	28/03/2027	3.01%
Fixed	PWLB	Maturity	25,000	17	11.0	28/03/2029	3.15%
Fixed	PWLB	Maturity	25,000	20	14.0	28/03/2032	3.30%
Fixed	PWLB	Maturity	25,000	25	19.0	28/03/2037	3.44%
Fixed	PWLB	Maturity	15,000	29	23.0	28/03/2041	3.49%
Fixed	PWLB	Maturity	17,435	30	24.0	28/03/2042	3.50%
Fixed	Slough BC	Maturity	5,000	3	0.0	02/04/2018	1.20%
<b>Short-term</b>							
Fixed	Tendring DC	Maturity	2,000	0.75	0.0	03/04/2018	0.45%
Fixed	South Lakeland DC	Maturity	2,000	0.68	0.0	04/04/2018	0.43%
Fixed	Northumberland County Council	Maturity	10,000	0.25	0.0	09/04/2018	0.45%
Fixed	Leicester City Council	Maturity	5,000	0.08	0.1	19/04/2018	0.85%
Fixed	PCC West Yorkshire	Maturity	5,000	0.82	0.1	04/05/2018	0.48%
Fixed	Hyndburn	Maturity	1,000	1.00	0.2	25/05/2018	0.45%
Fixed	Tendring DC	Maturity	2,000	1.00	0.3	02/07/2018	0.52%
Fixed	Chichester DC	Maturity	1,500	0.50	0.3	16/07/2018	0.52%
Fixed	Lancaster City Council	Maturity	5,000	1.00	0.3	17/07/2018	0.53%
Fixed	Barnsley, Doncaster & Sheffield Com	Maturity	5,000	1.00	0.3	26/07/2018	0.40%
Fixed	Exeter CC	Maturity	5,000	1.00	0.7	27/11/2018	0.55%
<b>Total</b>			<b>241,625</b>				

- 2.24 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.
- 2.25 The rate on the variable rate loan is the average for the year.
- 2.26 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.
- 2.27 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.

- 2.28 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.
- 2.29 The PWLB continued to operate a spread of approximately 1% between "premature repayment rate" and "new loan" rates so the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in our portfolio and therefore unattractive for debt rescheduling activity. No rescheduling activity was undertaken as a consequence.

### **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 2017-18, which were approved in February 2017 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 2017-18.

#### **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 do not affect the CFR.
- 3.4 The council's CFR for 2017-18 is shown in the following table

<b>Capital Financing Requirement</b>	<b>2017-18 Approved Estimate £000</b>	<b>2017-18 Revised Estimate £000</b>	<b>2017-18 Actual £000</b>
<b>HRA</b>			
Opening balance (01 Apr 17)	197,024	197,024	196,664
Movement in year: Appropriations	0	0	1,000
Movement in year: VRP	0	0	(640)
<b>Closing balance (31 Mar 18)</b>	<b>197,024</b>	<b>197,024</b>	<b>197,024</b>
<b>General Fund</b>			
Opening balance (01 Apr 17)	84,160	70,182	70,182
Movement in year: Appropriations	0	0	(1,000)
Movement in year: Unfinanced cap exp	88,656	24,192	7,172
Movement in year: MRP	(1,229)	(573)	(574)
<b>Closing balance (31 Mar 18)</b>	<b>171,587</b>	<b>93,801</b>	<b>75,780</b>
<b>Total</b>			
Opening balance (01 Apr 17)	281,184	267,206	266,846
Movement in year: Appropriations	0	0	0
Movement in year: Unfinanced cap exp	88,656	24,192	7,172
Movement in year: MRP	(1,229)	(573)	(574)
Movement in year: VRP	0	0	(640)
<b>Closing balance (31 Mar 18)</b>	<b>368,611</b>	<b>290,825</b>	<b>272,804</b>
Balances and Reserves	(115,482)	(115,482)	(156,151)
<b>Cumulative net borrowing requirement / (investments)</b>	<b>253,129</b>	<b>175,343</b>	<b>116,653</b>

- 3.5 The GF unfinanced capital expenditure mainly relates to Spectrum roof, SARP and Guildford park car park. This is much lower than budgeted because of the slippage in the capital programme – we projected this slippage during the year, which is shown by the revised estimate (as in the strategy report presented to Council in February 2018).
- 3.6 We budgeted an underlying need to borrow of £87.7 million for 2017-18, and our actual underlying need to borrow was £7.17 million because of slippage in the capital programme.

#### **Gross debt and the CFR**

- 3.7 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.

<b>Gross Debt and the CFR</b>	<b>2017-18 Actual £000</b>
General Fund CFR	75,780
HRA CFR	197,024
<b>Total CFR (at 31 March)</b>	<b>272,804</b>
Gross External Borrowing	(241,625)
<b>Net (external) / internal borrowing position</b>	<b>31,179</b>

3.8 Actual debt levels are monitored against the operational boundary and authorised limit for external debt, detailed in paragraph [3.27 to 3.32](#).

3.9 We are showing as being internally borrowed up to £75.78 million in at the end of March 2018, against an estimate of £171.2 million – lower because of slippage in the capital programme.

#### **Capital expenditure prudential indicator**

3.10 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.

3.11 The following table shows capital expenditure in the year, compared to the original estimate approved by the Executive in January 2018.

<b>Projects</b>	<b>Original Estimate (£'000)</b>	<b>Actual (£'000)</b>	<b>Variance (£'000)</b>
<u>Housing Revenue Account</u>			
HRA Capital Programme	12,900	8,264	(4,636)
<b>Total Housing</b>	<b>12,900</b>	<b>8,264</b>	<b>(4,636)</b>
<u>General Fund</u>			
Chapel Street	835	113	(722)
Spectrum roof & CHP	4,289	2,183	(2,106)
Guildford park car park	4,500	1,229	(3,271)
Clay lane link road	0	371	371
SARP	0	1,035	1,035
Walnut bridge	1,884	415	(1,469)
Bedford Wharf	14,176	0	(14,176)
Town centre gateway regeneration	3,523	11	(3,512)
Rebuild crematorium	3,410	402	(3,008)
Provisional schemes	49,695	19	(49,676)
Housing company loan	5,500	2,101	(3,399)
Other General Fund Projects	12,187	6,060	(6,127)
<b>Total General Fund</b>	<b>99,999</b>	<b>13,939</b>	<b>(86,060)</b>
<b>Total Capital Programme</b>	<b>112,899</b>	<b>22,203</b>	<b>(90,696)</b>

3.12 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:
  - new burial grounds
  - clay lane link road

- Guildford park car park
- North street development

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

<b>CAPITAL EXPENDITURE - SUMMARY</b>	<b>Original Estimate (£'000)</b>	<b>Actual (£'000)</b>
<b>General Fund Capital Expenditure</b>		
- Main programme	91,046	9,900
- Reserve & s106 Capital Schemes	8,213	3,394
- General Fund Housing	740	645
<b>HRA Capital expenditure</b>		
- Main programme	18,080	8,264
<b>Total Capital Expenditure</b>	<b>118,079</b>	<b>22,203</b>
<b>CAPITAL EXPENDITURE - SUMMARY</b>	<b>Original Estimate (£'000)</b>	<b>Actual (£'000)</b>
<b>General Fund Capital Expenditure Financed by:</b>		
- Borrowing/Use of Balances	(87,714)	(7,172)
- Capital Receipts	(330)	(2,597)
- Capital Grants/Contributions	(3,982)	(1,966)
- Capital Reserves/Revenue	(7,973)	(2,204)
<b>HRA Capital Expenditure Financed by:</b>		
- Capital Receipts	(4,692)	(4,330)
- Capital Reserves/Revenue	(13,388)	(3,934)
<b>Financing - Totals</b>	<b>(118,079)</b>	<b>(22,203)</b>

3.14 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.

**Incremental impact of capital investment decisions prudential indicator**

3.15 This is an indicator of affordability. It shows the effect on the revenue budget arising from the capital programme, excluding financing costs. The calculation is the loss of interest on funds used for the capital programme (using the average investment rate), plus any ongoing revenue implications of the schemes and MRP.

3.16 Capital investment decisions do not affect the weekly housing rent charge as the council sets its rents in line with the policy laid down by the CLG. There is also no variation to council tax once it has been set. We calculate this prudential indicator on an actual basis for comparative purposes.

	<b>2017-18 Approved £</b>	<b>2017-18 Outturn £</b>
Cost of Capital Programme on Council Tax - Band D	12.74	2.96
Cost of Housing Capital Programme Weekly Housing Rents	1.03	0.19

3.17 The impact for both the GF and HRA is lower than approved because of slippage in the capital programme, detailed above.

**Ratio of financing costs to the net revenue stream prudential indicator**

- 3.18 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.
- 3.19 Depreciation is not a real charge to the GF, but has been to the HRA since April 2012.
- 3.20 The ratio is based on costs net of investment income.
- 3.21 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 2017-18 budget.

	2017-18 Original Estimate	2017-18 Actual
General Fund	11.06%	-4.67%
HRA	31.04%	33.95%

- 3.22 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.
- 3.23 The HRA is higher because there was a voluntary revenue provision to cover the cost of the land appropriation at Guildford Park car park.

**The authorised limit prudential indicator**

- 3.24 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.
- 3.25 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.
- 3.26 The limit was set at £525.84 million for the year and the highest level of debt was £250.3 million.
- 3.27 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 2017-18.

**The operational boundary prudential indicator**

- 3.28 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.

- 3.29 The limit was set at £475.6 million for the year and the highest level of debt was £250.3 million.

**Upper limit for fixed and variable interest rate exposures treasury indicator**

- 3.30 This indicator is set to control exposure to interest rate risk. We calculate exposures on a net basis (fixed rate debt net of fixed rate investments). We take fixed rate to be if it was taken out as a fixed rate loan/investment regardless of its duration.

Net Debt / (Investments) on Principal outstanding	2017-18	2017-18
	Approved	Actual
	£000	£000
Limits on fixed interest rates	267,120	134,251
Limits on variable interest rates	1,320	(36,032)

- 3.31 The above shows that at its peak fixed interest rates were well within our target. Variable was higher than target, and is negative because we had more variable rate investments than debt. We include our external funds as variable rate investments.

**Maturity structure of fixed rate borrowing treasury indicator**

- 3.32 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 2017	Value of loans maturing
Under 12 months	15%	0%	24.78%	48,730,000
1-2 years	20%	0%	0.12%	230,000
3 to 5 years	25%	0%	0.12%	230,000
6 to 10 years	50%	0%	20.34%	40,000,000
11-15 years	100%	0%	25.43%	50,000,000
16-20 years	100%	0%	12.71%	25,000,000
21-25 years	100%	0%	16.50%	32,435,000
Over 26 years	100%	0%	0.00%	0

- 3.33 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.
- 3.34 The limit for that maturing within 12 months is higher due to short-term borrowing levels. 45% of our fixed rate debt matures within the next 10 years, with around half of that 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.

- 3.35 The actual at March 2018 was higher than target because the upper limit did not allow for as much short-term borrowing as we had at the end of the year.

**Actual external debt treasury indicator**

- 3.36 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.

	<b>External debt as at 31 Mar 17 £'000</b>	<b>External debt as at 31 Mar 18 £'000</b>
Borrowing	233,355	241,625
Other long term liabilities	0	0
<b>Total</b>	<b>233,355</b>	<b>241,625</b>

- 3.37 Actual external debt decreased because we had less short-term borrowing that at the start of the year.

**HRA limit of indebtedness prudential indicator**

- 3.38 This indicator compares the actual debt of the HRA to the debt cap imposed by the Government.

	<b>2017-18 Actual £'000</b>	<b>2018-19 Estimate £'000</b>	<b>2019-20 Estimate £'000</b>	<b>2021-22 Estimate £'000</b>
HRA CFR	197,024	197,024	197,024	197,024
HRA Debt Cap	197,024	197,024	197,024	197,024
Balance available	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 3.39 The table shows that the council operated inside the debt cap for 2017-18. We need to review our HRA CFR continually to ensure that, should the need to start increasing the CFR arise, there are balances and reserves to fund the capital expenditure to ensure the debt cap is not breached. The debt cap could stop the council building homes, if we do not have enough reserves to fund our building programme.

**Upper limit for total principal sums invested over 364 days**

- 3.40 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.
- 3.41 Our limit was set at £70 million, we ended the year with exposure of £34 million.
- 3.42 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.





GUILDFORD BC  
INVESTMENT  
PROPERTY  
FUND  
PORTFOLIO  
REPORT

2017/18

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Annual Report

## GBC INVESTMENT PROPERTY FUND PORTFOLIO REPORT

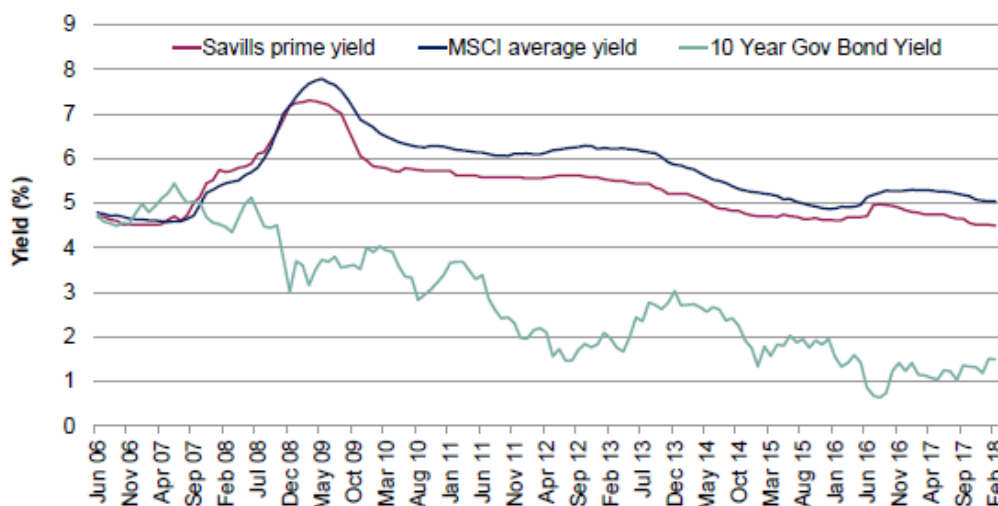
### MARKET ANALYSIS

#### UK Real Estate Overview

Lingering uncertainty over the UK's future relationship with the EU continued to be a core theme of the last year, casting a shadow over economic growth. Negotiations may be underway, but as predicted, investors retain a cautious outlook across all sectors.

Although activity may be subdued, it does not mean investment has stopped. Instead, risk aversion has become the overriding theme. This translated into resilient demand for prime assets and secure income streams, throughout early 2018.

#### Gap between real estate and bonds remains wide



Graph source: Savills MSCI investing.com

Yields on many commercial property sectors, for example, are higher than those in much of Europe. Savills report that following three consecutive months of no movement in the Savills prime yield series, February saw a hardening of 2bps and the average yield reach 4.50%, this now stands just 19bps from the previous peak of 4.31% in 2007.

This was driven by an inward movement of prime yields for the Logistics sector, which now stand at 4.25%, the lowest level ever experienced. The Multi-let sector also has downward pressure. Savills now expect the average prime yield to see continued downward pressure into the rest of 2018 due to continued strong interest from investors in the M25 office sector.

	Feb 17	Jan 18	Feb 18
West End Offices	3.25%	3.25%	3.25%
City Offices	4.25%	4.00%	4.00%
Offices M25	5.25%↓	5.00%↓	5.00%↓
Provincial Offices	5.25%↓	4.75%	4.75%
High Street Retail	4.00%↑	4.00%	4.00%
Shopping Centres	4.50%	4.75%	4.75%
Retail Warehouse (open A1)	5.25%	5.00%	5.00%
Retail Warehouse (restricted)	5.75%	5.25%	5.25%
Foodstores	5.00%	4.50%	4.50%
Industrial Distribution	5.00%	4.50%↓	4.25%
Industrial Multi-lets	4.75%	4.25%	4.25%↓
Leisure Parks	5.00%	5.00%	5.00%
Regional Hotels	5.25%	4.50%	4.50%

Table source: Savills

Property remains a safe haven for capital preservation, and demand for prime, secure investments has continued to be as keen as ever. This is expected to continue for the foreseeable future, with long-life income streams becoming ever more highly prized, especially as it is expected, the cost of capital will increase over the next five years.

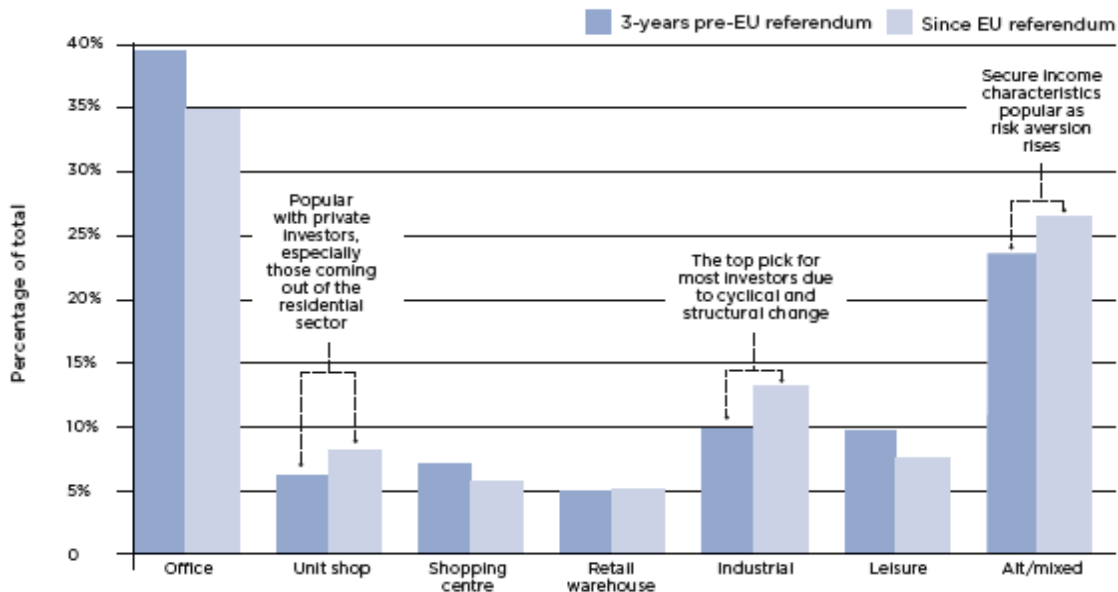
The rise by a quarter of a point in interest rates by the US Federal Reserve in March (the sixth increase since 2015), appears to signal that the era of historically low interest rates that began during the Global Financial Crisis is to be coming to an end. With many believing a base rate increase by the Bank of England will occur in May.

However, the ONS announced on 18 April that, for the first time in around a year, average wages exceeded inflation in February 2018. This means the squeeze on people's wallets has started to ease with the cost of living taking a decent-sized step towards the Bank of England's target of 2%. The fact that inflation has already decreased may suggest the base rate will not need to change too dramatically if at all.

Although the pace of recovery will be dictated, largely, by Brexit, investors are exploring new opportunities. A shortage of prime stock is leading

investors to seek secure income in alternative assets.

**Investor appeal** The change in popularity of commercial assets since the EU referendum



Source: Savills Research from Property Data

Whilst domestic investors are likely to remain cautious in 2018 because of home bias, and as they tend to see local political issues as more important than others do, non-domestic investors will be attracted to the UK by comparative risk, and comparative returns. New opportunities are emerging for investors prepared to explore beyond the increasingly scarce pool of prime or secure assets.

Savills believe that the biggest beneficiary of the shortage of prime mainstream stock will be the plethora of income-producing assets classes that used to be lumped together as alternatives. Whether that asset is a pub or cinema, warehouse or student house, the attraction to investors will be the bond-type characteristics of the asset.

The other area of emerging opportunity will be development or asset management across all subsectors of the commercial market; namely, turning short, risky income into long, secure income will also be high on the agenda.

Moving forward, people will be waiting to see the impact of global macro-economic factors such as Global interest rate rises, Brexit negotiations, US trade tariffs and other geopolitical issues such as North Korea and Russia how they will impact the markets.

## Commercial outlook: six trends for 2018

As demand for prime remains strong, alternative assets will grow in significance



### Non-domestic demand

With the pound staying weak and UK commercial property yields now looking high in comparison to prime European and Asian markets, we expect non-domestic investor demand for UK commercial to remain strong in 2018.



### Value beyond prime

With risk-averse domestic and global investors dominating the market in 2018, there will be less competition and even falling prices in secondary and tertiary markets. This will be a great opportunity for value-add and opportunistic investors as they turn short income into long.



### Alternative appeal

The unifying theme among the plethora of alternative asset classes is their long-term secure income streams and popularity among risk-averse investors. So, 2018 will be the year that alternative becomes mainstream.



### Retail therapy

In 2017, a perfect storm of negativity hit retail. For 2018, we will see better news about real earnings growth, and a less homogenous attitude to retail with investors. Some segments will be a good buy due to their defensive characteristics, while others just look cheap.



### Brexit balance

With London's office market shrugging off the worst of the pre-Brexit negativity, 2018 will see more balance in the assessment of how much, where and when occupational risks will rise.



### New-tech tools

While wellness and staff satisfaction will continue to increase in importance for many employers when choosing buildings and locations, some businesses will start to look at offsetting the costs of delivering wellness by using the margin-enhancing tools of artificial intelligence (AI).

**Guildford Real Estate Overview**

Despite the uncertainty, the Valuation Office Agency (VOA) report that Guildford remains in a strong position going forward, with solid economic and property fundamentals.

Guildford was placed 6 in Lambert Smith Hampton’s 2018 UK Vitality Index with top ten placements in the sections for highly educated and fastest growing towns. Future prospects in Guildford may be led somewhat by the outcome of the proposed £2bn regeneration of the town centre.

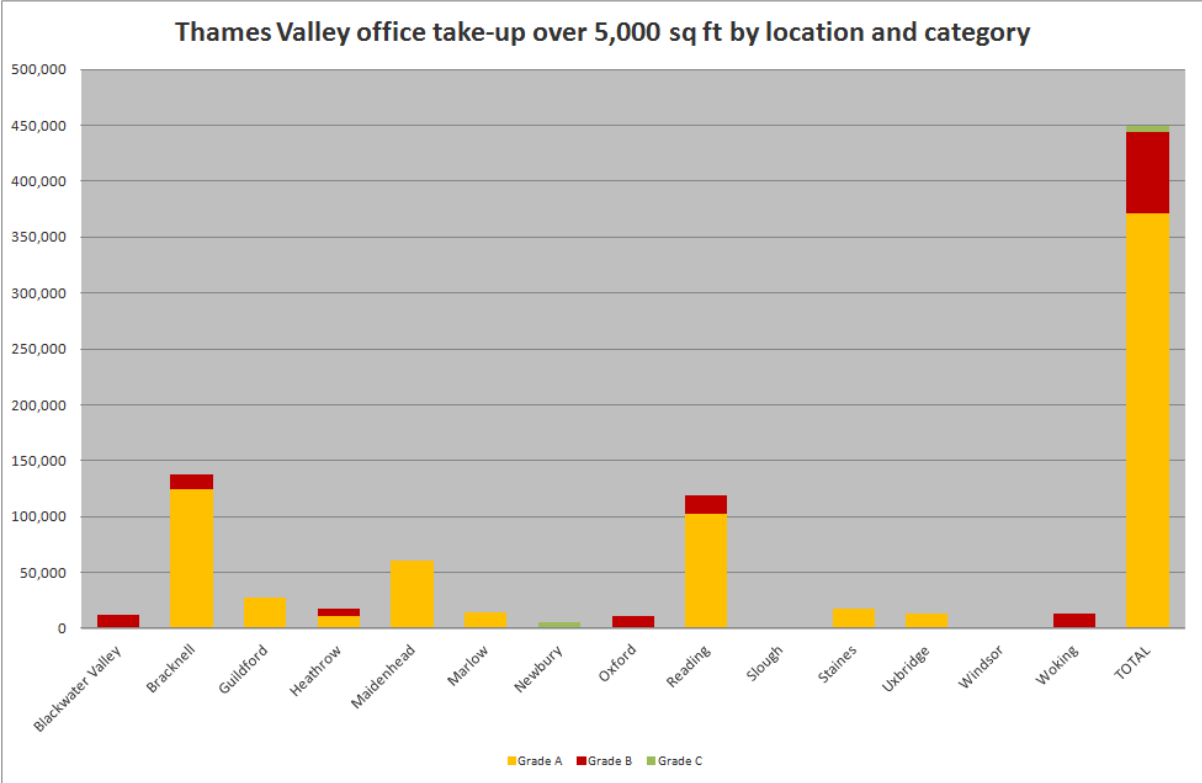
**Commercial Office Market**

The key themes for the Thames Valley Office market over the last year have been:

- the rise of the tech market;
- increase in co-working spaces;
- non-existent grade c stock; and
- average transaction sizes falling.

Lambert Smith Hampton (LSH) reported that the Thames Valley office market had its lowest enquiries for six years in Q4 with the 2017 total falling 21.7% against 2016. The main falls were in the 5/10,000 sq. ft. and 20/50,000 sq. ft. bands.

Take-up in 2017 was only a slight increase of 1% over the year but in Q4 2017 was increase of 49%.



The two most active business sectors in Q4 2017 were, Technology, Media and Telecommunications (33%) Finance Banking & Insurance (9%).

In terms of supply, the Thames Valley total has fallen by 1,615,065 (17.2%), compared to the 2016 year-end total of 9.4m.

In Guildford, most of the larger corporates are focused on working more efficiently and reducing the space they occupy. For example, EA Sports re-gearred its lease at Onslow House, reducing its office space from 90,000 sq ft to 55,000 sq ft. BOC is thought to be interested in reducing its occupational space from 90,000 sq ft to circa 30,000 sq ft.

A number of the corporates are also now leaving Guildford for numerous reasons. For example, Ericsson is moving its headquarters (vacating 50,000 sq.ft.) to Reading. It is assumed that those relocating within the Thames Valley are moving to areas where they can take advantage of the new Crossrail system.

This has led to a reduction in larger transactions. There were only two transactions of over 10,000 sq. ft. in Guildford in 2016. In 2017, there were only three and only three deals over 5,000 sq.ft. Overall take-up for 2017 was 84,000 sq ft, 19% below the 10-year average and the lowest seen since 2013. In Q1 2018 there has been just 5,000 sq.ft let in two deals.

Guildford office supply increased from 260,000 sq ft in 2010 to 337,000 sq ft in 2017. However, this is the third lowest availability rate in the Thames Valley at 10%.

New supply is generally being delivered by refurbishment of existing buildings, with the proportion of grade A space increasing from 0% in 2011 to 65% in 2017. According to LSH's most recent research, Q1 2018 availability is now at 432,000 sq ft (excluding BOC and Ericsson). Given that the ten year average annual take up in Guildford is just over 90,000 sq.ft it looks as though there will be 4-6 years' worth of supply.

There is now an increased reliance on the SME companies for new demand. Luckily, Guildford has a wide base of SME occupiers and an increasing tech sector. This mixed economic base provides stability and will maintain activity in the market, despite a lack of larger requirements. Demand will focus on high-spec interior refurbished and new buildings in the town centre.

As supply increases, LSH expect to see the speed of rental growth subside and rents to stabilise over the next two years. However, the Q1 2018 RICS UK Commercial Property Survey reported that the RICS expects prime office rents to show growth but with secondary flat.

Prime rents in Guildford increased steadily from £27.00 per sq. ft. for new grade stock in 2012 to £35 per sq. ft. in 2017.

Prime yields in the town remain unchanged at 5.00%. This is despite some downward pressure early on in the year, due to the Council's purchase of Wey House, reflecting 5.10%.

## Commercial Retail Market

The VOA reported to GBC that Retail remained the worst performing sector in the investment market last year with transaction volumes falling for a 3rd consecutive year (10% year on year). Retail generally struggled and was characterised by negative sentiment increasing through 2017. Investors focused on prime secure assets widened the gap with secondary stock.

According to Knight Frank, next year is likely to be just as challenging for the UK retail sector as 2017 has been. Some pressures may have eased but there is no greater sense of certainty than there was 12 months ago. Almost without exception, retailers remain cautious

There is a common belief that the uncertainty over Brexit and the ceiling for on-line sales will mean that the market will continue the trend of flexible leases, with shorter terms, break clauses, and also increasingly trying to secure turnover rents.

Many retailers will also continue their operational rationalisations with a rolling programme of closures and downsizings, counterbalanced by selective re-locations and strategic new openings.

The downward pressure on retail rents is also expected to continue. The Q1 2018 RICS UK Commercial Property Survey noted weakness in retail was spreading to prime locations. That said, 2017 was the strongest year since 2010 for investment into high street shops outside central London. Savills believe 2018 will be much the same, with the UK funds focusing on the top 20 towns, and lot sizes of greater than £10m. The majority of investor demand will remain for 'safe' and 'secure'. Good shops on good pitches in good towns will continue to attract a premium (especially as demand will exceed supply).

Given the shortness of supply and the difference in yields between prime and secondary the VOA believes investors may take more interest in the right kind of secondary.

Due to the historic High Street and lack of out-of-town development, Guildford remains a resilient prime affluent retail market and retains its attraction for investors and occupiers alike with its quality of catchment.

### Shopping centres

VOA and Savills both report that caution over Brexit and negative retail sentiment generally saw 2017 characterised by low transaction activity throughout the year. The focus from investors was concentrated on the most resilient centres with an outward shift in yields

. Institutional investment reduced last year, whilst Councils gained a market share of circa 13%. In spite of some negative press, and barring any central government intervention, it is expected that Councils will continue to invest in shopping centres in 2018, doing so with a continued focus on assets within their jurisdiction.

Savills report that demand is particularly strong for convenience and community centres that trade well. Especially in London and South East. They also believe that redevelopment opportunities will be sought-after in 2018.

### **Commercial Industrial Market**

According to LSH, in the space of a few years, industrial & logistics has gone from being the 'Steady Eddy' of UK property to the asset class of choice. Industrial investment was the strongest performer across the commercial sectors in 2017, with continued investor appetite for industrial assets and a rise in portfolio transactions. 2018 has also picked up where 2017 left off, with stock of varying size and quality changing hands across all parts of the market. LSH report that industrial is still widely expected to outperform the wider market once again, over the next five-years.

Occupiers appear to have been rather indifferent to the uncertainty posed by Brexit with take-up respectable across each of the size-bands. Appetite for quality also showed little sign of abating, with grade A space accounting for 30% of UK take-up.

During the first quarter of 2018, Savills prime yields for industrial properties reached the lowest level ever recorded at 4.25% for both multi-let estates and distribution warehouses. With yields at rock bottom, moving forward investors will be relying heavily on income and rental growth to determine asset performance.

As supply continues to be restricted, rental growth was maintained during 2017, LSH report that prime rents across the UK's 60 key markets increased by 4.9% on average, alongside secondary rental growth of 5.1%. In some locations, growth has been nothing short of extraordinary over the past two years, especially in London and the wider South East.

Currently, smaller occupiers are finding themselves displaced into more affordable locations, which is in turn driving growth in secondary markets. Secondary locations now have among the best prospects for growth, particularly those in close proximity to much more expensive locations.

The Q1 2018 RICS UK Commercial Property Survey noted that going forwards prime and secondary industrial are generally expected to see near term rent increases across the UK. This is certainly expected in Guildford, due to the low supply of existing stock across all size ranges. However, this may be dependent on the outcome of the Local Plan and the future availability of land for development.

The only real doubt is over the automotive industry. Better clarity over post-Brexit trading terms are now required, especially regarding prospective tariffs. Although, even if there are barriers to trade from Brexit, LSH believe this is arguably just as likely to encourage some occupiers to focus their footprint in the UK as it is to force others to take flight.

## GUILDFORD BOROUGH COUCIL INVESTMENT FUND

### Current Fund Overview – 2017/18

#### Current Properties

Sector	No. of assets	Sub-category	
Office	8		
Industrial	129		
Retail	10	Shops Shopping Centre Supermarket	7 2 1
Leisure	6	Restaurant NightClub	5 1

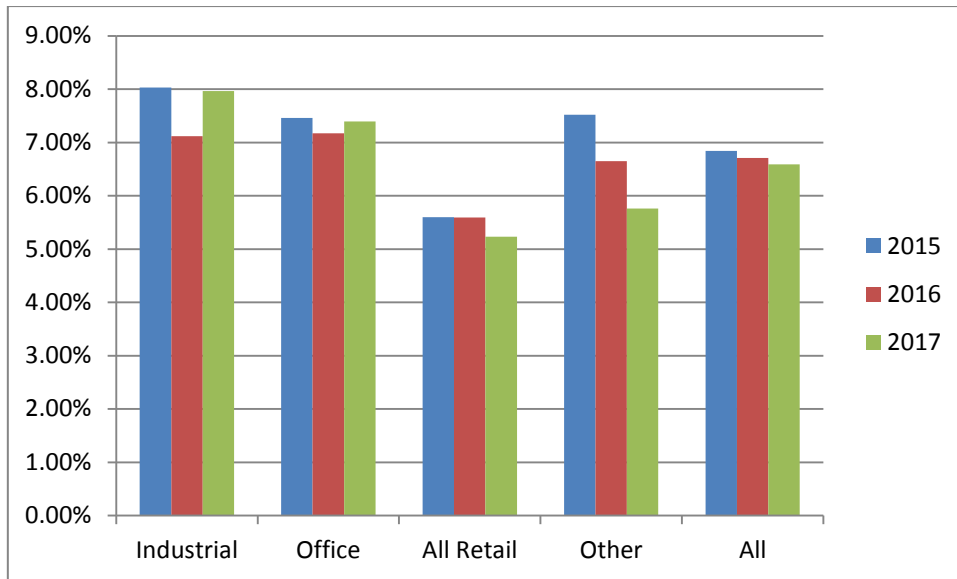


Other Commercial	11	Educational Theatre Barn Petrol Station Sui Generis Car Park Water Treatment Works	3 2 2 1 1 1 1
<b>Total Investment Properties</b>	<b>164</b>		

## Fund Statistics

<u>Rental income</u>					
	<b>Industrial</b>	<b>Office</b>	<b>All Retail</b>	<b>Other</b>	<b>All</b>
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	1,070,786	<b><u>9,176,556</u></b>
<u>Capital value</u>					
	<b>Industrial</b>	<b>Office</b>	<b>All Retail</b>	<b>Other</b>	<b>All</b>
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	<b><u>144,619,500</u></b>
<u>Income return</u>					
	<b>Industrial</b>	<b>Office</b>	<b>All Retail</b>	<b>Other</b>	<b>All</b>
2015/16	8.03%	7.46%	5.60%	7.52%	6.84%
2016/17	7.12%	7.17%	5.59%	6.65%	6.71%
2017/18	7.96%	7.39%	5.23%	5.76%	<b><u>6.59%</u></b>
<u>Benchmark return</u>					
	<b>Industrial</b>	<b>Office</b>	<b>All Retail</b>	<b>Other</b>	<b>All</b>
2015/16	6.10%	4.70%	5.40%	4.70%	5.23%
2016/17	5.40%	4.10%	5.00%	5.50%	4.80%
2017/18	7.90%	3.90%	2.50%	2.50%	<b><u>4.20%</u></b>

### Fund Performance

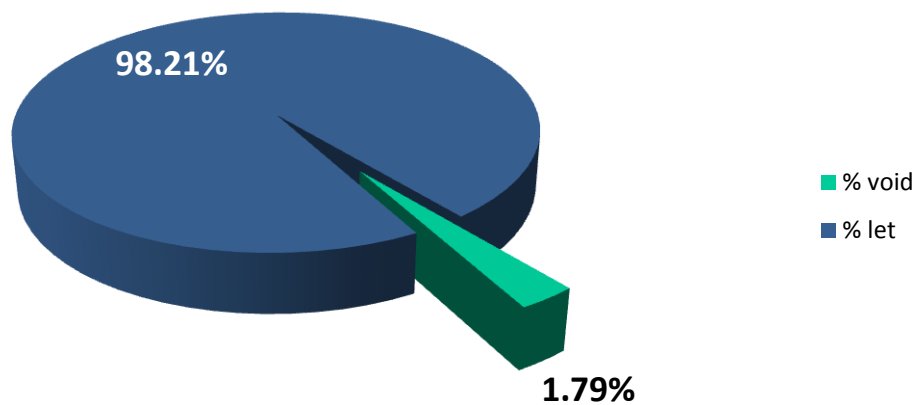


### Purchases and Sales

Property	Interest	Price paid	Date of completion	Tenant	Rental (pa)
9 Midleton Industrial Estate	Leasehold (to merge Freehold)	£500,000 excluding purchaser fees	24/03/2017	Now let to: Workshop - Sunbrella Hire Ltd (£28,000) Parking Spaces - Philips Electrical Ltd (£32,000)	Total Site Income – £60,000pa.

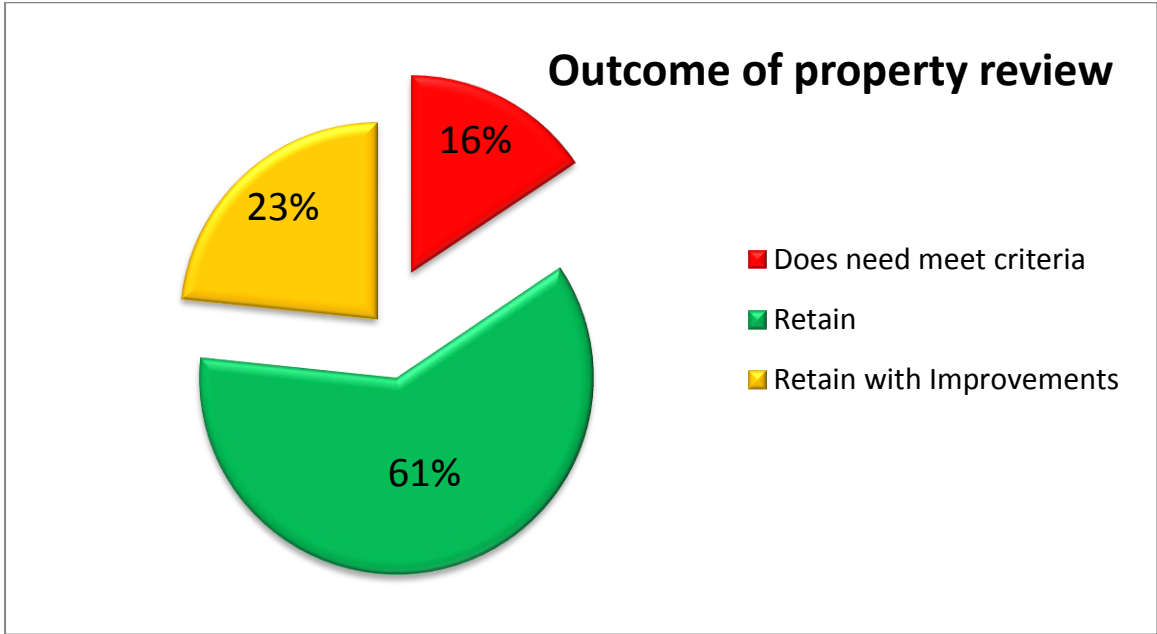
### Void Properties

Percentage of voids in 2017/18  
(based on days void per asset)



	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year
Days void in 2017/18 based on number of units	1.22%	3.20%	1.56%	1.17%	1.79%

Property Review



1. <sup>i</sup> Economists at *Bank of America Merrill Lynch Global Research* even believe the *Bank of England* is unlikely to deliver two interest rate rises in 2018. The Bank's fundamental remit is to get inflation to a 2% target, so if as the data suggests that a fall towards target is already happening, then the more dovish analysts may prefer a policy of "wait and see".

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## G. F. CAPITAL PROGRAMME - EXPENDITURE

2017-18

Service Unit / Scheme	Original Estimate £	Outturn Estimate £	Actual £ p	Variance (o/s = overspend) £
<b>1. APPROVED CAPITAL PROGRAMME SCHEMES</b>				
<b>HOUSING AND COMMUNITY CARE</b>				
Safer Guildford: CCTV & Lighting Strategy - Lighting Strategy phase 3	-	11,000	5,419.29	(5,580.71)
Safer Guildford: CCTV & Lighting Strategy - Lighting Strategy phase 4	-	4,000	0.00	(4,000.00)
Home Farm, Effingham - provision of gypsy and traveller pitches	655,000	770,000	756,273.26	(13,726.74)
	655,000	785,000	761,692.55	(23,307.45)
<b>GENERAL FUND HOUSING</b>				
<b>Grants</b>				
House Renovation Grants :				
Mandatory DFG	450,000	473,000	473,408.94	408.94 o/s
Better Care Fund			48,545.66	48,545.66
Home Improvement Grants (w.e.f. 2003)	40,000	52,000	51,832.41	(167.59)
Solar Energy Loans	30,000	0	0.00	-
SHIP: Equity Loans Scheme Imps	0	4,598	4,598.19	-
<b>Grants - Totals</b>	520,000	529,598	578,385.20	48,787.01 o/s
<b>Affordable Housing</b>				
General	100,000	100,000	0.00	(100,000.00)
Affordable Housing	100,000	100,000	0.00	(100,000.00)
<b>Affordable Housing - Site Preparation etc.</b>				
<u>Feasibility / site preparation</u>				
General	120,000	135,000	0.00	(135,000.00)
Bright Hill CP	0	0	12,670.06	12,670.06
Ladymead/Fire Station Site Pre	0	0	26,126.12	26,126.12
Garage Sites - General	0	0	12,898.11	12,898.11
Garage and infill sites Ph1	0	0	4,129.94	4,129.94
Guildford Park Car Park	0	0	1,770.00	1,770.00
Apple Tree pub site	0	0	9,870.62	9,870.62
<b>Affordable Housing - site prep.etc.: Totals</b>	120,000	135,000	67,464.85	(67,535.15)
<b>COMMUNITY DIRECTORATE - Totals</b>	<b>1,395,000</b>	<b>1,549,598</b>	<b>1,407,542.60</b>	<b>(142,055.59)</b>
<b>CORPORATE</b>				
New War Memorial	0	50,000	15,752.21	(34,247.79)
<b>CORPORATE DIRECTORATE - Totals</b>	<b>0</b>	<b>50,000</b>	<b>15,752.21</b>	<b>(34,247.79)</b>

G. F. CAPITAL PROGRAMME - EXPENDITURE

2017-18

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance
	£	£	£ p	(o/s = overspend) £
<b>DEVELOPMENT</b>				
Disabled Access (DDA) Improvements: ph.2 & 3	42,000	4,000	3,637.00	(363.00)
5 High Street - void works	0	0	1,977.00	1,977.00
Foundation Unit 1 Middleton	0	8,082	8,082.36	-
Unit 4 Middleton	0	1,259	1,258.80	-
16 Ent Est void works	0	6,458	6,457.90	-
Unit 3 The Billings void works	0	0	5,405.00	5,405.00 o/s
Guildford Museum and Castle	17,000	100,000	0.00	(100,000.00)
Asbestos surveys & removal in non-residential council premises	32,000	30,000	28,106.50	(1,893.50)
Methane gas monitoring system	0	41,000	4,592.00	(36,408.00)
Energy efficiency compliance - council owned properties	0	12,000	8,065.60	(3,934.40)
Rebuild retaining wall on Shalford Park boundary with the Old Vicarage	0	31,000	29,095.87	(1,904.13)
Bridges	0	20,000	20,323.69	323.69 o/s
Bridges - Millmead footbridge	0	4,483	4,483.18	-
Bridges - Shalford Common	0	257	256.80	-
Electric Theatre - new boilers	120,000	0	0.00	-
The Billings Roof	150,000	14,000	120.00	(13,880.00)
Guildford House Damproofing	0	4,000	4,128.40	128.40 o/s
Broadwater cottage	0	2,000	1,254.80	(745.20)
Gunpowder mills - scheduled ancient monument	0	5,000	5,056.00	56.00 o/s
New House - short term works following acquisition	0	26,000	18,090.16	(7,909.84)
Chapel Street (Castle Street/Tunsgate Public Realm Scheme)	835,000	835,000	112,968.90	(722,031.10)
Site clearance costs ahead of sale of Burpham Court Farm Buildings	0	50,000	0.00	(50,000.00)
Guildford Riverside Route Ph 1 (part SPA)	60,000	2,000	1,760.00	(240.00)
<b>DEVELOPMENT DIRECTORATE - Totals</b>	<b>1,256,000</b>	<b>1,196,539</b>	<b>265,119.96</b>	<b>(931,419.08)</b>
<b>ENVIRONMENT</b>				
Vehicles, Plant & Equipment Replacement Programme	300,000	402,000	348,786.55	(53,213.45)
Mary Road Flood EA grant	0	45,000	15,615.00	(29,385.00)
Flood resilience measures	100,000	0	0.00	-
Litter bins replacement	230,000	74,000	72,710.53	(1,289.47)
Flats Recycling - new bins	0	31,000	19,579.96	(11,420.04)
WRD security barriers	0	4,000	820.00	(3,180.00)
WRD roads and footpaths	100,000	0	0.00	-
Crematorium - mercury abatement/new cremators	0	278,000	278,620.79	620.79 o/s

Agenda item number: 7  
Appendix 3

## G. F. CAPITAL PROGRAMME - EXPENDITURE

2017-18

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance
	£	£	£ p	(o/s = overspend) £
Spectrum Roof improvements	3,420,000	1,506,406	1,273,477.27	(232,928.25)
Spectrum steel work repairs and replacement	0	17,363	17,363.31	-
Spectrum Roof - steelworks ph3	0	697,231	697,231.17	-
Infrastructure works: Guildford commons Merrow	10,000	13,000	2,085.00	(10,915.00)
Infrastructure works: Guildford commons Shalford	40,000	60,000	34,144.88	(25,855.12)
Infrastructure works: Guildford commons Compton	0	3,480	3,480.00	-
Onslow Rec play area	0	18,000	9,484.79	(8,515.21)
Westnye Gardens Play Area	125,000	15,000	9,959.00	(5,041.00)
Stoke Park Tennis Courts Refurb	0	90,000	85,265.00	(4,735.00)
Stoke Park Paddling pool (ph2)	0	42,000	41,652.48	(347.52)
Replacement roundabout planters	0	2,000	2,000.00	-
Stoke Park Bowls Club	0	102,000	112,128.48	10,128.48 o/s
Woodbridge Rd sportsground replace fencing	0	1,000	690.00	(310.00)
Stoke park composting facility	105,000	0	0.00	-
Chantry Wood campsite	200,000	5,000	4,413.85	(586.15)
Replace hanging basket posts	0	75,000	52,903.16	(22,096.84)
Stoke Pk Greenhouse Demolition	0	55,000	58,624.25	3,624.25 o/s
Pre-sang costs	0	20,000	18,562.23	(1,437.77)
Stoke Cemetry Chapel Ph 2	3,000	8,000	7,280.00	(720.00)
Replace Stoke Park attendant/visitor information point	70,000	40,000	14,147.19	(25,852.81)
Wall repairs ph 2	15,000	10,000	9,312.45	(687.55)
Bellfields YCC	60,000	10,000	2,547.90	(7,452.10)
Countryside fence replacement	50,000	65,000	64,268.00	(732.00)
Purchase of Park Iroko Timber Bins	0	22,000	21,677.05	(322.95)
Sutherland Memorial Park LED lighting	0	25,000	0.00	(25,000.00)
<b>ENVIRONMENT DIRECTORATE - Totals</b>	<b>4,828,000</b>	<b>3,736,480</b>	<b>3,278,830.29</b>	<b>(457,649.71)</b>
<b>RESOURCES</b>				
Investment in Millmead Campus	0	56,000	152,654.68	96,654.68 o/s
Millmead Toilets refurb	0	108,000	121,425.73	13,425.73 o/s
Capital contingency fund	5,000,000	437,300	0.00	(437,300.00)
<b>RESOURCES DIRECTORATE- Totals</b>	<b>5,000,000</b>	<b>601,300</b>	<b>274,080.41</b>	<b>(327,219.59)</b>
<b>DEVELOPMENT - INCOME GENERATING ETC</b>				
Guildford Park new MSCP and infrastructure works	4,500,000	1,500,000	614,563.78	(885,436.22)

## G. F. CAPITAL PROGRAMME - EXPENDITURE

2017-18

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance
	£	£	£ p	(o/s = overspend) £
Guildford Park housing for private sale	0	0	614,443.40	614,443.40
Clay Lane Link Road	0	187,000	370,829.62	183,829.62 o/s
SARP	0	1,767,000	1,034,687.62	(732,312.38)
North Street development	100,000	82,000	81,560.93	(439.07)
Pop up village	0	100,000	99,983.27	(16.73)
Midleton Ind Est Redevelop	0	36,000	35,630.80	(369.20)
Walnut Bridge	1,884,000	1,834,000	414,601.80	(1,419,398.20)
Bedford Wharf	14,176,000	0	0.00	-
Walnut Bridge Land requisition	0	0	9,454.50	9,454.50
Town Centre Gateway Regen	3,523,000	10,000	10,504.43	504.43 o/s
Rebuild crematorium	3,410,000	500,000	401,762.71	(98,237.29)
Specturm Combined Heat and Power (GF contr)	869,000	848,000	194,291.37	(653,708.63)
Woodbridge Road Sportsground	1,150,000	1,384,000	1,402,153.96	18,153.96 o/s
<b>DEVELOPMENT INCOME GENERATING ETC - Totals</b>	<b>29,612,000</b>	<b>8,248,000</b>	<b>5,284,468.19</b>	<b>(2,963,531.81)</b>
<b>Approved programme total</b>	<b>42,091,000</b>	<b>15,381,917</b>	<b>10,525,793.66</b>	<b>(4,856,123.57)</b>
<b>2. PROVISIONAL SCHEMES</b>				
<b>DEVELOPMENT</b>				
Void investment property refurbishment works	100,000	0	0.00	-
Guildford Museum and Castle	2,000,000	0	0.00	-
Methane gas monitoring system	0	0	0.00	-
Energy efficiency compliance - Council owned properties	920,000	0	0.00	-
Bridges	570,000	0	0.00	-
Gunpowder mills - scheduled ancient monument	0	0	0.00	-
Guildford Riverside Route Ph 2/3	2,400,000	0	0.00	-
Cladding of Ash Vale units	145,000	0	0.00	-
Westfield/Moorfield rd resurfacing	3,152,000	0	0.00	-
Burpham Court Farm	365,000	0	0.00	-
Exhibition lighting at Guildford House	50,000	0	0.00	-
Chapel Street(Castle Street/Tunsgate Public Realm Scheme)	1,165,000	0	0.00	-
<b>DEVELOPMENT- Totals</b>	<b>10,867,000</b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>
<b>OPERATIONAL SERVICES</b>				
New vehicle washing system	155,000	1,000	386.96	(613.04)



**G. F. CAPITAL PROGRAMME - EXPENDITURE**

**2017-18**

<b>Service Unit / Scheme</b>	<b>Original Estimate</b> £	<b>Outturn Estimate</b> £	<b>Actual</b> £ p	<b>Variance</b> (o/s = overspend) £
WRD - cleansing office heating system	11,000	11,000	11,315.20	315.20 o/s
New burial grounds - acquisition & development	2,490,000	7,000	6,990.43	(9.57)
Sutherland memorial park pavilion	150,000	0	0.00	-
Council tennis courts refurbishment	215,000	0	0.00	-
Kings college astro turf	120,000	0	0.00	-
Stoke Park office accommodation & storage buildings	625,000	0	0.00	-
Sutherland memorial park all weather courts	25,000	0	0.00	-
Stoke Pk gardens water feature refurb	81,000	0	0.00	-
Resurface Lido Rd CP	100,000	0	0.00	-
Sutherland Memorial Park LED lighting	35,000	0	0.00	-
Park Barn CC LED lighting upgrade	22,000	0	0.00	-
<b>ENVIRONMENT SERVICES - Totals</b>	<b>4,029,000</b>	<b>19,000</b>	<b>18,692.59</b>	<b>(307.41)</b>
<b>DEVELOPMENT - INCOME GENERATING ETC</b>				
Guildford Park new MSCP and infrastructure works	11,645,000	0	0.00	-
Clay lane link road	100,000	0	0.00	- o/s
Styfield Area Regeneration Project (SARP) (GBC share)	15,000,000	0	0.00	-
North Street development	1,000,000	0	0.00	-
Redevelop Midleton industrial estate	1,837,000	0	0.00	-
Bright Hill Development	500,000	0	0.00	-
Transport schemes for future Local Growth Fund and other opportunities	4,000,000	0	0.00	-
Town centre transport infrastructure package	217,000	0	0.00	-
Guildford West (PB) station	500,000	0	0.00	-
<b>DEVELOPMENT - INCOME GENERATION - Totals</b>	<b>34,799,000</b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>
<b>Provisional total</b>	<b>49,695,000</b>	<b>19,000</b>	<b>18,692.59</b>	<b>(307.41)</b>
<b>3. PROJECTS FUNDED FROM RESERVES etc.</b>				
<b>AUDIT &amp; PERFORMANCE</b>				
<b>SALIX - 'Invest to Save' projects</b>				
Salix lighting Harbour Hotel	0	2,420	2,420.00	-
Salix lighting Black Horse	0	9,560	9,560.00	-
WRD energy reduction	0	70,000	0.00	(70,000.00)
<b>ENERGY RESERVES - Totals</b>	<b>0</b>	<b>82,000</b>	<b>11,980.00</b>	<b>(70,020.00)</b>

## G. F. CAPITAL PROGRAMME - EXPENDITURE

2017-18

Service Unit / Scheme	Original Estimate £	Outturn Estimate £	Actual £ p	Variance (o/s = overspend) £
<b>BUDGET PRESSURES RESERVE</b>				
Surrevsave Credit Union - purchase of shares	0	50,000	50,000.00	-
<b>BUDGET PRESSURES RESERVE - Totals</b>	<b>0</b>	<b>50,000</b>	<b>50,000.00</b>	<b>0.00</b>
<b>LABGI</b>				
Bedford Road Bus Station	0	191,000	193,495.76	2,495.76 o/s
<b>LABGI - Totals</b>	<b>0</b>	<b>191,000</b>	<b>193,495.76</b>	<b>2,495.76 o/s</b>
Housing Pre 1314 Reserve				-
NHD	3,300,000	1,434,000	1,258,000.00	(176,000.00)
Gfd Holdings	2,200,000	956,000	843,000.00	(113,000.00)
<b>Housing Pre 1314 - Totals</b>	<b>5,500,000</b>	<b>2,390,000</b>	<b>2,101,000.00</b>	<b>(289,000.00)</b>
<b>IT Renewals</b>				
Hardware/software	0			-
Hardware	350,000	728,410	0.00	(728,410.06)
Software	0	57,582	57,582.10	-
ICT infrastructure improvements	0	0	335,327.75	335,327.75 o/s
- Efin upgrade and E Procurement Implementation	0	0	0.00	-
- Tascomi	0	7,519	7,518.75	-
PAD	0	0	10,000.00	10,000.00 o/s
	0	0	50,489.09	50,489.09 o/s
<b>BUSINESS SYSTEMS - IT Renewals Reserve - Totals</b>	<b>350,000</b>	<b>793,511</b>	<b>460,917.69</b>	<b>(332,593.22)</b>
<b>LEISURE SERVICES- SPECTRUM RESERVE</b>				
Chiller replacement & CHO absorption chiller	0	243,000	243,000.00	-
Schemes to be agreed with Freedom Leisure	700,000	0	0.00	-
<b>Spectrum Renewals/Replacement Reserve-Totals</b>	<b>700,000</b>	<b>243,000</b>	<b>243,000.00</b>	<b>0.00</b>
Ash Manor AWP surface replacement	0	75,000	75,000.00	0.00
<b>Ash Manor AWP Reserve - Totals</b>	<b>0</b>	<b>75,000</b>	<b>75,000.00</b>	<b>0.00</b>
<b>LEISURE SERVICES - Totals</b>	<b>700,000</b>	<b>318,000</b>	<b>318,000.00</b>	<b>0.00</b>

## G. F. CAPITAL PROGRAMME - EXPENDITURE

2017-18

Service Unit / Scheme	Original Estimate £	Outturn Estimate £	Actual £ p	Variance (o/s = overspend) £
<b>OPERATIONAL SERVICES</b>				
<b>CAR PARKS RESERVE</b>				
Car parks - install/replace pay-on-foot equipment	334,000	0	0.00	-
Bedford Rd car park	512,000	0	0.00	-
Replacement of collapsed retaining wall Bright Hill	0	34,000	38,429.30	4,429.30 o/s
Lift replacement	187,000	280,000	68,115.69	(211,884.31)
Bright Hill Barrier essential works	0	79,000	1,570.00	(77,430.00)
Leapale Rd MSCP drainage	90,000	0	0.00	-
Tunsgate Car Park Lighting	0	0	47,671.25	47,671.25
<b>Car Park Reserves- Totals</b>	<b>1,123,000</b>	<b>393,000</b>	<b>155,786.24</b>	<b>(237,213.76)</b>
<b>OPERATIONAL SERVICES - Reserves etc. - Totals</b>	<b>1,123,000</b>	<b>393,000</b>	<b>155,786.24</b>	<b>(237,213.76)</b>
<b>PARKS SERVICES</b>				
SPA Reserve :				
SPA schemes (various)	100,000	151,078	0.00	(151,078.00)
Effingham	0	583	583.25	-
Riverside	0	10,051	10,051.25	-
Parsonage	0	3,288	3,287.50	-
Access tracks at Chantry Wood	0	60,000	0.00	(60,000.00)
SPA Reserve - Totals	100,000	225,000	13,922.00	(211,078.00)
<b>PARKS - Reserves - Totals</b>	<b>100,000</b>	<b>225,000</b>	<b>13,922.00</b>	<b>(211,078.00)</b>
<b>Reserves total</b>	<b>7,773,000</b>	<b>4,442,511</b>	<b>3,305,101.69</b>	<b>(1,137,409.22)</b>
<b>4. PROJECTS FUNDED FROM S106</b>				
<b>OPERATIONAL SERVICES</b>				
Hayden Place CCTV	0	35,000	12,472.80	(22,527.20)
<b>OPERATIONAL SERVICES Totals</b>	<b>0</b>	<b>35,000</b>	<b>12,472.80</b>	<b>(22,527.20)</b>
<b>ENVIRONMENT</b>				
Woodbridge Meadow artwork	0	1,000	0.00	(1,000.00)
G Live Artwork	0	2,000	0.00	(2,000.00)
Art Print House Square (sculpture Matyr road)	0	11,000	0.00	(11,000.00)
Tilehouse Open Space- Playground Refurbishment & Fitness Equipment	0	30,000	0.00	(30,000.00)

G. F. CAPITAL PROGRAMME - EXPENDITURE

2017-18

Service Unit / Scheme	Original Estimate	Outturn Estimate	Actual	Variance
	£	£	£ p	(o/s = overspend) £
Baird Drive/Briars playground refurb	0	10,000	7,541.71	(2,458.29)
Stoke Recreation Ground play area	0	4,000	0.00	(4,000.00)
Bushy Hill facilities	0	11,000	0.00	(11,000.00)
75-78 Woodbridge Rd	0	11,000	7,175.00	(3,825.00)
Greening the approaches - roundabouts	0	35,000	0.00	(35,000.00)
Installation of trampoline play equipment	0	11,000	0.00	(11,000.00)
Gunpowder mills - signage, access and woodland imp	0	1,075	1,075.00	-
Goose Green play area improvement	0	0	648.45	648.45 o/s
Ripley PC skate ramp	0	25,000	0.00	(25,000.00)
SMP art project	0	1,000	60.00	(940.00)
Shalford park Pavilion improvements	0	1,000	1,624.18	624.18 o/s
Fir Tree Garden	28,000	28,000	0.00	(28,000.00)
Stoke Park Trim Trail	0	23,000	22,347.67	(652.33)
Bellfields Green - bench base		750	750.00	-
Stoke Park New Playground Entrance		12,500	5,907.00	(6,593.00)
<b>ENVIRONMENT DIRECTORATE - Totals</b>	<b>28,000</b>	<b>218,325</b>	<b>47,129.01</b>	<b>(171,195.99)</b>
<b>DEVELOPMENT</b>				
Haydon Place/ Martyr Rd	0	12,000	0.00	(12,000.00)
North Street Rejuvenation Project	232,000	0	0.00	-
Falcon Road Guildford	0	6,000	0.00	(6,000.00)
Woodbridge Meadows	0	46,000	0.00	(46,000.00)
Woodbridge Hill environmental imp	180,000	37,000	30,199.06	(6,800.94)
G Live Lighting & Signage	0	9,000	177.00	(8,823.00)
G Live Bus stop / drop off point	0	7,000	0.00	(7,000.00)
Epsom rd/Boxgrove rd	0	63,000	0.00	(63,000.00)
Kingspost Parade car park	0	2,000	0.00	(2,000.00)
Bridge Street Waymarking	0	4,000	0.00	(4,000.00)
<b>DEVELOPMENT DIRECTORATE Total</b>	<b>412,000</b>	<b>186,000</b>	<b>30,376.06</b>	<b>(155,623.94)</b>
<b>S106 total</b>	<b>440,000</b>	<b>439,325</b>	<b>89,977.87</b>	<b>(349,347.13)</b>

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Appendix 3

## Schedule of investments at 31 March 2018

Counterparty	Principal £	Rate	Start	End
<b>Fixed investments</b>				
NRBS Marsden	1,000,000	0.5700%	27-Dec-17	06-Apr-18
Places for People Homes Ltd	5,000,000	1.2500%	24-Apr-17	23-Apr-18
LA - Birmingham CC	5,000,000	0.7000%	28-Apr-17	27-Apr-18
Toronto Dominion	5,000,000	0.5000%	02-Nov-17	02-May-18
DBS	2,000,000	0.5900%	08-Dec-17	08-Jun-18
Places for People Homes Ltd	1,000,000	1.2000%	14-Jul-17	13-Jul-18
LA - Thurrock DC	5,000,000	0.7500%	10-Nov-17	09-Nov-18
Close Brothers	5,000,000	0.8500%	15-Mar-18	17-Sep-18
	<b>29,000,000</b>			
<b>Certificates of deposit</b>				
Rabobank	2,000,000	0.6000%	10-Oct-17	09-Oct-18
Rabobank	1,000,000	0.7200%	19-Oct-17	18-Oct-18
	<b>3,000,000</b>			
<b>Short-term Bonds</b>				
Yorkshire BS	1,107,100	1.2602%	16-Feb-15	12-Apr-18
Nationwide	1,372,000	0.7909%	27-Apr-15	27-Apr-18
Prudential	3,803,000	0.6600%	12-May-17	27-Nov-18
Prudential	2,000,000	0.7400%	12-Oct-17	27-Nov-18
Lloyds	5,000,000	0.8800%	11-Jul-16	14-Jan-19
Toronto Dominion	1,000,000	1.0496%	03-Feb-16	01-Feb-19
ANZ	2,000,000	1.0608%	11-Feb-16	11-Feb-19
CIBC	3,350,000	0.9200%	15-Jul-16	11-Mar-19
	<b>19,632,100</b>			
<b>Long-term Covered bonds</b>				
Santander UK Plc	2,000,000	1.0060%	08-Jul-16	08-Jul-19
Leeds BS	2,000,000	0.9225%	01-Oct-14	01-Oct-19
Coventry	2,000,000	0.8791%	17-Mar-15	17-Mar-20
Bank of Montreal	600,000	0.7600%	20-Jul-17	20-Jul-20
Bank of Montreal	1,400,000	0.7200%	20-Jul-17	20-Jul-20
National Australia Bank	2,000,000	1.1036%	10-Nov-16	10-Nov-21
Commonwealth Bank of Austr	2,000,000	1.1959%	18-Jan-17	22-Dec-21
CIBC	2,000,000	1.1670%	17-Jul-17	30-Jun-22
Santander UK Plc	1,000,000	0.7900%	16-Nov-17	16-Nov-22
	<b>15,000,000</b>			

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Appendix 4

Counterparty	Principal £	Rate	Start	End
<b>Long-term investments</b>				
Southern Home Ownership Ltd	6,000,000	1.3100%	22-Dec-17	04-Feb-19
Rugby Borough Council	2,000,000	1.3000%	16-Apr-17	15-Apr-18
Highland Council	5,000,000	1.2500%	18-Apr-17	16-Apr-18
Fife Council	5,000,000	1.7700%	07-Apr-15	07-Apr-20
Rugby BC	3,000,000	1.8000%	05-May-15	05-May-20
Staffordshire Moorlands	1,500,000	1.7800%	20-May-15	20-May-20
	<b>22,500,000</b>			
<b>Notice Accounts</b>				
Barclays	3,000,000			
Santander 180 day	3,000,000			
Goldman Sachs 95 day	5,000,000			
	<b>11,000,000</b>			
<b>Call Account</b>				
HSBC	436,000			
	<b>436,000</b>			
<b>Revolving Credit Facility</b>				
Network Homes	2,500,000			
	<b>2,500,000</b>			
<b>Money market funds</b>				
Aberdeen	1,000			
Amundi	6,965,000			
BNP	883,000			
Standard Life	405,000			
Federated	70,000			
	<b>8,324,000</b>			
<b>Total internally managed</b>	<b>111,392,100</b>			
<b>Externally managed</b>				
Payden	5,007,350			
CCLA	6,652,274			
M&G	2,571,638			
Schroders	884,202			
City Financials	2,303,351			
UBS	2,336,174			
Funding Circle	543,833			
<b>Total Externally managed</b>	<b>20,298,822</b>			
<b>Total investments</b>	<b>131,690,922</b>			

## Economic background – a commentary from Arlingclose

2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.

**Financial markets:** The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31<sup>st</sup> March 2018 were 0.43%, 0.72% and 1.12% respectively.

Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.

The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

### **Credit background:**

#### Credit Metrics

In the first quarter of the financial year, UK bank credit default swaps reached three-year lows on the announcement that the Funding for Lending Scheme, which gave banks access to cheaper funding, was being extended to 2018. For the rest of the year, CDS prices remained broadly flat.

The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of 6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

Barclays was the first to complete its ring-fence restructure over the 2018 Easter weekend; wholesale deposits including local authority deposits will henceforth be accepted by Barclays Bank plc (branded Barclays International), which is the non ring-fenced bank.

**Money Market Fund regulation:** The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

#### Credit Rating developments

The most significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities.

Changes to credit ratings included Moody's downgrade of Standard Chartered Bank's long-term rating to A1 from Aa3 and the placing of UK banks' long-term ratings on review to reflect the impending ring-fencing of retail activity from investment banking (Barclays, HSBC and RBS were on review for downgrade; Lloyds Bank, Bank of Scotland and National Westminster Bank were placed on review for upgrade).

Standard & Poor's (S&P) revised upwards the outlook of various UK banks and building societies to positive or stable and simultaneously affirmed their long and short-term ratings, reflecting the institutions' resilience, progress in meeting regulatory capital requirements and



being better positioned to deal with uncertainties and potential turbulence in the run-up to the UK's exit from the EU in March 2019. The agency upgraded Barclays Bank's long-term rating to A from A- after the bank announced its plans for its entities post ring-fencing.

Fitch revised the outlook on Nationwide Building Society to negative and later downgraded the institution's long-term ratings due to its reducing buffer of junior debt. S&P revised the society's outlook from positive to stable.

S&P downgraded Transport for London to AA- from AA following a deterioration in its financial position.

Moody's downgraded Rabobank's long-term rating due to its view on the bank's profitability and the long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors. S&P also upgraded the long-term rating of ING Bank to A+.

**Other developments:**

In February, Arlingclose advised against lending to Northamptonshire County Council (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.

**Local Authority Regulatory Changes**

**Revised CIPFA Codes:** CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code have been incorporated into Treasury Management Strategies and monitoring reports.

The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

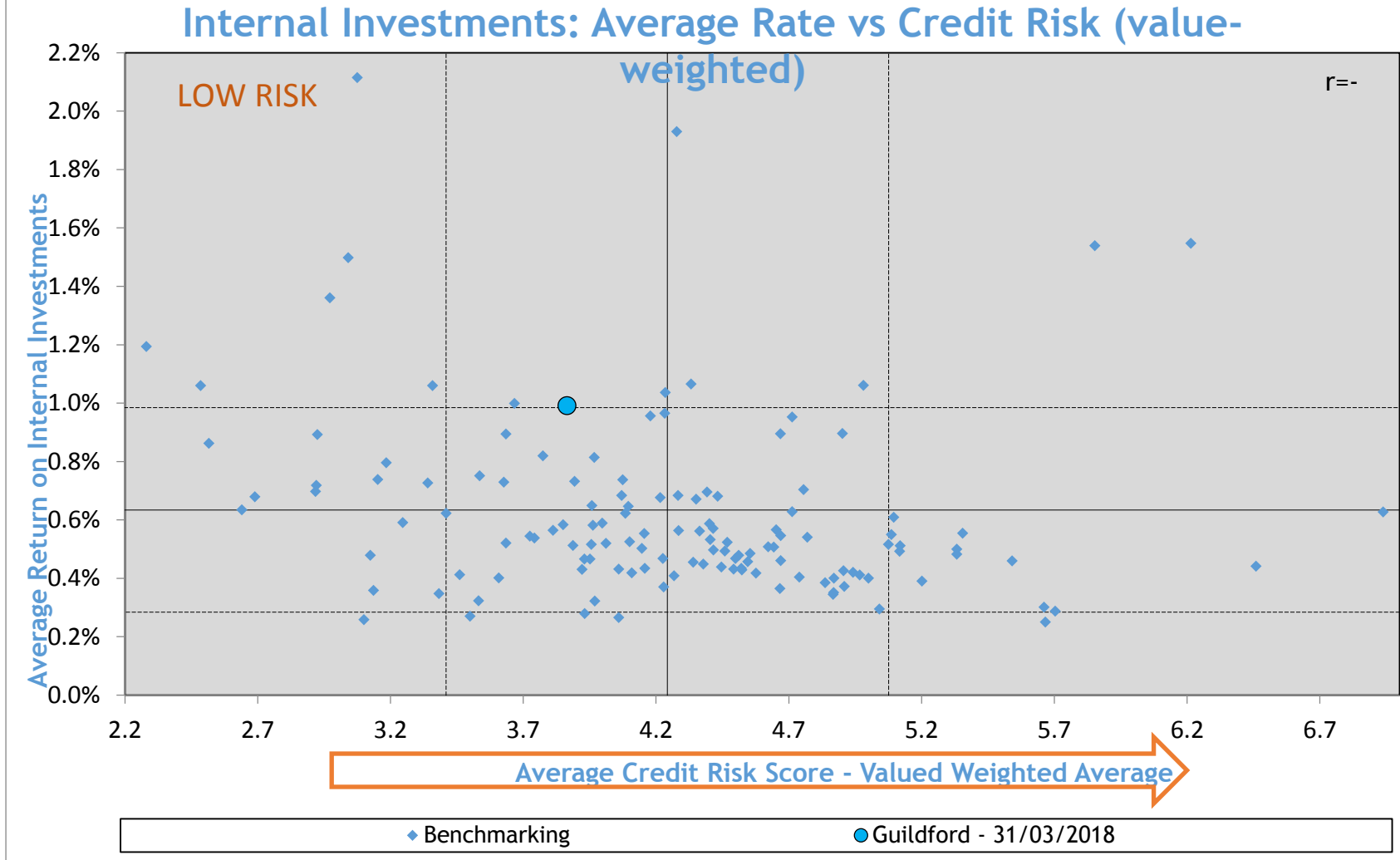
**MHCLG Investment Guidance and Minimum Revenue Provision (MRP):** In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

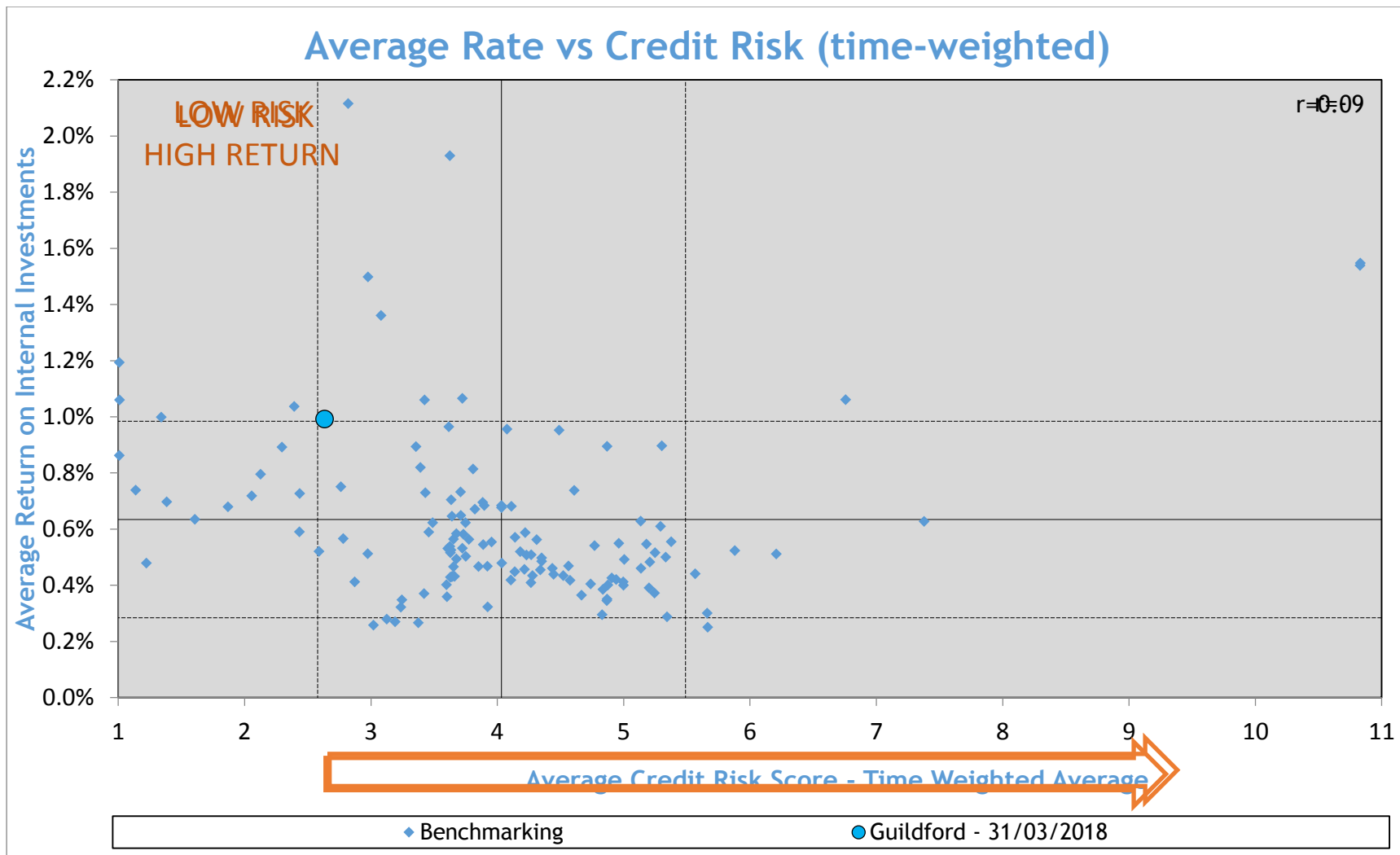
Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called “loans” (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

The definition of prudent MRP has been changed to “put aside revenue over time to cover the CFR”; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

**MiFID II:** As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3<sup>rd</sup> January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.





## Credit score analysis

Scoring:

<b>Long-Term Credit Rating</b>	<b>Score</b>
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
<b>Long Term Investment Grade</b>	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
<b>Sub Investment Grade</b>	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
	B+	B1	B+
	B	B2	B
	B-	B3	B-
	CCC+	Caa1	CCC+
	CCC	Caa2	CCC
	CCC-	Caa3	CCC-
	CC+	Ca1	CC+
	CC	Ca2	CC
	CC-	Ca3	CC-
	C+	C1	C+
	C	C2	C
	C-	C3	C-
	D		D or SD

Fitch	Moody's	Standard & Poor's
<p><b>AAA</b></p> <p>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.</p>	<p><b>Aaa</b></p> <p>Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.</p>	<p><b>AAA</b></p> <p>An obligator rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by Standard &amp; Pooers.</p>
<p><b>AA</b></p> <p>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.</p>	<p><b>Aa</b></p> <p>Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.</p>	<p><b>AA</b></p> <p>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.</p>
<p><b>A</b></p> <p>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.</p>	<p><b>A</b></p> <p>Obligations rated A are considered upper-medium grade and are subject to low credit risk.</p>	<p><b>A</b></p> <p>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.</p>
<p><b>BBB</b></p> <p>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.</p>	<p><b>Baa</b></p> <p>Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.</p>	<p><b>BBB</b></p> <p>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.</p>

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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**

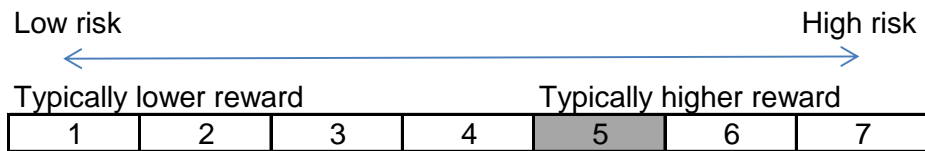
The fund aims to deliver a dividend yield above the market average, by investing mainly in a range of global equities. It aims to grow distributions over the long-term whilst maximising total return (a combination of income and growth of capital).

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.

### Risk and reward profile



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.

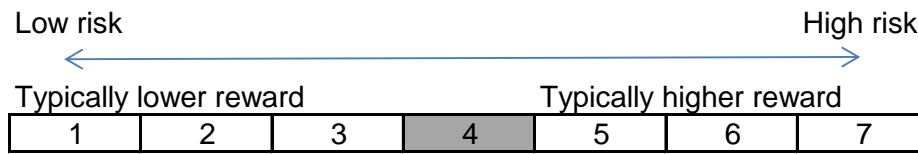
The fund aims to deliver a target yield of 7% per year, although this is an estimate and is not guaranteed. There are four quarterly distributions in a year, each calculated by dividing the quarterly distribution amount by the unit price at the start of that quarter.

#### **City Financials Multi Asset Diversified Fund**

The investment objective of the fund is to achieve a consistent long-term return from both capital and income by investing across a diversified global portfolio of assets.

The investment manager uses a global asset allocation framework to invest across a diversified range of asset classes, geographies, sectors and investment styles. The portfolio invests in a combination of specialist funds, ETFs, listed investment vehicles, individual securities and cash, and uses derivatives for hedging and investment purposes to both reduce market risk and enhance returns. As a consequence, the portfolio exhibits low correlation to traditional asset classes. Positions are generally held with a three to five year time horizon. However, the management of the portfolio is active and the investment strategy is liquid and dynamic in order to adapt to changing market conditions.

Risk and reward profile



The risk category is based on the rate at which the value of the Fund has moved up or down in the past. Simulated and historical data is used in calculating the risk category and may not be a reliable indication of the future risk profile of the Fund.

The Fund is in risk category 4 as its price has experienced moderate rises and falls historically.

The Fund has little exposure to credit or cash flow risk. There are no borrowings or unlisted securities of a material nature and so there is little exposure to liquidity risk. The main risks it faces from its financial instruments are market price, foreign currency and interest rate risk. The ACD reviews the policies for managing these risks in order to follow and achieve the investment objectives.

**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.

Risk profile

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

## 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 regulator 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

Ward(s) affected: All

Report of Chief Finance Officer

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Date: 14 June 2018

## Revenue Outturn Report 2017-18

### Executive Summary

#### General Fund (GF) Revenue Account

Overall, the outturn on the General Fund was £1.14 million less than we originally budgeted, which reflects our continued sound financial management.

This report sets out the major reasons for the variance, of which £0.2 million relates to net expenditure on services (1.6% of net revenue expenditure), reflecting lower than anticipated expenditure totalling £0.9 million and £0.7 million of additional income. Our net income from interest receipts is £796,000 more than estimated and the minimum revenue provision (MRP) for debt repayment is £400,000 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 Finance and Asset Management have used their delegated authority to use the underspend balance to make the following contributions to reserves, as detailed in Section 5 of the report:

- a transfer £1,122,000 to the capital programme reserve
- contribute £20,000 to the Mayor's Distress Fund

#### Earmarked reserves

The closing balance on all the Council reserves are set out in **Appendix 3** together with the ongoing policy for each.

#### Collection Fund

2017-18 was the third year of the Business Rates Retention Scheme (BRRS) and it continues to cause volatility in the Council's accounts. The Business Rates balance on the Collection Fund is particularly susceptible to movements in the number and value of appeals that 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 £12.8 million, principally because of the impact of business rate appeals as detailed in section 7 of this report.

The outturn position has been included in the Statement of Accounts signed by the Chief Finance Officer on 31 May 2018, which will be subsequently audited by the Council's external auditor, Grant Thornton UK LLP. The Corporate Governance and Standards Committee will review the draft accounts at its meeting on 14 June and review the audited accounts at its meeting on 26 July.

The draft (un-audited) Statement of Accounts may be viewed on the Council's website [www.guildford.gov.uk/soa](http://www.guildford.gov.uk/soa). They will be available for public inspection by appointment from 1 June to 13 July 2018, in line with the Accounts and Audit Regulations 2015. The inspection period will conclude on 13 July 2018, during which, and up to the conclusion of the audit, any local government elector within the Borough is able to question or make objections to Grant Thornton.

### **Recommendation to Corporate Governance and Standards Committee**

The Committee is asked:

- (1) To note the Draft Statement of Accounts 2017-18, as set out on the Council's website [www.guildford.gov.uk/soa](http://www.guildford.gov.uk/soa), and to make any comments it feels necessary to officers in advance of the audit.
- (2) To comment on the following recommendation to the Executive when this report is considered at its meeting on 19 June 2018:

“That the Executive notes 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 the relevant reserves”.

### Reasons for Recommendation:

- To comply with The Accounts and Audit Regulations 2015, which require the approval of the statutory Statement of Accounts for 2017-18 by 31 July 2018.
- To note the final outturn position and delegated decisions taken by the Chief Finance Officer, which have been, included within the statutory accounts the Chief Finance Officer signed at the end of May.
- To facilitate the on-going financial management of the Council.

## 1. Purpose of Report

- 1.1 This report gives the final position on the General Fund and the Collection Fund revenue accounts for the 2017-18 financial year. It explains the major variances from the General Fund revised estimate and reports how the available balance has been used.
- 1.2 The outturn position on the General Fund Capital Programme and the Housing Revenue Account have 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

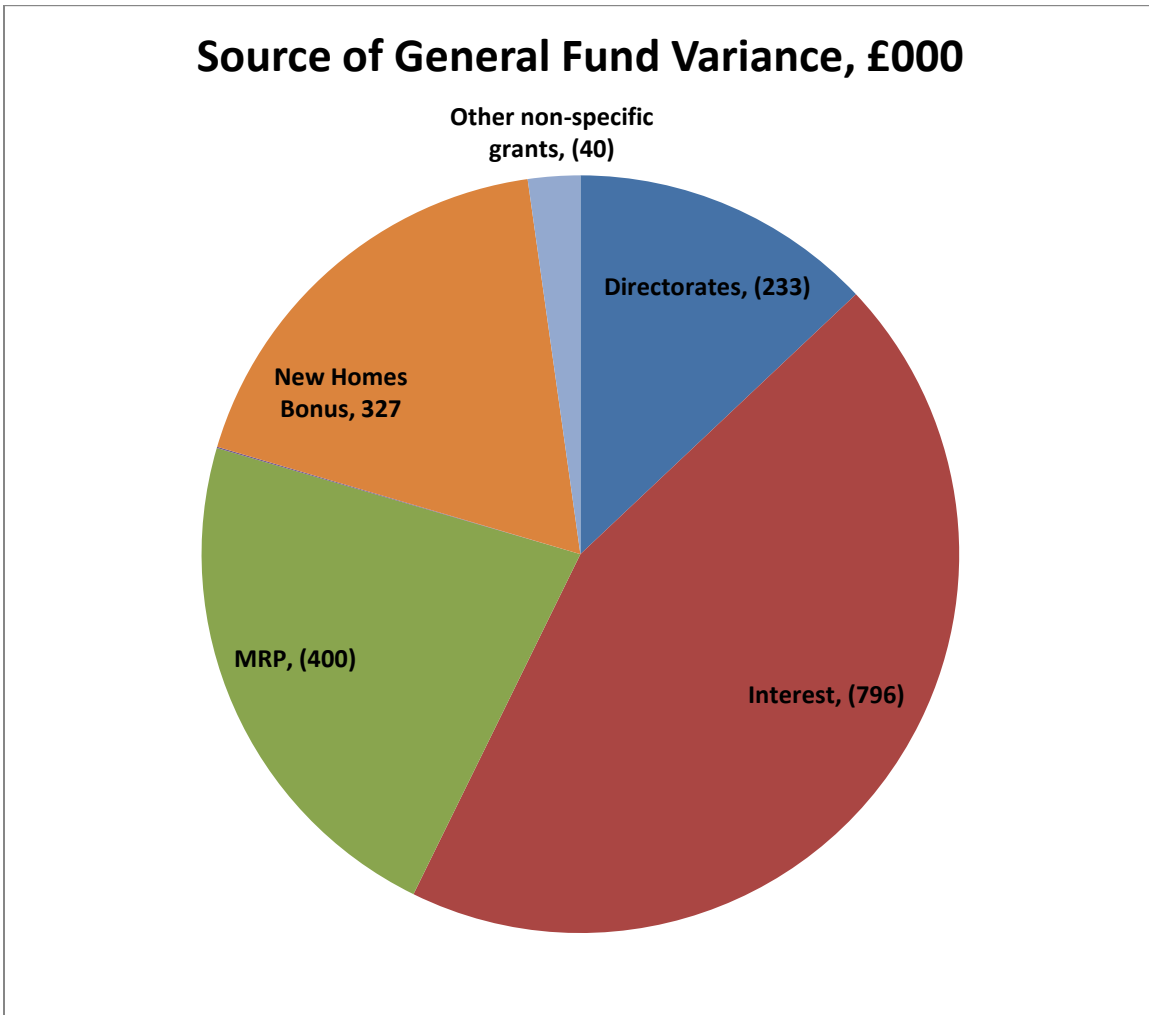
- 3.1 In accordance with the Accounts and Audit (England) Regulations 2015, the timetable for signing, approval and publication of the statement of accounts is as follows:
  - no later than 31 May the Chief Finance Officer (CFO) must sign and date the statement of accounts and certify that it presents a true and fair view
  - the audit will take place after 31 May and conclude before the final accounts are presented to councillors for approval
  - 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 1 June 2018 to 13 July 2018 and we have published these dates on our website, together with the draft accounts: [www.guildford.gov.uk/soa](http://www.guildford.gov.uk/soa)
  - the CFO must re-certify the statement of accounts prior to its approval by the Council or a committee
  - no later than 31 July, 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 26 July 2018.
  - we must publish the accounts by 31 July 2018.
- 3.2 This report sets out the final position on two revenue accounts – General Fund and Collection Fund.
- 3.3 Officers have included the impact of the final position in the statutory statement of accounts, which the CFO signed on 31 May 2018. Grant Thornton will do the external audit during June.

## 4. General Fund Revenue Account

### Summary of Outturn Position

- 4.1 The overall variance on the General Fund is net expenditure £1.14 million less than budget. This arises from four areas; the Directorates, external interest received, the

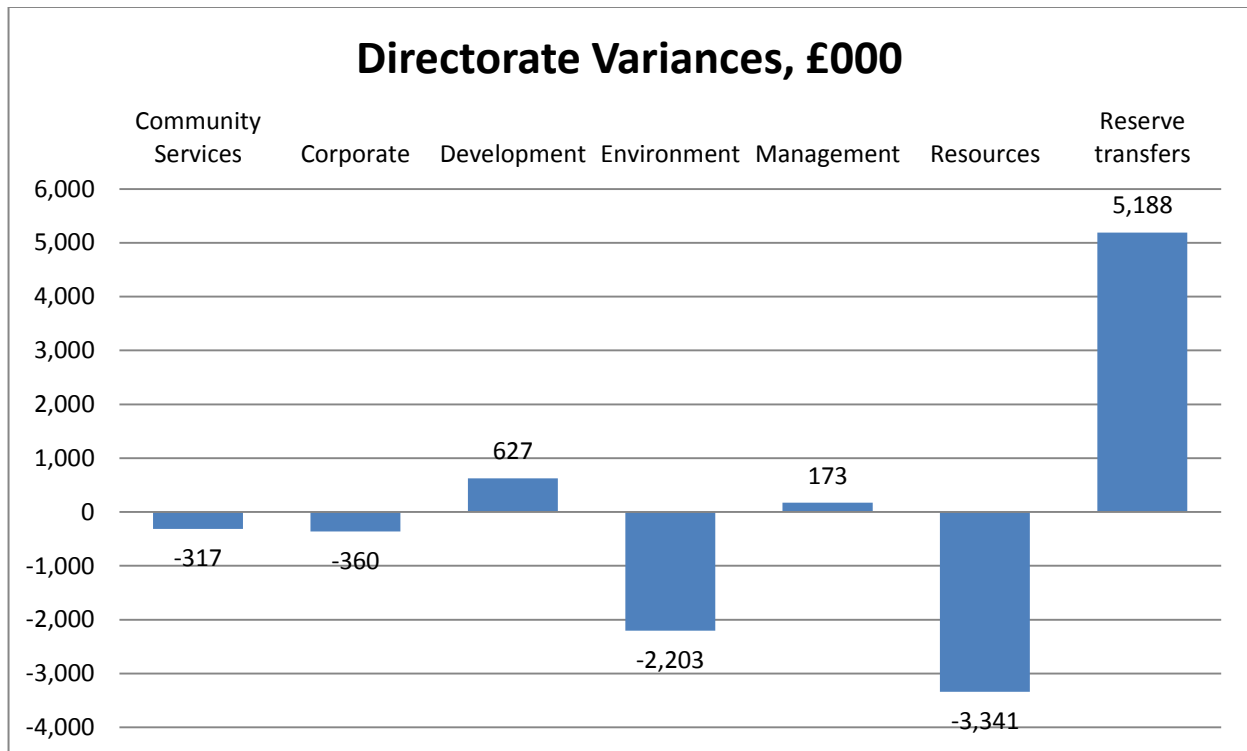
Minimum Revenue Provision cost and non-specific government grants. This is set out in the chart below:



Directorates

- 4.2 The directorates are approximately £0.2 million under budget overall, which equates to around 1.6% of the relevant net budgeted revenue expenditure. However, there are significant differences in the position of each directorate, as shown in the chart below.





4.3 **Appendix 2** provides explanations of any service variances above £50,000 within each directorate.

4.4 We have also analysed the directorate variance by type of expenditure or income across all services and the following are the major differences:

<b>Subjective Variance Summary</b>	<b>£000</b>	<b>Total £000</b>
<i>Increased expenditure</i>		
Increased costs of staffing costs, incl. agency, casual and temporary staff	417	
Increased payments to contractors & bought in services	409	
increased misc. expenses and provisions	553	
increased plant, equipment, furniture and materials costs	220	
increased planning appeal expenses	447	
increased external legal advice costs	132	
increased event costs, mainly relating to the village	113	
		2,291
<i>Decreased expenditure</i>		
Decreased consultant fees on major regeneration and service related projects	(517)	
reduction in scanning costs	(205)	
reduction in back funding of superannuation costs	(206)	
reduction in gas costs	(115)	

<b>Subjective Variance Summary</b>	<b>£000</b>	<b>Total £000</b>
reduction in grants to voluntary organisations	(64)	
inflation lower than anticipated	(189)	
other variances less than £100,000	(93)	
		(1,389)
<i>Increased Income</i>		
increase in specific grant income from SCC from budget	(464)	
increase income from Spectrum Leisure Centre management contract	(258)	
increase car park season ticket income & and on-street bay suspension fees	(381)	
increase park and ride income	(162)	
increase in recoverable overpayments of Housing Benefit	(908)	
increased electoral registration fee income	(103)	
increase in recoverable expenses	(205)	
		(2,481)
<i>Decreased Income</i>		
reduction in planning fee income	196	
reduction in rental income	1,246	
reduction in Housing Benefit grant (net of payments to claimants)	165	
reduction in recycling credit income	103	
reduction in hire fees	102	
		1,812
<b>TOTAL Directorate Variance by type of expenditure</b>		<b>233</b>

Interest receivable

- 4.5 The weighted average interest rate achieved on our investment portfolio was 1.23% against a budget which was 1.71%. The Bank of England increased the base rate from 0.25% to 0.5% in November 2017 which increased the rates that good counterparties offered for investments. However, we had higher balances than we estimated when we set the budget and therefore net interest received (after paying interest on external loans) was approximately £728,000 more than revised estimate. The higher balances come from having more cash than estimated at the start of the year and slippage in the 2017-18 capital programme.
- 4.6 The General Fund pays interest to the Housing Revenue Account (HRA) on its balances. This was approximately £67,000 less than we estimated because the HRA balances were higher than we had budgeted.
- 4.7 Overall, net interest received by the General Fund was approximately £796,000 more than estimated.

#### Minimum Revenue Provision (MRP)

- 4.8 Minimum Revenue Provision is a charge to the revenue account for unfinanced capital expenditure. The 2017-18 budget was based on the estimated capital-financing requirement (CFR) at the end of the previous year (31 March 2017) and was £1,228,584 based on an estimated CFR of £84.16 million. Due to a virement in respect of the Village in year, the MRP budget was revised to £973,822. The actual General Fund CFR at 31 March 2017 was £70.18 million, which generated a minimum revenue provision of £573,852 (£255,000 lower than the revised budget).

#### Transfers to reserves

- 4.9 The majority of 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 2017-18 budget are:
- Business Rates Equalisation reserve; increased contribution of £2.1 million (see paragraph 4.17)
  - New Homes Bonus (NHB) reserve; in accordance with the Council's policy to transfer some of the new homes bonus grant received in the year to reserve, £1.075 million was transferred to the reserve. The Council has also used £567,000 of the NHB reserve in year to pay for feasibility studies for regeneration and infrastructure projects such as Ash Road Bridge, Sustainable Movement Corridor, Guildford Gyrotory and Approaches, Guildford Railway Station capacity study and Bedford Wharf.
- 4.10 We also contributed around £2.1 million to the carry forward reserve for projects that were ongoing at the end of the financial year.
- 4.11 **Appendix 3** gives a full list of the balances on earmarked reserves and the purposes for which they are kept.

#### Business Rates Retention Scheme (BRRS)

- 4.12 The Government introduced the Business Rates Retention Scheme (BRRS) from 1 April 2013 to replace the Formula Grant system of distributing grant to local authorities.
- 4.13 The scheme includes a baseline level of funding and allows the Council to keep an element of business rate income above the baseline. However if the business rate income is lower than the baseline, the Council bears the loss up to 7.5% of the baseline, after which there is a safety net payment. If estimated income were above the baseline, we would normally have to pay a levy of 50% of the additional income to the government. However, for 2017-18 we continue to be part of the Surrey-Croydon business rates pool, which means that we keep approximately 75% of the additional income and pay the remaining 25% to the pool. The system is far more volatile than the old one (where the amount of grant was fixed and known in advance of the budget being set) and carries more risk for the Council.

- 4.14 When setting the budget we expected our business rate income to be higher than the baseline funding level and therefore budgeted to pay a levy to the pool of 25% of the additional income (£652,892). We also decided that we would put our original 50% share of the additional income (£1,305,784) in the Business Rates Equalisation reserve along with the 25% additional retained levy from pooling (£652,892). This is in line with our medium term financial strategy, to help mitigate the volatility in funding caused by the new scheme and the Council's redevelopment plans for the town centre.
- 4.15 When we set our 2017-18 budget, we projected the business rate income we would receive to be £88.1 million of which the Council's 40% share is £35.3 million. At the end of the year, the actual income was £77.2 million of which the Council's share is £30.9 million. The significant reduction in income between estimate and actual for 2017-18 means that the Council is due to receive a safety net payment of £475,757 from the Surrey-Croydon Business Rates pool, rather than paying a 25% levy on the additional income above baseline into the pool.
- 4.16 The reason for the reduction in business rates income between the estimated amount and the actual for 2017-18 is due to a significant increase in the provision for appeals of £12 million. The provision is an allowance for reductions in business rates payable because of appeals made by the ratepayer to the Valuation Office (VO) in 2017-18. During 2017, the VO carried out a full revaluation and as a result, many businesses experienced a significant increase in their rateable value. We have no control over these appeals or the timescale within which they are heard. When setting the business rates multiplier, government estimate an allowance of 4.7% for appeals, we have therefore set aside a provision of 4.7% of net rates payable in 2017-18 for future appeals relating to the 2017 rateable value list. In addition, we have provided in full for a large appeal for mandatory relief backdated to 2010 from two NHS bodies. The NHS mandatory relief claim is currently the subject of legal action through the courts.
- 4.17 The table below shows the difference between the actual and estimated income from business rates and the resulting impact on the levy payment:

<b><u>Business Rates Retention Final Summary</u></b>	<b>2017-18 Budget £000</b>	<b>2017-18 Actual £000</b>	<b>2017-18 Variance £000</b>
BRRS - tariff	30,213	29,738	(475)
BRRS – Levy / (safety net) payment	653	(476)	(1,129)
BRRS - equalisation reserve transfer	1,000	3,154	2,154
	<b>31,866</b>	<b>32,416</b>	<b>550</b>
BRRS - s31 grant	(634)	(1,183)	(550)
BRRS - retained income	(35,251)	(35,251)	0
<b>BRRS - net position</b>	<b>(4,018)</b>	<b>(4,018)</b>	<b>0</b>

The Council's current policy is to transfer its share of the levy or safety net payment to the business rates equalisation reserve to help smooth the volatility in income from business rates under the BRRS and to help us manage the fluctuations in our business

rate income that will occur as we carry out our development plans for the town centre. If the appeals mentioned above are successful, they will fall as a cost to the General Fund revenue account in future years. We will use the business rates reserve to mitigate any costs that fall in future years.

S31 grant relating to Council Tax

- 4.18 The government has introduced a council tax discount for certain types of annexe and compensates us for the loss in income under s31 of the Local Government Act 2003. The amount of grant received in 2017-18 was £20,232 (£15,009 in 2016-17).

Overall Position

- 4.19 The overall position on the General Fund was £1.14 million lower 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.

	<b>Revised Estimate</b>	<b>Actual Expenditure</b>	<b>Variance to revised Estimate</b>
	<b>2017-18</b>	<b>2017-18</b>	<b>2017-18</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Directorate Level Expenditure</b> (excluding depreciation & capital charges. Major variances by directorate are explained in Appendix 2 )	14,649	9,228	(5,421)
Transfers to reserves (included in Directorate expenditure)	881	6,069	5,188
<b>Directorate Level Expenditure (excluding depreciation, capital charges and reserve transfers)</b>	<b>15,530</b>	<b>15,297</b>	<b>(233)</b>
Net interest receivable (paragraph 4.5 to 4.7)	(414)	(1,210)	(796)
Minimum Revenue Provision (paragraph 4.8)	974	574	(400)
Business rates retention scheme - net position after transfer to business rates equalisation reserve (paragraph 4.12 to 4.11)	(4,018)	(4,018)	0
Revenue Support Grant	(319)	(319)	0
New Homes Bonus	(2,365)	(2,038)	327
Transition grant and s31 council tax grant	(102)	(142)	(40)
Collection Fund Council Tax (surplus) / Deficit	(121)	(121)	0
<b>TOTAL net budget (excl parish precepts)</b>	<b>9,165</b>	<b>8,023</b>	<b>(1,142)</b>

**5. Treatment of available balance**

- 5.1 The CFO, under delegated authority in consultation with the Leader of the Council and the Lead Councillor for Finance and Asset Management has utilised the balance available for the year of £1.142 million as follows:

Item	Description	£000
1.	<b>Capital programme reserve.</b> The Council has an ambitious capital programme and a significant borrowing requirement in future years. We have therefore transferred £1 million to the reserve to reduce the need for external borrowing and delay the point at which we will need to take on borrowing. This in turn will reduce the minimum revenue provision payment from the general fund revenue account	1,122
2.	<b>Donation to the Mayor's Distress Fund.</b> The fund is a charitable trust, which helps support people in financial distress within the borough.	20
		<b>1,142</b>

**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 paragraph 5.1 above.

	Balance at 31 March 2017 £000	Transfers In 2017-18 £000	Transfers Out 2017-18 £000	Balance at 31 March 2018 £000
<b>General fund:</b>				
Budget Pressures	2,772	20	734	2,058
Business Rates Equalisation	3,061	4,112	1,613	5,560
Capital Schemes	1,400	1,241	1,000	1,641
Car Parks Maintenance	4,367	512	261	4,618
Invest to Save	2,234	381	667	1,948
IT Renewals	2,053	509	461	2,101
New Homes Bonus	3,946	2,075	2,038	3,983
Park and Ride	1,650	-	-	1,650
Special Protection Area (SPA) Sites	4,410	1,005	15	5,400
Spectrum	1,689	178	243	1,624
Other earmarked reserves	8,175	4,709	1,727	11,157
<b>Total</b>	<b>35,757</b>	<b>14,742</b>	<b>8,759</b>	<b>41,740</b>

#### 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. During the year, expenditure of £738,000 was financed from, and £20,000 was transferred to, the reserve, leaving a closing balance of £2.06 million. Commitments against the reserve total £1.07 million. Therefore, the year-end balance is felt to be sufficient to meet future expenditure.

#### Business Rates Equalisation

- 6.6 We set up this reserve in 2013-14 to help accommodate the potential volatility of the BRRS and to mitigate the effects on our business rates income of any town centre redevelopment. In closing the accounts, we have used this reserve to accommodate the 2017-18 effects of the BRRS within the original budget (see paragraph 4.17).

#### 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 year's budget. In 2017-18, the Council used £478,000 of the reserve relating to items carried forward at the end of 2016-17 and made a contribution of £2.1 million to the reserve in respect of items unspent in 2017-18. The balance on the reserve as at 31 March 2018 is £2.975 million.

#### Car Parks Maintenance and Improvement

- 6.8 We used this reserve to fund 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 and financed revenue expenditure of £667,372 from the reserve, mainly relating to redundancy and pension fund strain costs resulting from service restructures. The closing balance was £1.948 million; of which £229,000 is currently committed as a result, the uncommitted balance on the reserve of £1.7 million is sufficient to meet future expenditure requirements.

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 made a £1.075 million budgeted contribution to reserve in 2017-18, and financed expenditure of £567,000 on feasibility studies for regeneration and infrastructure projects such as Ash Road Bridge, Sustainable Movement Corridor, Guildford Gyratory and Approaches, Guildford Railway Station capacity study and Bedford Wharf projects from the reserve in line with the Council's NHB policy. In addition, we transferred a further £470,000 from the reserve, which was budgeted to be spent on the same projects to the carry forward reserve as the feasibility studies were not complete by the year-end. The closing balance is £3.983 million of which £2.5 million is committed to 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 a 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. We will use this reserve to finance future park and ride sites and it has a balance of £1.65 million.

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 course of the year.

Spectrum

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



## 7. Collection Fund

- 7.1 **Appendix 3** 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 owner/occupier of a business property can appeal against the valuation of a property at any time. The Valuation Office Agency (VOA) deals with these appeals. Appeals made up to 31 March 2015 could be backdated to 1 April 2010. As discussed in paragraphs 4.12 to 4.17 above, the Council has made a significant provision for appeals in 2017-18 due to the revaluation of Business Rates in 2017 and a claim for backdated Mandatory relief from two NHS trusts.
- 7.4 Because of these factors, the deficit on the Collection Fund has increased by £9.3 million to £12.1 million at 31 March 2018. This deficit, adjusted for any difference between estimate and projected outturn in 2018-19, will feed into the General Fund, as a cost, in 2019-20. However, we have set aside money in the Business Rates Equalisation reserve to help mitigate the cost.
- 7.5 The collection rate for the 2017-18 financial year was 99.38% at 31 March 2018 (99.29% for 2016-17).

### Council Tax

- 7.6 The Local Council Tax Support Scheme (LCTSS), introduced by the government in 2013-14, continues to make it more difficult for us 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.
- 7.7 The final figure for Council Tax receivable was lower than the original estimate due to increased discounts and exemptions, resulting in a £1.4 million reduction in the collection fund surplus to leave a closing deficit balance of £713,000.
- 7.8 The collection rate for the 2017-18 financial year was 99.11% at 31 March 2018 (99.27% for 2016-17).

### Balance on Collection Fund

- 7.9 The overall balance carried forward on the Collection Fund Revenue Account, is a deficit of £12.8 million. This is made up of a deficit balance of £12.1 million in relation to Business Rates and a deficit of £713,000 in relation to Council Tax. The deficit will

be shared between the relevant major preceptors and Central Government (Business Rates only) as part of setting the 2019-20 budget.

**8. Consultations**

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

**9. Executive Advisory Board comment**

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 CFO will sign the Statement of Accounts before 31 May. Our external auditors, Grant Thornton will then audit the accounts before we present them to the Corporate Governance and Standards Committee for consideration and approval on 26 July 2018. 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 CFO 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 2017-18 has been a year of continuing change for the Council and it is pleasing that we have maintained our strong record of financial management throughout.

**16. Background Papers**

Budget Book 2017-18  
Accounts and Audit (England) Regulations 2015

**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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Actual 2016-17 £	<b>GENERAL FUND SUMMARY</b>	REVISED Estimate 2017-18 £	Actual 2017-18 £
	<b>Directorates - Net Expenditure</b>		
6,393,211	Community Services	6,165,475	5,730,610
4,270,682	Corporate Services	4,003,601	3,660,491
(4,180,085)	Development	(986,278)	(64,620)
8,678,618	Environment	10,331,441	10,228,910
(15,020)	Managing Director	(325,610)	(152,784)
1,943,981	Resources	4,484,142	1,683,406
<u>17,091,387</u>	<i>Total directorate level</i>	<u>23,672,771</u>	<u>21,086,013</u>
(6,931,189)	Depreciation (contra to Service Unit Budgets)	(9,023,810)	(11,858,453)
<u>10,160,198</u>	<i>Service Unit Level excluding depreciation and capital ch</i>	<u>14,648,961</u>	<u>9,227,560</u>
(1,504,746)	External interest receivable (net)	(866,586)	(1,594,679)
508,072	Interest payable to Housing Revenue Account	452,150	384,198
335,723	Minimum Revenue Provision	973,822	573,852
(21,857)	Revenue income from sale of assets		(18,174)
	<b>Revenue Contributions to Capital Outlay (RCCO)</b>		
639,279	Met from: Capital Schemes reserve		1,000,000
883,783	Other reserves	1,914,600	1,204,102
0	General Fund		0
<u>11,000,452</u>	<b>Total before transfers to and from reserves</b>	<u>17,122,947</u>	<u>10,776,859</u>
	<b>Transfers to and from reserves</b>		
	Capital Schemes reserve		
(639,279)	<i>Funding of Revenue Contribution to Capital Outlay</i>	0	(1,000,000)
400,213	<i>Contribution in year</i>	0	120,000
(378,219)	Budget Pressures reserve	(622,450)	(733,838)
(1,612,295)	Business Rates Equalisation reserve	346,160	2,499,270
537,307	Car Park Maintenance reserve	176,470	250,532
32,500	Election Costs reserve	32,500	32,500
20,336	Energy Management Schemes reserve	(32,420)	0
41,729	Insurance reserve	(770)	12,138
297,552	IT Renewals reserve	458,780	48,007
660,899	Invest to Save reserve	(94,040)	(285,948)
0	Local Authority Business Growth Incentive reserve	0	(193,496)
1,039,057	New Homes Bonus reserve	(301,900)	37,815
(33,615)	On Street Parking reserve	(116,030)	55,613
69,569	Pensions Reserve (Statutory)	0	1,577,983
0	Recycling reserve	0	0
126,884	Spectrum reserve	177,950	(65,050)
(257,443)	Carried Forward Items	0	2,180,826
(68,886)	Other reserves	(1,013,520)	1,884,897
<u>11,236,762</u>	<b>Total after transfers to and from reserves</b>	<u>16,133,677</u>	<u>17,198,108</u>
	<b>Business Rates Retention Scheme payments</b>		
28,293,585	Business Rates tariff payment	30,213,400	29,737,627
0	Business Rates levy payment to DCLG		
962,125	Business Rates - payment to/(from) pool re levy/safety net	652,892	(475,758)
	<b>Non specific government grants</b>		
(547,876)	s31 grant re BRR scheme	(633,707)	(1,183,169)
(15,009)	s31 grant re council tax	0	(20,232)

Agenda item number: 8  
Appendix 1

<b>Actual 2016-17</b>	<b>GENERAL FUND SUMMARY</b>	<b>Estimate 2017-18</b>	<b>Actual 2017-18</b>
£		£	£
(102,174)	Transition Grant	(101,789)	<b>(101,789)</b>
0	New Burdens Grant	0	<b>(20,103)</b>
(2,362,055)	New Homes Bonus grant	(2,063,274)	<b>(2,075,466)</b>
<u>37,465,358</u>	<b>GUILDFORD BOROUGH COUNCIL NET BUDGET</b>	<u>44,201,199</u>	<b>43,059,218</b>
1,469,802	Parish Council Precepts	1,576,106	<b>1,576,106</b>
<u>38,935,160</u>	<b>TOTAL NET BUDGET</b>	<u>45,777,305</u>	<b>44,635,324</b>
(33,119,866)	Business Rates - retained income	(35,250,674)	<b>(35,250,674)</b>
(1,096,749)	Revenue support grant	(319,407)	<b>(319,407)</b>
1,512,784	Collection fund deficit - Business Rates	654,015	<b>654,015</b>
(120,698)	Collection Fund Surplus - Council Tax	(120,602)	<b>(120,602)</b>
<u>6,110,631</u>	<b>COUNCIL TAX REQUIREMENT</b>	<u>10,740,637</u>	<b>9,598,656</b>
4,640,829	<b>Demand excluding Parish Precepts</b>	9,164,531	8,022,550
	Variance/ movement		(1,141,981)

		<b>2017-18 Revised Budget</b>	<b>2017-18 Actual (£)</b>	<b>2017-18 Net Revised Budget Variance (£)</b>
COMDIR	COMMUNITY SERVICES DIRECTORATE	5,271,765	4,955,062	-316,703
CORDIR	CORPORATE DIRECTORATE	3,987,512	3,627,213	-360,299
DEVDIR	DEVELOPMENT DIRECTORATE	-2,910,098	-2,283,311	626,787
ENVDIR	ENVIRONMENT DIRECTORATE	4,780,901	2,578,349	-2,202,552
MANDIR	MANAGEMENT DIRECTORATE	-325,610	-152,784	172,826
RESDIR	RESOURCES DIRECTORATE	3,844,491	503,028	-3,341,463
		<b>14,648,961</b>	<b>9,227,557</b>	<b>-5,421,404</b>
	Transfers to/from reserves relating to directorate expenditure	<b>881,000</b>	<b>6,069,000</b>	<b>5,188,000</b>
	<b>Total</b>	<b>15,529,961</b>	<b>15,296,557</b>	<b>-233,404</b>

CLOSING YE/	2017	17						
CC Level 4	CC Level 5	CC Level 6	CC Level 6 Description	2017-18 Revised Budget (£)	2017-18 Actual (£)	2017-18 Net Revised Budget Variance (£)	2017-18 Actual to Revised Budget Variance	Comments
COMDIR	COMDMN	CARSIT	GYPSY CARAVAN SITES	-67,570	-59,388	8,182	n/a	
COMDIR	COMDMN	SAFGUI	COMMUNITY SAFETY WARDENS	397,210	409,043	11,833	n/a	
COMDIR	HADVMN	FAMSUP	SURREY FAMILY SUPPORT PROG	133,240	11,994	-121,246		Increase in government grants from the Home Office/DWP to assist Refugee support to be transferred to earmarked reserve for spend in next financial year
COMDIR	HADVMN	HOMLES	HOMELESSNESS	843,520	494,373	-349,147		Increase in grant income from DCLG, to be transferred to earmarked reserve for spend in next financial year.
COMDIR	HADVMN	HOUADV	HOUSING ADVICE	300,000	301,676	1,676	n/a	
COMDIR	HADVMN	HOUASS	AFFORDABLE HOUSING DEVELOPMENT	207,460	256,090	48,630	n/a	
COMDIR	HECOMN	CITADV	CITIZENS ADVICE BUREAU	284,610	284,612	2	n/a	
COMDIR	HECOMN	CIVEMS	CIVIL EMERGENCIES	65,710	64,172	-1,538	n/a	
COMDIR	HECOMN	COMSER	COMMUNITY SERVICES	0	62,316	62,316		Income for the Partnership Prevention Fund has been received in previous years. This figure represents the final expenditure for the programme, offset by transfer from earmarked reserve.
COMDIR	HECOMN	DAYSER	DAY SERVICES	510,969	500,007	-10,962		Vacant posts have resulted in an underspend for the service.
COMDIR	HECOMN	EMECOM	CARELINE SERVICE	-59,550	-81,405	-21,855		Increased income received for the Help on Hand Lifeline.
COMDIR	HECOMN	EMISER	EMI SERVICES	107,260	148,465	41,205		Reduction in grant income - notified after budgets approved
COMDIR	HECOMN	ENVHEA	ENVIRONMENTAL CONTROL	418,410	433,199	14,789	n/a	
COMDIR	HECOMN	FOODSF	FOOD AND SAFETY SERVICES	391,620	396,683	5,063	n/a	
COMDIR	HECOMN	G2525	CORPORATE HEALTH & SAFETY	210	6,244	6,034	n/a	
COMDIR	HECOMN	GRANTH	GRANTS TO VOLUNTARY ORGS: H&C	449,170	347,846	-101,324		Refund of grant from CAB as no longer required for the specified purpose £58,210. Underspend on grants actioned £32,680 plus the carry forward from 2016-17 £24,000 not required.
COMDIR	HECOMN	LICENS	LICENSING SERVICES	94,050	118,877	24,827	n/a	
COMDIR	HECOMN	MOWTPT	COMMUNITY MEALS & TPT	564,500	625,209	60,709		Transport costs is higher than expected due to repairs & depreciation
COMDIR	HECOMN	PESCON	PEST CONTROL	19,990	2,680	-17,310	n/a	
COMDIR	HECOMN	PRIHOUS	PRIVATE SECTOR HOUSING	447,348	402,570	-44,778		Increased income received due to the demand in services required.
COMDIR	HECOMN	PUBHEA	PUBLIC HEALTH	81,940	74,689	-7,251	n/a	
COMDIR	HECOMN	TAXLIC	TAXI LICENSING	67,950	108,322	40,372		Taxi rank maintenance £22,650 not required in 2017-18 (carry forward retained)
COMDIR	HOHRMN	OSHRA	HOUSING OUTSIDE THE HRA	-19,770	453	20,223	n/a	
COMDIR	HOMFMN	HOMFAR	HOME FARM, EFFINGHAM	33,530	3,777	-29,753		The carry forward request for consultants advice was not required in 2017-18
COMDIR	PROASP	PROASP	PROJECT ASPIRE	0	30,381	30,381		The expenditure for Project Aspire is funded from Reserves
COMDIR	PROPMN	BUIMAI	BUILDING MAINTENANCE	6,120	25,801	19,681	n/a	
COMDIR	PROPMN	G6525	HOUSING SURVEYING SERVICES	-5,512	6,368	11,880	n/a	
COMDIR	PROPMN	WRDSTO	DEPOT STORES	-650	-19,992	-19,342	n/a	
CORDIR	CORSMN	CORSER	CORP SERVICES	914,960	909,645	-5,315	n/a	
CORDIR	DEMOMN	ACCGUI	ACCESS GROUP (GUILDFORD)	4,240	5,262	1,022	n/a	
CORDIR	DEMOMN	CIVEXP	CIVIC EXPENSES	210,810	216,947	6,137	n/a	
CORDIR	DEMOMN	COMSUP	COUNCIL & COMMITTEE SUPPORT	472,770	408,894	-63,876		Salary allocation changes have resulted in reduced expenditure of £16,730. Reduction in printing charges £7,000 plus the contribution £35,000 to SCC Cluster meetings have now ceased. There has been no miscellaneous expenditure saving £5,000.



CC Level 4	CC Level 5	CC Level 6	CC Level 6 Description	2017-18 Revised Budget (£)	2017-18 Actual (£)	2017-18 Net Revised Budget Variance (£)	2017-18 Actual to Revised Budget Variance Comments
COMDIR	COMDMN	CARSIT	GYPSY CARAVAN SITES	-67,570	-59,388	8,182	n/a
CORDIR	DEMOMN	CSADMN	COMMITTEE SERVICES	-1,180	-32,586	-31,406	Vacant posts have resulted in an underspend for the service
CORDIR	DEMOMN	DEMREP	DEMOCRATIC REPRESENTATION	941,010	893,316	-47,694	Changes to salary allocations resulted in an underspend for the service £40,600.
CORDIR	DEMOMN	PARISH	PARISH & LOCAL LIAISON	213,070	196,214	-16,856	n/a
CORDIR	DEMOMN	YOUCOU	GUILDFORD YOUTH COUNCIL	10,040	7,214	-2,826	n/a
CORDIR	ELTLMN	ELECTI	ELECTIONS	101,910	55,874	-46,036	Additional funds received from SCC for past elections
CORDIR	ELTLMN	ELECTO	ELECTORAL REGISTRATION	357,570	224,169	-133,401	Individual Electoral Registration (IER) income received in 2017-18 not expected £27,650. Carry forward of £80,950 for IER not required during the financial year. A carry forward request submitted for 2018-19
CORDIR	HRBSMN	HRSERV	HR SERVICES	-48,230	-68,132	-19,902	Due to service changes during the financial year, full budget allocation was not required.
CORDIR	HRBSMN	OTHEMP	OTHER EMPLOYEE COSTS	94,080	58,422	-35,658	Reduction in Apprenticeship Levy payment for 2017-18
CORDIR	INFOMN	INFOFORO	INFORMATION RIGHTS OFFICER	-1,820	-342	1,478	n/a
CORDIR	LEGLMN	G4525	LEGAL SERVICES	28,732	13,362	-15,370	Increased income from s106 agreements
CORDIR	PLPAMN	COMDEV	COMMUNITY DEVELOPMENT	302,610	299,245	-3,365	n/a
CORDIR	PRMKMN	PUBREL	PUBLIC RELATIONS	344,270	413,550	69,280	Due to changes in FTE's and the use of agency staff, salary charges have increased by £64,100. A service review has been completed for 2018-19 to address the additional staff required for the service.
CORDIR	PROCMN	PROCUR	PROCUREMENT	42,670	26,159	-16,511	n/a
DEVDIR	ASSEMN	INDEST	INDUSTRIAL ESTATES	-2,688,460	-2,846,265	-157,805	Increase in property works £72,800, Fly tips £70,000, Valuers fees £39,000 and Valuation support recharges £19,400. Offset by an underspend in Consultants £65,000 and additional income received from back rent & recovery of costs £286,170.
DEVDIR	ASSEMN	INVPRO	Investment Property	-5,227,960	-5,163,156	64,804	An increase in the Commercial insurance premium £20,000 and business rates £20,000. Plus expenditure on void properties £26,000.
DEVDIR	ASSEMN	OTHPRO	Other Property	-66,140	99,852	165,992	Various higher R&M charges to enable the commercial properties to be let within 2017-18 and future financial years. Reduction in income from New House as tenants have not been in occupation for a full year.
DEVDIR	ASSEMN	PROPSV	ASSET DEVELOPMENT	384,000	157,640	-226,360	The holding budget for reactive repairs and Asset development recharge are held here, but the actual costs are coded directly to the cost centre resulting in an underspend £392,310. This is partly offset by expenditure on void properties £177,970.
DEVDIR	BCONMN	BUICON	BUILDING CONTROL SUMMARY	439,030	390,486	-48,544	The supplementary budget of £30,000 for scanning is not spent. There are salary savings due to vacancies but fees are less than budgeted by £49,300 and consultants costs are £33,000 more than budgeted.
DEVDIR	BCONMN	LANCHA	LAND CHARGES	-23,840	19,864	43,704	Income has not met budget expectations due to falling demand.
DEVDIR	DEVCMN	DEVCON	DEVELOPMENT CONTROL	1,200,870	1,740,915	540,045	Agency and casuals are higher than budgeted but there are savings in salaries. The supplementary estimate for microfiche scanning of £170,000 is not spent. Planning appeal expenses are £447,300 over budget. Income is £173,650 under budget.

CC Level 4	CC Level 5	CC Level 6	CC Level 6 Description	2017-18 Revised Budget (£)	2017-18 Actual (£)	2017-18 Net Revised Budget Variance (£)	2017-18 Actual to Revised Budget Variance Comments
COMDIR	COMDMN	CARSIT	GYPSY CARAVAN SITES	-67,570	-59,388	8,182	n/a
DEVDIR	INFRMN	MAJPRO	MAJOR PROJECTS	727,520	1,079,064	351,544	Rental income from Odeon Cinema and Old Orleans was not received and which will be offset by not making the transfer to the New Homes Bonus reserve. Consultancy costs are underspent as projects are delayed. Employee related cost are over budget by £59,000 with some posts still be covered by agency staff.
DEVDIR	INFRMN	SAAP	SLYFIELD AREA REGENERATION	81,770	103,089	21,319	n/a
DEVDIR	LOECMN	BUSFOR	BUSINESS FORUM	53,210	53,565	355	n/a
DEVDIR	LOECMN	TIC	TOURIST INFORMATION CENTRE	208,550	233,439	24,889	n/a
DEVDIR	LOECMN	TOUDEV	BUSINESS & TOURISM	535,872	546,077	10,205	The apprenticeship budget of £128,200 remains as a saving for the service. Marketing costs are £68,150 over budget and income of £30,000 which was expected to be generated from the website was not be achieved.
DEVDIR	LOECMN	TOWMAN	TOWN CENTRE MANAGEMENT	58,560	111,558	52,998	Income from town centre Wi-Fi profit share was not achieved due to delays in the procurement process.
DEVDIR	PLPLMN	POLICY	POLICY	1,406,920	1,190,561	-216,359	Salary savings offset some of the consultants costs. Grants totalling £75k received this year and underspend on CIL and carry forward of Self-Build and Brownfield 2016 grant. Inspectors fees of £16,000.
ENVDIR	BUSOMN	WRD	WOKING ROAD DEPOT	-26,210	21,179	47,389	External decorations and reactive repairs were not budgeted for although roof repairs were not undertaken. Salary costs were greater in 2017 due to reallocation from other cost centres within the service.
ENVDIR	BUSOMN	WSOH	OPERATIONAL SERVS OVERHEAD AC	-2,660	-17,044	-14,384	n/a
ENVDIR	ELECMN	ELECTR	ELECTRIC THEATRE	88,320	195,825	107,505	The budget was set based on GBC running the service
ENVDIR	ENTNMN	CCTV	TOWN CENTRE CCTV SYSTEM	99,520	102,769	3,249	n/a
ENVDIR	ENTNMN	G5538	ENGINEERING AND TRANS SERVICES	3,030	-20,699	-23,729	The support service recharge is greater than budgeted.
ENVDIR	ENTNMN	LANDRA	LAND DRAINAGE	363,690	278,223	-85,467	There are savings in flood preventions works and grille repairs and maintenance. The Engineering and Transport recharge is correspondingly less than budgeted.
ENVDIR	ENTNMN	OSMAP	ORDNANCE SURVEY & MAPPING SER	14,410	6,028	-8,382	n/a
ENVDIR	ENTNMN	PARRID	PARK & RIDE SERVICES	787,960	656,062	-131,898	The Park and Ride service operates as a commercial venture, other than Onslow, and GBC's subsidy has decreased by £162,000. Hire of plant costs at Artington will be fully recovered from SCC but an outstanding debtor of £9,500 will be written off. Security services are over budget by £6,600.
ENVDIR	ENTNMN	RIVCON	RIVER CONTROL	39,720	20,808	-18,912	n/a
ENVDIR	ENTNMN	ROAFOO	ROADS & FOOTPATHS MAINTENANCE	102,050	119,789	17,739	n/a
ENVDIR	ENTNMN	SNOICE	SNOW & ICE PLAN	-850	-9	841	n/a
ENVDIR	ENTNMN	STRFUR	STREET FURNITURE	65,940	95,653	29,713	Greater expenditure on bus shelter repairs and bus station and street furniture cleaning.
ENVDIR	ENTNMN	TRANSP	TRANSPORTATION	18,890	22,089	3,199	n/a
ENVDIR	FLWAMN	ABACAR	ABANDONED CARS	38,160	42,536	4,376	n/a
ENVDIR	FLWAMN	ARMDAY	ARMED FORCES DAY	0	79	79	n/a
ENVDIR	FLWAMN	CLINWA	CLINICAL WASTE	12,690	9,714	-2,976	n/a
ENVDIR	FLWAMN	DOGCON	DOG CONTROL	50,340	66,179	15,839	n/a
ENVDIR	FLWAMN	FLEMAN	FLEET MANAGEMENT	-639,190	-1,445,527	-806,337	Depreciation recharged to services in 2017-18 is significantly greater than budgetd.

CC Level 4	CC Level 5	CC Level 6	CC Level 6 Description	2017-18 Revised Budget (£)	2017-18 Actual (£)	2017-18 Net Revised Budget Variance (£)	2017-18 Actual to Revised Budget Variance Comments
COMDIR	COMDMN	CARSIT	GYPSY CARAVAN SITES	-67,570	-59,388	8,182	n/a
ENVDIR	FLWAMN	MOTBAY	MOT BAY	-17,110	13,255	30,365	New equipment was purchased in the year although fees are down on 2016-17.
ENVDIR	FLWAMN	PUBCON	PUBLIC CONVENIENCES	369,540	353,174	-16,366	n/a
ENVDIR	FLWAMN	REFYCL	REFUSE AND RECYCLING	2,857,990	3,444,227	586,237	Salary costs are less than budgeted due to vacancies although agency costs are over budget. The transport pool hire recharge has increased significantly due to increased depreciation charges. Recycling gate fees and container purchase are more than budgeted although the publicity budget has not been spent.
ENVDIR	FLWAMN	STRCLE	STREET CLEANSING	2,046,820	2,035,029	-11,791	Salary costs are less than budgeted due to vacancies although agency costs are over budget. Fuel and oil is under budget by nearly £30,000. The transport pool hire recharge has increased significantly due to increased depreciation charges.
ENVDIR	FLWAMN	VEHMAI	VEHICLE MAINTENANCE	7,512	16,299	8,787	n/a
ENVDIR	HERTMN	GUIHOU	GUILDFORD HOUSE	416,320	327,101	-89,219	Savings in repairs and maintenance as projects move to the capital expenditure phase. The feasibility growth bid of £15,000 was not spent due to time constraints.
ENVDIR	HERTMN	GUILDH	GUILDHALL	249,980	120,547	-129,433	The external decoration budget of £80,000 was not spent. Carry forward for the feasibility study spent. Carry forward for conservation plan abandoned
ENVDIR	HERTMN	MUSEUM	MUSEUM	460,590	525,880	65,290	Internal and reactive repairs are greater than budgeted especially at Salters. Employee costs are greater than budgeted as salary allocation of Museum Project team are coded here.
ENVDIR	LEDVMN	LEIART	LEISURE ART DEVELOPMENT	97,220	104,269	7,049	n/a
ENVDIR	LEDVMN	LEICOM	LEISURE COMMUNITY CENTRES	125,820	127,058	1,238	n/a
ENVDIR	LEDVMN	LEIGL	LEISURE G LIVE	393,070	487,842	94,772	Additional repairs & Maintenance and Consultants costs during 2017-18 offset by an increase in the Management Fee.
ENVDIR	LEDVMN	LEIGRA	LEISURE GRANTS	444,390	427,968	-16,422	n/a
ENVDIR	LEDVMN	LEIMAN	LEISURE MANAGEMENT CONTRACT	-145,460	-451,599	-306,139	The Management fee is higher than expected as the facilities at the Spectrum were not impeded as much as estimated during the repair works. Reduction in property works due to the roof repair works - of which a carry forward request has been issued.
ENVDIR	LEDVMN	LEIPLA	LEISURE PLAY DEVELOPMENT	186,120	164,030	-22,090	FISH income has increased for 2017-18 £15,000. Reduction in Leisure Development Strategy £8,900.
ENVDIR	LEDVMN	LEIRAN	LEISURE RANGERS	218,240	239,291	21,051	n/a
ENVDIR	LEDVMN	LEISPO	LEISURE SPORT DEVELOPMENT	87,490	89,083	1,593	n/a
ENVDIR	PALAMN	CEMETE	CEMETERIES	241,270	208,995	-32,275	Property services works not completed in 2017-18 which contributes to the reduction in charges from Asset Development.
ENVDIR	PALAMN	CREMAT	CREMATORIUM	-606,012	-728,957	-122,945	Salary savings due to the ongoing service review.
ENVDIR	PALAMN	PARKS	PARKS & COUNTRYSIDE	3,182,951	2,338,966	-843,985	SPA income £731,720 above the estimated budget. Reduction in salary costs due to ongoing service review £155,000.
ENVDIR	PARKMN	MARKET	MARKETS	-105,360	-99,904	5,456	n/a

CC Level 4	CC Level 5	CC Level 6	CC Level 6 Description	2017-18 Revised Budget (£)	2017-18 Actual (£)	2017-18 Net Revised Budget Variance (£)	2017-18 Actual to Revised Budget Variance Comments
COMDIR	COMDMN	CARSIT	GYPSY CARAVAN SITES	-67,570	-59,388	8,182	n/a
ENVDIR	PARKMN	OFFSTR	OFF STREET PARKING	-6,074,360	-6,629,970	-555,610	Reactive repairs, including fire risk assessments, were greater than budgeted but the CPMR budget for 2017-18 was underspent by £109,800. The business rates budget was underspent by £63,800. Income was £397,650 more than budgeted.
ENVDIR	PARKMN	ONSTR	ON STREET PARKING	-671,930	-687,915	-15,985	There are salary savings due to vacancies. The TEC registration budget was not required in 2017-18. There are other smaller savings in the supplies and services accounts.
MANDIR	AUDTMN	G2531	PERFORMANCE MANAGEMENT	0	0	0	n/a
MANDIR	AUDTMN	G3525	INTERNAL AUDIT	37,780	-108,132	-145,912	Changes to salary allocations and vacant posts have resulted in an underspend for the service.
MANDIR	AUDTMN	G3530	BUSINESS IMPROVEMENT	-363,390	-44,652	318,738	This is the holding account £400,000 relating to staff savings. The actual savings will be shown within the individual cost centres. Offset by savings from vacant posts within Business Improvement.
RESDIR	BRSYMN	BUSRAT	BUSINESS RATES	-19,420	3,847	23,267	n/a
RESDIR	BRSYMN	HROUPUR	HOUSING PURCHASE ADVANCES	0	0	0	n/a
RESDIR	BUSYMN	BUSSVC	ICT BUSINESS SERVICES TEAM	13,390	-95,720	-109,110	Salaries are underspent due to vacancies, and the CRM growth bid of £50,000 was not spent.
RESDIR	BUSYMN	CUSTEC	ICT CUSTOMER TECHNICAL SUPPORT	-1,110	185,670	186,780	Redundancy costs, which will be funded from reserves, are significant as are agency staff costs (£166,000) and consultants (£46,900) which have helped to cover vacancies in the service. Overall employee related expenditure is £196,800 more than budgeted. £135,000 earmarked for the data centre was not spent but the under estimation of software demands, consultancy costs and IT Renewals contributions have absorbed most of the saving.
RESDIR	BUSYMN	INFSYS	INFORMATION SYSTEMS TEAM	70,210	31,055	-39,155	Salaries have been reallocated following the ICT restructure.
RESDIR	BUSYMN	ITREV	ICT INVESTMENT & RENEWAL FUND	-601,380	-508,925	92,455	Recharged income was lower than budgeted but is fully offset by reduced recharges than budgeted across services
RESDIR	BUSYMN	OFFSVC	OFFICE SERVICES TEAM	-232,490	-128,103	104,387	Contract catering was less than budgeted but expected rental income of £168,000 was under achieved by £117,600.
RESDIR	CTAXMN	CTAX	COUNCIL TAX	582,590	504,600	-77,990	A number of vacant posts in the year has led to a lower cost on salaries than budgeted
RESDIR	EYSYMN	CLIMAT	CLIMATE CHANGE	48,730	-44,698	-93,428	Employee related expenditure is £69,400 less than budgeted due to vacancies in the service. The contribution to premises provision has increased as CRC stock is revalued in line with a higher cost per unit. The carry forward of £20,000 for the Community Energy Scheme has not been spent (a request to retain carry forward has been made). The recharge to other services is less than budgeted due to the reduction in carbon credits.
RESDIR	FINAMN	ACCOUN	ACCOUNTANCY	26,020	116,325	90,305	Redundancy costs were incurred following a restructure funded by invest to save reserve
RESDIR	FINAMN	CORFIN	CORPORATE FINANCIAL	258,490	270,828	12,338	n/a
RESDIR	FINAMN	FEASTU	FEASIBILITY STUDIES	54,160	58,211	4,051	n/a

CC Level 4	CC Level 5	CC Level 6	CC Level 6 Description	2017-18 Revised Budget (£)	2017-18 Actual (£)	2017-18 Net Revised Budget Variance (£)	2017-18 Actual to Revised Budget Variance Comments
COMDIR	COMDMN	CARSIT	GYPSY CARAVAN SITES	-67,570	-59,388	8,182	n/a
RESDIR	FINAMN	G3555	DEBTORS	1,760	7,802	6,042	n/a
RESDIR	FINAMN	MISEXE	MISCELLANEOUS	424,440	-14,658	-439,098	This account holds a budget for central costs that cannot be allocated for the budget. Actual costs / savings are allocated directly to services
RESDIR	FINAMN	UNALLO	NON DISTRIBUTED COSTS	2,294,740	187,350	-2,107,390	n/a
RESDIR	HSBNMN	Houben	HOUSING BENEFITS	348,190	-603,273	-951,463	More income was received for HB overpayments than budgeted
RESDIR	PYINMN	INSREV	INSURANCE REVENUE A/C	770	-12,138	-12,908	n/a
RESDIR	PYINMN	PAYPAY	EPAYMENTS AND PAYROLL	-3,890	-44,358	-40,468	Staff vacancies has led to reduced expenditure
RESDIR	WEBPMN	WEB	WEBSITE	251,980	242,419	-9,561	n/a
RESDIR	VILLMN	VILLGE	THE VILLAGE	327,311	346,794	19,483	Expenditure was under estimated and income over estimated
ENVDIR	FLWAMN	WAS	WORKS ANCILLARY SERVICES	0	26	26	n/a

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		Opening balance, £000	Receipts in Year £000	Transfers out in Year £000	Closing balance, £000 31/03/2018	Purpose of the Reserve / Policy on use
<b>General Fund</b>						
Election Costs	U01008	(43,708.26)	(32,500.00)	0.00	(76,208.26)	Contributions are made in non election years to offset the additional costs in the year that borough elections are held.
Interest Rate Movements	U01012	(593,000.00)	(274,000.00)	0.00	(867,000.00)	To allow for changes in predicted interest rates after the budget for the year has been set.
Concurrent Functions Grant Aid	U01021	(40,784.00)	(25,766.00)	4,159.00	(62,391.00)	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	(99,448.97)	(31,504.04)	14,330.00	(116,623.01)	To receive grants from Natural England prior to financing approved schemes in parks and countryside.
New Homes Bonus	U01026	(3,945,533.22)	(2,075,466.00)	2,037,651.33	(3,983,347.89)	To receive balance of new homes bonus grant received and not used in the year.
Capital Schemes	U01030	(1,400,213.37)	(1,241,253.42)	1,000,000.00	(1,641,466.79)	Financing of General Fund capital schemes within approved programmes.
Carried Forward Items	U01031	(794,742.45)	(2,660,255.00)	479,429.50	(2,975,567.95)	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	(937,401.14)	(12,137.65)	0.00	(949,538.79)	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 excesses.
Invest to Save	U01041	(2,233,517.86)	(381,424.00)	667,372.11	(1,947,569.75)	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 transition.
Salix	U01042	71,710.37	(97,403.07)	11,980.00	(13,712.70)	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	(2,053,694.78)	(508,924.68)	460,917.69	(2,101,701.77)	Receives repayments from services to fund expenditure as set out in the ICT Strategy.
LABGI	U01044	(408,017.43)	0.00	193,495.76	(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	(1,689,587.92)	(177,950.00)	243,000.00	(1,624,537.92)	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	(4,367,550.33)	(512,470.00)	261,937.62	(4,618,082.71)	Financing of repairs, maintenance and improvements in off street car parks.
Land Charges	U01056	34,531.05	0.00	17,399.20	51,930.25	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	(5,339.90)	0.00	5,339.90	(0.00)	Receives contributions from partners involved in the SARP and finances partnership expenditure.
Ash Manor AWP	U01062	(90,000.00)	0.00	75,000.00	(15,000.00)	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 contractor.
G Live sinking fund	U01067	(70,000.00)	(10,000.00)	0.00	(80,000.00)	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	(393,358.00)	(370,000.00)	0.00	(763,358.00)	Available to finance legal costs and awards made because of actions taken against the Council, including judicial review.
Liongate rent top-up	U01073	(857,362.82)	0.00	114,380.00	(742,982.82)	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	(180,332.56)	(7,738.66)	0.00	(188,071.22)	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 relates to the music festival so going forward this reserve will relate only to the Local Plan.
Salix admin	U01076	(33,795.63)	0.00	0.00	(33,795.63)	
Energy Management Schemes	U01077	(168,708.76)	0.00	0.00	(168,708.76)	Funding for energy management schemes similar to Salix schemes but for which match funding is not available.
Preventing Homelessness	U01078	(30,431.57)	(112,905.00)	0.00	(143,336.57)	Received grant from Department of Communities and Local Government (DCLG) for use in partnership work across Surrey to
Preventing Repossession	U01079	(16,049.39)	(209,479.00)	53,000.00	(172,528.39)	Received grant from DCLG to fund preventing repossession work in future years.
Civil Parking Enforcement - GBC/GLC shared control	U01080	(118,248.28)	(670,012.54)	656,039.43	(132,221.39)	To receive net funds due to Guildford and finance expenditure as allowed under the Civil Parking Enforcement agreement with Surrey County Council. Controlled jointly by the council and the Guildford
Business Rates equalisation	U01081	(3,061,193.66)	(4,111,785.00)	1,612,515.00	(5,560,463.66)	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
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	(861,764.67)	(136,012.34)	583.25	(997,193.76)	Receives s106 contributions for the Effingham SPA, prior financing expenditure on approved schemes.
SPA - Riverside	U01086	(337,236.87)	(216,931.05)	10,051.25	(544,116.67)	Receives s106 contributions for the Riverside Park SPA, prior financing expenditure on approved schemes.
SPA - Chantry Wood	U01087	(1,582,133.92)	(643,977.27)	0.00	(2,226,111.19)	Receives s106 contributions for the Chantry Wood SPA, prior financing expenditure on approved schemes.
SPA - Lakeside	U01088	(560,915.59)	(2,484.36)	832.21	(562,567.74)	Receives s106 contributions for the Lakeside SPA, prior financing expenditure on approved schemes.
SPA - Parsonage Water	U01089	(1,068,971.76)	(5,215.57)	3,287.50	(1,070,899.83)	Receives s106 contributions for the Parsonage Water SPA, prior
Community Centres	U01090	(114,507.22)	0.00	0.00	(114,507.22)	To finance works on Community Centres
SCC Prevention partnership fund	U01091	(62,316.08)	0.00	62,316.08	0.00	To hold grants given by Surrey County Council prior to expenditure being incurred.

		Opening balance, £000	Receipts in Year £000	Transfers out in Year £000	Closing balance, £000	Purpose of the Reserve / Policy on use
		01/04/2017			31/03/2018	
Capital movements reserve	U01092	(291,000.00)	(42,000.00)	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	(450,000.00)	0.00	0.00	(450,000.00)	To protect the revenue account against adverse movement in the income generated from recyclable materials
Budget Pressures	U01095	(2,771,747.83)	(20,000.82)	733,838.00	(2,057,910.65)	To facilitate the management of pressure on the General Fund revenue budget.
Civil Parking - GBC control	U01096	(208,470.96)	(41,639.76)	0.00	(250,110.72)	To receive income from on-street parking, as agreed under the Civil Parking Enforcement agreement with Surrey County Council and finance any approved expenditure.
NLR - Taxi Licensing	U01097	0.00	0.00	0.00	0.00	Previously included with the carry forward reserve. To receive or fund any balance on the Taxi Licensing services (except irrecoverable costs). Legislation requires that the service is budgeted to break even over three years.
Project Aspire	U01098	(176,976.00)	0.00	30,381.46	(146,594.54)	To finance the costs of Project Aspire.
Refugee Support	U01100	(1,718.00)	(112,022.12)	0.00	(113,740.12)	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 programme
Prevention Partnership Fund	U01101	(41,315.00)	0.00	0.00	(41,315.00)	Reserve holds unspent specific grant monies awarded by government to the Council to spend on preventing extremism
Community Housing Fund	U01102	(70,462.00)	0.00	9,500.00	(60,962.00)	Reserve holds unspent specific grant monies received by the Council from Government for expenditure on supporting community housing projects
<b>TOTAL</b>		<b>(35,756,811.38)</b>	<b>(14,743,257.35)</b>	<b>8,758,736.29</b>	<b>(41,741,332.44)</b>	



Collection Fund

**Revenue Account**

2016-17 £000 Council Tax	2016-17 £000 Business Rates		2016-17 £000 Council Tax	2016-17 £000 Business Rates
<b>Income</b>				
94,104	84,418	Income from Business Ratepayers - Note 2	98,700	88,126
		Council Taxes		
		Distribution of prior year estimated deficit:		
	1,891	Central Government		817
	378	Surrey County Council		164
	1,513	Guildford Borough Council		654
<b>94,104</b>	<b>88,200</b>	<b>Total Income</b>	<b>98,700</b>	<b>89,761</b>
<b>Expenditure</b>				
Precepts				
70,429		Surrey County Council	75,412	
12,227		Surrey Police and Crime Commissioner	12,718	
10,178		Guildford Borough Council	10,741	
Payment of Business Rates shares:				
	41,400	Central Government		44,063
	8,280	Surrey County Council		8,813
	33,120	Guildford Borough Council		35,251
	375	Transitional Protection payments		(1,658)
	233	Charge to General Fund for collecting NDR		232
500		Provision for council tax bad debts	192	
	176	Provision for business rates bad debts		385
	(2,800)	Provision for business rates appeals		12,000
Distribution of prior year estimated surplus:				
		Central Government		
829		Surrey County Council	834	
147		Surrey Police and Crime Commissioner	145	
121		Guildford Borough Council	121	
<b>94,431</b>	<b>80,784</b>	<b>Total Expenditure</b>	<b>100,163</b>	<b>99,086</b>
<b>Collection Fund Balance</b>				
1,077	(10,195)	Balance at the beginning of the year	750	(2,779)
(327)	7,416	Surplus/(deficit) for the year	(1,463)	(9,325)
<b>750</b>	<b>(2,779)</b>	<b>Balance at the end of the year</b>	<b>(713)</b>	<b>(12,104)</b>

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Corporate Governance and Standards Committee Report

Report of Director of Community Services and Director of Finance

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Date: 14 June 2018

## Housing Revenue Account Final Accounts 2017-18

### Executive Summary

The Housing Revenue Account (HRA) records all the income and expenditure associated with the provision and management of Council owned 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 requirement 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 2017-18.

The actual net cost of revenue services in 2017-18 was £642,708 lower than budgeted (paragraph 3.1). This variation represents 1.99% of the total turnover of £32.25 million. The final outturn (subject to audit) shows a surplus for the year of £10.06 million compared to a budgeted surplus of £10.73 million. The HRA working balance at year-end remains £2.5 million.

The Chief Finance Officer, in consultation with the Lead Councillor for Housing and Environment and the Lead Councillor for Finance and Asset Management have used their delegated authority to transfer £2.5 million to the reserve for future capital programmes, with the balance of £7.56 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.

At its meeting on 19 June 2018, the Executive will also consider this report and will be invited 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 £7.56 million to the new build reserve from the revenue surplus of £10.06 million in 2017-18.

### Recommendation to Committee

The Committee is asked to submit any comments it wishes to make on the HRA Final Accounts for 2017-18 to the Executive.

Reason for Recommendation:

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

**1. Purpose of Report**

- 1.1 To give this Committee and the Executive the opportunity to consider the draft Housing Revenue Accounts (HRA) for 2017-18 and agree any transfers to earmarked reserves before the Chief Finance Officer (CFO) signs the statutory Statement of Accounts.
- 1.2 It is a legal requirement that the CFO signs the draft Statement of Accounts by 31 May 2018 after which Grant Thornton, our External Auditors, will audit them. This Committee must approve the accounts on behalf of the Council, by 31 July 2018. We must also publish the accounts by 31 July 2018.
- 1.3 The HRA is an integral part of the Statement of Accounts.

**2. Key Strategic Priorities**

- 2.1 The Council remains 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. Summary**

- 3.1 The table below summarises the net cost of revenue services in 2017-18.

	<b>Estimate 2017-18</b>	<b>Actual 2017-18</b>
Net Cost of Services (per income & expenditure account, Appendix A)	(£15,823,450)	(£15,930,894)
Amortisation and revaluation gains & losses – reverse impact on services	£0	£44,323
IAS 19 Pension charge - reverse impact on services	£0	(£50,859)
Increase in depreciation charge – reverse impact on services	£0	(£528,728)
<b>Total</b>	<b>£15,823,450</b>	<b>£16,466,158</b>
<b>Variance</b>		<b>(£642,708)</b>

- 3.2 The operating surplus for the HRA account in 2017-18 is approximately £10.06 million.
- 3.3 The table below shows the main variances between the budgeted and actual operating surplus for 2017-18 under the key headings.

	<b>£000</b>
<b>Budgeted HRA outturn (surplus) / deficit 2017-18</b>	<b>(10,731)</b>
<b>Variance from budgeted position</b>	
Employee Related	(254)
Investment Income and Interest charge payable	(160)
Rental Income (incl. dwellings, garages and shops)	(509)
Depreciation Charges	529
Voluntary Revenue Provision (Guildford Park, Paragraph 5.8)	640
Repairs and Maintenance	356
Other	66
<b>Total</b>	<b>668</b>
<b>Operating (surplus)/deficit available to transfer to reserve in 2017-18</b>	<b>(10,063)</b>

3.4 Officers propose to transfer £2.5 million to the reserve for future capital, with the balance of £7.56 million transferred to the new build reserve.

#### **4. Background**

4.1 The Local Government and Housing Act 1989 requires the Council to keep a HRA that records all revenue expenditure and income relating to the provision of council 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, which was funded through a portfolio of loans from the Public Works Loan Board.

4.3 The HRA Business Plan 2015-2045 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 and viable social housing business in a professional and cost effective manner.
- provide good quality homes in settled communities for as long as needed by a tenant and is consistent with our Tenancy Strategy
- continue to strengthen communities by making our estates places people value and want to live
- increase the supply of affordable homes including by direct provision where it is appropriate and viable to do so
- value and promote greater tenant involvement in decision making

- widen the range of housing options open for tenants, ensuring they are in a position to make informed choices

The 2017-18 budget reflected these objectives and priorities.

## 5. **Outturn position and major variances**

### *Revenue*

- 5.1 Gross expenditure on services was 102.15% of the budgeted level, whilst income receivable totalled 101.57% of the budgeted level. The reasons for this are set out in paragraphs 5.4 to 5.9 below and summarised in **Appendix 1**.
- 5.2 The operating surplus for the HRA account in 2017-18 is approximately £10.06 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.
- 5.3 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 £3.7 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.
- 5.4 Rental income from dwellings was £517,000 (1.78%) higher than estimated (Appendix 1). This is the result of a combination of factors, which include the profiling of new build units coming on stream, reductions in void periods and Right to Buy (RTB) assumptions. In total, 16 properties were sold in 2017-18 as a result of RTB applications, with a further interest in the equivalent of 2.4 equity share properties sold.
- 5.5 Employee related expenditure was £254,000 lower than estimated. This saving is spread across a range of services.
- 5.6 Each year the Ministry of Housing, Communities, and Local Government sets a formula rent for each Council to apply to its housing stock along with a guideline rent increase. 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 for Work and Pensions (DWP) in higher housing benefit costs. The actual average rent for 2017-18 was below the prescribed limit rent; consequently, no RRSL charge has been applied to the HRA.
- 5.7 A lower than anticipated interest rate on the variable rate element of the loan portfolio financing the HRA has resulted in a saving of £139,000. Investment

income is £21,000 higher than anticipated as a result of a higher than profiled level of HRA reserves.

- 5.8 A Voluntary Revenue Provision of £640,000 was made during 2017-18 in respect of land appropriated from the General Fund to the HRA at Guildford Park car park for the affordable housing part of the development. As the HRA has reached its debt cap, a voluntary revenue provision was made to reduce the Capital Financing Requirement to bring it back to the debt cap level.
- 5.9 Expenditure on repairs and maintenance exceeded the budget by £356,000 or 6.88% (Appendix 1). The budget provides for both planned and responsive repairs, so an element of demand driven cost is inherent in the expenditure. The impact of the winter weather also increased demand for services.
- 5.10 Total investment in the stock, including both revenue and capital funded maintenance and improvement works was £9.46 million.
- 5.11 A number of welfare reform changes have now taken effect, some of which will have had a cumulative effect on individual households. This, combined with the vulnerability of some tenants, is a cause for concern and will have an impact on our future income stream. A contribution of £275,000 towards the provision for bad debt is included in 2017-18. This is consistent with the approved business plan. Rent arrears remain low, in contrast to the overall housing sector, which is experiencing an increase in the level of arrears.
- 5.12 The table below sets out the outturn for the headline categories across the HRA.

Account	Budget £	Draft actual £	Variance £
Employee Related	3,294,800	3,040,604	(254,193)
Premises Related	5,108,250	5,465,809	375,559
Supplies and Services	1,237,360	1,199,371	(37,989)
Support Services	1,503,880	1,652,741	148,861
Transport Related	88,170	82,541	(5,629)
Income (including recharges)	(31,749,670)	(32,247,174)	(497,504)

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

- 5.13 **Right to Buy 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 2017-18 is shown in the table in paragraph 5.18 below)
- 5.14 A maximum of 30% of the overall cost of new home provision can be funded from the one-for-one receipts reserve. 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%) funded from the new build reserve or the reserve for future capital.
- 5.15 Sixteen properties were sold under RTB in 2017-18. 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 a cause for concern. Over a sustained period, net stock losses will increase the fixed overhead costs attributable to each unit of stock. This will reduce our ability to generate operating surpluses to support our development programme.

5.16 **Housing capital programme:** The Council delivered improvements to the value of £3.93 million to tenants' homes during the year.

5.17 **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.

5.18 Table 5 below shows the balance on each reserve at the start of 2017-18, along with the expenditure financed in year and the proposed transfers arising from the appropriation of the revenue surplus in 2017-18.

	Balance 01 April 2017	Transfer into reserve 2017-18	Used in 2017-18	Balance 31 March 2018	Proposed transfer into reserve from revenue surplus 2017-18	Closing balance 31 March 2018
	£000	£000	£000	£000	£000	£000

Reserve for future capital works	28,328	0	0	28,328	2,500	30,828
New build reserve	37,356	0	0	37,356	7,563	44,919
Major Repairs Reserve (MRR) #	6,395	5,529	(3,934)	7,990	0	7,990
<b>Total Earmarked Reserves</b>	<b>72,079</b>	<b>5,529</b>	<b>(3,934)</b>	<b>73,674</b>	<b>10,063</b>	<b>83,737</b>

Usable capital receipts (HRA Debt)	3,428	439	0	3,867	0	3,867
Usable capital receipts (1-4-1 receipts)	6,210	2,189	(1,307)	7,092	0	7,092
Usable capital receipts (housing and regeneration) – Pre 2013-14	14,861	0	(2,101)	12,760	0	12,760
Usable capital receipts (housing and regeneration statutory) – Post 2013-14	2,937	506	(3,022)	421	0	421
<b>Total Capital Receipts Reserves</b>	<b>27,436</b>	<b>3,134</b>	<b>(6,430)</b>	<b>24,140</b>	<b>0</b>	<b>24,140</b>

<b>Total of all housing reserves</b>	<b>99,515</b>	<b>8,663</b>	<b>(10,364)</b>	<b>97,814</b>	<b>10,063</b>	<b>107,877</b>
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5.19 **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.

5.20 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 usable one-for-one receipts and capital receipts have been used to finance capital expenditure on the new build programme, including Guildford Park car park, Apple Tree pub site, Slyfield Green (corporation club), Willow Way and various former garage sites.



- 5.21 With this in mind, officers are proposing that £7.56 million is transferred to the new build reserve.
- 5.22 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 2017-18 depreciation charge was £5.5 million and the cost of maintaining the stock £3.93 million. We would normally fully utilise this depreciation charge in the year with an additional contribution from the reserve for future capital to fund the difference, but in 2017-18, we used £1.6 million less than the calculated charge, leaving a balance of £7.99 million in the major repairs reserve, as shown in the table in paragraph 5.18 above. The major repairs reserve (MRR) is ring fenced for improvements to existing stock.
- 5.23 The outcome of recent stock condition surveys indicates that, in the short term, the level of depreciation charge will significantly exceed the level of investment required 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. Financial Implications**

- 6.1 The report covers the financial implications.

## **7. Legal implications**

- 7.1 Under the provisions of the Local Government and Housing Act 1989, the Council must operate the HRA as a ring fenced landlord account. The Council can only account for specified transactions in the HRA and it must not operate at a deficit. There can be no cross subsidy between the HRA and General Fund in either direction.
- 7.2 We are required to prepare our accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the code). By adhering to the code, we meet our obligation under the Local Government Act 2003 Section 21 (3).
- 7.3 The Statement of Account must be signed by the CFO by 31 May 2018. After the accounts are audited, the CFO must re-certify the accounts before approval by an appropriate Committee of the Council. The Corporate Governance and Standards Committee will approve the accounts at its meeting on 26 July 2018.
- 7.4 The approved Statement of Accounts must be published, together with any certificate, opinion, or report issued by the external auditor.

## **8. Human Resource Implications**

- 8.1 There are no human resource implications.

**9. Conclusion**

- 9.1 The HRA delivered an operating surplus of £10.06 million. No provision for the repayment of debt principal is included in this figure.
- 9.2 The HRA is better placed under the new financial regime than it was under the old national redistributive system.
- 9.3 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.

**10. Background Papers**

Budget Book 2017-18 and 2015-2045 HRA Business Plan  
Code of Practice on Local Authority Accounting  
Account and Audit Regulations 2011

**11. Appendices**

Appendix 1: HRA Summary statement: Draft actual 2017-18

## Appendix 1: HRA Summary statement: Draft actual 2017-18

<b>DRAFT HOUSING REVENUE ACCOUNT SUMMARY - FOR THE YEAR ENDING 31ST MARCH 2018</b>					
2015-16 £ Actual	2016-17 £ Actual	Analysis		2017-18	2017-18
		Borough Housing Services		£ Estimate	£ Draft Actual
684,834	654,594	Income Collection		661,540	613,565
961,284	1,004,169	Tenants Services		935,150	948,978
94,149	71,395	Tenant Participation		139,110	64,128
71,964	68,906	Garage Management		71,080	68,808
63,133	62,795	Elderly Persons Dwellings		63,530	64,083
566,292	489,812	Flats Communal Services		410,770	524,075
414,610	473,413	Environmental Works to Estates		540,570	432,181
4,752,742	5,088,818	Responsive & Planned Maintenance		5,167,820	5,523,575
136,164	149,529	SOCH & Equity Share Administration		133,290	120,028
<b>7,745,172</b>	<b>8,063,430</b>			<b>8,122,860</b>	<b>8,359,422</b>
		<b>Strategic Housing Services</b>			
398,983	393,556	Advice, Registers & Tenant Selection		348,620	360,623
191,815	199,230	Void Property Management & Lettings		170,650	210,368
7,359	10,098	Homelessness Hostels		9,130	9,142
217,175	200,681	Supported Housing Management		202,710	142,418
430,396	593,967	Strategic Support to the HRA		387,900	392,915
<b>1,245,728</b>	<b>1,397,533</b>			<b>1,119,010</b>	<b>1,115,468</b>
		<b>Community Services</b>			
897,939	822,862	Sheltered Housing		875,690	911,190
		<b>Other Items</b>			
6,437,625	6,703,540	Depreciation		5,000,000	5,528,728
(1,156,635)	2,661,783	Revaluation and other Capital items		0	(44,323)
85,409	147,485	Debt Management		159,440	165,468
154,473	154,218	Other Items		649,220	280,328
<b>15,409,711</b>	<b>19,950,851</b>	<b>Total Expenditure</b>		<b>15,926,220</b>	<b>16,316,281</b>
(32,592,728)	(32,623,860)	Income		(31,749,670)	(32,247,174)
<b>(17,183,017)</b>	<b>(12,673,009)</b>	<b>Net Cost of Services(per inc &amp; exp a/c)</b>		<b>(15,823,450)</b>	<b>(15,930,894)</b>
<b>241,767</b>	<b>259,861</b>	HRA share of CDC		<b>238,230</b>	<b>264,207</b>
<b>(16,941,250)</b>	<b>(12,413,148)</b>	<b>Net Cost of HRA Services</b>		<b>(15,585,220)</b>	<b>(15,666,687)</b>
(332,979)	(508,072)	Investment Income		(364,250)	(384,996)
5,173,010	5,022,423	Interest Payable		5,143,050	5,004,072
<b>(12,101,219)</b>	<b>(7,898,797)</b>	<b>(Surplus)/Deficit for Year on HRA Services</b>		<b>(10,806,420)</b>	<b>(11,047,611)</b>
		REFCUS - Revenue funded from capital		75,000	627,309
2,500,000	2,500,000	Contrib to/(Use of) RFFC		2,500,000	2,500,000
8,435,425	7,966,069	Contrib to/(Use of) New Build Reserve		8,231,420	7,563,162
0	0	CERA - Capital Expenditure from revenue		0	0
31,451	121,431	Tfr (from)/to Pensions Reserve		0	309,017
0	0	Tfr (from)/to CAA re: Voluntary Revenue Provision		0	640,110
1,165,390	(2,648,007)	Tfr (from)/to CAA re: Revaluation		0	71,504
0	(25,420)	Tfr (from)/to CAA re: REFCUS		0	(627,309)
(8,755)	(13,775)	Tfr (from)/to CAA re: Intangible assets		0	(27,181)
(22,292)	(1,500)	Tfr (from)/to CAA re: Rev. inc. from sale of asset		0	(9,000)
<b>(0)</b>	<b>(0)</b>	<b>HRA Balance</b>		<b>0</b>	<b>0</b>
(2,500,000)	(2,500,000)	Balance Brought Forward		(2,500,000)	(2,500,000)
<b>(2,500,000)</b>	<b>(2,500,000)</b>	<b>Balance Carried Forward</b>		<b>(2,500,000)</b>	<b>(2,500,000)</b>

2015-16 Actual £	2016-17 Actual £	Analysis	2017-18 Estimate £	2017-18 Draft Actual £
		<b>Borough Housing Services</b>		
(29,937,928)	(29,850,855)	Rent Income - Dwellings	(29,062,000)	(29,579,133)
(203,864)	(213,964)	Rent Income - Rosebery Hsg Assoc	(203,860)	(207,228)
(194,792)	(194,263)	Rents - Shops, Buildings etc	(181,000)	(199,874)
(661,341)	(677,827)	Rents - Garages	(730,000)	(699,962)
<b>(30,997,925)</b>	<b>(30,936,909)</b>	<b>Total Rent Income</b>	<b>(30,176,860)</b>	<b>(30,686,197)</b>
(300,297)	(345,764)	Supporting People Grant	(250,000)	(316,404)
(970,273)	(961,529)	Service Charges	(978,680)	(937,611)
(27,549)	(5,155)	Legal Fees Recovered	(28,000)	(21,432)
(39,590)	(40,025)	Service Charges Recovered	(54,550)	(44,698)
(257,094)	(334,477)	Miscellaneous Income	(261,580)	(240,832)
<b>(32,592,728)</b>	<b>(32,623,860)</b>	<b>Total Income</b>	<b>(31,749,670)</b>	<b>(32,247,174)</b>

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Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of the Council Solicitor and Monitoring Officer

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Date: 14 June 2018

## **Review of Arrangements for Dealing with Allegations of Misconduct by Councillors and Co-opted Members**

### **Executive Summary**

This report advises the Committee of the outcome of a review of the Arrangements for Dealing with Allegations of Misconduct by Councillors and Co-Opted Members by the Council Solicitor and Monitoring Officer.

The review has focused on correcting inconsistencies, contradictions, and vague drafting in the predecessor document, and on refining processes which were found to cause uncertainty and delay. The review has also rationalised and restated the sanctions available to the Hearings Sub-Committee.

### **Recommendation to Committee**

The Committee is asked to recommend to full Council (24 July 2018):

That the revised Arrangements for Dealing with Allegations of Misconduct by Councillors and Co-Opted Members, as set out in Appendix 1 to this report, be adopted.

#### Reason for Recommendation:

To promote effective and clear arrangements for dealing with allegations of misconduct, and a clearly stated suite of sanctions.

### **1. Purpose of Report**

- 1.1 To advise the Committee of the outcome of the review of the Arrangements for Dealing with Allegations of Misconduct by Councillors and Co-Opted Members conducted by the Council Solicitor and Monitoring Officer, in conjunction with the Lead Councillor for Infrastructure and Governance, and

the outgoing Chairman of the Corporate Governance and Standards Committee.

## **2. Background**

2.1 Among the duties of the Monitoring Officer is that of keeping the Constitution under review. Concerns were raised via the Deputy Monitoring Officer, and the Chairman of Corporate Governance and Standards Committee that:

- a) The *Arrangements* were replete with repetition, contradiction and vague drafting.
- b) The role of the Independent Person at the Hearings Sub-Committee was difficult to fulfil given the procedures described in the Arrangements (in particular, the Independent Person being required to give an immediate response, and in public, to the matters presented at the hearing made the role particularly challenging).
- c) Full Council was empowered to make final decisions on sanctions and that this inevitably led to a partial re-hearing of the complaint in a forum which lacked proper management of evidence and procedure.
- d) The description of the sanctions was unclear and, where a Subject-Member was the subject of a sanction which he or she declined to accept, there was no redress or opportunity for the Hearings Sub-Committee to consider an alternative sanction.

2.2 The Lead Councillor for Infrastructure and Governance and the Chairman of the Corporate Governance and Standards Committee, have been consulted, along with the officers and the Corporate Management Team, with comments and suggested revisions being incorporated.

## **3. Amendments**

3.1 As textual and formatting amendments are too numerous to specify, the Committee is invited to review the document afresh, to note in particular the sanctions at paragraph 28 of Appendix 3 of the revised Arrangements, and to note that:

- 3.1.1 It is made clear that the Independent Person's deliberations can take place in private session;
- 3.1.2 The Hearings Sub-Committee is empowered to make a final decision on any sanction or sanctions to be applied; and,
- 3.1.3 Under the current law, there are no powers to apply sanctions to suspend or remove members, or prevent them from carrying out the role of councillor.

## **4. Legal implications**

4.1 Under Section 28(6) and (7) of the Localism Act 2011, the Council must have in place arrangements under which allegations that a councillor or co-opted member of the Council has failed to comply with the relevant code of conduct can be made, investigated, and decisions can be made on such allegations.

4.2 The arrangements for dealing with allegations of misconduct by councillors and co-opted members apply when a complaint is received that a Member of the Council or a Parish Council has or may have failed to comply with the Code of Conduct for Members.

4.3 The Localism Act 2011 strictly limits the range of sanctions which may be applied to a member who is found to have failed to comply with the code of conduct

## **5. Financial implications**

5.1 It is not anticipated that the adoption of revised Arrangements should carry any financial implications, aside from a beneficial effect resulting from a more efficient process.

## **6. Human Resource implications**

6.1 There are no significant human resource implications arising from this proposal.

## **7. Risk Management Implications**

7.1 There are no significant risk management implications arising from this report.

## **8. Summary of Options**

8.1 Corporate Governance and Standards Committee and Full Council could decide not to adopt these revised Arrangements; however, the current Arrangements are not considered to be effective, and cause inefficiency through uncertain drafting and unnecessarily protracted process.

## **9. Conclusion**

9.1 The revised Arrangements provide a clear procedural framework for the review, investigation, and hearing of allegations of misconduct, together with a clear statement of the sanctions available under the current law.

## **10. Background Papers**

Current Arrangements for Dealing with Allegations of Misconduct by Councillors and Co-Opted Members (Part 5 of the Council's Constitution)

## **11. Appendices**

Appendix 1: Draft Revised Arrangements for Dealing with Allegations of Misconduct by Councillors and Co-Opted Members

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## **GUILDFORD BOROUGH COUNCIL**

### **ARRANGEMENTS FOR DEALING WITH ALLEGATIONS OF MISCONDUCT BY COUNCILLORS AND CO-OPTED MEMBERS**

#### **1 Context**

- 1.1 Under Section 28(6) and 7 of the Localism Act 2011, the Council must have in place arrangements under which allegations that a councillor or co-opted member (Member) of the Council has failed to comply with the relevant code of conduct can be made, investigated, and decisions can be made on such allegations.
- 1.2 These arrangements for dealing with allegations of misconduct by councillors and co-opted members ('Arrangements') apply when a complaint is received that a Member of the Council has or may have failed to comply with the Code of Conduct for Members ('the Code').
- 1.3 The terms capitalised in these Arrangements are as defined within the text or at paragraph 2, Interpretation, below.
- 1.4 The Council may by resolution agree to amend these Arrangements, and has delegated to the Corporate Governance and Standards Committee the right to depart from these Arrangements where on the advice of the Monitoring Officer the Sub-Committee considers it expedient to do so in order to secure the effective and fair consideration of any matter.
- 1.5 The Council shall appoint one or more Independent Persons from outside the Council to assist the Monitoring Officer and the Corporate Governance and Standards Committee in considering complaints, and whose views:
- (a) must be sought by the Council before it takes a decision on any allegation which it has decided shall be investigated,
  - (b) may be sought by the authority at any other stage, and
  - (c) may be sought by a councillor or co-opted member against whom an allegation has been made.
- 1.6 No Member of the Council will participate in any stage of the arrangements if he or she has, or may have, any conflict of interest in the matter.

#### **2 Interpretation**

- 2.1 'Assessment Sub-Committee' means the Sub-Committee of the Corporate Governance and Standards Committee constituted in accordance with paragraph 7.6 of these Arrangements.
- 2.2 'Complainant' means a person who has submitted a complaint in accordance with these Arrangements alleging that a Subject Member has breached the Code of Conduct.

Appendix 1

- 2.3 'the Corporate Governance and Standards Committee' means the Corporate Governance and Standards Committee or to a sub-committee to which it has delegated the assessment of complaints or the conduct of a hearing unless the context indicates that it refers only to the Corporate Governance and Standards Committee.
- 2.4 'Formal Investigation' means the process described at paragraph 9 of these Arrangements.
- 2.5 'Hearings Sub-Committee' means the Sub-Committee of the Corporate Governance and Standards Committee constituted in accordance with Appendix 3 of these Arrangements.
- 2.6 'Independent Person' means the person (of whom there may be more than one) appointed by the Council under section 28(7) of the Localism Act 2011 who has the functions set out in that Act, as referred to in paragraph 1.5 above.
- 2.7 'Independent Member' means a co-opted person who is not a Councillor or Officer of the Council who sits on the Corporate Governance and Standards Committee in an advisory capacity but who is not entitled to vote.
- 2.8 'Informal Resolution' means the procedure described in these Arrangements at paragraph 8.
- 2.9 'Investigating Officer' means the person appointed by the Monitoring Officer to undertake a formal investigation of a complaint alleging a breach of the Code of Conduct by a Subject Member. The Investigating Officer may be another officer of the Council, an officer of another authority or an external investigator.
- 2.10 'Monitoring Officer' means the statutory officer appointed by the Council under the Local Government and Housing Act 1989 ss 5 and 5A, being the officer of the Council who is responsible for administering the system of complaints about member misconduct and as part of that role may nominate another officer of suitable experience and seniority to carry out any of the functions listed in these Arrangements.
- 2.11 'Parish Member' means a co-opted member of any parish council within the borough who sits on the Corporate Governance and Standards Committee and in respect of parish matters the Assessment or Hearings Sub-Committees in an advisory capacity but who is not entitled to vote at meetings.
- 2.12 'Subject Member' means an elected or co-opted member of the Council or any elected or co-opted member of any parish council within the borough against whom a complaint has been made alleging a breach of the Code of Conduct.

**3. Making a complaint**

- 3.1 All complaints must be made in writing and shall be on the official complaint form. The complaint form can be posted or e-mailed to the Council's Monitoring Officer whose contact details are:

Monitoring Officer  
Guildford Borough Council  
Legal Services  
Millmead House  
Millmead  
GUILDFORD  
Surrey GU2 4BB  
Email: [monitoringofficer@guildford.gov.uk](mailto:monitoringofficer@guildford.gov.uk)

- 3.2 Complainants who find difficulty in making their complaint in writing (e.g. because of a disability) will be offered assistance. A request for assistance should be made in the first instance by contacting the Monitoring Officer by letter or e-mail to the address set out in paragraph 3.1 above.
- 3.3 A complaint must provide substantiated information, noting that the Monitoring Officer shall rely wholly on information and evidence accompanying a complaint when conducting the Initial Jurisdiction Test, and should outline what form of resolution (whether informal or otherwise) the Complainant is seeking. Further information regarding the range of formal sanctions available is set out in paragraph 27 of Appendix 3.
- 4. Anonymous complaints, complainant confidentiality, and complaints identifying possible criminality**
- 4.1 Anonymous complaints will only be accepted in exceptional circumstances: anonymous complaints will not normally be investigated. Further information regarding confidentiality and anonymous complaints is set out in paragraphs 4.3 to 4.7 below.

#### Complaints Identifying Possible Criminality

- 4.2 If the complaint identifies criminal conduct or breach of other regulations by any person, the Monitoring Officer may report this to the Police or other prosecuting or regulatory authority, in addition to any action taken pursuant to the Code. In the case of alleged criminal conduct, the complaint may be held in abeyance pending the outcome of any criminal investigation.

#### Complainant Confidentiality

- 4.3 If a Complainant or any witness giving any information or involved in any discussions (whether with the Monitoring Officer, the Investigating Officer, the Independent Person, or the Parish Member) wishes their identity to be withheld, they should state this and provide full reasons why they believe their request is justified when submitting the complaint on the official complaint form, giving witness information, or participating in any discussion. Any request for confidentiality will be considered by the Monitoring Officer at the initial assessment stage of these Arrangements. In reaching his/her decision, the Monitoring Officer shall have regard to paragraph 4.4 below, and may also consult with the Council's Independent Person.
- 4.4 As a matter of fairness and natural justice and in order to preserve the probative value of any evidence given, the Subject Member will usually be told who has complained about them and receive details of the complaint. However, in exceptional circumstances, the Monitoring Officer may withhold the Complainant's or the witness's identity if they are satisfied that the Complainant has reasonable grounds for believing that they, or any witness relevant to the complaint, may be at

risk of physical harm, or his or her employment may be jeopardised if their identity is disclosed, or where there are medical risks (supported by medical evidence) associated with the Complainant's identity being disclosed.

- 4.5 If the Monitoring Officer decides to refuse a request by a Complainant or a witness for confidentiality, they will offer the Complainant the option to withdraw the complaint or the witness to withdraw their witness evidence, rather than proceed with his or her identity being disclosed. The Monitoring Officer will balance whether the public interest in taking action on a complaint will outweigh the Complainant's or the witness's wish to have his or her identity withheld from the Subject Member, whether the fairness of proceedings is maintained, and whether the evidence provided has any residual probative value when treated confidentially.

#### Anonymous Complainants

- 4.6 If an anonymous complaint is received it will be considered by the Monitoring Officer at the initial assessment stage of these Arrangements. In reaching his/her decision the Monitoring Officer may also consult with the Council's Independent Person.
- 4.7 The principles of fairness and natural justice referred to in paragraph 4.4 will also be applied to anonymous complaints and such complaints will only be accepted if they include documentary, photographic, or other evidence indicating an exceptionally serious or significant matter.

#### Sensitive and confidential information

- 4.8 Where any decision notice, record, or report (including the report of an Investigating Officer) contains information which is sensitive or confidential, the Monitoring Officer in consultation with the Council's Data Protection Officer and having regard to the principles referred to in paragraph 4.4 shall determine whether any of the information contained within the report should be redacted in versions of the notice, record, or report provided in accordance with these Arrangements.

### **5. The Handling of Complaints**

#### Discontinuance of Complaints by Monitoring Officer

- 5.1 The Monitoring Officer may discontinue a complaint or terminate an investigation if they consider it appropriate to do so, in the public interest, where the Subject Member:
- (a) ceases to be a Member of the Council,
  - (b) has a long term or serious illness and is unable to participate in the procedure and there is no public interest in continuing the procedure, or
  - (c) dies,

- 5.2 Where a complaint is discontinued, the Monitoring Officer will write to the Complainant and the Subject Member setting out the reasons for their decision.

#### Timeframes and Communications Policy

- 5.3 The Monitoring Officer will acknowledge receipt of the complaint within 10 working days of all required information being provided.

- 5.4 Key dates in relation to the administration of the Arrangements are set out in the body of the Arrangements, and shall act as targets to facilitate the swift administration of the Arrangements but which, if missed, will not invalidate the procedure comprised herein.
- 5.5 The Complainant and the Subject Member will be informed should there be a delay in completing any stage of the process.
- 5.6 The Communications Policy at Appendix 1 shall have effect in relation to any matters of publicity, or public engagement associated with a Complaint.

#### Participation of Complainant

- 5.7 Where the Monitoring Officer concludes in consultation with the Independent Person, that the participation of the Complainant (by way of interview, or appearance before Hearings Sub-Committee) would be in the public interest the Monitoring Officer shall request the further participation of the Complainant, giving reasonable notice, and such support as the Complainant may reasonably require and where the Complainant declines to participate this shall be recorded in the report of any decision or investigation, or reported to the Hearings Sub-Committee (as the case may be).

### **6. Stage 1 – Initial Jurisdiction Test**

- 6.1 The Monitoring Officer will, within 20 working days of the acknowledgement referred to in paragraph 5.3 above, apply the following questions to determine whether a Complaint falls within the jurisdiction of these Arrangements:
  - (a) Did the alleged conduct occur before the adoption of the Code of Conduct?
  - (b) Was the Subject Member a member of the Borough or Parish Council at the time of the alleged conduct?
  - (c) Was the Subject Member acting in an official capacity as a councillor at the time of the alleged conduct? (The case law and legislative position is that Code of Conduct matters can only be dealt with when the allegation is about something that a Councillor did in his or her role as a councillor when acting in an official capacity.)
  - (d) Did the alleged conduct occur when the Subject Member was acting as a member of another authority?
  - (e) If the facts were proved would the alleged conduct be capable of a breach of the Code of Conduct?
  - (f) Is the complaint limited to dissatisfaction with the Borough or Parish Council's decisions, policies and priorities, etc.?

- 6.2 Where a complaint is rejected on any of the above grounds, the Monitoring Officer will write to the Complainant explaining why their complaint cannot be dealt with under this procedure.

- 6.3 If the Complaint passes the Initial Jurisdiction Test, it will proceed to stage 2.

### **7. Stage 2 – Procedure for Initial Assessment of Complaint**

- 7.1 The Monitoring Officer will notify the Subject Member, and if applicable, the Parish Clerk of the existence of the complaint, providing a copy of the complaint and such information as accompanied it (subject to paragraphs 4.3 to 4.7 (confidentiality and anonymous complaints)). The documents provided may include necessary

redactions in order to maintain any confidentiality that has been agreed by the Monitoring Officer. The Monitoring Officer will invite the Subject Member to submit any comments or information in response within 20 working days of the notification, which the Monitoring Officer will take into account in conducting the Initial Assessment.

- 7.2 Upon the Subject Member either providing a response, or declining to do so within 20 the working days referred to in 7.1 (unless extended by agreement with the Monitoring Officer) the Monitoring Officer will provide the complaint, accompanying information or evidence, together with any response provided by the Subject Member, pursuant to paragraph 7.1 above, to the Independent Person and, where applicable, to the Parish Member, allowing a reasonable period for that response to be provided, and asking for their view generally, and on whether the complaint merits Informal Resolution or Formal Investigation.
- 7.3 Once the Independent Person, and the Parish Member (where applicable) have provided a response, the Monitoring Officer shall (subject to the exception described at paragraph 7.6 below) have regard to that response and (subject to the provisos at paragraph 7.5 below) the following criteria in deciding whether a complaint should be subject to Informal Resolution, Formal Investigation, referred to the Police or other regulatory authority or agency in accordance with paragraph 4.2 above:
- i) Whether a substantially similar allegation has previously been made by the Complainant to the Monitoring Officer (unless sufficient new evidence is provided), or the complaint has been the subject of an investigation by another regulatory authority;
  - ii) Whether the complaint is about something that happened so long ago that those involved are unlikely to remember it clearly enough to provide credible evidence, or where the lapse of time means there would be little benefit or point in taking action now;
  - iii) Whether the evidence is sufficiently reliable, i.e. whether it is first-hand evidence or hearsay evidence, and whether it is relevant to the alleged breach?
  - iv) Whether the Subject Member is willing to participate in an Informal Resolution;
  - v) Whether the allegation is anonymous (subject to paragraphs 4.6 and 4.7 above);
  - vi) Whether the allegation discloses a potential breach of the Code of Conduct, but the complaint is not serious enough to merit any action and
    - o The resources needed to investigate and determine the complaint are wholly disproportionate to the allegations or
    - o Whether in all the circumstances there is no overriding public benefit in carrying out an investigation.
    - o Whether the complaint appears to be malicious, vexatious, politically motivated or 'tit-for-tat';
    - o Whether the complaint relates to a matter which is the subject of a corporate complaint ;

- 7.4 The Monitoring Officer shall in particular have regard to the following mitigating, and aggravating factors:

*Mitigating factors (tending to make further action less likely)*

- (1) The substance of the complaint has already been the subject of an investigation or other action relating to the Code of Conduct;
- (2) The allegation took place more than 28 days prior to receipt of the complaint and there would be little benefit in taking action now;
- (3) The Subject Member took appropriate advice on the matter and followed that advice;
- (4) The complaint is such that it is unlikely that an investigation will be able to come to a firm conclusion on the matter, e.g. where there is no firm evidence on the matter;
- (5) It is likely that an investigation will prove only a technical or inadvertent breach;
- (6) The complaint appears to be malicious, vexatious, politically motivated or 'tit-for-tat';
- (7) The Complainant has involved the press in relation to the alleged complaint;
- (8) The member has already provided (or tried to provide) a suitable remedy (such as apologising);
- (9) The breach occurred in all innocence i.e. without knowledge;
- (10) There was unreasonable provocation;

*Aggravating factors (tending to make further action more likely)*

- (11) The complaint involves allegations of bullying or intimidation of a Complainant;
- (12) The allegation if proven could have a serious effect upon the reputation of the Council or parish council, upon staff relations or upon public trust and confidence;
- (13) The Subject Member holds a position of seniority and/or a position of influence;
- (14) There is a pattern of individual acts of minor misconduct which appear to be part of a continuing pattern of behaviour that is unreasonably disruptive to the business of the Council or parish council;
- (15) The Subject Member took appropriate advice on the matter but did not follow that advice;
- (16) The complaint involves an allegation that the behaviour may cause the Council or parish council to breach an equality enactment;

- 7.5 The criteria set out in paragraphs 7.3 and 7.4 above does not fetter the discretion of the Monitoring Officer and is not an exhaustive or prescriptive list and the Monitoring Officer may take into account other criteria dependent on the circumstances. The existence of such criteria does not fetter the discretion of the Monitoring Officer. A written record of the assessment decision will be provided aiding robust and transparent decision-making.

Assessment Sub-Committee

- 7.6 The Monitoring Officer may refer a complaint to the Assessment Sub-Committee for assessment. The referral power is at the absolute discretion of the Monitoring Officer. Examples of when a referral may take place include, but are not limited to the following:

Appendix 1

- (1) It is an allegation where there is a perceived or actual conflict of interest e.g. the Monitoring Officer has previously advised the Subject Member on the matter;
- (2) It involves the Leadership of the Council or the Opposition;
- (3) It involves the Mayor or Deputy Mayor of the Council;
- (4) It involves a member of the Executive;
- (5) It involves a Chairman or Vice Chairman of a Council Committee or Sub-Committee
- (6) The Complaint is from a Statutory Officer of the Council (the Head of Paid Service, Section 151 Officer, or the Monitoring Officer).

7.7 The Assessment Sub-Committee will be set up in the same way as other Sub-Committees of the Corporate Governance and Standards Committee. The Assessment Sub-Committee has all the powers of the Monitoring Officer.

7.8 Decisions of the Assessment Sub-Committee are usually made in private. Neither the Complainant nor the Subject Member will usually be permitted to attend where such meetings contain confidential personal information. In such cases, meetings will not be open to the press or public. The rules covering the exclusion of the press and public are set out in Part 1 of Schedule 12A to the Local Government Act 1972, as amended. If the press and public are to be excluded from a committee or sub-committee, a formal resolution of the meeting is required. This must specify the legal grounds for exclusion.

7.9 The members of any Assessment Sub-Committee will be selected by the Monitoring Officer, in consultation with the Chairman of the Corporate Governance and Standards Committee.

Decision in writing

7.10 The decision of the Monitoring Officer, or Assessment Sub-Committee (as the case may be) shall be recorded in writing, and a decision notice will be sent to the Complainant and the Subject Member within 10 working days of the decision. The decision notice will summarise the allegation, give the decision of the Monitoring Officer or Assessment Sub-Committee, and the reasons for their decision. There is no right of appeal against the decision of the Monitoring Officer or Assessment Sub-Committee.

**8. Stage 3 - Informal Resolution**

8.1 In appropriate cases, the Monitoring Officer may seek to resolve the complaint without the need for a formal investigation by way of Informal Resolution, which may be appropriate for example:

- Where it is apparent that the Subject Member is relatively inexperienced as a Member or has admitted making an error, was not actuated by any malicious intent, and the matter would not warrant a more serious sanction.
- Where training or conciliation would be a more appropriate response.

8.2 Types of Informal Resolution might include:

- An explanation by the Subject Member of the circumstances surrounding the complaint;



- An apology from the Subject Member;
  - An agreement from the Subject Member to attend relevant training or to take part in a mentoring process;
  - Offering to engage in a process of mediation or conciliation between the subject Member and the Complainant; or
  - Any other action capable of resolving the complaint.
- 8.3 Where the Monitoring Officer seeks to resolve the complaint informally he or she will provide the Subject Member with recommendation together with a reasonable timescale within which to attempt to resolve the complaint (usually this will be 20 working days following a decision to seek Informal Resolution) or to engage in a process of Informal Resolution organised by the Monitoring Officer.
- 8.4 Before deciding upon a course of action, the Subject Member may seek guidance from the Leader of their political group, the Independent Person, and/or the Monitoring Officer. The Monitoring officer may also seek the Complainant's views to ascertain what form of informal resolution they would find acceptable, particularly if the form of resolution they have specified in their complaint is not possible.
- 8.5 At the end of the 20 working day period referred to at paragraph 8.3 above the Monitoring Officer will, in consultation with the Independent Person, seek to establish whether the Subject Member has resolved the complaint to the Complainant's satisfaction.
- 8.6 Where it has been possible to agree a form of resolution between the Subject Member and the Complainant, there will be no further action taken in respect of the complaint and the Monitoring Officer will notify both the Complainant and the Subject Member of this decision.
- 8.7 Where it has not been possible to agree a form of resolution between the Subject Member and the Complainant, the Monitoring Officer will decide if the complaint merits formal investigation.
- 8.8 Where the Subject Member makes a reasonable offer of informal resolution, but it is rejected by the Complainant, the Monitoring Officer will take account of this in his or her decision but may impose the Informal Resolution.
- 8.9 Where Informal Resolution is proposed, the Monitoring Officer may direct that the Subject Member maintains confidentiality as to the matters discussed, and parties involved.
- 9. Stage 4 – Formal Investigation**
- 9.1 Where the Monitoring Officer of Assessment Sub-Committee decides that a complaint merits investigation, he/she will appoint an Investigating Officer.
- 9.2 The process of appointment and functions of the Investigating Officer are set out at Appendix 2.

**10. Stage 5 – Review of Report**

- 10.1 The Monitoring Officer will, within 10 working days of the receipt of the Investigating Officer's report prepared in accordance with Appendix 2, review the report.
- 10.2 The Monitoring Officer will, in consultation with the Independent Person, determine whether:
- a) The report is incomplete and should be referred back to the Investigating Officer or a newly appointed Investigating Officer; or,
  - b) No further action is required, because the report finds no breach of the code of conduct; or
  - c) The matter may be reasonably resolved by way of Informal Resolution; or,
  - d) The matter should proceed to the Hearings Sub-Committee.
- 10.3 Save in respect of the circumstances described in paragraph 10.2 (a) above, the Monitoring Officer will give both the Complainant and the Subject Member a copy of the Investigating Officer's final report, subject to any necessary redactions in respect of confidential or sensitive information, and shall notify the Chairman of the Corporate Governance and Standards Committee of his or her decision.

**11. Stage 6 – Hearings Sub-Committee**

- 11.1 Where the Monitoring Officer has determined that the matter should proceed to the Hearings Sub-Committee, Appendix 3 shall apply.

Adopted by the Council on: X

Implemented on: X

## Appendix 1

### Communications Policy in relation to Member Complaints

- 1 The Communications Policy sets out guidelines on what can be communicated during any ongoing complaint. This covers both public statements to the media and communications with the Subject Member and Complainant and, if appropriate, the Parish Council. Any communications shall be under the supervision of the Monitoring Officer who may direct any exception to them, or specific action.

#### Statements to the Media

- 2 The Council should communicate in a professional and objective manner. In all cases, the Council's approach to the media should be:
  - open and honest whilst respecting the human rights of those parties involved, and
  - responsive and timely
- 3 All media communications will be made by the Council's Communications and PR Manager, in consultation with the Monitoring Officer and the Chairman of the Corporate Governance and Standards Committee.
- 4 During the first two stages of the process when a complaint is either the subject of the Initial Jurisdiction Test (Stage 1), or the Initial Assessment Test (Stage 2), it is not usual to make any public statement about a case. However, some matters may be in the public domain at an early stage. Where a statement is sought on an allegation at this stage, the Council should simply confirm or where appropriate deny the fact that an allegation has been received and is being assessed. Regard should be had as to whether a complainant has sought his or her identity to be maintained as confidential; for example, it may be appropriate not to disclose the existence of a complaint until the Initial Jurisdiction Test has been applied.
- 5 Where, following assessment, no action is to be taken on a case, public attention should not be drawn to an allegation which is not being pursued. However, where a public statement is necessary, and subject to paragraph 4.8, reasons should be given as to further action is being pursued.
- 6 Where, following assessment some further action is being taken, either the matter is being investigated or some other resolution is being pursued or has occurred, a more pro-active stance may be necessary such as a short statement being made available to confirm the fact, e.g. that an investigation is now underway, and that no further comments will be made until the conclusion of the case. Councillors and officers should not make any comments one way or the other while an investigation is ongoing. All information gathered in the course of an investigation will be regarded as confidential. All parties that are interviewed will be requested to maintain confidentiality and councillors may in particular be referred to their obligation under paragraph 3 of the Code of Conduct not to disclose information that they have received in confidence. Any report issued by an Investigating Officer will be marked "Confidential" to preserve the integrity of any further investigation the Investigating Officer may need to carry out. Release of confidential information to the media may lead to an investigation being terminated.
- 7 Where some other resolution has been reached, this may be made available with the consent of the Subject Member.

8. Where an investigation has been completed and this results in a local hearing, the Corporate Governance and Standards Committee will arrange for a summary of the decision and reasons for that decision to be published on the Council's website.
9. The Corporate Governance and Standards Committee may also make available the minutes and reports of the Hearings Sub-Committee, subject to the advice of the Monitoring Officer.

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## **Procedure for Local Investigation of Assessed Complaint**

### **Appointment of Investigating Officer**

1. Following the decision of the Monitoring Officer to investigate the allegation or upon receipt of the referral to the Monitoring Officer from the Assessment Sub-Committee for an investigation, the Monitoring Officer will appoint an Investigating Officer in respect of the allegation and instruct him or her to conduct an investigation of the allegation and to report thereon to the Monitoring Officer.
2. Where the Monitoring Officer acts as Investigating Officer, the role of legal adviser to the Hearings Sub-Committee shall be appointed by him to another individual, whether an internal or external appointee.
3. The Monitoring Officer may at his or her sole discretion make an external appointment to the role of Investigating Officer where for example:
  - (a) The complaint looks likely to raise particularly complex or sensitive issues;
  - (b) There is insufficient expertise within the Council to carry out the investigation;
  - (c) There is insufficient capacity within the Council to carry out the investigation;
  - (d) A conflict has, or may be perceived to have, arisen.

### **Notification of Investigation to the Subject Member**

4. The Monitoring Officer will notify the Subject Member in writing:
  - 4.1 that the allegation has been referred for local investigation and possible hearing;
  - 4.2 the identity of the person making the allegation (unless identification of the Complainant might prejudice the investigation or put the Complainant at risk);
  - 4.3 the conduct which is the subject of the allegation;
  - 4.4 the paragraph(s) of the Code of Conduct which appear to be relevant to the allegation(s);
  - 4.5 the procedure which will be followed in respect of the investigation;
  - 4.6 the identity of the Investigating Officer;
  - 4.7 the identity of the Independent Person whose views may be sought by the Subject Member; and
  - 4.8 the identity of the Parish Member whose views may be sought by the Subject Member if the Subject Member is a parish councillor.
5. The Monitoring Officer shall provide the Subject Member with a copy of the complaint.

6. In very exceptional cases, where the Monitoring Officer has reason to believe that there is a serious risk of intimidation of witnesses or destruction of evidence, the Monitoring Officer may initiate an investigation before notifying the Subject Member.

#### **Notification to the Complainant**

7. At the same time as notifying the Subject Member, the Monitoring Officer will notify the Complainant in writing of the matters set out above.

#### **Notification to the Corporate Governance and Standards Committee**

8. At the same time as notifying the Subject Member, the Monitoring Officer will notify the Chairman of the Corporate Governance and Standards Committee in writing of the matters set out above.

#### **Notification to the Clerk of the Parish Council**

9. Where the allegation relates to the conduct of a Subject Member of a Parish Council in his or her capacity as such, at the same time as notifying the Subject Member, the Monitoring Officer will notify the Clerk of the Parish Council concerned in writing of the matters set out above.

#### **Investigation Process**

10. The agreed process may be the standard procedure used by the external investigator. As a minimum, the Investigating Officer will interview the Complainant, the Subject Member and, where possible, any witnesses to the event or events that are the substance of the complaint. The Investigating Officer will produce notes of these meetings that will be signed by the interviewees as fair records of what was said in the interviews. If the complaint is complex, the Investigating Officer may produce formal, signed statements and participants will be notified that the information they have provided could be released into the public domain if the matter proceeds to a hearing.
11. Interviews may be recorded where the Investigating Officer, in consultation with the Monitoring Officer, considers this appropriate.
12. The Monitoring Officer will agree with the Investigating Officer the scope and parameters of the investigation before an investigation starts. However, these may change during the course of an investigation depending on the findings of that investigation. Any changes will be agreed with the Monitoring Officer by the Investigating Officer and this agreement will be documented.

#### **Initial Response of the Subject Member**

13. The Monitoring Officer should request the Subject Member to respond to the Investigating Officer in writing within 14 days of notification as follows:
  - (a) advising the Investigating Officer whether the Member admits or denies the breach of the Code of Conduct which is the subject of the allegation;
  - (b) listing any documents which the Subject Member would wish the Investigating Officer to take into account in any investigation of the allegation, where possible providing copies of these documents and informing the Investigating Officer of where the original documents may be inspected;

- (c) providing the Investigating Officer with the name, address and telephone number (or other appropriate contact details) of any person or organisation whom the Subject Member would wish the Investigating Officer to interview in the course of any investigation of the allegation; and
- (d) providing the Investigating Officer with any information which the Subject Member would wish the Investigating Officer to seek from any person or organisation.

### **Supporting information from the Complainant**

14. In notifying the Complainant as above, the Monitoring Officer will request the Complainant to respond to the Investigating Officer within 14 days of notification as follows:
  - (a) listing any document which the Complainant would wish the Investigating Officer to take into account in any investigation of the allegation, where possible providing copies of these documents, and informing the Investigating Officer of where the original documents may be inspected;
  - (b) providing the Investigating Officer with the name, address and telephone number (or other appropriate contact details) of any person or organisation whom the Complainant would wish the Investigating Officer to interview in the course of any investigation; and
  - (c) providing the Investigating Officer with any information which the Complainant would wish the Investigating Officer to seek from any person or organisation.
15. The Subject Member has a duty to cooperate with any investigation and to respond promptly and to comply with any reasonable requests from the Investigating Officer for such things as interviews, comments on draft meeting/interview notes or the provision of information necessary for the conduct of an investigation.

### **Confidentiality**

16. It is important that confidentiality is maintained throughout the investigation and that details of the complaint are not disclosed to any third party, unless disclosure is to a representative, witness, immediate family members, or otherwise as may be required by law or regulation. However, the fact that an investigation is being conducted does not need to remain confidential.

### **Termination of an Investigation**

17. In exceptional circumstances, and as is referred to in paragraph 5.1 of the Arrangements, the Monitoring Officer may stop an investigation before it is finished, for example where confidential information has been released to the media, if the Subject Member ceases to be a councillor, has a long term or serious illness, or dies and it is deemed no longer in the public interest to pursue the matter further. If the Monitoring Officer stops the Investigation early, he/she will give their reasons to the Subject Member and the Complainant.
18. The Investigating Officer may terminate their investigation at any point, where they are satisfied that they have sufficient information to enable them to report to the Monitoring Officer or Hearings Sub-Committee.

### **Reference to Police or other regulatory agencies**

19. At any point in the course of the investigation, if the Investigating Officer is of the opinion the complaint identifies criminal conduct or breach of other regulation by any person he or she should, after consulting the Monitoring Officer, suspend his or her investigation, and the Monitoring Officer shall then request the police or other regulatory authority or agency to investigate the matter.
20. Where the police or other agency does investigate the matter, the Monitoring Officer shall ensure that the Subject Member, the Complainant, the Chairman of the Corporate Governance and Standards Committee and if appropriate the clerk to the Parish Council are informed at the appropriate time. Where the police or other regulatory agency declines to undertake the investigation, the Monitoring Officer shall instruct the Investigating Officer to resume his or her investigation.

### **The Draft Report**

21. When the Investigating Officer is satisfied that he or she has sufficient information or has obtained as much information as is likely to be reasonably capable of being obtained, he or she shall prepare a draft report setting out:
  - (a) the details of the allegation;
  - (b) the relevant provisions of the Code of Conduct;
  - (c) the Subject Member's initial response to the allegation(s) (if any);
  - (d) the relevant information, advice and explanations which he or she has obtained in the course of the investigation;
  - (e) a list and copy of any documents relevant to the matter;
  - (f) a list of those persons whom he or she has interviewed, a copy of the record and any meeting notes and those organisations from whom he or she has sought information;
  - (g) a note of any person or organisation who has failed to co-operate with the investigation and the manner in which they have failed to co-operate;
  - (h) a statement of his or her draft findings of fact;
  - (i) his or her conclusion as to whether the Subject Member has or has not failed to comply with the Code of Conduct;
  - (j) any recommendations which the Investigating Officer is minded to make to the Hearings Sub-Committee. Where the allegation relates to a parish councillor, such recommendations would be recommendations which the Investigating Officer would recommend the Hearings Sub-Committee make to the relevant Parish Council.
22. The draft report should also state that the report does not necessarily represent the Investigating Officer's final finding and that the Investigating Officer will be in a position to present a final report to the Hearings Sub-Committee once he or she has considered any comments received on the draft report.
23. The Investigating Officer shall then send a copy of his or her draft report to the Subject Member and the Complainant and request that they send any comments thereon to him or her within 14 days of the date of that request. The draft report will be clearly labelled 'DRAFT' and 'CONFIDENTIAL'.



### **The Final Report**

24. After the expiry of that period (or such extended period as the Investigating Officer may allow), the Investigating Officer shall reconsider and amend his or her draft report in the light of any comments received and produce and send to the Monitoring Officer his or her final report. The report will be clearly labelled 'FINAL' and 'CONFIDENTIAL'.

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## **Procedure and powers of the Corporate Governance and Standards Committee, and Hearings Sub-Committee**

### ***Timing***

1. The Corporate Governance and Standards Committee will seek to hold a hearing in relation to an allegation within three months of receiving the Investigation Report. The hearing will be conducted by a Sub-Committee of the Corporate Governance and Standards Committee known as the Hearings Sub-Committee.

### **Before the hearing**

#### ***The pre-hearing process***

2. The Corporate Governance and Standards Committee will use a written pre-hearing process in order to allow the hearing to proceed fairly and efficiently.
3. The Monitoring Officer will ask the Subject Member to provide the following information within 15 working days:
  - 3.1 to identify those paragraphs in the Investigating Officer's Report with which the Subject Member agrees, and those paragraphs in the Report with which the Subject Member disagrees and the reasons for such disagreement;
  - 3.2 to identify any further documentary evidence upon which the Subject Member would like to rely at the hearing;
  - 3.3 to ascertain if they are going to attend the hearing and if they are going to represent themselves or whether they are going to employ someone to represent them, in which case they should provide the details of their representative prior to the hearing;
  - 3.4 to give reasons whether the whole or any part of the hearing should be held in private and whether any of the documentation supplied to the Hearings Sub-Committee should be withheld from the public.
4. The Monitoring Officer will ask the Investigating Officer to comment on the Subject Member's response within 15 working days to say whether or not he or she:
  - 4.1 will be represented at the hearing;
  - 4.2 wants to call witnesses to give evidence to the sub-committee;
  - 4.3 wants any part of the hearing conducted in private and why;
  - 4.4 wants any part of the Investigating Officer's report or other relevant documents to be withheld from the public and why.
5. The Monitoring Officer will endeavour to accommodate the availability of the parties attending the hearing before notifying the parties of the date, time and place for the hearing.

## **The Hearing**

### ***Preliminary***

6. The members of the sub-committee will be selected by the Monitoring Officer after having consulted the Chairman of the Corporate Governance and Standards Committee, noting the restrictions of paragraph 1.6 of the Arrangements above

### **Notification of the Hearing**

7. The Monitoring Officer shall ensure that, when the agenda for the Hearings Sub-Committee is circulated to members of the Hearings Sub-Committee, including the final report, the agenda and the report are also sent at the same time to:
  - (a) the Subject Member
  - (b) the Complainant;
  - (c) Witnesses; and
  - (d) the Clerk to the Parish Council if the Subject Member is a parish councillor.
8. The Hearings Sub-Committee will be convened to determine the outcome of the Complaint and shall follow the Order of Business set out below..

### ***The Order of Business***

9. The order of business will be as follows, subject to the Chairman exercising discretion and amending the order of business where they consider that it is expedient to do so in order to secure the effective and fair consideration of any matter:
  - 9.1 Election of a Chairman.
  - 9.2 Apologies for absence and notification of substitutes.
  - 9.3 Declarations of interests.
  - 9.4 In the absence of the Subject Member, consideration as to whether to adjourn or to proceed with the hearing.
  - 9.5 Introduction by the Chairman, of Members of the Hearings Sub-Committee, the Independent Person, the Parish Member (if the complaint involves a parish councillor), the Monitoring Officer or Legal Advisor to the Sub-Committee, Investigating Officer, Complainant(s) and the Subject Member and their representative (if appointed).
  - 9.6 To receive representations from the Monitoring Officer, the Investigating Officer and Subject Member as to whether any part of the hearing should be held in private and/or whether any documents (or parts thereof) should be withheld from the public/press (subject to Part 1 of Schedule 12A Local Government Act 1972 (as amended)).

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- 9.7 To determine whether the public/press are to be excluded from any part of the meeting and/or whether any documents (or parts thereof) should be withheld from the public/press (subject to Part 1 of Schedule 12A Local Government Act 1972 (as amended))..and the reasons for such an exclusion.
- 9.8 Conduct of the Hearing. The Hearings Sub-Committee may adjourn the hearing at any time.

***Presentation of the Complaint***

10. The Investigating Officer presents their report including any documentary evidence or other material and calls any complainant witnesses.
11. The Hearings Sub-Committee will give the Subject Member the opportunity to ask any questions regarding the evidence presented through the Chairman. This is not cross examination but an opportunity to ask questions/points of clarification on the evidence presented at the hearing
12. The Hearings Sub-Committee may question the Investigating Officer upon the content of his or her report and any complainant witnesses. This is not cross examination but an opportunity to ask questions/points of clarification on the evidence presented at the hearing

***Presentation of the Subject Member's case***

13. The Subject Member or their representative presents their case and calls their witnesses.
14. The Hearings Sub-Committee will give the Investigating Officer the opportunity to ask any questions regarding the evidence presented through the Chairman.
15. The Hearings Sub-Committee may question the Subject Member upon the contents of their case and any Subject Member witnesses.

***Summing up***

- 16 The Investigating Officer sums up the complaint.
- 17 The Subject Member or their representative sums up their case.

***Deliberations of the Hearings Sub-Committee***

- 18 The Hearings Sub-Committee will adjourn the hearing and deliberate in private (assisted on matters of law by a legal advisor, and taking the view of the Independent Person and the Parish Member (where applicable) who shall be entitled to retire to consider their view) to consider whether on the facts found, the Subject Member has failed to comply with the Code of Conduct.
- 19 The Hearings Sub-Committee may, at any time, come out of private session and reconvene the hearing in public, in order to seek additional evidence from the Investigating Officer, the Subject Member or the witnesses. If further information to assist the Hearings Sub-Committee cannot be presented, then the Hearings Sub-Committee may adjourn the hearing and issue directions as to the additional evidence required and by whom.

- 20 The Hearings Sub-Committee will make its decision on the balance of probability, based on the evidence before it during the hearing.
- 21 Where the complaint has a number of aspects, the Hearings Sub-Committee may reach a finding, apply a sanction and /or make a recommendation on each aspect separately.
- 22 Having deliberated on its decision the Hearings Sub-Committee will reconvene the hearing in public and the Chairman will announce that, on the facts presented, the Hearings Sub- Committee considers that there has been a breach of the Code of Conduct, or no breach, as the case may be.
- 23 If the Hearings Sub-Committee considers that there has been **no breach of the Code of Conduct**, the Sub-Committee will set out the principal reasons for the decision. The Chairman will also announce that the Sub-Committee's full decision and reasons will be issued by the Monitoring Officer, in writing, within approximately 10 working days following the close of the hearing.
- 24 If the Hearings Sub-Committee decides that there has been **a breach of the Code of Conduct**, the Chairman will announce the principal reasons for the decision.
- 25 The Chairman will then invite the Investigating Officer and the Subject Member, to make their representations as to whether any sanction(s) or recommendations should be applied and what form any sanction(s) or recommendation(s) should take. In reaching its decision, the Hearings Sub-Committee may make any recommendations it considers may facilitate and enhance ethical standards within the relevant authority. The Independent Person) will then be invited to express their view on any sanction(s) or recommendation(s) to the Borough or Parish Council or Monitoring Officer.
- 26 Having heard the representations/views, the Hearings Sub-Committee will adjourn with the legal adviser and deliberate in private. The Independent Person and the Parish Member (if appropriate) shall express their view in private session and shall be entitled to retire to consider their view beforehand.
- 27 Having deliberated on the suggested sanctions and/or recommendations(s) and the application of any sanctions(s), and having taken into account the Independent Person's views and those of the Parish Member if the complaint relates to a parish councillor, the Hearings Sub-Committee will reconvene the hearing and the Chairman will announce:
- whether any sanctions are to be applied (sanctions can only be recommended if the Subject Member is a parish councillor).
  - Whether any recommendations will be made to the Borough or Parish Council or the Monitoring Officer.
  - That the Sub-Committee's full decision and reasons will be issued by the Monitoring Officer, in writing, within approximately 10 working days following the close of the hearing.
  - That the decision will be published on the Borough Council's website; and
  - That there is no internal right of appeal against the Hearings Sub-Committee's decision(s) and/or recommendations(s).

***Range of Possible Sanctions***

- 28 The Corporate Governance and Standards Committee has delegated to the Hearings Sub-Committee such of its powers to take action in respect of the Subject Member as may be necessary to promote and maintain high standards of conduct. Accordingly, the Hearings Sub-Committee may:
- 28.1 Publish and report its findings in respect of the Subject Member's conduct (or recommend to the relevant Parish Council that it does so);
- And it may
- 28.2 Report its findings to Council (or to the Parish Council) for information;
- 28.3 Censure the Member;
- 28.4 Recommend to the Subject Member's political group leader (or in the case of an un-grouped Subject Member, recommend to Council) that they be removed from any or all Committees or Sub-Committees of the Council for a specified period;
- 28.5 Recommend to the Leader of the Council, in the case of an Executive Subject Member, that the Subject Member be removed from the Executive, or removed from particular portfolio responsibilities for a specified period;
- 28.6 Instruct the Monitoring Officer (or recommend to the Parish Council) that the Subject Member be requested to participate in appropriate training or participate in conciliation or mediation; and where the Subject Member does not cooperate, the Monitoring Officer shall report the matter to the Chair of Corporate Governance and Standards who shall cause a meeting of the Hearings Sub-Committee to take place with the purpose of resolving to apply an alternative sanction;
- 28.7 Recommend to Council or the Leader of the Council (in the case of appointments by the Executive) or the relevant Parish Council that the Subject Member be removed from all or particular outside appointments to which they have been appointed or nominated by the Council or by the Parish Council for a specified period (in which case the meeting of the Council to consider the proposed removal shall do so on the basis of the report alone, and shall not re-hear the matter);
- 28.8 Withdraw, or recommend to the relevant Parish Council that it withdraws facilities provided to the Subject Member by the Council, such as a computer, website and/or e-mail and internet access for a specified period;
- 28.9 Exclude, or recommend that the relevant Parish Council excludes the Subject Member from the Council's offices or other premises, with the exception of meeting rooms as necessary for attending Council, Committee and Sub-Committee meetings and public areas;
- 28.10 Issue a formal letter of advisement as to future conduct to the Subject Member;

- 28.11 Request that Subject Member should tender an apology to such persons as were aggrieved by his or her actions
- 28.12 Where the Monitoring Officer and Independent Person are not satisfied that the Subject Member has tendered the apology described at 27.11 the Monitoring Officer shall report the matter to the Chair of Corporate Governance and Standards who shall cause a meeting of the Hearings Sub-Committee to take place with the purpose of resolving to apply an alternative sanction.

The Hearings Sub-Committee cannot suspend a Subject Member, withdraw a Subject Member's allowance, impose financial penalties, award compensation or make an award of costs.

***Matters to Consider when Applying a Sanction***

- 29 When deciding whether to apply one or more sanctions referred to above, the Hearings Sub-Committee will ensure that the application of any sanction is reasonable and proportionate to the Subject Member's behaviour and that any sanction does not unduly restrict the Subject Member's ability to perform the functions of a councillor. The Hearings Sub-Committee will consider the following questions along with any other relevant circumstances raised at the hearing:
- (a) What was the Subject Member's intention and did they know that they were failing to follow the Borough or Parish Council's Code of Conduct?
  - (b) Did the Subject Member receive relevant advice from officers before the incident and was that advice acted on in good faith?
  - (c) Has there been a relevant breach of trust?
  - (d) Has there been financial impropriety, e.g. improper expense claims or procedural irregularities?
  - (e) What was the result/impact of failing to follow the Borough or Parish Council's Code of Conduct?
  - (f) How serious was the incident?
  - (g) Does the Subject Member accept that they were at fault?
  - (h) Did the Subject Member apologise to the relevant persons?
  - (i) Has the Subject Member previously been warned or reprimanded for similar misconduct?
  - (j) Has there been a relevant previous breach by the Subject Member of the Borough or Parish Council's Code of Conduct?
  - (k) Is there likely to be a repetition of the incident?
  - (l) Was it a deliberate breach of the code or was it inadvertent (i.e. the Member thought that he/she was acting in a private capacity)? If capacity is an issue, the Hearings Sub-Committee will need to give reasons for its decision that the Subject Member was or was not acting publicly.

***The written decision***

30 The Chairman will announce its decision on the day. The Monitoring Officer will issue a full written decision approximately 10 working days after the end of the hearing to:

30.1 The Subject Member;

30.2 The Complainant;

30.3 Any witness; and

30.4 The clerk to any Parish Council concerned.

***Making the findings public***

31 The Monitoring Officer will also arrange for a summary of the decision and reasons for that decision to be published on the Council's website.

32 If the Hearings Sub-Committee finds that a Subject Member did not fail to follow the relevant authority's Code of Conduct, the public summary must say this, and give reasons for this finding.

33 If the Hearings Sub-Committee finds that a Subject Member failed to follow the Code of Conduct, but that no action is needed, the public summary must say that the Subject Member failed to follow the Code of Conduct, outline what happened and give reasons for the Hearings Sub-Committee's decision not to take any action.

34 If the Hearings Sub-Committee finds that a Subject Member failed to follow the Code of Conduct and it sets a sanction, the public summary must say that the Member failed to follow the Code of Conduct, outline what happened, explain what sanction has been set and give reasons for the decision made by the Hearings Sub-Committee.

***Costs***

35 Subject Members are responsible for meeting the cost of any representation at a Hearings Sub-Committee meeting from their own finances and not those of the Council. The Hearings Sub-Committee cannot make orders as to costs. Neither the Borough Council nor a Parish Council can contribute to the Subject Member's costs or the Complainant's costs or indemnify a Subject Member or Complainant against costs which he or she may incur.

***Appeals***

36 There is no right of appeal for a Member against a finding by the Hearings Sub-Committee following a hearing.

***Variation***

37 The Monitoring Officer or the Hearings Sub-Committee on the advice of the Monitoring Officer may vary this procedure in any particular instance where he or she or they is/are of the opinion that such a variation is desirable and does not conflict with statutory requirements.



Corporate Governance & Standards Committee Report

Ward(s) affected: All

Report of Director of Finance

Author: John Armstrong

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Date: 14 June 2018

## **Review of the Councillors' Development Steering Group**

### **Executive Summary**

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

This report asks the Committee to review the work carried out by the Steering Group over the past twelve months and the work they are likely to undertake over the next twelve months and to agree that it should continue its work. The current political composition of the Steering Group is as follows:

Conservatives: 4  
Liberal Democrats: 1  
Guildford Greenbelt Group: 1  
Labour: 1

### **Recommendation to the Committee:**

- (1) To agree that the Councillors' Development Steering Group should continue its work and to approve the numerical allocation of seats on the Steering Group to each political group.
- (2) Subject to paragraph (1) above, to ask political group leaders to confirm the councillor membership of the Steering Group in accordance with the agreed numerical allocation of seats.
- (3) To agree revised terms of reference of the Steering Group, 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 fundamental themes that support the vision of the Corporate Plan: Place-making, Community and Innovation.”

Reason for Recommendation:

To comply with the requirement for this Committee to review the continuation of the Councillors’ Development Steering Group, in accordance with Council Procedure Rule 24 (v).

**1. Purpose of Report**

- 1.1 This report asks the Committee to review the work carried out by the Councillors’ Development Steering Group over the past twelve months and the work they are likely to undertake over the next twelve months. As part of this review, the report also asks the Committee to agree formally that the Steering Group should continue as presently constituted, and the numerical allocation of seats to each political group.

**2. Strategic Priorities**

- 2.1 The work of councillor task groups should assist in the delivery of the Council’s Corporate Plan and the fundamental themes that support that Plan.

**3. Background**

- 3.1 Council Procedure Rule 24 (v) requires the Committee to review, annually, the continuation of those task groups for which it is responsible. The Councillors’ Development Steering Group is such a group.
- 3.2. The Committee will recall that the Council agreed in December 2016, as part of a review of the Constitution, to include for the purposes of clarity and avoidance of doubt, information in Council Procedure Rules on the appointment, terms of reference, composition and duration of:
- working groups (appointed by the Leader, a lead councillor, or the Executive) and
  - task groups (appointed by Council, a committee, or an EAB),
- including the appointment of working/task group chairmen and substitutes.
- 3.3 At its meeting on 22 May 2018, the Executive considered a report on the review of working groups for which it is the appointing body. The format of this report is similar to the Executive report and sets out in **Appendix 1**:
- (a) the terms of reference and current composition of the Steering Group; and
  - (b) a summary of general progress including work undertaken, goals achieved and work still to be carried out.
- 3.4 Clearly, the work of the Steering Group is vital to ensure that the Councillor training and development programme continues to meet the needs of councillors and strives to maintain the standards required by the South East Employers Charter for

Elected Member Development. Accordingly, the Committee is asked to agree that the Steering Group continues with its work.

3.5 The current political composition of the Steering Group is as follows:

Conservatives: 4  
Liberal Democrats: 1  
Guildford Greenbelt Group: 1  
Labour: 1

3.6 Under Council Procedure Rule 24, this Committee may determine, amongst other things,

- the number of councillors on a task group,
- whether the task group should be cross-party (it is essential that *all* political groups are represented on the Steering Group) and
- whether to ask political group leaders to nominate councillors for membership of the Steering Group or appoint those councillors itself.

#### **4. Equality and Diversity Implications**

4.1 The Steering Group is responsible for taking due regard to the requirements of the Public Sector Equality Duty (Equality Act 2010) when making any policy recommendations.

#### **5. Financial Implications**

5.1 There are no financial implications arising from this report. Any proposals, projects or suggestions from the Steering Group with financial implications will either be contained within approved budgets or considered as part of the Service and Financial Planning cycle.

5.2 The budget for councillor training and development in 2018-19 is £12,000.

#### **6. Legal Implications**

6.1 There is no legal requirement to establish working groups but most councils use them for purposes similar to ours. As stated above, we have made provision for their operation in Council Procedure Rules.

#### **7. Human Resource Implications**

7.1 Currently, we are able to service the Steering Group from within existing staffing resources.

#### **8. Summary of Options**

8.1 In the light of the information provided in this report, the Committee (as the 'appointing body') is asked to agree that the Steering Group continues with its work.

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- 8.2 The Committee may also revise terms of reference and composition of the Steering Group. In that regard, the Committee is also asked to agree the numerical allocation of seats to each political group.

**9. Background Papers**

None

**10. Appendices**

Appendix 1: Table showing details of the Councillor Development Steering Group including work undertaken over the past 12 months, and work still to be carried out

Appendix 1

NAME OF GROUP <i>and number of appointed councillors</i>	DATE ESTABLISHED/ FREQUENCY OF MEETINGS	DATE OF NEXT MEETING	TERMS OF REFERENCE	DETAILS OF GENERAL PROGRESS AND WORK STILL TO BE UNDERTAKEN
<p><b>Councillors’ Development Steering Group</b></p> <p><i>Currently 7 members:</i> Cllr Cross Cllr Furniss Cllr Gunning Cllr Hurdle (C) Cllr Parsons Cllr Paul Cllr Roche</p>	<p>Dec 2005/ The Group met on 4 occasions in 2017-18</p>	<p>TBC following CGSC meeting on 14 June 2018 (anticipated number of meetings in 2018- 19: 4 based upon the group continuing to meet on a quarterly basis)</p>	<p>The current terms of reference of the group are as follows:</p> <p>“To continue to develop a clear structured Action Plan for councillor development that responds to the fundamental themes that support the vision of the Corporate Plan; Our Borough, Our Economy, Our Infrastructure, Our Environment and Our Society.</p> <p>To continue to support councillors in their ongoing development and training needs particularly with the introduction of new governance arrangements taking effect as of 1 January 2016.”</p> <p>In view of the recent revision of the Corporate Plan, the Committee is asked to consider adopting the following</p>	<p><u>Progress:</u></p> <ul style="list-style-type: none"> <li>• The Steering Group has continued to lead on helping the Council meet the standard of the SE Charter for Elected Member Development. The Council’s next full assessment will take place in November 2019 with an 18 - month interim assessment arranged for 11 June 2018.</li> <li>• At each meeting, the steering group reviews: <ul style="list-style-type: none"> <li>○ the councillors’ training and development programme</li> <li>○ evaluation forms completed after each training/seminar session and recommends changes to the organisation of future events where required</li> <li>○ the councillors’ training and development budget.</li> </ul> </li> <li>• The Steering Group approved the provision of an online learning tool called ‘Learning Pool’, which provides councillors with the opportunity of accessing core training modules</li> <li>• The Steering Group approved the</li> </ul>

<b>NAME OF GROUP</b> <i>and number of appointed councillors</i>	<b>DATE ESTABLISHED/                      FREQUENCY OF MEETINGS</b>	<b>DATE OF NEXT MEETING</b>	<b>TERMS OF REFERENCE</b>	<b>DETAILS OF GENERAL PROGRESS AND WORK STILL TO BE UNDERTAKEN</b>
			revised terms of reference for the Steering Group:  “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 fundamental themes that support the vision of the Corporate Plan: Place-making, Community and Innovation.”	introduction of a “Be a Councillor” web portal to assist those thinking of becoming a councillor <ul style="list-style-type: none"> <li>• Councillor Role Profiles were reviewed and a clear reference included to the importance of member development in line with a recommendation from the last full assessment under the SE Charter for Elected Member Development.</li> <li>• The Steering Group has included in the Councillor Development Work Programme links to leadership development courses hosted by the Local Government Association and Leadership Academy.</li> </ul> <p><u>Work to be undertaken:</u></p> <ul style="list-style-type: none"> <li>• To continue to arrange training courses for councillors that are relevant to their needs, including bite-sized training prior to Planning Committee meetings.</li> <li>• To obtain councillors’ views on the new Councillors’ Pages that are now hosted on the Council’s website, rather than the Loop. The Pages include access to information on forthcoming training events, links to recent training presentations and other useful information – e.g. on data protection, Fol</li> </ul>

NAME OF GROUP <i>and number of appointed councillors</i>	DATE ESTABLISHED/ FREQUENCY OF MEETINGS	DATE OF NEXT MEETING	TERMS OF REFERENCE	DETAILS OF GENERAL PROGRESS AND WORK STILL TO BE UNDERTAKEN
				<p>and local government finance</p> <ul style="list-style-type: none"> <li>• To include a feedback form on the new Councillors' Pages for those councillors attending external courses and where course materials are available to all councillors.</li> <li>• To promote the 'Becoming a Councillor' sessions scheduled on 17 October 2018 and 11 February 2019 particularly through the 'beacouncillor.co.uk/guildford' website.</li> <li>• To create an induction programme for the new councillors elected in May 2019.</li> <li>• To update the 'Guide to being a Councillor' for the new councillors elected in May 2019.</li> </ul>

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Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of Director of Resources

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Date: 14 June 2018

## **Corporate Governance and Standards Committee Work Programme - 2018-19**

### **Recommendation**

That the Committee considers and approves its updated work programme for 2018-19, as detailed in Appendix 1 to this report.

#### Reason for recommendations:

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

### **1. Purpose of report**

1.1 To enable the Committee to keep its work programme updated.

### **2. Updated work programme**

2.1 The Committee's updated work programme for the 2018-19 municipal year 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 work programme 2018-19

## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

26 July 2018

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
2017-18 Audit Findings Report: Year ended 31 March 2018	To note the external auditor's findings and management's response in the Action Plan	Corporate Governance and Standards Committee	Claire Morris 01483 444827
2017-18 Audited Statement of Accounts	To approve the 2017-18 Statement of Accounts	Corporate Governance and Standards Committee	Claire Morris 01483 444827
External Audit Update	To consider the update report from the Council's External Auditors	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Summary of Internal Audit Reports October 2017 – March 2018	To consider the summary of internal audit reports for the period October 2017 to March 2018, including an update on complaints to the Local Government Ombudsman for that period	Corporate Governance and Standards Committee	Joan Poole 01483 444854
General Data Protection Regulation (GDPR)	To consider a report on progress with compliance with the GDPR	Corporate Governance and Standards Committee	Joyce Hamilton 01483 444053
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 2018)	Corporate Governance and Standards Committee	Ciaran Ward 01483 444072

## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

20 September 2018

<b>Subject</b>	<b>Details of decision to be taken</b>	<b>Decision to be taken by</b>	<b>Contact Officer</b>
Financial Monitoring 2018-19 Period 3 (April to June 2018)	To note the results of the Council's financial monitoring for the period April to June 2018	Corporate Governance and Standards Committee	Claire Morris 01483 444827
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

# CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

29 November 2018

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Annual Audit Letter for 2017-18	To consider the Annual Audit Letter and Annual Governance Report for 2016-17	Executive: 8 January 2019	Claire Morris 01483 444827
Financial Monitoring 2018-19: Period 6 (April to September 2018)	To note the results of the Council's financial monitoring for the period April to September 2018	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Summary of internal audit reports (April to September 2018)	To consider the summary of internal audit reports and progress on the internal audit plan for April to September 2018, including update on complaints to the Local Government Ombudsman for that period.	Corporate Governance and Standards Committee	Joan Poole 01483 444854
Appointment of Independent Persons 2019-2023	(1) To agree arrangements for the interviewing and selection of candidates for appointment as Independent Persons under section 28 of the Localism Act 2011; and  (2) To agree allowances and expenses for Independent Persons	Corporate Governance and Standards Committee	John Armstrong 01483 444102
Appointment of Independent Members and Parish Members of the Corporate Governance and Standards Committee 2019-2023	(1) To agree arrangements for the interviewing and selection of candidates for appointment of up to three Independent Members of the Corporate Governance and Standards Committee  (2) To note arrangements for the appointment of Parish Members to the Committee	Corporate Governance and Standards Committee	John Armstrong 01483 444102

## CORPORATE GOVERNANCE AND STANDARDS COMMITTEE DRAFT WORK PROGRAMME

17 January 2019

Agenda item number: 12

Subject	Details of decision to be taken	Decision to be taken by	Contact Officer
Treasury Management Annual Strategy Report 2019-20 and Prudential Indicators 2019-20 to 2023-24	To recommend to Council the adoption of the revised Treasury Management Strategy and prudential indicators	Executive: 22 January Council: 6 February 2019	Victoria Worsfold 01483 444834
Financial Monitoring 2017-18 Period 8 (April to November 2018)	To note the results of the Council's financial monitoring for the period April to November 2018	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Annual report of the Monitoring Officer regarding misconduct allegations	(1) To note the cases dealt with; and  (2) To advise the Monitoring Officer of any areas of concern upon which they would like further information and/or further work carried out.	Corporate Governance and Standards Committee	Monitoring Officer
Gender Pay Gap Report 2019-20	To note Council's gender pay gap	Corporate Governance and Standards Committee	Francesca Smith 01483 444014
Freedom of Information Compliance - Annual Report 2018	To consider the update report 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 DRAFT WORK PROGRAMME

28 March 2019

<b>Subject</b>	<b>Details of decision to be taken</b>	<b>Decision to be taken by</b>	<b>Contact Officer</b>
Discussions with those charged with governance	To agree the Committee's response to the external auditor's audit plan	Corporate Governance and Standards Committee	Claire Morris 01483 444827
External Audit Plan and Audit Update 2018-19	To approve the external audit plan for 2018-19, and to note the content of the External Auditor's update report and make any appropriate comments.	Corporate Governance and Standards Committee	Claire Morris 01483 444827
Financial Monitoring 2018-19 Period 10 (April 2018 to January 2019)	To note the results of the Council's financial monitoring for the period April 2018 to January 2019	Corporate Governance and Standards Committee	Claire Morris 01483 444827

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