Corporate Governance and Standards Report

Ward(s) affected: All

Report of Director of Finance

Author: Claire Morris

Tel: 01483 444827

Email: claire.morris@guildford.gov.uk

Lead Councillor responsible: Nigel Manning

Tel: 01252 665999

Email: nigel.manning@guildford.gov.uk

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Financial Monitoring 2018-19

Executive Summary

The report summarises the projected outturn position for the Council's general fund revenue account, based on actual and accrued data for the period April to September 2018.

Officers are projecting a reduction in net expenditure on the general fund revenue account of £1,231,449 (representing 3.31% of its original net budget). This is the result of 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 reflects a re-profiling of capital schemes, which has also had a positive impact on the level of our cash balances and assumed external borrowing costs, which have combined to produce higher than budgeted net interest receipts. The recent acquisition of the Multiplex and Old Orleans site in Bedford Road has resulted in the inclusion of £225,000 of net income, after adjustment for maintenance and other operating costs associated with the site. The impact on investment income of the acquisition is shown in the external interest receivable figure.

A surplus on the Housing Revenue Account will enable a projected transfer of £6.96 million to the new build reserve and £2.5 million to the reserve for future capital at year-end. The transfer is £277,450 lower than budgeted and is a consequence of the application of a risk-free interest rate on HRA reserve balances reflecting the allocation of risk between the general fund and the HRA.

Officers are making progress against significant capital projects on the approved programme as outlined in section 7 of this report. The Council expects to spend £88.9 million on its capital schemes by the end of the financial year. The expenditure is higher than it has been for many years and demonstrates progress in delivering the Council's capital programme.

The Council's underlying need to borrow to finance the capital programme is expected to be £69.5 million by 31 March 2019, against an estimated position of £71.15 million. The lower underlying need to borrow is a result of slippage on both the approved and

provisional capital programme as detailed in paragraphs 7.3 to 7.6 of the report.

The Council held £117 million of investments and £224.6 million of external borrowing at 30 September 2018, which includes £193.1 million of HRA loans. Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2018 as part of the Council's Capital Strategy.

Recommendation to Corporate Governance and Standards Committee

That the Committee notes the results of the Council's financial monitoring for the period April to September 2018 and makes any comments it feels appropriate

<u>Reason for Recommendation:</u>
To allow the Committee to undertake its role in relation to scrutinising the Council's finances.

1. Purpose of Report

1.1 Recommendation 8 of the 2015 Council Governance Review was: 'That the importance of the Corporate Governance and Standards Committee to the Council be recognised, particularly in the way in which it supports the overview and scrutiny function through ongoing scrutiny of financial matters, including its proposed expanded remit on the treasury management function and budget monitoring'.

1.2 This Committee started its enhanced review of our financial management at its meeting on 24 September 2015. This report covers the period April to September 2018.

2. Strategic Priorities

2.1 Councillors have reviewed and adopted an ambitious Corporate Plan for the period 2018-2023. The plan includes many significant projects and aspirations that will challenge us financially. Monitoring of our financial position during the course of the financial year is a critical part of our management of resources that will ultimately support delivery of the corporate plan.

3 Background

3.1 The Council regularly undertakes financial monitoring in a number of ways:

(a) two types of general fund revenue budget monitoring report; a full monitor for periods 3, 6, 8 and 10 and a shorter monitor for the other periods (except April) covering key service areas (Industrial Estates, Investment Property, Development Control, Major Projects, Planning Policy, Off Street Parking, Refuse and Recycling, Parks and Countryside). This report covers the period to September 2018 (period 6) and covers all Council services

(b) quarterly monitoring of the capital programme

(c) monthly and quarterly monitoring of its treasury management activity

(d) monitoring at periods 3,6,8 and 10 of the Housing Revenue Account

3.2 The Council's Corporate Management Team (CMT), Chief Finance Officer and deputies, and officer capital programme monitoring group review monitoring reports. Financial monitoring for all services is reported to this Committee on a regular basis.

3.3 This report sets out the financial monitoring and covers:
- (a) general fund revenue monitoring (section 4)
- (b) housing revenue account monitoring (section 5)
- (c) treasury management (section 6)
- (d) capital programmes (section 7)

4 General Fund Revenue Account monitoring

4.1 **Appendix 1** shows the summary monitoring report for the general fund revenue account. Officers have prepared the projected outturn on six months' actual and accrued data.

4.2 **Appendix 2** shows detailed information for each service split between direct expenditure and income and indirect costs. We monitor the projected outturn against the revised (or latest) budget as this takes into account any virements or supplementary estimates approved since the original budget was set in February 2018.

4.3 At total service unit level, the projected outturn is £210,509 lower than the latest estimate. There are items within the contributions to reserves that reverse figures within the service units. When these adjustments are taken into account, the projected outturn is £145,347 lower than the latest estimate.

4.4 Following the receipt of dividends for the quarter, the return on external funds has been reforecast and net external interest receivable is projected to be £680,649 higher than our original estimate.

4.5 The Minimum Revenue Provision (MRP), based on the Capital Financing Requirement (CFR) at 31 March 2018 for the purposes of this report is shown as £795,190. This is £405,453 lower than originally estimated. The reduction is due to slippage in the capital programme experienced during 2017-18.

4.6 The overall projected position for net expenditure is £1,231,449 lower than estimate.

4.7 The table below shows the supplementary estimates and virements approved to date.

Supplementary Estimates 2018-19

Service/Description	**Approval Date**	**Committee**	**Value £**
Nil			
TOTAL			**NIL**

Virement Record 2018-19

Service/Description	**Approved by**	**Date of Approval**	**Value £**
Homelessness Realignment of coding structures	Claire Morris	21 April 2018	260,170
Asset Development Consolidation of Maintenance Budgets	Claire Morris	8 May 2018	1,063,500
Realignment of service responsibility for Tree Management	Claire Morris	16 August 2018	75,000
Senior Management Restructure - transformation saving	Claire Morris	4 September 2018	286,440
Delivery of Internal Audit function - transformation saving	Claire Morris	5 September 2018	159,800
TOTAL			**1,844,910**

Major Service Variances

4.8 **Appendix 2** provides detailed information on variances at a service level. There are some services with projected larger variances in total net expenditure and these are summarised in the table below. The table below details service level budget variances that impact on the bottom line once the implications of items financed from reserve or an approved carry forward are excluded.

Service	Revised Budget outturn projection **Appendix 2** (£)	Transfer to/ from reserve (£)	Adjusted Revised Budget outturn projection (£)
Community Services Directorate			
Industrial Estates – loss of rental income arising from redevelopment	181,837	0	181,837
Investment Property - voids and accompanying business rates	206,612	0	206,612
Other Property - net rental from acquisition of Cinema/Old Orleans site	(204,677)	0	(204,677)

Service	Revised Budget outturn projection **Appendix 2** (£)	Transfer to/ from reserve (£)	Adjusted Revised Budget outturn projection (£)
Environment Directorate			
Crematorium - uncommitted staffing growth bid and higher than anticipated cremation income re: refurbishment	(413,049)	0	(413,049)
Parks and Countryside - traveller incursion costs, delay in realising Woodbridge Road saving.	(366,260)	532,231	165,971
Town Centre Management - profit share WiFi/sponsorship	101,046	0	101,046
Street Cleansing - vacancy saving net of agency costs	(159,140)	(4,235)	(163,375)
Finance Directorate			
Accountancy - vacancies	(81,435)	0	(81,435)
Non Distributed Costs - pension back funding calculation	(206,358)	0	(206,358)
Miscellaneous Items - removal of inflation allowance	(247,644)	0	(247,644)
Planning and Regeneration Directorate			
Development Control - temporary posts and maternity cover, planning appeal expenses	479,153	85,000	564,153
Building Control - staffing implications	136,036	15,000	151,036
Climate Change - vacancies	(75,251)	0	(75,251)

5 Housing Revenue Account

5.1 **Appendix 3** shows the budget monitoring report for the Housing Revenue Account (HRA) for the period April to September 2018. At half year, the report shows that HRA gross service expenditure is projected to outturn at 99.98% of the budgeted level, whilst income is projected to be 100.14% of the budgeted level. The projected outturn would enable a transfer of around £9.47 million to the new build reserve and the reserve for future capital.

- The rental income estimate for 2018-19 included a prudent allowance for Right to Buy (RTB) sales and the re-commissioning of units. Rental income is currently projected to be £123,600 (0.42%) lower than budgeted.

- It is projected that salary related expenditure; net of temporary staffing, vacancy credit and redundancy costs may result in a saving against budget of up to £97,090.

- Restructuring of the Sheltered and Supported Housing services was underway during the 2018-19 budget setting process. Details were finalised after the HRA budget was approved and included contract-cleaning costs not included in the original estimate, resulting in the reported budget deficit.

- Emphasis continues to be on planned rather than responsive maintenance, supported by the benefits accruing from past levels of expenditure on planned capital and revenue maintenance works. At half year, the projected expenditure on repairs and maintenance remains as per the budget; however, expenditure on void property is proving to be more volatile and may adversely affect the budget.

- With the exception of receipts from RTB sales, the estimates for the year do not provide for any repayment of HRA debt principal or for setting aside any amounts towards the repayment of debt. This is consistent with the HRA Business Plan, which prioritised the provision of additional housing. This approach will be subject to regular review and an updated business plan will be submitted reflecting constraints placed on the HRA by the prevailing legislation.

5.2 Tenancy arrears remain stable and are consistent with the assumptions contained in the business plan. Particular attention is paid to introductory tenancies (tenants of less than 12 months), as they often have no previous experience of managing a household budget or of renting a property. Universal Credit is now operational for new claims and its impact may start to increase during quarters three and four.

5.3 In measures announced in the recent Social Housing Green Paper, the plan to impose a higher-value asset levy on social housing providers was scrapped, and the relevant provisions of the Housing and Planning Act 2016 repealed. This will mean that, for the first time in many years, councils will be able to prepare longer-term HRA business plans without the threat of imposition of the levy and the sale of so-called higher-value council housing and the consequent loss of vital future rental income.

5.4 The proposals for reform of the ways in which councils will be able to use receipts from the sale of council houses under the statutory Right to Buy issued alongside the green paper are also to be welcomed – as is the government's announcement indicating the future removal of the borrowing cap on councils' housebuilding. However, we are yet to receive details on how the announcement will be implemented.

6 Treasury Management

6.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management ("the Code") recommends that councillors are informed of treasury management activities at least twice a year. This report therefore ensures the Council is embracing best practice in accordance with CIPFA's recommendations by reporting quarterly to councillors.

Debt management

6.2 We have a substantial long-term Public Works Loan Board (PWLB) debt portfolio for the HRA totalling £193 million. Currently, the Council as a whole is only borrowing short-term for cash flow purposes. There is no cost of carry on our short-term borrowing.

6.3 The following table summarises the current borrowing position of the Council and the activity to month 6.

Loan type		Balance 01 April 18 £000	New loans £000	Loans repaid £000	Balance 30 Sept 18 £000	Weighted average rate of
PWLB						3.16%
Variable		45,000	0	0	45,000	
Fixed	Maturity	147,435	0	0	147,435	
	EIP	690	0	0	690	
Total long-term Loans		**193,125**	**0**	**0**	**193,125**	
Temporary Loans		48,500	56,500	(73,500)	31,500	0.63%
Total Loans		**241,625**	**56,500**	**(73,500)**	**224,625**	

Investment activity

6.4 During the period, we have continued with the diversification of our in-house investment portfolio into secure instruments such as bonds and secure bank deposits (not subject to bail-in) in line with our Treasury Management Strategy.

6.5 The Council's budgeted investment income for 2018-19 is £1.6 million; the projected outturn is £1.8 million. The gross cash balances representing the Council's reserves and working balances at 30 September 2018 available for investment were £117.7 million and net of short-term borrowing £86.2 million.

6.6 The Council's budgeted external interest cost, which relates to short and long-term borrowing, for the year is £6.03 million and the outturn is projected to be £5.5 million.

6.7 The original net interest receivable budget was £677,000. As at 30 September, we are projecting this will outturn at £1.35 million. This results from a reduction of £624,000 in interest payable on external borrowing assumptions. The reduction in external borrowing interest cost includes £64,000 relating to the budgeted loan for Clay Lane link road, £300,000 for Major Projects strategic property capital expenditure and £200,000 relating to a liquidity buffer loan. On 2 August 2018, the Bank of England increased the base rate by 0.25% to 0.75%. This will result in higher investment returns on our variable interest rate investments.

6.8 The Council's annualised weighted return on investments for the period to September 2018 was 1.106% against an estimate of 1.629%.

6.9 The table below summarises the Council's investment activity for April to September 2018.

Investment	Principal invested £000	Balance 01 April 18 £000	Movement in investment £000	Change in capital value £000	Balance 30 Sept 18 £000	Weighted average rate of interest
Investment Funds						
Payden & Rygel	5,000	5,007	0	(5)	5,003	0.42%
CCLA	5,000	6,652	0	37	6,689	2.18%
M&G	2,008	2,572	0	358	2,930	1.79%
Schroders	1,000	884	0	23	907	4.18%
Funding Circle	900	490	0	1	491	0.32%
UBS	2,500	2,336	0	(10)	2,326	2.01%
City Financial	2,500	2,303	0	11	2,315	2.18%
In- House Investments:						
Call Accounts		436	(386)		50	0.33%
Money Market Funds		8,324	(3,589)		4,735	0.56%
Notice Accounts		11,000	0		11,000	0.74%
Temporary Fixed Deposits		35,000	(19,000)		16,000	0.89%
Certificates of Deposit		3,000	0		3,000	0.64%
Unsecured bonds		5,803	5,300		11,103	0.75%
Covered Bonds		30,829	(3,629)		27,200	0.96%
Long Term Fixed Deposits		16,500	5,000		21,500	1.54%
Revolving Credit Facility		2,500	0		2,500	2.46%
Total Investments		**133,637**	**(16,304)**		**117,749**	

6.10 Some of our externally managed funds have seen a fall in their capital values since inception. The falls are indicative of wider financial market movements over the same period. The Council's external investments are held for long-term purposes and are invested to generate an income for the Council over the longer term. Any loss in investment value will not be realised unless the investment is sold. The Council has an earmarked reserve available to utilise in the event of a loss, thus minimising the impact on the general fund. Our portfolio of managed funds is kept under regular review and as a consequence of this process we reduced our investment in Funding Circle to £490,000 during 2017-18.

Prudential Indicators

6.11 Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2018 as part of the Council's Treasury Management Strategy Statement.

Authorised limit and Operational Boundary for External Debt

6.12 The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit, which should not be breached.

6.13 The Council's authorised borrowing limit was set at £591 million for 2018-19.

6.14 The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely prudent, but not worst case, scenario without the additional headroom included in the Authorised Limit.

6.15 The operational boundary was set at £535 million for 2018-19.

6.16 The Chief Finance Officer confirms that there have been no breaches to the authorised limit and operational boundary during the year. Borrowing, at its peak, was £241.6 million.

7 Capital Programmes

7.1 **Appendices 4 to 9** of this report set out the following for each scheme on the Council's capital programme

- the gross estimate for the scheme approved by the Executive
- the cumulative expenditure to 31 March 2018 for each scheme
- the estimate for 2018-19 as approved by Council in February 2018
- the 2018-19 revised estimate which takes into account the approved estimate, any project underspends up to 31 March 2018, and any virements or supplementary estimates
- 2018-19 current expenditure
- 2018-19 projected expenditure estimated by the project officer

7.2 The table below summarises the current position on the various strands of the Council's capital programme. Detailed explanation is provided in paragraphs 7.3 to 7.11 below.

CAPITAL EXPENDITURE SUMMARY	2018-19 Approved £000	2018-19 Revised £000	2018-19 Outturn £000	2018-19 Varianc e £000
General Fund Capital Expenditure				
- Main Programme	52,885	59,083	54,803	(4,279)
- Provisional schemes	42,506	42,638	28,260	(14,378)
- Schemes funded by reserves	4,351	6,095	5,540	(555)
- S106 Projects	0	350	350	0
- Affordable Housing (General Fund)	0	0	0	0
Total Expenditure	**99,741**	**108,166**	**88,954**	**(19,212)**
Housing Revenue Account Capital Expenditure				
Approved programme	14,876	15,242	15,662	420
Provisional programme	7,830	7,830	7,221	(609)
Total Expenditure	**21,970**	**23,072**	**22,883**	**(189)**

Approved (main) programme (Appendix 4)

7.3 Expenditure is expected to be £54.8 million representing a £4.28 million variance to the revised estimate of £59.08 million. If a project is on the approved programme, it is an indicator that the project has started or is near to starting following the approval of a final business case by Executive. Whilst actual expenditure for the period of £22.13 million may seem low, a number of significant projects are in progress. These include:

- OP6 – vehicle replacement programme of £1.079 million
- FS1 – capital contingency fund – there is £4.5 million remaining in the fund

- ED25 – Guildford Park infrastructure works (£4.768 million) - this scheme received planning consent in November 2016 and initial works are progressing. A significant amount of the cost of this project is still on the provisional capital programme awaiting final business case approval.
- ED6 – Slyfield Area Regeneration Project (SARP) (£1.767 million) - work is progressing on the detailed design, pre-planning and site investigation work for this scheme to inform the final business case. The budget for the full scheme is still on the provisional capital programme.
- PL9 – Crematorium rebuild (£10.433 million) – work is progressing on this scheme which is scheduled for completion in 2019-20
- ED32 – Internal Estate Road CLLR Phase 1 (£4.966 million)
- ED49 – Midleton Industrial Estate redevelopment (£1.801 million)

7.4 In addition to the schemes outlined above, the re-profiling of the following significant amounts that were due to be spent on schemes or projects in 2018-19 will now be carried forward into 2019-20 or vice versa:

- North Downs Housing investment (£16.29 million) – spend now expected between 2019-2022.
- TCMP sites – Bedford Road Wharf £15.75 million – spend now in 2018-19 originally expected in 2019-20.

Provisional programme (Appendix 5)

7.5 Expenditure on the provisional programme is expected to be £28.26 million, against the revised estimate of £42.63 million, representing a variance of £14.37 million. These projects are still at feasibility stage and will be subject to Executive approval of a business case before they are transferred to the approved capital programme. It is only once the business case is approved that the capital works can start. Monitoring progress of these projects is key to identifying project timescales. The significant projects are:

- ED25(p) – Guildford Park new MSCP and infrastructure works (£18.625 million)
- ED48(p) – Westfield/Moorfield Road resurfacing (£3.152 million)

7.6 A number of projects, that were anticipated to start in 2018-19 have been re-profiled into future years including:
- PL16(p) – New burial ground acquisition and development (£2.458 million)
- PR7(p) – Town Centre transport infrastructure package (£4 million)
- P18(p) – Student Housing (£3 million)
- ED22(p) – Energy efficiency compliance council owned properties (£1.150 million)

S106 (Appendix 6)

7.7 Capital schemes funded from s106 developer contributions are expected to total £350,000.

Reserves (Appendix 7)

7.8 The outturn in respect of capital schemes funded from the Council's specific reserves is anticipated to be £5.54 million. The main projects are:

- expenditure on car parks: £1.795 million
- ICT renewals: £1.5 million
- ICT infrastructure improvement: £1.25 million

Capital resources (Appendix 8)

7.9 When the Council approved the budget, the estimated underlying need to borrow for 2017-18 was £71.1 million. The current estimated underlying need to borrow is £69.5 million. The minor reduction is due to slippage in the programme where schemes are re-profiled into future years.

Housing Investment Programme Approval Capital (Appendix 9)

7.10 The HRA approved capital programme is expected to outturn at £15.6 million against a revised estimate of £15.2 million. A number of projects are in progress. These include:

- Guildford Park - initial works are progressing, a significant amount of the cost of this project is still on the provisional capital programme awaiting final business case approval.
- Appletree - works are progressing with completion due in May 2019.
- Great Goodwin Drive - works are ongoing, completion is due this financial year.
- Ladymead/Fire Station – works were due to start on site in Autumn 2018.

Housing Investment Programme Provisional Capital (Appendix 10)

7.11 The provisional programme's budget was £7.8 million with expenditure anticipated this financial year of £7.2 million. This programme includes provision for the opportunity purchase of land and housing for development, which is dependent on the availability of suitable sites.

8 Consultations

8.1 The accountants prepare the budget monitor in consultation with the relevant service leaders.

9 Equality and Diversity Implications

9.1 There are no direct equality and diversity implications as a result of this report. Each service leader will consider these issues when providing their services and monitoring their budgets.

10 Financial Implications

10.1 The financial implications are contained throughout the report.

11 Legal Implications

11.1 The Local Government Act 1972, Section 151 states that each local authority has a statutory duty to make arrangements for the proper administration of their financial affairs. In addition, the Accounts and Audit Regulations 2015 impose an explicit duty on the Council to ensure that financial management is adequate and effective and that they have a sound system of internal control, including arrangements for the management of risk.

11.2 "Proper administration" is not statutorily defined; however, there is guidance, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the responsibilities of the Chief Finance Officer (CFO). This states that local authorities have a corporate responsibility to operate within available resources and the CFO should support the effective governance of the authority through development of corporate governance arrangements, risk management and reporting framework. Regular monitoring of the Council's actual expenditure to budget and forecasting of the expenditure for the full year is part of the proper administration and governance of the Council.

11.3 There are no further direct legal implications because of this report.

12 Human Resource Implications

12.1 There are no human resource implications arising from this report.

13 Summary of Options

13.1 This report outlines the anticipated outturn position for the 2018-19 financial year based on six months' actual data. There are no specific recommendations and therefore no options to consider.

14 Conclusion

14.1 The report summarises the financial monitoring position for the period April to September for the 2018-19 financial year.

14.2 Officers are currently projecting a reduction in net expenditure of £1,231,449 on the general fund revenue account. The main reasons for this are set out in the table in paragraph 4.8

14.3 The Chief Financial Officer in consultation with the Lead Councillor for Finance and Asset Management will determine the treatment of any balance as part of closing the 2018-19 accounts.

14.4 The surplus on the Housing Revenue Account will enable a transfer of £6.96 million to the new build reserve and £2.5 million to the reserve for future capital at year-end.

14.5 Actual expenditure incurred on our general fund capital programme for the period has been comparatively low against the programme envisaged at the 1 April 2018. Officers are making progress against significant capital projects on the approved programme as outlined in section 7. The Council expects to spend £88.95 million on its capital schemes by the end of the financial year.

14.6 It is anticipated that the Council's underlying need to borrow to finance the capital programme will be £69.5 million by 31 March 2019. The Council has complied with Prudential Indicators during the period with the exception of the upper limit on variable interest rates.

14.7 At the end of September 2018, the Council had £117.7 million of current investment balances.

15 Background Papers

None

16 Appendices

Appendix 1: General fund revenue account summary
Appendix 2: General fund services - revenue detail
Appendix 3: Housing Revenue Account summary
Appendix 4: Approved capital programme
Appendix 5: Provisional capital programme
Appendix 6: Schemes funded from S106
Appendix 7: Capital reserves
Appendix 8: Capital resources
Appendix 9: Housing Revenue Account approved capital programme
Appendix 10: Housing Revenue Account provisional capital programme