

Corporate Governance and Standards Committee Report

Ward(s) affected: n/a

Report of Director of Finance

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Financial Monitoring 2019-20 (April-May 2019)

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 May 2019.

Officers are projecting an increase in net expenditure on the general fund revenue account of £66,594, which includes a £171,280 reduction in the statutory Minimum Revenue Provision (MRP) charge to the general fund to make provision for the repayment of past capital debt reflecting a re-profiling of capital schemes. At service level, the projected outturn is £237,874 higher than the latest estimate once adjusted for items either funded from reserve or transferred to reserve.

A surplus on the Housing Revenue Account will enable a projected transfer of £8.53 million to the new build reserve and £2.5 million to the reserve for future capital at year-end. The transfer is projected to be £97,384 higher than budgeted assumption and reflects modest variations in repair and maintenance expenditure and staffing costs.

Officers are making progress against significant capital projects on the approved programme as outlined in section 7. The Council expects to spend £82.5 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 £46.42 million by 31 March 2020, against an estimated position of £53.35 million. The lower underlying need to borrow is a result of slippage on both the approved and provisional capital programme as detailed in paragraph 7.3 to 7.6 of the report.

The Council held £106.5 million of investments and £205.9 million of external borrowing at 31 May 2019, which includes £192.9 million of HRA loans. Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2019 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 May 2019 and makes any comments it feels appropriate

Reason for Recommendation:

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 May 2019.

2. Strategic Priorities

- 2.1 Councillors have reviewed and adopted an ambitious corporate plan for the period 2015-2020. 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 undertakes regular financial monitoring in the following ways:
 - a. reporting the General Fund and Housing Revenue Account position on a bimonthly basis [periods 2, 4, 6, 8 and 10] This report covers the period to May 2019 [period 2] and covers all Council services
 - b. quarterly monitoring of the capital programme
 - c. monthly and quarterly monitoring of its treasury management activity
- 3.2 The Council's Corporate Management Team (CMT), Chief Finance Officer and deputy, and officer capital programme monitoring group review monitoring reports. Financial monitoring for all services is reported to the Council's Corporate Governance and Standards Committee on a regular basis.
- 3.3 We have amended the monitoring periods for 2019-20 to better align with scheduled dates for this committee. This change enables the committee to scrutinise the financial monitoring on five occasions rather than the previous four occasions.

3.4 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. Officers have prepared the projected outturn on two 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 virement or supplementary estimates approved since the original budget was set in February 2019.

4.3 At total service after adjustment for movements to and from reserve, the projected outturn is £237,874 higher than the latest estimate.

4.4 Net external interest is currently projected to be consistent with our original estimate.

4.5 The Minimum Revenue Provision (MRP), based on the Capital Financing Requirement (CFR) at 31 March 2019 for the purposes of this report is shown as £795,000. This is £171,280 lower than originally estimated. The reduction is due to slippage in the capital programme experienced during 2018-19.

4.6 The overall projected position for net expenditure is £66,594 higher than estimate.

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

Supplementary Estimates 2019-20

Service/Description	Approval Date	Committee	Value
Nil			
TOTAL			£NIL

Virement Record 2019-20

Service/Description	Nature of Virement	Approved by	Date of Approval	Value £
Constant Power – Business Continuity [budget responsibility change]	Recurrent	V Worsfold	14 th May	4,250
Web Team Salary Account [alignment of general ledger coding]	Recurrent	V Worsfold	29 th May	33,680
Planned repair and maintenance months 1 and 2	Non-Recurrent	V Worsfold		116,620
TOTAL				154,550

4.8 **Appendix 2** provides detailed information on variances at service level. The table below summarises the main components of the higher than budgeted service level expenditure referred to in paragraph 4.3.

Service/Budget heading	Variance to revised estimate £000	Explanation
Business rates - void units	112	Midleton Industrial estate
Corporate Inflation Budget	(148)	Current working assumption on cost pressures will produce a saving
Building Control	150	Use of short term staff and lower than budgeted income
Planning – Development Control	118	Use of short term staff and lower than budgeted income
Rental income [investment property]	109	Tenant exercising break clause
Crematorium fees	(294)	Reduction in assumed level of disruption
Town Centre Management – Sponsorship and Public Realm	146	Public realm WIFI income and sponsorship
Off-Street Car Parking	254	Projection for income at Farnham Rd, Castle and York Rd MSCP
Salary Costs	(200)	Salary savings net of assumed vacancy level across the organisation.

Use of Reserves

4.9 As part of the budget setting process for 2019-20 we assumed that £2.63 million would be transferred from earmarked reserves during the year. It is currently assumed that the amount to be transferred from earmarked reserves will increase by £3.71 million to £6.34 million. The table below highlights the major movement along with supporting narrative

Reserve	Latest Estimate £000	Projected Outturn £000	Variance £000	Explanation
Budget Pressures	(200)	0	200	In 2017-18 Council approved the use of this reserve to offset the potential loss of income during the crematorium rebuild project of £846,000 in 2018-19 and £200,000 in 2019-20. The disruption has been less than anticipated and consequently it is not currently proposed to use the reserve.
Car Parks Maintenance Reserve	(1,004)	(1,911)	(907)	Profiling of repair and maintenance expenditure at our MSCP's.
Election Costs	62	(104)	(166)	An annual contribution is budgeted as part of the budget process to equalise the cost of Borough Elections held on a four-year cycle. The expenditure shown relates to Borough elections held in May 2019.

Reserve	Latest Estimate £000	Projected Outturn £000	Variance £000	Explanation
Invest to Save	814	490	(323)	Funding to support the ICT transformation programme and ICT cloud migration.
Recycling Reserve	0	(150)	(150)	This reserve equalises the impact in the revenue account of adverse market movements in the income generated from recycle materials. It is proposed to use the reserve to support £150,000 of costs in 2019-20.
Carry Forward Items	0	(1,798)	(1,798)	Approved and budgeted projects that were ongoing at the end of the financial year. By allowing unspent project budgets to be carried forward to the next budget period, the pressure to use it or lose it is reduced. Budget managers are given more time to purchase goods or services that contribute to the achievement of objectives, which in turn promotes efficient use of resources.
Other Reserves	17	(550)	(567)	Use of the Local Plan reserve to fund consultants' costs. Variations in grant funded programme costs equalised by the use of the reserve e.g. Refugee and Family Support Programme.
TOTAL			(3,711)	

5 Housing Revenue Account

5.1 **Appendix 3** shows the budget monitoring report for the Housing Revenue Account (HRA) for the period April 2019 to May 2019. The report shows that HRA gross service expenditure is projected to outturn at 99.48% of the budgeted level, whilst income is projected to be 99.98% of the budgeted level. The projected outturn would enable a transfer of around £11.03 million to the new build reserve and the reserve for future capital.

- The rental income estimate for 2019-20 included a prudent allowance for Right to Buy (RTB) sales and the re-commissioning of units. Rental income is currently projected to be £17,008 (0.06%) lower than budgeted.
- Current projections indicate that salary related expenditure; net of temporary staffing and redundancy costs, will be slightly lower than budget.
- 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 this early point of the year, the projected expenditure on repairs and maintenance shows a modest saving against 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.

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 PWLB debt portfolio for the HRA totalling £193 million. Currently, the general fund 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 2.

Loan type		Balance 31 Mar 19 £000	New loans £000	Loans repaid £000	Balance 31 May 19 £000	Weighted average rate of
PWLB						3.16%
Variable		45,000	0	0	45,000	
Fixed	Maturity	147,435	0	0	147,435	
	EIP	575	0	(115)	460	
Total long-term Loans		193,010	0	(115)	192,895	
Temporary Loans		20,000	5,000	(12,000)	13,000	0.83%
Total Loans		213,010	5,000	(12,115)	205,895	

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 and projected investment income for 2019-20 is £1.7 million. The gross cash balances representing the Council's reserves and working balances at 31 May 2019 available for investment were £106.5 million and net of short-term borrowing £93.5 million.
- 6.6 The Council's budgeted, and projection of external interest cost, which relates to short and long-term borrowing, for the year is £0.6 million.

- 6.7 The original net interest receivable budget was £877,355. As at 31 May, we are projecting that the outturn will be in line with the budget.
- 6.8 The Council's annualised weighted return on investments for the period to May 2019 was 1.7% against an estimate of 1.629%.
- 6.9 The table below summarises the Council's investment activity for April to May 2019.

Investment	Principal invested £000	Balance 31 Mar 19 £000	Movement in investment £000	Change in capital value £000	Balance 31 May 19 £000	Weighted average rate of interest
<u>Investment Funds</u>						
CCLA	5,000	6,756	0	(4)	6,751	1.11%
M&G	2,008	1,395	0	37	1,432	0.00%
Schroders	1,000	856	0	12	868	1.51%
Funding Circle	490	511	0	0	511	1.51%
UBS	2,500	2,312	0	(7)	2,305	0.00%
<u>In- House Investments:</u>						
Call Accounts		0	1,142		1,142	0.40%
Money Market Funds		13,229	(3)		13,226	0.77%
Notice Accounts		8,000	0		8,000	0.92%
Temporary Fixed Deposits		6,000	8,000		14,000	1.07%
Unsecured bonds		2,300	4,660		6,960	0.76%
Covered Bonds		18,850	0		18,850	0.97%
Long Term Fixed Deposits		21,500	0		27,500	1.65%
Revolving Credit Facility		7,500	(2,500)		5,000	2.14%
Total Investments		89,209	11,299		106,546	

- 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.

Prudential Indicators

- 6.11 Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2019 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 we should not breach.

- 6.13 The Council's authorised borrowing limit was set at £464 million for 2019-20.
- 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 £404 million for 2019-20.
- 6.16 The Chief Financial Officer confirms that there have been no breaches to the authorised limit and operational boundary during the year. Borrowing, at its peak, was £213 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 2019 for each scheme
- the estimate for 2019-20 as approved by Council in February 2019
- the 2019-20 revised estimate which takes into account the approved estimate, any project under spends up to 31 March 2019, and any virement or supplementary estimates
- 2019-20 current expenditure
- 2019-20 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 paragraph 7.3 to 7.11

CAPITAL EXPENDITURE SUMMARY	2019-20 Approved £000	2019-20 Revised £000	2019-20 Outturn £000	2019-20 Variance £000
General Fund Capital Expenditure				
- Main Programme	60,334	69,782	65,962	(3,820)
- Provisional schemes	19,646	20,169	8,485	(11,684)
- Schemes funded by reserves	6,769	9,305	7,927	(1,378)
- S106 Projects	36	150	150	0
- Affordable Housing (General Fund)	0	0	0	0
Total Expenditure	86,785	99,407	82,525	(16,882)
Housing Revenue Account Capital Expenditure				
Approved programme	8,567	13,267	13,266	(2)
Provisional programme	406	1,106	1,106	0
Total Expenditure	8,973	14,373	14,372	(2)

Approved (main) programme (Appendix 4)

7.3 Expenditure is expected to be £65.96 million representing a £3.82 million variance to the revised estimate of £69.78 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 £2.95 million may seem low, a number of significant projects are in progress. These include:

- ED25 – Guildford Park infrastructure works (£3.76 million) - this scheme received planning consent in November 2016 and initial works are progressing with construction of MSCP scheduled for November 2019. 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) (£15.22 million) - work is progressing on the detailed design, pre-planning and site investigation work for this scheme to inform the final business case. Report is going to Council on 08 October 2019. Pre-agreement invoices (Thames Water) have been signed off with post- agreement in pipeline.
- PL9 – Crematorium rebuild (£7.26million) – work is progressing on this scheme which is scheduled for completion in 2019-20
- ED32 – Internal Estate Road CLLR Phase 1 (£8.85 million) - a bid for LEP funding has been submitted with decision due July 2019.
- ED49 – Midleton Industrial Estate redevelopment (£1.8 million) – work on design and planning is progressing.

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 2019-20 will now be carried forward into 2020-21 or vice versa:

- Town Centre Gateway Regeneration (£3.48 million) – spend now expected in 2020-21.

Provisional programme (Appendix 5)

7.5 Expenditure on the provisional programme is expected to be £8.48 million, against the revised estimate of £20.16 million, representing a variance of £11.69 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 (£4.38 million)
- P11(p) – Guildford West (PB) station (£1.15 million)

The re-profiling of schemes has resulted in a significantly lower level of expenditure than planned in 2019-20.

7.6 A number of other projects, that were also anticipated to start in 2019-20 have been re-profiled into future years including:

- PL21(p) – Ash Road Bridge (£9.04 million)

S106 (Appendix 6)

7.7 Capital schemes funded from s106 developer contributions are expected to total £150,000.

Reserves (Appendix 7)

7.8 Capital schemes funded from the Council's specific reserves. The outturn is anticipated to be £7.92 million. The main projects are:

- expenditure on car parks £2.57 million
- ICT renewals and infrastructure improvements £3.12 million

Capital resources (Appendix 8)

7.9 When the Council approved the budget, the estimated underlying need to borrow for 2019-20 was £53.35 million. The current estimated underlying need to borrow is £46.42 million. The 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 £13.26 million against a revised estimate of £13.26 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.
- Ladymead/Fire Station – works started on site in Autumn 2018.

Housing Investment Programme Provisional Capital (Appendix 10)

7.11 The provisional programme revised estimate is £1.10 million with expenditure anticipated this financial year of £1.10 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 managers.

9 Equality and Diversity Implications

- 9.1 There are no direct equality and diversity implications as a result of this report. Each service manager 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 Financial 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 2019-20 financial year based on two 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 May 2019 for the 2019-20 financial year.
- 14.2 Officers are currently projecting a reduction in net income in expenditure of £66,594 on the general fund revenue account.

- 14.3 The Chief Financial Officer in consultation with the Lead Councillor for Finance and Customer Service will determine the treatment of any balance as part of closing the 2019-20 accounts.
- 14.4 The surplus on the Housing Revenue Account will enable a transfer of £8.53 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 2019. Officers are making progress against significant capital projects on the approved programme as outlined in section 7. The Council expects to spend £82.5 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 £46.42 million by 31 March 2020. 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 May 2019, the Council had £106 million of investment balances, and £206 million borrowing.

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