

Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of Director of Resources

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Financial Monitoring 2020-21 (April-May 2020)

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 2020.

Officers are projecting an increase in net expenditure on the general fund revenue account of £9,158,977 in the majority of cases this is a result of the impact of Covid-19.

Covid-19 has impacted on the Council in several ways including the inability to maintain income levels at those budgeted for in February 2020. The direct expenditure incurred by the Council in the current financial year stands at £514,913 (2019-20 £250,769) with support from the Government of £1,954,748. The Government support received is to cover both the direct and indirect costs of the Covid-19 pandemic.

The indirect costs of Covid-19 are reflected in the services forecasting. As the pandemic continues estimates for losses in income and increased costs have been made with the best information available, these are subject to change as the year progresses.

The Council, at its meeting on 5 May 2020, approved an emergency budget to deal with the impact of Covid-19 should government support fall short of the final costs of the pandemic. Government have since announced further support for local authorities and figures will be updated to reflect this support once the detail has been received.

A reduction (£351,107) 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.

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.

Progress against significant capital projects on the approved programme as outlined in section 7 are underway. The Council expects to spend £138.151 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 £118.463 million by 31 March 2021, against an estimated position of £125.956 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 £118.8 million of investments and £205.9 million of external borrowing at 31 May 2020, which includes £238.9 million of HRA loans. Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2020 as part of the Council's Capital Strategy.

Recommendation to Committee

That the Committee notes the results of the Council's financial monitoring for the period April to May 2020 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 The Corporate Governance and Standards Committee supports the overview and scrutiny function through ongoing scrutiny of financial matters, including its 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 2020.

2. Strategic Priorities

- 2.1 Councillors have reviewed and adopted a 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 financial year is a critical part of the 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 2020 [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 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 Officers are projecting an increase in net expenditure on the general fund revenue account of £9,158,977, in most cases this is a result of the impact of Covid-19.
- 4.2 The direct costs associated with the Covid-19 pandemic in the current financial are £514,913 offset by Government grant of £1,954,748 (net expenditure of £250,769 was incurred in 2019/20) and these are included in the forecast for the Finance Directorate. The breakdown of the direct costs to date are shown in the table below.

Description	£
Emergency Accommodation	78,944
Food Purchases	68,971
Leisure costs	264,220
Staffing costs	42,680
Consumables	36,198
Computer Software	23,900
Gross Expenditure	514,913
Government Grant	(1,954,748)
Net Expenditure	(1,439,834)

- 4.3 Estimates have been made for increased costs and lower than expected income within services with the best information available, these estimates will be monitored closely as the year progresses, and further information becomes available.
- 4.4 **Appendix 1** shows the summary monitoring report for the general fund revenue account. Officers have prepared the projected outturn on two months' actual and accrued data.
- 4.5 **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 2020.

- 4.6 At total service after adjustment for movements to and from reserve, the projected outturn is £8,807,870 higher than the latest estimate.
- 4.7 Net external interest is currently projected to be consistent with our original estimate.
- 4.8 The Minimum Revenue Provision (MRP), based on the Capital Financing Requirement (CFR) at 31 March 2020 for the purposes of this report is shown as £1.288 million. This is £351,107 lower than originally estimated. The reduction is due to slippage in the capital programme experienced during 2019-20.
- 4.9 The overall projected position for net expenditure is £66,594 higher than estimate.
- 4.10 The table shows the supplementary estimates and virements approved to date.

Supplementary Estimates 2020-21

Service/Description	Approval Date	Committee	Value £
Nil			
TOTAL			NIL

Virement Record 2020-21

Service/Description	Nature of Virement	Approved by	Date of Approval	Value £
Nil				
TOTAL				NIL

- 4.11 **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 4.1.

Service/Budget heading	Variance to revised estimate £000	Explanation
Leisure Management	1,139	Income budgets have been seriously affected by the Covid-19 pandemic with less income expected in almost all income budgets.
Off street Parking	3,977	The projected income shortfall is significant with no restrictions in off street parking for the first three months of the financial year. Occupancy going forward is expected to be at much lower levels ranging from 50% to 95% by the end of the year.

Service/Budget heading	Variance to revised estimate £000	Explanation
Building Maintenance	242	Due to Covid-19 only emergency repairs have been possible, resulting in lower income from Services and external works.
Day Services	180	Day centre income and expected savings delayed as a result of Covid-19
EMI Services	76	Expected savings delayed by Covid-19
Homelessness and emergency Accommodation	(480)	Flexible Homelessness Support Grant £150,235 and Homelessness Prevention Grant £336,252 will be used to support additional expenditure. Any balance of funding will be transferred to reserve to support homelessness prevention in subsequent years.
Community Meals and TPT	161	Expected savings delayed by Covid-19 partially offset by vacancy savings.
Development Control	242	It is assumed that income will be under budget by £189,000 and planning appeals expenses are projected to be £40,000 higher.
Policy	(244)	Employment related savings
Crematorium	99	Loss of abatement scheme income.
Engineering and Transport Services	(92)	Vacancy savings
Procurement	(82)	Vacancy savings
Miscellaneous Items	907	Impact of Covid-19 both actual costs and forecasted costs to year end.
Refuse and Recycling	453	Additional costs agency staff costs. Vehicle hire costs are expected to be over budget. Trade refuse disposal charges and refuse sack sales are less than budget along with corresponding income.
Street Cleansing	(263)	There are salary savings due to vacancies and other smaller savings in supplies and services.
Town Centre Management	173	Sponsorship and advertising income targets will face a severe challenge this year, due to current conditions. Farmers Market income is also forecast to be lower due to Covid-19.
Public Relations and Marketing	(125)	Salary savings are forecast through vacancies and the implementation of Future Guildford. Savings will be achieved through the electronic About Guildford newsletter and reduction in special promotional expenditure.
Council Tax	84	Vacancies which are in part being covered by temporary staff. Due to Covid-19 recovery action is being deferred; it is expected that income from recovery of costs will reduce.
Housing Benefit	(103)	Additional grant funding received from central government and savings on consultancy and printing costs.

Service/Budget heading	Variance to revised estimate £000	Explanation
Operations	(147)	Future Guildford salary savings
Non-Distributed costs	(1,544)	Includes an amount set aside for back funding of superannuation and added years benefit costs yet to be allocated.

Use of Reserves

- 4.12 As part of the budget setting process for 2020-21 we assumed that £256,000 would be transferred from earmarked reserves during the year. There are no major movements anticipated at this point in the year.

5 Housing Revenue Account

- 5.1 **Appendix 3** shows the budget monitoring report for the Housing Revenue Account (HRA) for the period April 2020 to May 2020. The report shows that HRA gross service expenditure, projected outturn is 102.86% 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 2020-21 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. Looking at last year's outturn we are forecasting a modest increase in budget but slightly below last year expenditure on repairs.
- The projected cost increases in communal cost includes insurance provision and other costs incurred last year that were not specifically provided for in 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.

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 20 £000	New loans £000	Loans repaid £000	Balance 31 May 20 £000	Weighted average rate of interest
PWLB						3.20%
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	66,000	(40,000)	46,000	0.82%
Total Loans		213,010	66,000	(40,115)	238,895	

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 2020-21 is £1.68 million. The gross cash balances representing the Council's reserves and working balances at 31 May 2020 available for investment were £118.8 million and net of short-term borrowing £72.8 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 £641,385. As at the 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 2020 was 1.04% against an estimate of 2.17%. This is because interest rates have fallen significantly because of COVID-19 and are projected to stay very low for a long time.

6.9 The table below summarises the Council's investment activity for April to May 2020.

Investment	Principal invested £000	Balance 31 Mar 20 £000	Movement in investment £000	Change in capital value £000	Balance 31 May 20 £000	Weighted average rate of interest
Investment Funds						
CCLA	5,000	6,514	(99)	330	6,844	0.94%
M&G	1,008	1,127	1,091	1,757	2,884	1.23%
Royal London	2,500	2,228	40	114	2,342	0.00%
Schroders	1,000	568	(5)	18	586	4.52%
Funding Circle	490	534	(22)	(19)	515	1.85%
UBS	2,500	2,018	30	118	2,136	1.04%
In- House Investments:						
Call Accounts		528	4,998		5,526	0.40%
Money Market Funds		14,495	(131)		14,364	0.36%
Notice Accounts		8,000	0		8,000	0.67%
Temporary Fixed Deposits		20,000	12,000		32,000	1.15%
Unsecured bonds		0	0		0	0.00%
Covered Bonds		19,100	0		19,100	0.77%
Long Term Fixed Deposits		27,500	(8,000)		19,500	1.65%
Revolving Credit Facility		5,000	0		5,000	1.71%
Total Investments		107,611	9,902	2,318	118,796	

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 2020 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 £531 million for 2020-21.

- 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 £477 million for 2020-21.
- 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 £230 million. The Council did, however, breach the amount invested with its operational bank, HSBC, due to cashflow uncertainties as a result of COVID. Whilst this was not an investment as such, because we use the call account for cashflow fluctuations, for transparency purposes we wanted to inform Councillors.

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 2020 for each scheme
 - the estimate for 2020-21 as approved by Council in February 2019/20
 - the 2020-21 revised estimate which takes into account the approved estimate, any project under spends up to 31 March 2020, and any virement or supplementary estimates
 - 2020-21 current expenditure
 - 2020-21 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	2020-21 Approved £000	2020-21 Revised £000	2020-21 Outturn £000	2020-21 Variance £000
General Fund Capital Expenditure - Main Programme	45,012	64,598	57,696	(6,902)

- Provisional schemes	122,532	108,039	74,035	(34,004)
- Schemes funded by reserves	3,984	8,402	6,331	(2,071)
- S106 Projects	0	89	89	0
- Affordable Housing (General Fund)	0	0	0	0
Total Expenditure	171,528	181,128	138,151	(42,977)
Housing Revenue Account Capital Expenditure				
Approved programme	11,468	13,716	13,716	(1)
Provisional programme	12,457	13,245	13,245	0
Total Expenditure	23,925	26,961	26,961	(1)

Approved (main) programme (Appendix 4)

7.3 Expenditure is expected to be £57.696 million representing a £6.902 million variance to the revised estimate of £64.598 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 £2.674 million may seem low, a number of significant projects are in progress. These include:

- OP6 – Vehicles, Plant & Equipment Replacement (£4.566m) – to include the replacement of refuse vehicles £3m and minibuses £820k.
- P5 – Walnut Bridge replacement (£3.414m) – works progressing timeframe for completion 12-18 months.
- P14 – Town Centre Approaches (£1m) – work is progressing.
- P21 – Ash Road Bridge (£2.257m) – work is progressing on this scheme with majority of budget still on provisional programme.
- ED25 – Guildford Park infrastructure works (£3.056m) - this scheme is awaiting decision regarding progression of works and new planning approval. 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 (WUV) (£6.483m) - work is progressing on the detailed design, pre-planning and site investigation work for this scheme to inform the final business case. Pre-agreement invoices (Thames Water) have been signed off with post- agreement in pipeline.
- P12 – Strategic Property Acquisitions (£1.496m) - £550k potential new burial ground, £946k Thornberry Way.
- North Downs Housing (£5.315m) and Guildford Holding Ltd (£3.543m) – target to purchase 25 properties this financial year, bringing total to 72.
- ED49 – Midleton Industrial Estate redevelopment (£7.455m) – work on design and planning is progressing with work on site to commence Jan 21 for phase 2/3.
- ED18 - Musuem (£1.464m), ED52 Public Realm Scheme (£1.616m) and P16 A331 Hotspots (£3.661m) – decision is pending as to the future of these projects.

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 2020-21 will now be carried forward into 2021-22 or vice versa.:

- Town Centre Gateway Regeneration (£3.473m) – spend now expected in 2021-22, report for this project to Executive on 21 July 2020.
- SMC (£1.658m) – spend of £1m expected in 2021-21 with the majority of spend now expected in 2021-22.

Provisional programme (Appendix 5)

7.5 Expenditure on the provisional programme is expected to be £74.035 million, against the revised estimate of £108.039 million, representing a variance of £34.004 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)
- ED49(p) – Midleton Industrial Estate (£5.557m)
- ED6(p) – Slyfield area Regeneration Project (WUV) (£12.178m)
- DF1(p) – Investment Property acquisitions (£20m)
- ED18(p) – Museum (£16.810m)

The re-profiling of schemes has resulted in a lower level of expenditure than planned in 2020-21.

7.6 A number of projects, that were also anticipated to start in 2020-21 have been re-profiled into future years including:

- PL21(p) – Ash Road Bridge (£23.240m)
- ED48(p) – Westfield/Moorfield Road resurfacing
- P11(p) – Guildford West (PB) Station
- P14(p) – Guildford Gyratory and Approaches

S106 (Appendix 6)

7.7 Capital schemes funded from s106 developer contributions are expected to total £89,000.

Reserves (Appendix 7)

7.8 Capital schemes funded from the Council's specific reserves. The outturn is anticipated to be £6.331 million. The main projects are:

- expenditure on car parks £1.414 million
- ICT renewals and infrastructure improvements £1.376 million

- Future Guildford Implementation Team £2.6 million

Capital resources (Appendix 8)

- 7.9 When the Council approved the budget, the estimated underlying need to borrow for 2020-21 was £125.596 million. The current estimated underlying need to borrow is £118.43 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 £13.716 million against a revised estimate of £13.716 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.
 - Various small site projects – works are progressing.
 - Acquisitions of Land and Buildings for development – dependant on availability of suitable sites.

Housing Investment Programme Provisional Capital (Appendix 10)

- 7.11 The provisional programme revised estimate is £13.245 million with expenditure anticipated this financial year of £13.245 million.

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 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 2020-21 financial year based on two months actual data. There are no specific recommendations and therefore no options to consider.

14 Conclusion

13.1 The report summarises the financial monitoring position for the period April to May 2020 for the 2020-21 financial year.

13.2 Officers are currently projecting an increase in expenditure of £9,158,977 on the general fund revenue account.

13.3 The Chief Finance Officer in consultation with the Lead Councillor for Resources will determine the treatment of any balance as part of closing the 2020-21 accounts.

13.4 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.

13.5 Actual expenditure incurred on our general fund capital programme for the period has been comparatively low against the programme envisaged at 1 April 2020. Officers are making progress against significant capital projects on the approved programme as outlined in section 7. The Council expects to spend £138.151 million on its capital schemes by the end of the financial year.

13.6 It is anticipated that the Council's underlying need to borrow to finance the capital programme will be £118.463 million by 31 March 2021. The Council has complied with Prudential Indicators during the period with the exception of the upper limit on variable interest rates.

13.7 At the end of May 2020, the Council had £106 million of investment balances, and £206 million borrowing.

14 Background Papers

14.1 None

15 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