

Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of S151 Officer

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Financial Monitoring 2022-23

Executive Summary

The report summarises the projected outturn position for the Council's General Fund (GF) revenue account and Housing Revenue Account, based on the latest financial data to January 2023.

There is a projected net overspend on the General Fund revenue account of £3.2million resulting primarily from utility price inflation and the payroll budget correction. Due to the relatively short-term inflation pressures and an establishment budget adjustment, it is more appropriate to resolve the deficit through the use of revenue reserve rather than putting additional pressure on the already stressed service delivery capacity by cutting back on expenditure to save money.

The surplus on the Housing Revenue Account will enable a projected transfer of £7.1 million to the new build reserve and meet the forecasted £2.5 million to the reserve for future capital at year-end.

Progress against significant capital projects on the approved programme as outlined in section 7 is underway. The Council expects to spend £39 million on its capital schemes by the end of the financial year.

Recommendation to Committee:

That the Committee notes the Council's financial forecast outturn for the financial year 2022-23 and passes any comments and observations to the Executive.

Reason for recommendation:

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

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

1. Purpose of Report

- 1.1 This report shows the projected outturn for 2022-23 based on the latest actual position and assumptions as at January 2023.

2. Strategic Priorities

- 2.1 Councillors have reviewed and adopted a corporate plan for the period 2021-2025. The plan includes significant projects and aspirations that will continue to challenge the Council moving forward. Monitoring of the financial position during the financial year is a crucial part of managing the resources that will ultimately support the delivery of the corporate plan.

3 Background

- 3.1 The Council's Corporate Management Board (CMB) and Chief Finance Officer monitor budgets on a regular basis. Financial monitoring for all services is reported to this Committee.
- 3.2 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 The total net overspend on the General Fund is projected to be £3,152,662. A detailed analysis of this deficit is given below.
- 4.2 **Appendix 1** shows the General Fund revenue projected outturn using the latest available information against the revised budget for the year (original budget approved by Council in February 2022 plus any virements or supplementary estimates during the year). The table below is a high-level summary.

General Fund Revenue Account	Approved Budget	Projected Outturn	Change
	2022-23	2022-23	
	£	£	£
Directorates - Net Expenditure:	11,105,079	14,981,027	3,875,947
Corporate financing:	2,056,053	2,244,375	188,322
Transfers to and from reserves:	1,890,913	1,035,101	(855,812)
Central Government funding:	(4,028,276)	(4,084,071)	(55,795)
Total: Net budget	11,023,769	14,176,432	3,152,662

- 4.3 The Directorates' net expenditure budget has a projected overspend of £3,875,947, the key components of this variance are presented in the table below and further detail of each variance where relevant is provided in this report.

Directorate forecast variance against budget	£
Establishment (staff salaries)	1,194,999
Payroll budget correction	1,849,537
Staff non salary costs	(223,547)
Non staff related expenditure	446,456
Utilities	2,229,803
Fees and Charges	(1,124,153)
Grant income	(497,148)
Total: Directorate forecast variance against budget	3,875,947

- 4.4 **Establishment (staff salaries):** Several services have been operating on more than their budgeted staffing capacity during the year. The majority of these overspends are due to ongoing capacity challenges not addressed in the Future Guildford programme (or consequential of the implementation) and should have been addressed either within existing budget or through the Scheme of Virement and Supplementary Estimates within the Financial Procedure Rules prior to being incurred. The use of agency and consultancy is appropriate where there is a need for short term capacity or one-off use of specialist skills. Unavoidable cost pressures have been included in the 2023-24 budget and a full establishment review is being conducted to report back to July Council. A detailed list of variances by service is given on **Appendix 1a**.

Establishment (staff salaries) variance to budget	£
Consultancy (staff employed through IR35 service companies)	319,333
Agency (staff employed through agency arrangement)	929,287
Establishment (directly employed staff)	(831,547)
Overtime	348,306
Vacancy savings target	429,620
Total: Establishment variance	1,194,999

- 4.5 **Payroll budget correction:** The £1,849,537 salary budget discrepancy in the 2022-23 budget is an increase in base budget and came to light following the completion of the 2021-22 outturn and was reported in the September 2022 monitoring. The cause of the discrepancy is a result of a reconciliation control weakness in the budget setting process and is currently being reviewed by internal audit to ensure budgetary controls are robustly improved.
- 4.6 **Staff non salary costs:** The table below provides a breakdown of the contributing items to the underspend on non-salary related staff costs. These budgets are being reviewed as part of the full establishment review.

Staff non salary costs	Budget	Forecast	Variance
Pension Added Years	182,360	222,360	40,000
Staff training and development	119,020	50,020	(69,000)
Recruitment, staff expenses	346,785	270,461	(76,324)
Staff Travel (Public Transport)	15,290	7,991	(7,299)
Transport Allowances	226,820	115,896	(110,924)
Total:	890,274	666,727	(223,547)

4.7 **Non staff related expenditure:** The projected net overspend of £446,456 comprises of expenditure on building maintenance, IT software licences and hardware, and general service-related expenditure. The variance is a mixture of budget misalignment and unavoidable cost pressures. A list of variances by service is provided in the schedule on **Appendix 1b**.

4.8 **Utilities:** A breakdown of how the energy price increase has impacted service budgets is provided in the table below. Energy procurement will be reviewed within the service reviews currently underway as part of the budget strategy endorsed by Full Council on 8 February 2023.

Utility cost variance	£
Roads & Footpaths Maintenance	5,666
Traveller Caravan Sites	6,365
Guildhall	10,596
Car parks	15,122
Museum	18,526
Ash Manor	38,644
Crematorium	44,200
Corporate Property	44,319
Lido	235,048
Spectrum	1,811,317
Total:	2,229,803

4.9 **Fees and Charges:** These are generally on track with budget, most of the variances are budget corrections to align to expected performance. These adjustments have also been incorporated in the 2023-24 budget.

Fees and charges budget variances	£
Garden waste budget correction	(553,612)
Parking	(341,862)
Building maintenance	(204,628)
Miscellaneous budget corrections	(139,421)
Housing Benefit Rent Allowances recovery	(104,206)
Property	(100,516)
Recycling - Trade	(81,497)
North Downs Housing services provided	(58,356)
Licensing Services	42,617
Markets	47,282
MOT Bay budget correction	50,000
Tourist Information Centre	51,916
Building Control	75,000
Town Centre Management budget correction	193,130
Total	(1,124,153)

- 4.10 **Grant income:** there is very little certainty in how much is to be received until after the budget is drafted.

Grant income: Forecast variance against budget	£
Homelessness	(407,079)
Community Wellbeing net of expenditure	(74,179)
Community Safety Team	(15,890)
Total:	(497,148)

- 4.11 **Transfers to Reserves** are shown on the face of the General Fund summary on **Appendix 1**. The car park maintenance cost has increased with a commensurate increase in funding from the maintenance reserve, with nil effect on the bottom line. The contribution to the IT renewals reserve has been reduced by £500,000 reflecting the adequacy of this reserve. The budget carry forwards £104,686 is the release of specific projects funding that transgressed the 2021-22 financial year end for completion in 2022-23. All reserve movements will be reviewed at year end in mitigation of the projected budget deficit.
- 4.12 **Summary:** consistent with the 2021-22 outturn reported in September 2022, containing service delivery within the approved 2022-23 General Fund budget has been challenging due to the continuing impact of external challenges (Covid, Energy crisis and inflation) and internal changes in the Council's management structure (Future Guildford), alongside the implementation of a new finance and payroll system (Business World) resulting in a degradation in accurate budgeting and poor cost control. The finance self-service model adopted under the Future Guildford project has proven too difficult for service managers to maintain financial discipline. An action plan was adopted by the Executive in October 2022 to resolve the budget challenges and actions are being taken to improve the financial capacity, capability, and discipline within the Council.

5 Housing Revenue Account

HRA Budget	2022-23 Estimate, £	2022-23 Projection, £	Variance, £
Income	(34,999,509)	(34,999,509)	0
Expenditure on Housing Services	18,779,536	19,574,510	794,974*
HRA Share of CDC	1,275,453	1,275,453	0
Net Interest	4,998,295	4,567,723	-430,572
Net reserves transfer	9,946,225	9,581,823	-364,402
Net HRA Budget	0	0	0

- Mainly energy inflation on sheltered accommodation

- 5.1 **Appendix 3** shows the budget monitoring report for the Housing Revenue Account (HRA) based on the latest available information. The report shows that HRA gross service expenditure and income is largely on target. The

projected outturn would enable a transfer of around £7.1 million to the new build reserve and £2.5 million to the reserve for future capital expenditure.

- The rental income estimates for 2022-23 included a revised prudent allowance for Right to Buy (RTB) sales and the re-commissioning of new units. Rental income from dwellings is currently projected to be £31.6 million.
- 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 out-turn we are forecasting a modest increase in budget but slightly below last year's expenditure on repairs.
- Apart from 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 £147 million. Towards the end of the 2021-22 financial year, the General fund also borrowed £23 million from the PWLB. This is in addition to £87 million short-term borrowing that we currently hold. There is no cost of carry on our short-term borrowing. Current total borrowing is £257 million.

Investment activity

6.3 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. The Council currently holds £20 million of strategic investments and £103 million of in-house investments.

Prudential Indicators

- 6.4 Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2022 as part of the Council's Treasury Management Strategy Statement.
- 6.5 The Chief Finance Officer confirms that there have been no breaches to the authorised limit and operational boundary during the year.

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 2022 for each scheme
- the estimate for 2022-23 as approved by Council in February 2022
- the 2022-23 revised estimate which considers the approved estimate, any project under spends up to 31 March 2022, and any virement or supplementary estimates
- 2022-23 current expenditure
- 2022-23 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. A detailed explanation is provided in paragraphs 7.3 to 7.11 below.

CAPITAL EXPENDITURE SUMMARY	2022-23 Approved £000	2022-23 Revised £000	2022-23 Outturn £000	2022-23 Variance £000
General Fund Capital Expenditure				
- Main Programme	107,404	118,351	36,920	(81,431)
- Provisional schemes	44,510	43,730	295	(43,435)
- Schemes funded by reserves	1,618	2,476	1,279	(1,197)
- S106 Projects	58	419	285	(134)
Total Expenditure	153,590	164,976	38,779	(126,197)
Housing Revenue Account Capital Expenditure				
Approved programme	52,909	53,519	32,869	(20,651)
Provisional programme	7,281	7,281	75	(7,206)
Total Expenditure	60,190	60,800	32,944	(27,857)

Approved (main) programme (Appendix 4)

- 7.3 Expenditure is expected to be £36.92 million representing a £81.43 million variance to the revised estimate of £118.35 million. If a project is on the approved programme, it is an indicator that the project has started or is

near to start following the approval of a final business case by Executive. Whilst actual expenditure for the period of £22.17 million may seem low, several significant projects are in progress and delivery of the corporate projects and programmes is progressing. These include:

- P5 – Walnut Bridge replacement (£0.5 million) – works are progressing, and the scheme is near completion. This project is part grant funded from the Enterprise M3 Local Enterprise Partnership (LEP). As part of the grant funding agreement there are specific milestones that must be met in the delivery of the project and any slippage in delivery of the programme to the milestones may result in the loss of grant funding. The Major Projects Portfolio Board is monitoring the progress of this project and the project is on track to deliver by the completion date; however, once the final account has been agreed a virement from the Capital Contingency Fund will be required to cover additional cost.
- P21 – Ash Road Bridge (£5.09 million) – work is progressing on this scheme. This project is part grant funded from Homes England Housing Infrastructure Fund (HIF). As part of the grant funding agreement, there are specific milestones that have to be met in the delivery of the project and any slippage in delivery of the programme to the milestones may result in the loss of grant funding. Officers complete regular monitoring reports to Homes England (HE) and the Major Projects Portfolio Board. The project status is currently rated as Red on the MPPB monitoring report due to delays being caused by network rail. Currently out for re-procurement, with a report scheduled for consideration by the Executive and full Council on 16 March 2023.
- ED6 – WUV (£14 million) - work is progressing on the detailed design, pre-planning and site investigation work for this scheme to inform the final business case. This project is also part grant funded from Homes England Housing Infrastructure Fund (HIF). As part of the grant funding agreement there are specific milestones that have to be met in the delivery of the project and any slippage in delivery of the programme to the milestones may result in the loss of grant funding. Officers complete regular monitoring reports to Homes England, the WUV programme Board and the Major Projects Portfolio Board on the progress of the project. The project status is currently rated 'Amber-Red' on the MPPB monitoring report due to planning delays with the TW sewage treatment plant and the allotments site. Depending on the outcome of the planning process, milestone dates may need to be re-negotiated with Homes England.
- FS1 – Capital Contingency Fund – (£1.340 million)
- North Downs Housing Ltd (£1.46 million) and Guildford Borough Council Holdings Ltd (£0.96 million) – target to purchase further properties this financial year.
- ED49 – Midleton Industrial Estate redevelopment (£5.2 million) – Phase 4 contractor has been appointed.

- P22 – GER (Guildford Economic Regeneration Programme) - (£1.5million). A report is due at Executive September 2022 and scheme may need to be reprofiled.

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 2022-23 will now be carried forward into 2023-24 or future years:

- P12 – Strategic Property Acquisitions (£23.95 million). The majority of original budget (£24.75 million) has been moved into later years due to a lack of investment opportunity in the market and the government tightening rules around property acquisition for commercial purposes.
- P21 – Ash Road Bridge (£13.9 million) – work is progressing on this scheme, current estimated spend in 2022-23 is £5.09 million from original budget £18.98 million the remaining amount has been moved to future years due to slippage on the programme.
- ED6 – WUV (£39.72 million) - work is progressing on this scheme, current estimated spend in 2022-23 is £14 million from original budget £53.72 million the remaining amount has been moved to future years due to slippage on the programme.

Provisional programme (Appendix 5)

7.5 Expenditure on the provisional programme is expected to be £295,000, against the revised estimate of £43.73 million, representing a variance of £43.43 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 begin. Monitoring the progress of these projects is key to identifying project timescales. The re-profiling of schemes has resulted in a lower level of expenditure than planned in 2022-23.

7.6 A number of projects, that were also anticipated to start in 2022-23 have been re-profiled into future years including:

- P12(p) – Strategic Property Acquisitions (£28.3 million)
- North Street/ Bus Station relocation (£1 million)
- North Downs Housing (£5.5 million)
- Guildford Borough Council Holdings Ltd (£3.7 million)
- Vehicles, Plant and Equipment Replacement Programme (£2.5 million)

S106 (Appendix 6)

- 7.7 Capital schemes funded from s106 developer contributions are expected to total £285,000. Developer contributions are time limited and if they are not used within the timescales to fund a capital project then they will need to be repaid to the developer. As a result, it is important that the Council closely monitors the S106 funds it has and puts plans in place to spend the contributions within the required timescales.

Reserves (Appendix 7)

- 7.8 Some capital schemes are funded from the Council's specific reserves. The outturn is anticipated to be £1.279 million. The main projects are:
- expenditure on car parks £636,000.
 - ICT renewals and infrastructure improvements £500,000

Capital resources (Appendix 8)

- 7.9 When the Council approved the budget in February 2022, the estimated underlying need to borrow for 2022-23 was £104.28 million. The current estimated underlying need to borrow is £16.285 million. The reduction is due to slippage in the programme where schemes have been re-profiled into future years.

Housing Investment Programme Approval Capital (Appendix 9)

- 7.10 The HRA approved capital programme is expected to outturn at £32.869 million against a revised estimate of £53.519 million. Several projects are in progress. These include:
- Guildford Park – (£1.89 million) this scheme is awaiting decision regarding progression of works and submission of a new planning application for approval. The complete budget for this scheme has been moved to the HRA capital programme, a significant amount of the cost of this project is still on the provisional capital programme awaiting final business case approval. The status of the project is currently Amber on the MPPB monitoring report due to budget risks.
 - Foxburrows Redevelopment – (£9.59 million) reprofiled to 2023-24 awaiting decision on progression of scheme.
 - Various small site projects – (£387,000) there is slippage on these projects. (£11.2 million has been reprofiled to future years)
 - Acquisitions of Land and Buildings – (£4.682 million) spend is dependent on availability of sites, we are currently actively purchasing suitable properties to mitigate slippage on building projects.
 - Major Repairs & Improvements – (£25.45 million) outturn is expected to be on budget as works delayed due to COVID can now be progressed.

The Guildford Park, Bright Hill and various small site new build projects and acquisition of land and buildings into the HRA is partially funded by receipts generated through Right to Buy (RTB) Sales of Council Houses. With the recent changes on Right to Buy Pooling, the Council now has 5 years in which it can spend RTB receipts and can fund 40% of the cost of replacement housing from the RTB receipts. Should the Council not spend enough money on its Housing Investment Programme in order to utilise its RTB receipts within the timescales then they will need to be repaid to government with interest at base rate plus 4%. The RTB schedule below details:

- the amount of expenditure required to avoid repayment, based on actual spend to date and assumption of 20 RTB sales per year, and
- A forecast of expenditure to be incurred as detailed on the approved housing capital programme.

Based on this scenario there is no current risk of repayment, however, should the capital programme be subject to delay and slippage, this risk will increase. It is noted that the status of two of the bigger projects, Guildford Park and Bright Hill are currently amber and amber-red on the MPPB monitoring report (Appendix 12).

Reconciliation of Spend to RTB	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000
Value of receipts that will need surrendering if no further spend	0	0	0	8	3,680	3,211
HIP Expenditure required to avoid RTB repayments	0	0	0	20	9,200	8,028
Forecast HIP Expenditure from the Approved Capital program	3,532	19,216	7,847	400	0	0
Cumulative Expenditure forecast	7,419	26,635	34,482	34,882	34,882	34,882
Forecast additional receipts that will be used (c x 40%)	1,413	7,686	3,139	160	0	0
Cumulative additional receipts that will be used ((cumulative e	1,413	9,099	12,238	12,390	8,710	5,499
Revised value of receipts that might need to be surrendered			0	0	0	0

Housing Investment Programme Provisional Capital (Appendix 10)

7.11 The provisional programme revised estimate is £7.28 million with expenditure anticipated this financial year of £75,000. The reprofiling of schemes will result in a lower level of expenditure in 2022-23.

- Bright Hill & Redevelopment Bids – (£7.18 million) - reprofiled to future years. Project is currently rated Amber-Red on the MPPB monitoring report.

The projects above are partially funded by RTB receipts, there is a significant risk that repayment of RTB receipts will be necessary in future years if project delivery falls significantly behind schedule.

Housing Revenue Account Resources (Appendix 11)

7.12 Appendix 11 shows how the HRA capital programme is financed and the projected balances on reserves at the end of the financial year.

Summary of Housing Revenue Account Capital Expenditure and Financing (Appendix 12)

- 7.13 The summary shows the overall expenditure and financing of the Housing Investment Programme and the Overall HRA Capital programme for the current financial year and how the projected expenditure on the Housing Investment Programme relates to what is required to be spent as per the RTB model to avoid repayment of RTB receipts.

8 Consultations

- 8.1 The finance specialists prepare the budget monitoring 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 2022-23 financial year based on latest assumptions and actual data. There are no specific recommendations and therefore no options to consider.

14 Conclusions

14.1 The report summarises the financial monitoring position to date for the 2022-23 financial year.

14.2 There is currently a total net adverse variance from budget of £3.2million on the general fund revenue account. However, with the potential of further increases in utility prices and other inflationary pressure this position could change.

14.3 The surplus on the Housing Revenue Account will enable a transfer of £7.1 million to the new build reserve and £2.5 million to the reserve for future capital at year-end.

14.4 Actual expenditure incurred on our general fund capital programme for the period has been comparatively low against the programme envisaged at the 1 April 2022. Officers are making progress against significant capital projects on the approved programme as outlined in section 7. The Council expects to spend £38.78 million on its capital schemes by the end of the financial year.

14.5 It is anticipated that the Council's underlying need to borrow to finance the capital programme will be £16.285 million by 31 March 2023. The Council has complied with Prudential Indicators during the period.

14.6 Currently the Council has £119 million of investment under the Treasury Management Strategy, and £257 million borrowing.

15 Background Papers

None

16 Appendices

Appendix 1: General Fund Revenue Account Summary

Appendix 1a: General Fund Establishment (staff salaries) variance to budget

Appendix 1b: General Fund Non staff expenditure: variance to budget

Appendix 2: Removed – information included in the report

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
Appendix 11: Housing Revenue Account resources
Appendix 12: Summary of HRA Capital Expenditure and Financing
Appendix 13: Schedule of Loans
Appendix 14: Schedule of Investments