Corporate Governance and Standards Committee Report

Report of Head of Financial Services

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Financial Monitoring 2015-16
Period 6 (April to September 2015)

Executive Summary

The report summarises the financial monitoring position for the period 6 (April – September 2015).

At the end of period 6, officers were projecting a reduction in net expenditure of £1,117,667 on the general fund revenue account. This was mainly due to a reduction in expenditure on employees across all services, the local plan, miscellaneous expenses and additional car parking and interest income from our investments. Details regarding the variance on individual services are set out in section 4 of the report and Appendices 1 and 2. During the period, Executive approved a supplementary estimate for Armed Forces Day and a number of virements were authorised under delegated authority. These are contained in Appendix 10.

Section 5 of the report outlines that actual expenditure on our general fund capital programme incurred up to 30 September 2015 across all schemes has been comparatively low. Officers are making progress against significant capital projects on the approved programme. In particular, progress is being made on the Millmead refurbishment project, purchase of properties under the asset investment fund and the vehicles, plant and equipment replacement programme. The Council expects to spend £26.716 million on its capital schemes by the end of the financial year. Officers have reviewed a number of significant projects on the provisional programme and re-profiled the schemes into future years due to slippage. These include North Street development project, Millbrook and Mary Road car park schemes, Spectrum roof replacement project, acquisition of new burial ground and refurbishment of Woodbridge road sports ground.

The Council's underlying need to borrow to finance the capital programme is expected to be £22.291 million by 31st March 2016.

Section 6 of the report outlines that a surplus is expected on the Housing Revenue Account, due to lower staffing and repairs and maintenance costs. This will enable a transfer of £8.7 million to the new build reserve at year-end.

Section 6 also outlines officers assessment of the impact of the announcements in the Government's Summer Budget on the Council's HRA. Officers presented the impact   to Joint Scrutiny Committee on 17th November.

The Summer Budget contained a set of potentially significant and game changing announcements. Whilst the details are yet to be finalised, it is clear that the imposition of one or more of these proposed changes would have a seismic impact on the financial health of the HRA. It would restrict our ability to deliver new social housing in the short to medium term, and undermine our ability to service the debt inherited as part of self-financing in the longer term

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 2015 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 At its meeting on 28 July 2015, Council approved the recommendations of the scrutiny task and finish group's review of Governance Arrangements and asked the task and finish group to develop detailed proposals for implementation of the change in Governance Arrangements. The proposals were considered by the Joint Scrutiny Committee and Council in October 2015.

1.2 Recommendation 8 of the 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'.

1.3 This report is the second report detailing the results of the Council's financial monitoring for period 6 for the financial year 2015-16 (April to September) for its revenue and capital budgets. There is a separate mid-year treasury management report on this agenda as required by CIPFA guidance.

2. Strategic Framework

2.1 The Council's Corporate Plan 2013-16 includes the priority of improving value for money and efficiency in service delivery and states that through strong leadership and management of our resources, the Council will continue to provide services in the most cost effective way. Monitoring of our financial position during the course of the financial year is a critical part of our management of resources.

3. Background

3.1 The Council regularly under takes 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 the seven key service areas (Industrial Estates, Investment Property, Development Control, Planning Policy, Off Street Parking, Refuse and Recycling, Parks and Countryside)
b. Quarterly monitoring of the capital programme
c. Monthly and Quarterly monitoring of its treasury management activity
d. Monitoring at months 3,6,8 and 10 of the Housing Revenue Account

3.2 The reports are presented to the Council's officer Corporate Management Team (CMT), Chief Finance Officer and deputies, officer capital programme monitoring group, and Treasury Management Panel. The monitoring reports for key service areas are emailed to all Councillors. Following the decision by Council to expand the remit of the Corporate Governance and Standards Committee, the Corporate Improvement Scrutiny Committee decided to reduce the remit of the Finance Scrutiny Group, which will now meet once a year, to focus on scrutinising the bids made as part of the business planning process. Financial monitoring for all services is now reported to the Council's Corporate Governance and Standards Committee on a regular basis as recommended by the task and finish group.

3.3 This report sets out the financial monitoring for period 6 for the financial year 2015-16 (April to September). The monitoring report covers:

(a) general fund revenue monitoring (section 4)
(b) general fund capital monitoring (section 5)
(c) housing revenue account monitoring (section 6)

4. General Fund Revenue Account monitoring

4.1 **Appendix 1** shows the summary monitoring report for the general fund revenue account based on the period April to September 2015. Officers have prepared the projected outturn based 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. Variances to original budget have been colour coded with notes provided for any variance, which is red, and over £20,000.

4.3 At total service unit level the projected outturn £1,126,777 lower than the latest estimate. There are items within the contributions to reserves that reverse figures within the service units. When these are taken in to account, the projected outturn is £545,550 lower than the latest estimate.

4.4 Net external interest receivable is £359,229 higher than estimate. The major reason for the additional projected interest is the level of balances being higher than anticipated plus better returns than estimated on external funds.

4.5 The Minimum Revenue Provision (MRP), based on the Capital Financing Requirement (CFR) at 30 June 2015 is £293,446. This is £212,834 lower than estimated. The reduction is due to a change in the MRP policy approved by Council in February 2015.

4.6 The overall projected position for net expenditure is £1,117,667 lower than estimate.

4.7 During the period, a supplementary estimate was approved by Executive and a number of virements between budgets were approved under delegated authority. Details are contained in Appendix 10.

4.8 Unlike the old formula grant system, not all of the income and payments relating to the Business Rates Retention Scheme are fixed. The tariff and retained income figures do not change from the budgeted amount, but the levy and s31 grant income do. The levy that we pay to the government is 50% of the estimated retained income above our baseline funding level. Within the budget, we assumed that we would transfer our share (the remaining 50%) to the Business Rates equalisation reserve. After the 2014-15 accounts were closed, the government changed the calculation of the levy for that year. This means that we will need to pay over an additional £67,081 in 2015-16 for which we did not raise a creditor. In order to maintain the net effect of the BRRS on the General Fund we have adjusted this contribution as set out below::

	2015-16 Estimate (£)	2015-16 projection (£)	2015-16 variance(£)
BRRS - tariff	28,059,754	28,059,754	0
BRRS - levy re 2015-16	879,482	1,125,074	245,592
BRRS - levy re 2014-15	0	67,081	67,081
Contn to BRRS equalisation reserve	879,482	608,035	(271,447)
	29,818,718	29,859,944	41,226
BRRS - s 31 grant	(643,239)	(684,465)	(41,226)
BRRS - retained income	(32,066,981)	(32,066,981)	0
BRRS - net position	(2,891,502)	(2,891,502)	0

4.9 The table above shows an increase in our levy payment, because we think that business rate income will be higher than originally estimated, and a small increase in s31 grant income, which is related to certain rate reliefs that we have granted. In order to maintain the overall impact on the general fund, we have reduced the contribution to the business rates equalisation reserve.

Major Service Variances

4.10 There are several services with projected large variances in total net expenditure and these are summarised in the following paragraphs. The notes relate only to items that have an impact on the bottom line. There is no comment on additional spend financed from a reserve, an approved carry forward or by savings elsewhere in the budget.

	Higher net cost (£000)	Lower net cost (£000)
Community Services Directorate		
Housing Surveying Services – vacancies and Legionella contract		(96)
Corporate Services Directorate		
Intern vacancies		(144)
Other employee expenses net expenditure		(136)
Development Directorate		
Building Control – lower applications received	73	
Planning policy – delay in Local Plan		(170)
Environmental Directorate		
Refuse and Recycling – additional salary costs	107	
Off Street Parking – additional income		(145)
Resources Directorate		
Asset Development - vacancies		(94)
Miscellaneous Expenses – saving on centrally held budgets, including £135,000 from the allowance for the non-achievement of additional rent income that will not be required as we have achieved the target		(258)
Total	**180**	**(953)**

5. Capital Monitoring

5.1 **Appendices 3 to 6** of the report set out the following for each scheme on the Council's capital programme:

- the gross estimate for the scheme approved by the Executive (column a)
- the cumulative expenditure to 31-03-15 for each scheme (column b)
- the estimate for 2015-16 as approved at Council in February 2015 (column c)
- the 2015-16 revised estimate which takes into account the approved estimate, any project under spends up to 31 March 2015, and any virements or supplementary estimates (column d)
- 2015-16 current expenditure at 30 September 2015 (column e)
- 2015-16 projected expenditure estimated by the project officer (column f)

5.2 Officers have provided details of all changes to the programme. This includes details of predicted expenditure in 2014-15, which was not spent and was therefore carried forward into 2015-16. It also shows details of changes made by the Executive (transfers from the provisional to the approved programme) as these show those projects that managers are looking to move forward.

5.3 In addition to carry forwards and transfers from the provisional to the approved capital programme, there have been supplementary estimates of £1.642 million as follows:

- 11 February 2015 (Council) - £1.307 million – Millmead refurbishment
- 29 September 2015 (Executive) - £110,000 – Guildford Business Incubation Project
- 29 September 2015 (Executive) - £100,000 – SurreySave credit union purchase of shares
- 27 October 2015 (Executive) - £125,000 – Limnerslease project at watts gallery

5.4 The following virements have also been approved:

under delegation

- PL23: Allotments - £43,000
- Transfer under spend on OP8 (Chester road) to Stoke Park barrier and parks kiosk upgrade
- PL22a: Stoke Park Paddling pool - £104,000 from CCTV £81,000 (OP1) and Kingston meadows £23,000 (PL21a)

Executive, March 2015

- ED6: SARP - £390,000

5.5 These movements account for the difference between the estimates approved by Council in February 2015 (column c) and the revised estimates (column d).

5.6 **Appendix 3** shows the approved capital programme. Expenditure on the approved capital programme is expected to be £26.716 million representing a variance of £3.154 million to the revised estimate. £3.146 million has been moved from 2015-16 to future years due to project delays, and £10,000 has been deleted entirely.

5.7 If a project is on the approved capital programme, it is an indicator that the project has started or is near to starting. Whilst actual expenditure for the period up to 30th September 2015 of £7,694,000 against a revised budget of £29 million may seem low, a number of significant projects (i.e., those over £1 million, highlighted in grey in the appendix) are in progress, these include:

- BS1 – Investment in Millmead House Campus, £3.5 million which is due to complete by January 2016
- ED31(d) – Asset Investment Fund, £18.2 million, from which we have purchased Lexicon House (10 Midleton industrial estate) and 1-3 Bridge Street during the period leaving £10.2million to be spent by the end of the financial year
- OP6 – Vehicles, Plant and Equipment replacement programme, £1.8 million, which is in progress

5.8 **Appendix 4** shows the provisional capital programme. Expenditure on the provisional capital programme is expected £852,000 which represents a variance of £35.764 million to the revised budget of £36.616 million. These projects will need to transfer to the approved capital programme before the capital works can start. Project officers have reviewed the spend profile of projects and £36.224

million has been transferred from 2015-16 to future years due to slippage on the individual schemes. The significant projects (i.e., over £1 million) on this list are as follows:

- ED38(P) North Street Development, £21 million – Executive decided on 21 July to terminate the development agreement with LandSecurities. This budget has been moved to 2016-17.ED25(P) Guildford Park Multi Storey Car Park (MSCP) and infrastructure works, revised estimate of £2.5 million for 2015-16 to reflect that preparatory work on this project is progressing however, £2.5million has been moved to 2016-17
- OP13 & OP14(P) Millbrook car parking decking and Mary Road MSCP, £3.8 million. These projects will be addressed as part of the town centre masterplan delivery and have therefore been moved into financial year 2019-2020.
- PL11(P) Spectrum roof replacement – preparatory work on this project is progressing however, the majority of the expenditure is anticipated in 2016-17.
- PL16(P) Acquisition of new burial ground, preparatory work on this project is progressing however, the majority of the expenditure is anticipated in 2016-17
- PL29(P) Woodbridge Road sports ground refurbishment, preparatory work for this project is in progress but expenditure is now likely in 2016-17.

5.9 **Appendix 5** shows the capital programme financed by S106 developer contributions. The projected outturn for the year is £689,000 which represents a variance of £295,000 to the revised estimate of £984,000. The North Street rejuvenation project and Epsom/Boxgrove road project have been moved to 2016-17.

5.10 **Appendix 6** shows the capital programme schemes that are funded from the Council's reserves. The projected outturn for the year is £2.880 million, which represents a variance of £623,000 to the revised estimate of £3.503 million. Projects such as the millmead lighting replacement, Bedford road bus station and spectrum chiller replacement have been moved to 2016-17.

5.11 **Appendix 7** show that when Council approved the budget the estimated underlying need to borrow for 2015-16 was £59.331 million. The current estimated underlying need to borrow is £22.291 million. This reduction is because of the transfer of expenditure into future years as described above..

5.12 **Appendix 8** shows the general fund housing capital programme. Expenditure for the year is projected to be the same as the revised budget of £1.355 million.

6. Housing Revenue Account

6.1 **Appendix 9** shows the budget monitoring report for the Housing Revenue Account (HRA) for the period April to September 2015. The report shows that HRA gross service expenditure is projected to outturn at 95.2% of the budgeted level, whilst income is projected to be 98.6% of the budgeted level, creating a surplus of £378,754. The projected outturn would enable a transfer of £8.7

million to the new build reserve for which is higher than the budgeted transfer of £8.3million. The principal variations are:

- the rental income estimate for 2015-16 reflected a cautious view around Right to Buy (RTB) sales and de-commissioning of units. However, it is currently projected that rental income will be £407,000 lower than budget largely because of an increase in RTB activity and revised profiling of new build properties coming in to use

- it is projected that employee related expenditure; net of temporary staffing, vacancy credit and redundancy costs will result in a saving against budget of £175,100.

- focus remains on carrying out planned rather than responsive maintenance, facilitated by the benefits accruing from past levels of expenditure on planned capital and revenue maintenance works. Historically a lower than budgeted level of repair and maintenance expenditure has resulted. We are projecting a saving of around 8.5%.

6.2 In accordance with the business plan, with the exception receipts from right to buy 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, with priority in the early years of the business plan given to the provision of additional housing.

6.3 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. The Money Advisor is focusing on applicants and new tenants to help them manage their money more effectively.

Impact of the Summer Budget 2015 on the Housing Revenue Account

6.4 The Summer Budget contained a set of potentially significant and game changing set of announcements. Whilst the details are yet to be finalised, it is clear that the imposition of one or more of these proposed changes would have a seismic impact on the financial health of the HRA. It would restrict our ability to deliver new social housing in the short to medium term, and undermine our ability to service the debt inherited as part of self-financing in the longer term. The main proposals and the impact this could potentially have on the HRA are detailed below:-

Rental Income

6.5 The Chancellor announced a cut in social housing rent of 1%a year for the next four years.

6.6 Over the four-year period, this will remove £12.2 million from the rental stream. We will face an on-going reduction, as our base income in 2020-21 will be approximately 12% lower than currently anticipated.

6.7 This is one of a series of planned changes by the government directly influencing our rental income, making it difficult to forecast with any certainty the overall impact on the HRA Business Plan. However, the impact of this one change is likely to remove in excess of £200 million from the Business Plan over the 30-year planning period.

6.8 The Chancellor's announcement will have a significant impact on our ability to generate surplus to support our new build programme, whilst at the same time servicing the debt inherited in the self-financing settlement. This reduction is likely to coincide with a period when inflation in the economy steadily increases. This will add pressure to repair and maintenance or other expenditure headings.

Pay to stay

6.9 The Chancellor also announced a move that will require social landlords to increase rents for tenants on higher incomes. The measure, informally described as "pay to stay", will apply to households earning more than £40,000 in London and more than £30,000 in the rest of the country. The additional rent raised by this proposal will be retained by Housing Associations, but councils will be required to pay this revenue over to the Treasury.

6.10 Officials from the Department of Communities and Local Government have said that tenants earning above the thresholds will be required to declare their incomes. Officers are analysing the detail in the Housing and Planning bill. However, it is currently unclear how the government would force tenants to disclose their earnings.

6.11 It is likely that the implementation of a "pay to stay" policy will prompt an increase in right-to-buy applications, as tenants re-assess the option of exercising their right-to-buy, with enhanced discounts in a low interest rate environment, or paying the higher rent.

Enforced sale of tenanted stock

6.12 Details are very limited on how the scheme will work in practice. However, the government have said they intend to fund the discounts given to Housing Association tenants through the enforced sale of properties owned by stock holding councils.

6.13 The proposal envisages one-for-one replacement. However, the current scheme has not delivered this, and there cannot be any reason to expect a different outcome this time.

6.14 Until the detailed proposal is published, we cannot determine the impact. However, it is difficult to see anything positive in the proposal.

6.15 There is widespread opposition to the proposal but the Government is focussed on increasing home ownership and sees this as a major policy initiative.

6.16 The potential ramifications of this policy are enormous for not only stock holding councils, but also for the entire social housing sector.

Action for the 2016-17 Budget

6.17 Work has begun to identify potential revenue savings that could mitigate the loss of rental income over the four-year period. A couple of vacant posts earmarked for recruitment have been frozen, and preliminary work to assess whether there is an opportunity to re-profile elements of our repair and maintenance programme is ongoing. The financial implications of pay to stay and particularly enforced sale will be considered separately.

6.18 The Joint Scrutiny Committee received a presentation at its meeting on the 17th November in place of the annual business plan update on the changes outlined in the Summer Budget. Once detailed proposals are put forward from Government the business plan will be updated. This is anticipated to be reported to Executive in January 2016.

7. Financial Implications

7.1 The financial implications are contained throughout the report.

8. Legal Implications

8.1 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. The Local Audit and Accountability Act 2014 requires the Council to keep adequate accounting records and to prepare a statement of accounts. The Accounts and Audit Regulations 2015 made under the 2014 Act impose an explicit duty on the Council to ensure that financial management is adequate and effective and that we have a sound system of internal control, including arrangements for the management of risk.

8.2 Proper administration is not statutorily defined, however, there is guidance, issued by the Charted Institute of Public Finance and Accountancy (CIPFA) on the responsibilities of the Chief Financial Officer, which 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.

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

9. Human Resource Implications

9.1 There are no human resource implications because of this report

10. Conclusion

10.1 The report summarises the financial monitoring position for the period 6 (April – September 2015).

10.2 At the end of period 6, officers were projecting a reduction in net expenditure of £1,117,667 on the general fund revenue account. This was mainly due to a reduction in expenditure on employees across all services, the local plan and miscellaneous expenses and additional car parking and interest income from our investments.

10.3 Actual expenditure on our general fund capital programme incurred up to 30 September 2015 across all schemes has been comparatively low. Officers are making progress against significant capital projects on the approved programme as outlined in section 5. The Council expects to spend £26.716 million on its capital schemes by the end of the financial year. A number of significant projects on the provisional programme have been reviewed and re-profiled into future years due to slippage on the schemes.

10.4 The Council's underlying need to borrow to finance the capital programme is expected to be £22.291 million by 31st March 2016.

10.5 A surplus on the Housing Revenue Account, due to lower staffing and repairs and maintenance costs will enable a transfer of £8.7 million to the new build reserve at year-end.

10.6 Officers have assess the impact of the announcements in the Government's summer budget on the Council's HRA which are outlined in section 6 of the report and were presented to Joint Scrutiny Committee on 17th November.

10.7 The Summer Budget contained a set of potentially significant and game changing set of announcements. Whilst the details are yet to be finalised, it is clear that the imposition of one or more of these proposed changes would have a seismic impact on the financial health of the HRA. It would restrict our ability to deliver new social housing in the short to medium term, and undermine our ability to service the debt inherited as part of self-financing in the longer term

11. Background Papers

None

12. Appendices

- Appendix 1 – General fund revenue summary
- Appendix 2 – General fund revenue detail
- Appendix 3 – General fund approved capital programme estimated expenditure 2015-16 to 2020-21
- Appendix 4 – General fund provisional capital programme estimated expenditure 2015-16 to 2020-21

- Appendix 5 – General fund capital schemes: projects funded via reserves estimated expenditure 2015-16 to 2020-21
- Appendix 6 – General fund capital schemes – S106 estimated expenditure 2015-16 to 2020-21
- Appendix 7 – General fund capital programme summary of resources and financial implications
- Appendix 8 – General fund housing capital programme
- Appendix 9 – Housing Revenue Account Summary April to June 2015
- Appendix 10 – General fund supplementary estimates and virements