Corporate Governance and Standards Report

Ward(s) affected: All

Report of Director of Resources

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Financial Monitoring 2016-17

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 – September 2016.

At the end of September 2016, officers are projecting a reduction in net expenditure on the general fund revenue account of £1,787,198. This is the result of a combination of factors, which include a reduction in employee expenditure across all services, an increase in planning fees, higher than budgeted income from parking activities and additional rental income arising from the asset investment strategy. The Council has also received higher than budgeted interest receipts from its investments.

A surplus on the Housing Revenue Account, due to lower staffing and repairs and maintenance costs will enable a projected transfer of £11,838,440 to the new build reserve and reserve for future capital at year-end.

Officers are making progress against significant capital projects on the approved programme as outlined in section 7. The Council expects to spend £57.58 million on its capital schemes by the end of the financial year.

The Council's underlying need to borrow to finance the capital programme is expected to be £49.09 million by 31st March 2017.

The Council held £129 million of investments and £235 million of external borrowing at 30 September 2016. Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2016 as part of the Council's Treasury Management Strategy, with the exception of the upper limit on variable interest rates. This is because we have more variable rate debt than investments due to using more fixed deposits than variable rate investments.

Recommendation to Corporate Governance and Standards Committee

That the committee notes the results of the Council's financial monitoring for the period April 2016 to September 2016 and makes any comments it feels appropriate

Reason(s) 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 September 2016.

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 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 key service areas (Industrial Estates, Investment Property, Development Control, Major Projects, Planning Policy, Off Street Parking, Refuse and Recycling, Parks and Countryside). This report covers the period to September 2016 (period 6) and covers all Council services.

b. quarterly monitoring of the capital programme

c. monthly and quarterly monitoring of its treasury management activity

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

3.2 The reports are presented to the Council's officer Corporate Management Team (CMT), Chief Finance Officer and deputies, and officer capital programme monitoring group. Councillors receive the key service area monitoring reports by e-mail. Financial monitoring for all services is reported to the Council's Corporate Governance and Standards Committee on a regular basis.

3.3 This report sets out the financial monitoring and covers:

(a) general fund revenue monitoring (section 4)

(b) housing revenue account monitoring (section 5)

(c) treasury management (section 6)

(d) capital programmes (section 7)

4 General Fund Revenue Account monitoring

4.1 **Appendix 1** shows the summary monitoring report for the general fund revenue account based on the period April to September 2016. Officers have prepared the projected outturn on a combination of 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 the revised budget have been colour coded with notes provided for any variance, which is red, and over £20,000. We monitor the projected outturn against the revised (or latest) budget as this takes into account any virements or supplementary estimates approved since the original budget was set in February 2016.

4.3 At total service unit level the projected outturn is £862,000 lower than the latest estimate. There are items within the contributions to reserves that reverse figures within the service units. When these adjustments are taken into account, the projected outturn is £1.72 million lower than the latest estimate.

4.4 Net external interest receivable is £393,992 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 31 March 2016 is £354,461. This is £260,789 lower than estimated. The reduction is due to slippage in the capital programme experienced during 2015-16.

4.6 The overall projected position for net expenditure is £1.78 million lower than estimate.

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

Supplementary Estimates 2016-17

Service/Description	Approval Date	Committee	Value
Shooting Star Chase	27th September 2016	Executive	£25,000
TOTAL			**£25,000**

Virement Record 2016-17

Service/Description	Approved by	Date of Approval	Value
Mayor's theme	Claire Morris	26th May 2016	£20,000
Housing Benefit audit fee	Claire Morris	15th June 2016	£11,000
Major Projects GOTCHA study (transport modelling)	Claire Morris	21st July 2016	£28,000
Transfer of Info. Rights budget from Resources to Corporate Directorate	Claire Morris	28th July 2016	£56,150
TOTAL			**£115,150**

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. In 2016-17 we are in a Business Rates Pool for the first time. We pay 50% of the levy that we would otherwise have had to pay to the government (50% of the estimated retained income above our baseline funding level) to the Pool. Within the budget, we have assumed that we will transfer the other 50% of the levy, which we have saved by being in the Pool, to the Invest to Save Reserve, and that we will transfer the remaining 50% of the estimated income from business rates above our government set baseline funding level to the Business Rates equalisation reserve. In order to maintain the net effect of the BRRS on the General Fund we have adjusted this contribution as set out below:

	2016-17 Estimate (£)	**2016-17 Projection (£)**	**Variance (£)**
BRRS – tariff	28,293,585	28,293,585	0
BRRS – payment to pool re levy	573,021	590,576	17,555
Contn to Invest to Save Reserve	573,021	590,576	17,555
Contn to BRRS equalisation reserve	1,146,042	1,192,457	46,415
	30,585,669	30,667,194	81,525
BRRS – s31 grant	(445,826)	(527,351)	(81,525)
BRRS – retained income	(33,119,866)	(33,119,866)	0
BRRS – net position	**(2,980,023)**	**(2,980,023)**	**0**

4.9 The table above shows an increase in our payment to the pool and contribution to the Invest to Save Reserve, because we think that business rate income will be higher than originally estimated, and an 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 **Appendix 2** gives reasons for variances at a service level that are above £20,000. There are some services with projected larger variances in total net expenditure and these are summarised in the table below. The table below includes only items that have an impact on the bottom line and excludes additional spend financed from a reserve, an approved carry forward or items financed by savings elsewhere in the budget.

	Higher net cost (£000)	Lower net cost (£000)
Community Services		
EMI Services (loss of grant support)	75	
Community Meals and Transport (restructure savings/grant support)		(53)
Corporate Services		
Legal Services (external legal support and specialist advice)	185	
Development Directorate		
Industrial Estates/Investment Properties		(65)
Building Control (agency costs/income)	63	
Investment Property – target exceeded		(289)
Planning Policy (salaries and consultants, and grant support)		(169)
Environmental Directorate		
On-Off Street Parking (additional income, maintenance deferral)		(288)
Electric Theatre (vacancies pending outcome of review)		(44)
Guildford House/Guildhall (re-profiling of roofing work)		(80)
Parks and Countryside (staffing restructure, repair and maintenance, change in contract arrangements)		(176)
Resources Directorate		
ICT Business and Technical services (vacancies, staff restructure)		(210)
Paymaster service (pending restructure)	51	
Insurance Revenue Account (insurance premiums)		(41)
Managing Director		
Audit, Performance and Transformation services (vacant posts)		(152)

4.11 The table above shows that Legal Services have experienced an increase in expenditure of £185,000 due to using external solicitors to cover staffing vacancies and for specialist advice on asset investment and procurement initiatives. It is proposed that:

a. a virement of £140,000 is made from the corporate inflation budget held within financial services budget and
b. a virement of £45,000 is made from the parks and countryside salaries budget (the saving in parks is due to vacant posts and a 2016-17 growth bid that has not been utilised due to a delay in implementing a service restructure. The restructure is now expected to be completed by April 2017) to cover the over spend.

The virement is to be approved under delegated authority by the Managing Director in consultation with appropriate lead councillor(s) and lead councillor with responsibility for finance in accordance with the council's financial procedure rules.

5 Housing Revenue Account

5.1 **Appendix 3** shows the budget monitoring report for the Housing Revenue Account (HRA) for the period April 2016 to September 2016. The report shows that HRA gross service expenditure is projected to outturn at 97.6**%** of the budgeted level, whilst income is projected to be 100.0% of the budgeted level. The projected outturn would enable a transfer of around £11.83 million to the new build reserve and the reserve for future capital. The principal variations are:

5.2 The rental income estimate for 2016-17 reflected a cautious view around Right to Buy (RTB) sales and re-commissioning of units. However, it is currently projected that rental income will be £53,000 higher than budgeted.

5.3 It is projected that employee related expenditure; net of temporary staffing, vacancy credit and redundancy costs will result in a saving against budget of £262,000.

5.4 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 currently projecting a saving of around 2.2%.

5.5 In accordance with the last published business plan, 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. The priority in the early years of the business plan was the provision of additional housing. However, this will be subject of review and the submission of an updated business plan will reflect constraints placed on the HRA by changes in the Housing and Planning, and Welfare Reform and Work Acts.

5.6 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 continues to focus on applicants and new tenants to help them manage their money more effectively, in addition to providing support for tenants moving to Universal Credit.

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, and a small amount for the General Fund. During the year so far, due to limited expenditure on the capital programme (as outlined in section 7), the Council as a whole is currently 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 period 6.

Loan type		Balance 01 April 16 £000	New loans £000	Loans repaid £000	Balance 30 Sept 16 £000	Weighted average rate of
PWLB						3.16%
Variable		45,000	0	0	45,000	
Fixed	Maturity	147,435	0	0	147,435	
	EIP	1,150	0	(115)	1,035	
Local authorities		10,000	0	0	10,000	1.35%
Total long-term Loans		**203,585**	**0**	**(115)**	**203,470**	
Temporary Loans		34,500	47,300	(49,500)	32,300	0.48%
Total Loans		**238,085**	**47,300**	**(49,615)**	**235,770**	

Investment activity

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

6.5 The Council's budgeted investment income for 2016-17 was £1.23 million, the projected outturn is £1.6 million. The gross cash balances representing the

Council's reserves and working balances at 30 September 2016 available for investment were £129 million and net of short-term borrowing £97 million.

6.6 The Council's budgeted external interest cost, which relates to short and long-term borrowing, for the year is £5.41 million and the outturn is projected to be £5.34 million.

6.7 Net interest receivable was budgeted at £929,000 and is projected to be £1.33 million because of higher than anticipated cash balances.

6.8 The UK bank rate has been 0.50% since March 2009. However, The Bank of England reduced the bank rate in August to 0.25%. This reduction has been built into the projections, but there is still some uncertainty in the markets. The Council's annualised weighted return on investments for the period to September 2016 was 1.190% against an estimate of 1.453%.

6.9 Investment income is projected to be higher, despite the cut in the base rate, because of higher cash balances, and due to locking into some investments before the base rate cut.

6.10 The table below summarises the Council's investment activity for April to September 2016.

Investment	Balance 01 April 16 £000	New investments £000	Investments matured £000	Change in capital value £000	Balance 30 Sept 16 £000	Weighted average rate of interest
Investment Funds						
Payden & Rygel	5,000	0	0	19	5,019	0.41%
CCLA	6,553	0	0	(334)	6,219	3.19%
Aberdeen (SWIP)	1,798	0	0	21	1,819	0.26%
M&G	2,026	0	0	325	2,351	2.04%
Schroders	824	0	0	31	855	4.07%
Funding Circle	653	300	0	22	975	3.68%
UBS	2,349	0	0	88	2,438	1.55%
City Financial	2,335	0	0	159	2,494	1.41%
In- House Investments:						
Call Accounts	3,053	22,050	(22,042)	0	3,061	0.50%
Money Market Funds	9,740	133,425	(140,711)	0	2,454	0.49%
Notice Accounts	22,000	0	(9,000)	0	13,000	0.67%
Temporary Fixed Deposits	47,000	21,000	(35,000)	0	33,000	0.84%
Certificates of Deposit	9,000	0	(4,000)	0	5,000	0.88%
Unsecured bonds	6,016	12,511	(10,370)	0	8,157	1.01%
Long Term Covered Bonds	16,936	10,350	(3,550)	(133)	23,736	0.93%
Long Term Fixed Deposits	9,500	7,000	0	0	16,500	1.48%
Revolving Credit Facility	0	2,500	0	0	2,500	2.50%
Total Investments	**144,782**	**209,137**	**(224,673)**	**199**	**129,577**	

6.11 Some of our externally managed funds have seen a fall in their capital values in the year. The falls are indicative of wider financial market movements. 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 and the Council has an earmarked reserve available to utilise in the event of a loss, thus minimising the impact on the general fund. Officers would not normally sell external investments at a loss unless there were very exceptional circumstances. It is anticipated that the value of the external investments will increase in line with the market in the medium term and will generate a positive return for the Council when eventually sold.

6.12 The reduction in the capital value of the CCLA property fund is a direct consequence of the result of the EU Referendum. The fund applied a percentage reduction to allow for any potential reduction in the next valuation.

Prudential Indicators

6.13 Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2016 as part of the Council's Treasury Management Strategy Statement, with the exception of the upper limit on variable interest rates (explained below).

Authorised limit and Operational Boundary for External Debt

6.14 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.

6.15 The Council's authorised borrowing limit was set at £406 million for 2016-17.

6.16 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.

6.17 The operational boundary was set at £372 million for 2016-17.

6.18 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 £248 million.

Upper limits for fixed interest rate exposure and variable interest rate exposure

6.19 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates for both borrowing and investments. They are targets rather than absolute limits.

6.20 The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

6.21 The limit allows for 100% of total debt and total investments to be at a fixed rate, and a smaller percentage to be at a variable rate to minimise the potential volatility of interest rate risk.

	2016-17 approved (£000)	2016-17 actual to date (£000)	Within target ?
Net debt			
Upper limit on fixed interest rates	198,650	128,808	yes
Upper limit on variable interest rates	(25,870)	(28,131)	no

6.22 We have more variable rate debt than investments because we have been using more fixed deposits than variable rate investments.

Maturity structure of fixed rate borrowing

6.23 This indicator is designed to limit large concentrations of fixed rate debt maturing at times of uncertainty over interest rates.

Time period	Limit	Actual	Variance
Under 12 months	20%	17%	-3%
1 to 2 years	20%	0%	-20%
3 to 5 years	25%	6%	-19%
6-10 years	50%	5%	-45%
11 years and above	100%	72%	-28%

6.24 The table shows the split of the principal repayments of the fixed rate loans of the Council.

Total principal sums invested for periods longer than 364 days

6.25 This indicator allows the Council to manage risk inherent in investments longer than 364 days. The 2016-17 limit was set at £50 million and we had £40 million of longer-term investments, of which £23.7 million was in covered bonds.

7 Capital Programmes

7.1 **Appendices 5 to 10** 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 2016 for each scheme
- the estimate for 2016-17 as approved by Council in February 2016
- the 2016-17 revised estimate which takes into account the approved estimate, any project under spends up to 31 March 2016, and any virements or supplementary estimates
- 2016-17 current expenditure
- 2016-17 projected expenditure estimated by the project officer

7.2 Officers have provided details of changes to the programme below.

Approved programme (Appendix 4)

7.3 Expenditure is expected to be £44.75 million in 2016-17 representing a £26.88 million variance to the revised estimate of £71.64 million. If a project is on the approved programme, it is an indicator that the project has started or is near to starting. Whilst actual expenditure for the period of £28.69 million may seem low, a number of significant projects are in progress. These include:

- ED31 – property acquisition (£1.2 million). Deposit has been paid, awaiting completion later in the year
- ED30 - Home Farm, provision of traveller pitches (£1 million) – work is progressing on this scheme
- ED25 – Guildford Park infrastructure works (£6.5 million) – this scheme is to be considered by Planning Committee in November 2016
- ED16 – Slyfield Area regeneration project (£1 million) – work is progressing on this scheme
- FS1 – capital contingency fund – there is £4.24 million remaining in the fund
- P5 – Walnut bridge £2.6 million – work is progressing on this scheme
- P9c – Bedford Wharf £14.1 million – money was transferred to the approved programme for the progression of this scheme which has not happened as quickly as anticipated, the scheme has been rolled forward into 2017-18
- P9c – Bedford Wharf £3.53 million – this money was transferred to the approved programme for the acquisition of the site known as 'The Quadrant', the Council's bid for this property has been rejected, as part of the 2017-18 capital programme this budget will be removed

Provisional programme (Appendix 5)

7.4 Expenditure on the provisional programme is expected to be £4.22 million, against the revised estimate of £57.31 million. These projects will need to be transferred to the approved capital programme before the capital works can start and therefore monitoring progress of these projects is key to identify project timescales. The significant projects are:

- PL16 (p) - Burial Grounds £1.7 million
- ED32(p) - Clay Lane Link Road £1.0 million
- ED25 (p) - Guildford Park Car Park £4.8 million

A number of projects have been reprofiled into future years including North Street development £21 million, Clay lane link road £9.3 million, Guildford Riverside Route ph 2&3 £2.4 million and Transport schemes via Local Growth Fund £4 million.

S106 (Appendix 6)

7.5 Capital schemes funded from s106 developer contributions is expected to total £658,000 million.

Reserves (Appendix 7)

7.6 Capital schemes funded from the Council's specific reserves. The outturn is anticipated to be £4.31 million. The main projects are:

- expenditure on car parks £1.9 million
- ICT renewals £886,000

Capital resources (Appendix 8)

7.7 When the Council approved the budget, the estimated underlying need to borrow for 2016-17 was £89.01 million. The current estimated underlying need to borrow is £49.09 million. The reduction is due to slippage in the programme where schemes are being rolled forward into 2017-18.

General Fund housing programme (Appendix 9)

7.8 Expenditure for the year is projected to be £3.62 million which is higher as budgeted due to higher expenditure on the Corporation Club than anticipated.

Housing Investment Programme capital (Appendix 10)

7.9 The HRA approved capital programme is expected to be £14.11 million against an estimate of £13.76 million. The difference being an increase to the estimated costs of the Corporation Club.

7.10 The provisional programme's budget was £9.695 million with no expected spend in the year.

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 Charted 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 because of this report.

13 Summary of Options

13.1 This report explains the position after ten months of the financial year. There are no specific recommendations and therefore no options to consider.

13 Conclusion

13.1 The report summarises the financial monitoring position for the period April to September for the 2016-17 financial year.

13.2 At the end of September, officers were projecting a reduction in net expenditure of £1.78 million on the general fund revenue account. The main reasons for this are set out in the table in paragraph 4.10

13.3 The Executive will decide the treatment of any balance when it considers a report on the 2016-17 final accounts in June 2017.

13.4 A surplus on the Housing Revenue Account, due to lower staffing and repairs and maintenance costs will enable a transfer of £11.83 million to the new build reserve/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 the 1 April 2016. Officers are making progress against significant capital projects on the approved programme as outlined in section 7. The Council expects to spend £57.58 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 £49.09 million by 31 March 2017. 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 September 2016, the Council had £129.5 million of current investment balances.

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 - General Fund housing programme
- Appendix 10 - Housing Revenue Account capital programme