

Corporate Governance and Standards Committee Report

Ward(s) affected: All

Report of Director of Resources

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Date: 26 August 2021

Financial Monitoring (April to June 2021)

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 2021 to June 2021.

Officers are projecting an increase in net expenditure on the general fund revenue account of around £4.4million.

Covid-19 continues to impact the Council. The direct expenditure incurred by the Council in the current financial year stands at £59,718. The Government support will contribute to both the direct and indirect costs of the Covid-19 pandemic.

The indirect costs of Covid-19, particularly the loss of income, 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. This report considers the expenditure and income forecasted up to 30 June 2021 and will potentially be subject to substantial movement depending on the success of the Government's roadmap for lifting all Covid restrictions. The Council will be able to make a claim for some of the income loss under the Sales, Fees and Charges compensation scheme; however, officers are waiting for the government to issue guidance on this scheme for 2021-22 so an estimate of how much may be claimed is not currently included within the projection.

There is a reduction (£217,940) 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 £7.2million to the new build reserve and £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 £118,194 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 £73.329 million by 31 March 2022, against an estimated position of £94.59 million. The lower underlying need to borrow is a result of slippage on both the approved and provisional capital programme as detailed in paragraphs 7.3 to 7.6 of the report.

The Council held £130 million of investments and £271 million of external borrowing on 30 June 2021, which includes £192.5 million of HRA loans. Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2021 as part of the Council's Capital Strategy.

Recommendation to Corporate Governance and Standards Committee

That the Committee notes the results of the Council's financial monitoring for the period April to June 2021 and makes any comments it feels appropriate.

Reason for Recommendation:

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

1. Purpose of Report

- 1.1 Recommendation 8 of the 2015 Council Governance Review was: 'That the importance of the Corporate Governance and Standards Committee to the Council be recognised, particularly in the way in which it supports the overview and scrutiny function through ongoing scrutiny of financial matters, including its proposed expanded remit on the treasury management function and budget monitoring.'
- 1.2 This Committee started its enhanced review of our financial management at its meeting on 24 September 2015. This report covers the period April to June 2021.

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 3, 4, 6, 8 and 10]. This report covers the period to June 2021 [period 3].
 - (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 the 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 services, net of reserve transfers of £4.4million.

4.2 The direct costs associated with the Covid-19 pandemic in the current financial are £59,718 and are included in the forecast for the Resources Directorate. The breakdown of the direct costs to date are shown in the table below along with an estimated forecast for the year.

Description	Actual £	Forecast £
Housing		20,000
Emergency Accommodation	800	
Culture		240,000
Leisure costs	20,000	
Other lockdown compliance		149,000
Equipment, materials, contractors	12,418	
Public Health		220,000
Track and Trace	26,500	
Gross Expenditure	59,718	629,000

4.3 The estimates contained within the report relate to the period from April 2021 to the end of June 2021 and therefore considers some, but not all, of the costs and implications of recent announcements.

4.4 **Appendix 1** shows the summary monitoring report for the general fund revenue account. Officers have prepared the projected outturn on three 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 2021.

- 4.6 Net external interest is currently projected to be in line with our original estimate.
- 4.7 The Minimum Revenue Provision (MRP) based on the Capital Financing Requirement (CFR) on 31 March 2021 for the purposes of this report is shown as £1.317 million. This is £217,940 lower than originally estimated. The reduction is due to slippage in the capital programme experienced during 2020-21.
- 4.8 The tables below show the supplementary estimates and virements approved to date.

Supplementary Estimates 2021-22

Service/Description	Approval Date	Committee	Value £
Nil			
TOTAL			NIL

Virement Record 2021-22

Service/Description	Nature of Virement	Approved by	Date of Approval	Value £
Homicide review	Revenue	CFO	23-04-2021	12,000
Stoney Castle	Revenue	MD	21-06-2021	180,000
TOTAL				192,000

- 4.9 **Appendix 2** provides detailed information on variances at service level. The table below summarises the Service variances against the revised budgeted service level expenditure in 2021-22 referred to in paragraph 4.1 before any changes to reserves.

Directorate	Revised Budget, £	Projected Outturn, £	Variance, £
Resources	1,885,169	3,330,620	1,445,451
Services	16,796,462	20,673,709	3,877,247
Strategy	(88,753)	1,694,471	1,783,224
Totals	18,592,878	25,698,800	7,105,922

Use of Reserves

- 4.10 As part of the budget setting process for 2021-22 it was anticipated that £16.975 million would be transferred from earmarked reserves during the year. Major movements anticipated at this point in the year are explained in the table below.

Reserve	Variance (£000)	Explanation
Carry Forward Items	-521	Infrastructure development planning and major projects spending.
Car Park Maintenance	-2079	Revenue contributions to capital spending.
IT Renewals	-831	IT expenditure
New Homes Bonus	-60	Ripley Village Hall offset by less expenditure expected on the Town Centre masterplan.

Reserve	Variance (£000)	Explanation
Spectrum Reserve	-532	Capital financing costs
Invest to Save Reserve	-1,269	Future Guildford implementation cost
Other Reserves	-106	Awaiting confirmation of Spa site spends
Net movement	(5,398)	

5 Housing Revenue Account

5.1 **Appendix 3** shows the budget monitoring report for the Housing Revenue Account (HRA) for the period April to June 2021. The report shows that HRA gross service expenditure, projected outturn is 99% of the budgeted level arising from likely underspend in repairs due to access restriction as a result of Covid 19, whilst income is projected to be 97% of the budgeted level, with a likelihood of increased bad debt provision. The projected outturn would enable a transfer of around £7.2 million to the new build reserve and £2.5 million to the reserve for future capital expenditure.

- The rental income estimates for 2021-22 included a revised prudent allowance for Right to Buy (RTB) sales and the re-commissioning of new units. Rental income is currently projected to be £29,895,018 a 2% change from original forecast of £30,507,450 as a result of changes in the economic landscape, especially in employment, lending, and property market due to the Covid-19 pandemic.
- 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 out-turn we are forecasting a modest increase in budget but slightly below last year's 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.
- 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.

HRA Budget	2021-22 Estimate	2021-22 Projection	Variance
Income	(£33,732,537)	(£32,879,963)	£ 852,574
Expenditure on Housing Services	£ 17,710,972	£ 17,462,980	(£247,992)
HRA Share of CDC	£256,800	£256,800	0
Net Interest	£4,543,970	£4,912,420	£368,450
Net reserves transfer	£10,933,504	£9,764,567	(1,168,937)
Net HRA Budget	(£287,291)	(£483,196)	(£195,905)

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.

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.

Prudential Indicators

- 6.4 Officers confirm that the Council has complied with its Prudential indicators in the period, which were set in February 2021 as part of the Council's Treasury Management Strategy Statement.

Authorised limit and Operational Boundary for External Debt

- 6.5 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.
- 6.6 The Council's authorised borrowing limit was set at £531 million for 2021-22.
- 6.7 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.

- 6.8 The operational boundary was set at £477 million for 2021-22.
- 6.9 The Chief Financial 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** to 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 2021-22 as approved by Council in February 2021
 - the 2021-22 revised estimate which considers the approved estimate, any project under spends up to 31 March 2021, and any virement or supplementary estimates
 - 2021-22 current expenditure
 - 2021-22 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		2021-22 Approved £000	2021-22 Revised £000	2021-22 Outturn £000	2020-21 Variance £000
General Fund Capital Expenditure					
- Main Programme		66,654	70,705	70,547	-158
- Provisional schemes		79,669	78,817	43,734	-35,083
- Schemes funded by reserves		1,975	3,807	3,751	-56
- S106 Projects		0	220	162	-58
	Total Expenditure	148,298	153,549	118,194	-35,355
Housing Revenue Account Capital Expenditure					
	Approved programme	17,988	24,936	16,206	-8,731
	Provisional programme	33,437	33,687	0	-33,687
	Total Expenditure	51,425	58,623	16,206	-42,418

Approved (main) programme (Appendix 4)

- 7.3 Expenditure is expected to be £70.547 million representing a £158,000 variance to the revised estimate of £70.705 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 £8,005 million may seem low, several significant projects are in progress. These include:
- OP6 – Vehicles, Plant & Equipment Replacement (£1.4m)– to include the replacement of minibuses and sweepers.

- P5 – Walnut Bridge replacement (£2.1m) – works progressing timeframe for completion 12-18 months. 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 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.
- P21 – Ash Road Bridge (£10.5m) – 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.
- ED6 – WUV (£0m) and (New GBC Depot (£2.421m) - work is progressing on the detailed design, pre-planning and site investigation work for this scheme to inform the final business case. An Executive report is currently being drafted to move funds from provisional programme and reprofile expenditure. 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.
- SMC (£2.836m) – Currently waiting decision on progression and scope of scheme. 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 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.
- P12 – Strategic Property Acquisitions (£25.2m)
- North Downs Housing (£4.038m) and Guildford Borough Council Holdings Ltd (£2.687m) – target to purchase further properties this financial year.
- ED49 – Midleton Industrial Estate redevelopment (£4m) – Phase 4 due to go out to tender, report to be prepared to move remaining budget from provisional programme.
- P16 – A331 Hotspots (£3.579m) – scheme is being delivered by SCC and amounts will be payable upon request from SCC. 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 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.
- FS1 – Capital Contingency Fund – (£5m)
- P22 – Guildford Economic Regeneration Programme - (£1.1m)

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 2021-22 will now be carried forward into 2022-23 or future years:

- To date no significant amounts have been reprofiled.

Provisional programme (Appendix 5)

- 7.5 Expenditure on the provisional programme is expected to be £43.734 million, against the revised estimate of £78.817 million, representing a variance of £35.083 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 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 2021-22 have been re-profiled into future years including:
- PL21(p) - Ash Road Footbridge (£4.521m)
 - P12(p) – Strategic Property Acquisitions (£28.292m)
 - North Street/ Bus Station relocation (£1m)

S106 (Appendix 6)

- 7.7 Capital schemes funded from s106 developer contributions are expected to total £162,000. 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 Capital schemes funded from the Council's specific reserves. The outturn is anticipated to be £3.751 million. The main projects are:
- expenditure on car parks £2.016 million
 - ICT renewals and infrastructure improvements £831,000

Capital resources (Appendix 8)

- 7.9 When the Council approved the budget, the estimated underlying need to borrow for 2021-22 was £94,593 million. The current estimated underlying need to borrow is £74.329 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 £16.206 million against a revised estimate of £24.936 million. Several projects are in progress. These include:

- Guildford Park – (£660k) this scheme is awaiting decision regarding progression of works and new planning 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. (£2.6m has been reprofiled to future year)
- Various small site projects – (£800k) there is slippage on these projects. (£5.6m has been reprofiled to future years)
- Acquisitions of Land and Buildings – (£4.886m) spend is dependent on availability of sites, we are currently actively purchasing suitable properties to mitigate slippage on building projects.
- Major Repairs & Improvements - (£9.2m) outturn is expected to be on budget as works delayed due to COVID can now be progressed.

The Guildford Park, 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 RTB receipts. If the Council does not spend enough money on its Housing Investment Programme in order to utilise its RTB receipts within the timescales, then they 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 estimates of spend and assumption of 20 RTB sales per year no additional spend is required until 2028-29.

Guildford Right to Buy Model Calculation of Future Annual Additional Cap Expenditure Needed to Avoid Repayment (taking account of voluntary repayments)		
Year	Year	Annual
10	2021.22	0
11	2022.23	0
12	2023.24	0
13	2024.25	0
14	2025.26	0
15	2026.27	0
16	2027.28	0
17	2028.29	4,275,214

Housing Investment Programme Provisional Capital (Appendix 10)

7.11 The provisional programme revised estimate is £33.437 million with no expenditure anticipated this financial year to date. The reprofiling of schemes will result in a lower level of expenditure on 2021-22.

- Guildford Park –(£14.499m) - this scheme is awaiting decision regarding progression of works and new planning approval. (£14.499m has been reprofiled to future years)
- Bright Hill & Redevelopment Bids – (£14.558m) - reprofiled to future years

The two 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 continues to be 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 relates on the Housing Investment Programme relates to what is required to be spent as per the RTB model.

8 Consultations

8.1 The accountants prepare the budget monitor in consultation with the relevant service managers.

9 Equality and Diversity Implications

9.1 There are no direct equality and diversity implications as a result of this report. Each service manager will consider these issues when providing their services and monitoring their budgets.

10 Financial Implications

10.1 The financial implications are contained throughout the report.

11 Legal Implications

11.1 The Local Government Act 1972, Section 151 states that each local authority has a statutory duty to make arrangements for the proper administration of their financial affairs. In addition, the Accounts and Audit Regulations 2015 impose an explicit duty on the Council to ensure that financial management is adequate and effective and that they have a sound system of internal control, including arrangements for the management of risk.

11.2 Proper administration is not statutorily defined; however, there is guidance, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) on the responsibilities of the Chief Financial Officer (CFO). This states that local authorities have a corporate responsibility to operate within available resources and the CFO should support the effective governance of the authority through development of corporate governance arrangements, risk management and reporting framework. Regular monitoring of the Council's actual expenditure to budget and forecasting of the expenditure for the full year is part of the proper administration and governance of the Council.

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

12 Human Resource Implications

12.1 There are no human resource implications arising from this report.

13 Summary of Options

13.1 This report outlines the anticipated outturn position for the 2021-22 financial year based on three months actual data. There are no specific recommendations and therefore no options to consider.

14 Conclusions

14.1 The report summarises the financial monitoring position for the period April 2021 to June 2021 for the 2021-22 financial year.

14.2 Officers are currently projecting an increase in expenditure of £4.4million on the general fund revenue account. Mainly due to pressures on expenditure and income in relation to Covid-19.

14.3 The Chief Financial Officer in consultation with the Lead Councillor for Resources will determine the treatment of any balance as part of closing the 2021-22 accounts.

14.4 The surplus on the Housing Revenue Account will enable a transfer of £7.2 million to the new build reserve and the reserve for future capital at year-end.

14.5 Actual expenditure incurred on our general fund capital programme for the period has been comparatively low against the programme envisaged at the 1 April 2021. Officers are making progress against significant capital projects on the approved programme as outlined in section 7. The Council expects to spend £119.194 million on its capital schemes by the end of the financial year.

14.6 It is anticipated that the Council's underlying need to borrow to finance the capital programme will be £119.194 million by 31 March 2022. The Council has complied with Prudential Indicators during the period except for the upper limit on variable interest rates.

14.7 At the end of June 2021, the Council had £143 million of investment balances, and £276 million borrowing.

15 Background Papers

None

16 Appendices

- Appendix 1 - General fund revenue account summary
- Appendix 2 - General fund services - revenue detail
- Appendix 3 - Housing Revenue Account summary
- Appendix 4 - Approved capital programme
- Appendix 5 - Provisional capital programme
- Appendix 6 - Schemes funded from S106
- Appendix 7 - Capital reserves
- Appendix 8 - Capital resources
- Appendix 9 - Housing Revenue Account approved capital programme
- Appendix 10 - Housing Revenue Account provisional capital programme
- Appendix 11 - Housing Revenue Account resources
- Appendix 12 - Summary of HRA Capital Expenditure and Financing