

Executive Report

Wards affected: All

Report of Chief Financial Officer

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Business planning – General Fund outline budget 2019-20

Executive Summary

This report outlines the current position on the 2019-20 outline budget and asks the Executive to note the position.

The Joint EAB Budget Task Group (JEABTG) and Joint Executive Advisory Board (JEAB) will consider the outline budget at their meetings on 8 November and 21 November. The comments of the JEABTG are included at section 12 [following meeting]. The comments of JEAB will be circulated as an addendum to this report, as it meets after this agenda is published.

The report explains that we have included government grant at a level based on the 4-year local government finance settlement issued by Government in February 2016 but that we will not know the amount of our grant for certain until central government releases the draft local government finance settlement which the Ministry of Housing, Communities and Local Government (MHCLG) has provisionally indicated will be 6 December 2018. We have assumed a £5 (3.0%) increase in Council Tax in line with the Budget Assumptions 2019-20 to 2022-23 report approved by Executive on 17 July 2018.

The draft Council Tax base is 56,795, which is 0.53% lower than 2018-19. This has reduced the resources available by approximately £52,200.

The financial monitoring report for the first six months of 2018-19 will be reported to the Corporate Governance and Standards Committee on 29 November 2018. The projected net expenditure on the General Fund for the current financial year is estimated to be £1.2 million less than the original estimate.

Section 9 covers the current position on the 2019-20 outline budget which currently shows no shortfall between the likely resources and the proposed net expenditure.

The major reasons for movements between 2018-19 and 2019-20 are set out in the report and the variances at service level are set out in **Appendix 2**. No revenue growth bids have been received for 2019-20, although some capital bids may have revenue

implications attached to them. These will be considered as part of the capital and investment strategy report in January 2019, along with a schedule of proposed fees and charges for 2019-20.

Because it is still early in the budget process the report also sets out the areas of uncertainty that may influence the final position.

Recommendation to Executive:

The Executive is recommended to:

1. Note the current position on the outline budget for 2019-20
2. Recommend the proposal to use the Council's various earmarked reserves for specific projects as set out in section 8 of the report

Reason(s) for Recommendation:

To assist the Executive in the preparation of the General Fund estimates for 2019-20.

1. Purpose of report

- 1.1 This report outlines the current position on the 2019-20 outline budget and asks the Executive to note the position.
- 1.2 Because it is still early in the budget process, the report also sets out the areas of uncertainty that will influence the final position.
- 1.3 The report also proposes the use of the Business Rates reserve and other earmarked reserves. The working assumption is that we will not form part of a business rates pilot in 2019-20.

2. Strategic Priorities

- 2.1 The budget underpins the Council's strategic framework and delivery of the Corporate Plan.

3. Background

- 3.1 This report will cover the following areas:
 - Council Tax, tax base and collection fund
 - capital expenditure and minimum revenue provision
 - use of reserves and interest earnings
 - draft outline budget for 2019-20

4. Outline budget parameters

- 4.1 The outline budget has been prepared on the factors approved by the Executive at its meeting on 17 July 2018.

5. Revenue Support Grant (RSG) and Business Rates Income under the Business Rates Retention Scheme (BRRS)

- 5.1 In July 2018 Executive considered the projections for RSG and BRRS for 2019-20. These assessments have not been updated in this report. The Ministry of Communities and Local Government (MHCLG) has provisionally indicated that the draft Local Government Finance Settlement (LGFS) will be announced on the 6 December 2018, therefore a further update on government funding will be provided to Executive in January 2019 as part of the final budget report.

6. Council Tax, tax base and collection fund

- 6.1 The outline budget assumes that council tax will increase by £5 (approximately 3.0%) This means that the band D tax will go up from £166.82 to £171.82. The increase will generate approximately £285,500 based on the 2018-19 tax base.
- 6.2 At present, the government sets a limit each year above which increases in council tax have to be supported by a referendum. In the past, this limit has been 2%. However, as part of the final local government finance settlement issued in February 2016, for Shire District Councils this was changed to allow increases of less than 2% or up to and including £5 per Band D property, whichever is higher. The recent technical consultation on the local government finance settlement issued by government proposes that this rule remains the same for 2019-20 and we expect that the government will continue to set the same council tax referendum limit for 2020-21.
- 6.3 The Director of Finance, in consultation with the Lead Councillor for Finance and Asset Management, has agreed the council tax base for 2019-20 at 56,795. This is 0.53% lower than the 2018-19 figure and has reduced the available resources by approximately £52,200.
- 6.4 Any surplus or deficit on the Collection Fund in the current financial year (2018-19) feeds into the 2019-20 budget. The figures presented assume a small deficit [this will be updated in time for Executive in January 2019]
- 6.5 At present, it seems unlikely that there will be a surplus on either the council tax or business rates element of the Collection Fund. This is a consequence of an increase in the number of exemptions and discounts primarily in respect of student occupancy and single person discounts and on the business rates element a significant increase in the appeals provision made as part of the closure of the accounts in previous years. Officers propose that any business rates deficit is financed from the Business Rates Equalisation Reserve.

7. Capital expenditure and minimum revenue provision

- 7.1 The Council has a single capital programme for the General Fund that we finance from the Capital Schemes reserve, capital receipts and revenue contributions towards specific schemes. Unless we generate significant capital receipts, the Council needs to borrow from either its own resources (earmarked for other uses) or from the market; at the current time borrowing is internal as it is more financially advantageous.
- 7.2 Because the capital programme shows an underlying need to borrow, represented at the year-end by the capital-financing requirement (CFR), there is

a requirement to make a debt charge to the revenue account called the minimum revenue provision (MRP). This charge is based on the value and life of the assets funded by borrowing (internal or external). The minimum revenue provision for 2018-19 will be £795,190, which is based on a General Fund CFR at 31 March 2018 of £74.4 million. It is currently estimated that the CFR at 31 March 2019 will be £118.5 million and the MRP for 2019-20 will be £1.01 million. This figure is included in the outline budget.

- 7.3 Officers are currently preparing an updated capital programme for Councillors to consider early in 2019. The level of capital programme that Councillors wish to support will determine the level of capital receipts used, interest earnings and MRP for 2019-20.

8. Use of Reserves and interest earnings

- 8.1 An important element of the Council's budget is the income it receives from investment of the cash held in reserves. The balances held at the end of the 2017-18 and the projected balances at the end of 2018-19 financial years are shown below:

Reserve	Actual 2017-18 Balance £ million	Projected 2018-19 Balance £ million
General Fund Reserves	3.7	3.7
Housing Revenue Account (HRA) Reserve	2.5	2.5
Earmarked GF Reserves	42.0	38.6
Earmarked HRA Reserves (incl MRR)	83.7	80.4
Useable Capital Receipts Reserve (General)	0	0
Useable Capital Receipts Reserve (housing related)	24.1	15.7
Total Useable Reserves	156.0	140.9

- 8.2 HRA reserves are considered as part of the HRA budget. The general fund earmarked revenue reserves includes £15.7million of projected earmarked reserves which are not available for general spending because they are contingent in nature (for example the insurance reserve), or are earmarked for specific future spending such as car parks maintenance which helps even out expenditure on the general fund. The Council is also required, under accounting practice, to hold endowment funds received as developer planning contributions in earmarked reserves for the long term repairs and maintenance expenditure on Special Protection Areas (SPA) or Suitable Alternative Natural Greenspaces

(SANGs), these reserves are required to fund the revenue costs of SPA / SANGS in perpetuity. Earmarked reserves for SPA and SANGS are projected to be £5.4million at 31st March 2019. The level of projected earmarked reserves available for general purposes, to support the revenue or capital budgets is therefore £17.5million.

- 8.3 In the 2018-19 budget, we anticipated a net interest charge of £126,794. The estimate for net interest receipt included in the outline budget for 2019-20 is £279,095. Interest payable to the Housing Revenue Account (HRA) is estimated at £598,260 reflecting the level of balances and investment returns consistent with the application of a risk free rate of return. The Bank of England raised the base rate to 0.75% in August 2018. We will continue to keep under review the timing of possible base rate changes as the estimates process proceeds.

Proposed Use of Key Earmarked Reserves

Business Rates Reserve

- 8.4 As part of the 2018-19 budget it was agreed to fund the rural economy officer and the transport strategy project manager, a jointly funded post with SCC from this reserve. Officers do not propose any further use of this reserve as part of this report.

The Budget Pressures Reserve

The budget pressures reserve was established in 2015 to manage the financial challenges the Council faces over the medium term and in particular, allow us to carry forward underspends on the general fund at the end of each financial year to offset future growth pressures. In 2017-18 Council approved the use of this reserve to offset the potential loss of income during the crematorium rebuild project of £846,000 in 2018-19 and £200,000 in 2019-20 [subject of ongoing verification as a result of adjusted scheme timeline]. Officers recommend that any revenue costs associated with the Future Guildford transformation programme, for which a capital bid has been submitted, will be funded from either the budget pressures and/or invest to save reserve.

New Homes Bonus Reserve

- 8.5 The Council adopted a new homes bonus policy in February 2016. The policy assumes that the first £1 million of NHB grant continues to support the general fund revenue budget. Officers do not propose any further use of this reserve as part of this report.

Invest to Save Reserve

- 8.6 The invest to save reserve exists to pump prime the upfront costs of service transformation and efficiency projects, including staff redundancy costs. Costs to be funded from the invest to save reserve are often approved in year under delegated authority. If there are any up-front costs of service transformation required to achieve these savings then we will seek to fund the costs from the invest to save reserve. The budget includes a transfer to reserve of £150,000 to support future service transformation and it is proposed to continue to fund a strategic property acquisition surveyor from this reserve in 2019-20. Officers

recommend that any revenue costs associated with the Future Guildford transformation programme, for which a capital bid has been submitted, will be funded from either the budget pressures and/or invest to save reserve.

The Car Parks Maintenance Reserve

- 8.7 The balance on the car parks maintenance reserve at 31st March 2018 was £4.6 million. This reserve is available to fund repairs, maintenance and improvement of car parks. Officers propose that this reserve is used to fund works totalling £176,000 in 2019-20 [detail of works to follow]

IT Renewals

- 8.8 The budget includes a transfer to reserve of £100,000 to support the investment in ICT technology to stimulate the use of technology and new ways of working to improve value for money and efficiency in the delivery of Council services.

9. 2019-20 outline budget – current position

- 9.1 Although it is still very early in the estimates process (the Council does not set its 2019-20 budget and Council Tax until 6 February 2019), officers are confident that we can set a balanced budget which supports significant investment in services financed from efficiency savings, additional income generation and use of reserves.
- 9.2 Officers are currently considering the implications of a twelve week Surrey Council County public consultation on budget priorities, the timings of which may require us to utilise the reserve Budget Council date of 26 February 2019.
- 9.3 In order to arrive at the final budget, service managers prepare an outline budget based on existing levels of service, which is then amended for existing commitments and agreed changes relating to growth and savings.
- 9.4 The base outline budget position, excluding the revenue implication of capital bids to be considered as part of the capital and investment strategy report in January is projecting net expenditure equal to the estimated resources, assuming a £5 council tax increase. Service managers and the finance team continue to work on these figures and update them as appropriate.
- 9.5 The figure above includes the effect of the decrease in council tax base, which has reduced available resources by approximately £52,200.
- 9.6 At present, the figures assume a modest deficit on the collection fund as referenced in paragraph 6.5.
- 9.7 We have included income from the Business Rates Retention Scheme (BRRS) and Revenue Support Grant (RSG) at the level stated in the multi-year settlement.

Major changes from 2018-19

- 9.8 The estimated directorate level expenditure excluding depreciation charges for 2019-20 is £13.57 million, which is £701,100 less than the 2018-19 directorate level expenditure estimate of £14.27 million. The major variances are set out in **Appendix 2.**

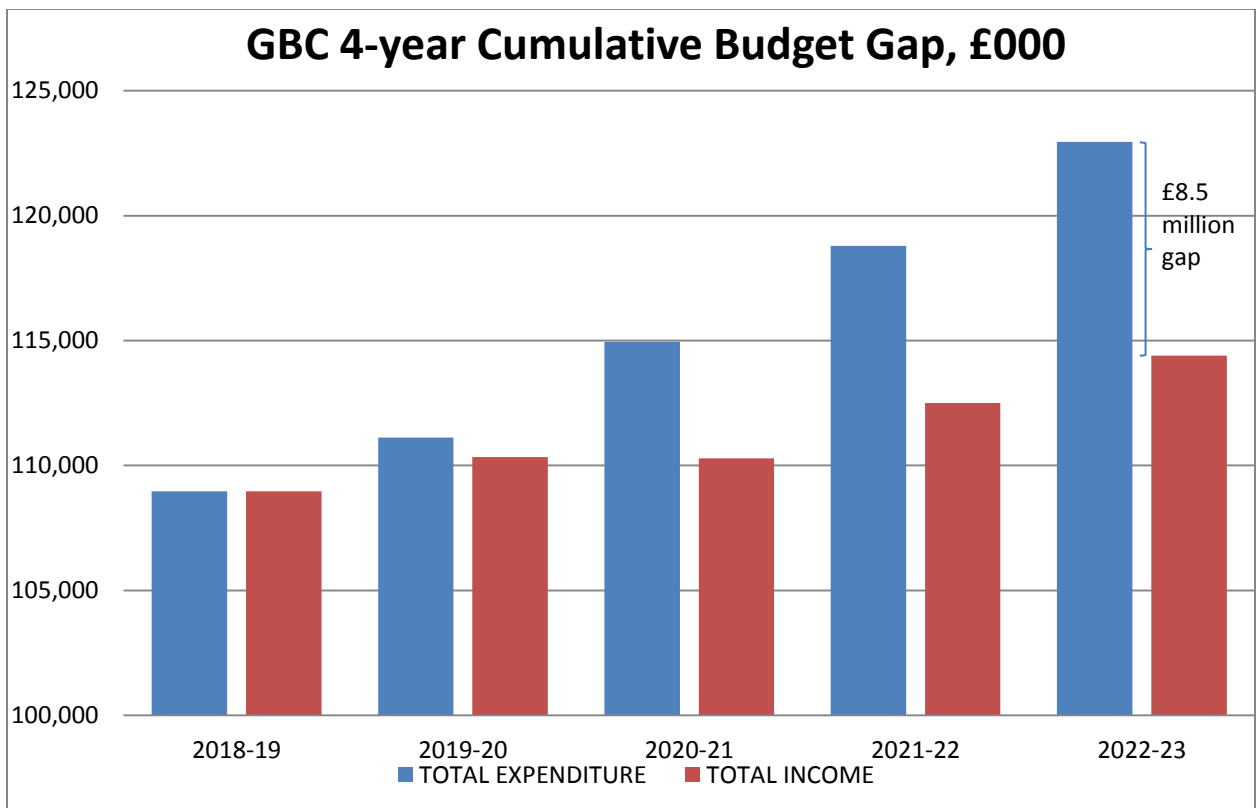
Major changes from 2019-20 projection included in the 2018-19 budget book

9.9 When the 2018-19 budget book was published, we projected a broadly similar Council tax requirement for 2019-20, with increasing budgetary pressure in 2020-21 and beyond. The 2019-20 outline budget is consistent with that overall assessment, but within it there are a number of major movements that have contributed to this overall position:

- increase in the anticipated directorate budgets - £1.95 million [this includes a working assumption around the loss of SCC grant and other support]
- increase in net interest receivable - £1.62 million
- reduction in the MRP charge - £0.81 million
- changes in the proposed use of reserves - £0.28 million

9.10 Several large capital projects originally planned for 2018-19 have not started as anticipated when the 2018-19 budget was prepared. This has resulted in an increase in cash balances contributing to a projected net interest receipt for 2019-20 of £0.87 million when we were previously projecting a net interest payable charge of £0.75 million.

9.11 The long-term projections still indicate that a saving of around £8.5 million is needed over the period to 2022-23 as highlighted in the graph below. Officers continue to work towards identifying the necessary savings over the medium term.



Growth bids

- 9.12 As in previous years, officers were invited to submit growth bids and proposals for savings and additional income. No revenue bids were received although some capital bids may have revenue implications attached to them. These will be considered as part of the capital and investment strategy report in January 2019. Proposals for savings and additional income have been built into the budget where appropriate, whilst other opportunities for savings are currently being considered as part of the Future Guildford workstream..
- 9.13 Any comments made about the bids by the Joint EAB Budget Task Group (JEABTG) are included in section 12 below and the comments of the EAB will be circulated as an addendum to this report, as it meets after this agenda is published.
- 9.14 It is possible that service managers will submit additional bids before the budget process is finished in February 2019. Officers will update the Executive at its meeting in January 2019.
- 9.15 There is not currently a gap between estimated expenditure and income in the outline budget for 2019-20. Officers suggest the following potential actions to remove the budget gap in the event that external influences or working assumptions need to be revisited:-
- a. inclusion of revised interest and MRP estimates following production of the draft capital programme and treasury management strategy
 - b. reduce payroll inflation assumption
 - c. inclusion of the Future Guildford transformation target, which will be determined as part of the blue print business case and reported to Councillors in January/February 2019
 - d. further one-off use of reserves – this is not a sustainable action for on-going cost pressures

Fees and Charges

- 9.16 The fees and charges proposed by service managers for 2019-20 will be considered by Executive in January 2019. The target increase agreed by the Executive was 3% but Councillors will see that there is a wide variance in the percentage increases proposed. This is because service managers have discretion to take into account the market within which their services operate when proposing fee increases. The estimated income included within the outline budget is based on these proposed charges.

10. Comments of Joint EAB Budget Task Group and Joint Scrutiny committee

- 10.1 The Joint EAB Budget Task Group (JEABTG) and Joint Executive Advisory Board (JEAB) will consider the outline budget at their meetings on 8 November and 21 November.
- 10.2 The JEABTG [comments to follow]

10.3 The JEAB meet on 21 November, after this agenda is published. Its comments will be circulated as an addendum to this report.

11. Consultations

11.1 JEABTG and JEAB has been consulted about the outline budget for 2019-20 and proposed growth bids. Its comments are included in section 12.

12 Equality and diversity implications

12.1 There are no equality or diversity implications arising from this report. Where changes to services are included within the budget the service managers will carry out the relevant equality impact assessments as part of the changes.

13. Financial implications

13.1 The financial implications are considered throughout the report.

14. Legal implications

14.1 The Council is required by legislation to set a balanced budget

15. Human Resources implications

15.1 There are no immediate human resources implications because of this report. Officers will address any changes in the level of resources because of growth or savings initiatives as the changes are implemented.

16 Summary of options

16.1 The committee is able to offer comments in support of, or against, any of the proposals contained in the report.

17. Conclusion

17.1 At this early stage in the budget process we are not anticipating a gap between the projected net expenditure for 2019-20 and our estimated resources. There remains a number of externalities that may result in a budget gap developing as we move through the process. It remains possible that there will be revisions to the local government finance settlement but we will not know this until December, along with the impact, if any of the business rates revaluation on our income. However, officers are confident that we can deliver a balanced budget for the financial year 2019-20.

17.2 The medium term financial plan position remains challenging and we estimate that we will need to find savings of approximately £8.5 million over the period to 2022-23.

18. Background Papers

None

19. Appendices

Appendix 1 - General Fund summary

Appendix 2 - variances between 2018-19 estimate and 2019-20 outline budget at service level