CHIEF FINANCE OFFICER'S STATUTORY REPORT

Introduction

1.1 The Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of the estimates and adequacy of proposed financial reserves. The report below provides a strategic overview of the Council's financial position before making specific considerations on the 2019-20 budget. The report covers the Council's General Fund, Housing Revenue Account (HRA) and Capital and Investment Strategy.

Strategic Overview

Local Government Funding

2.1 The overall financial climate continues to be severe and is expected to remain so for a number of years. Local Government will continue to play its part in helping to address the national funding deficit, and each Council will be required to contribute accordingly by continuing to deliver services with fewer resources.

2.2 Since 2013-14, the Council has experienced a reduction in government grants and has taken on significant responsibilities in relation to council tax benefits and business rates (explained below). Both these changes placed more resource demands on the Council and increased risks. The Business Rates Retention Scheme (BRRS) moved local government funding away from formula grant to a combination of retained business rates and revenue support grant. Since then the revenue support grant has been withdrawn and 2019-20 is the second year that the Council will receive no revenue support grant funding from Government. The Council is now reliant on Council Tax, retained Business Rates, New Homes Bonus and locally raised fees and charges as its core funding streams. Changes in these funding streams are considered in section 3.

2.3 The Autumn Budget announced in October 2018 confirmed the abolition of the Housing Revenue Account borrowing cap, meaning that the Council's HRA will now be subject to the requirements set out in the CIPFA prudential code. The removal of the cap is the biggest change to HRA capital financing since 2011 and will enable the Council to invest further in affordable housing development. The impact of this change has been considered in both the HRA and the capital and investment strategy reports. Other Budget 2018 announcements that may benefit or impact Guildford Borough Council were:

- additional funding for social care, some of which will come to Guildford Borough Council through the disabled facilities grant, which allows the Council to facilitate the adaptations to property and home aids to keep people independent in their own homes
- additional funding to support the transition of benefit claimants from housing benefit to Universal Credit
- a 'future high streets fund' to support access to high streets and their redevelopment
- increase in the Housing Infrastructure Fund
- further business rates reliefs for small retail properties and public lavatories

2.4 In addition, Budget 2018 announced some background information to the 2019 Spending Review (SR2019); the government published forward projections that indicate a reduction in public sector net borrowing from 1.4% of GDP in 2019-20 to 0.8% of GDP by 2023-24. It was anticipated that the government would announce outline departmental control totals for SR2019 as part of the 2018 autumn budget, however it has only released aggregate budgets split between the NHS and all other departmental spending. The figures that were released show that outside of the NHS, average departmental cash budgets will increase by 8.4% over the period 2019-20 to 2023-24, which is roughly in line with the inflation increase over the same period. Therefore, we anticipate that local government will not see any real term increase in funding over the period 2019-20 to 2023-24.

2.5 The announcement of the provisional local government finance settlement (LGFS) for 2019-20 on 13 December 2018 was in line with expectations following the council's acceptance of the multi-year settlement and the LGFS technical consultation issued in July 2018. The announcement confirmed the removal of the 'negative RSG' (or additional business rates tariff as it was officially known) that had been included within the multi-year settlement for 2019-20. As a result, Guildford Borough Council will not have to pay an additional business rate tariff of £674,000 to the government in 2019-20. The LGFS also announced that £180 million of additional funding from the national business rates levy/safety net account was being returned to local government. The Council's share of that funding was £44,000.

2.6 As part of the LGFS, The Council learned that the Surrey bid to be a pilot area for 75% business rates retention in 2019-20 had been unsuccessful. This means the current 2018-19 Surrey wide 100% business rate retention pilot, will cease on 31st March 2018 and the Council will fall back to the 50% BRRS for 2019-20.

Localisation of Business rates, Revenue Support Grant and New Homes Bonus

3.1 From 2013-14 local authorities have retained a proportion of their collected Business Rates, based on central shares (a proportion returned to the Government) and local shares (retained by the authority). As an incentive, the Government allows local authorities to retain a proportion of any increase in business rates collected because of increased growth. Under the standard scheme, the Council will benefit by 25p in the £1 on any net growth but will be liable for 50p in the £1 on any net reduction.

3.2 As stated above, the draft LGFS for 2019-20, was issued on 13 December 2018. The 2019-20 LGFS is the final year of the multi-year settlement outlined in 2016-17. The figures provided by the government are in the table below:

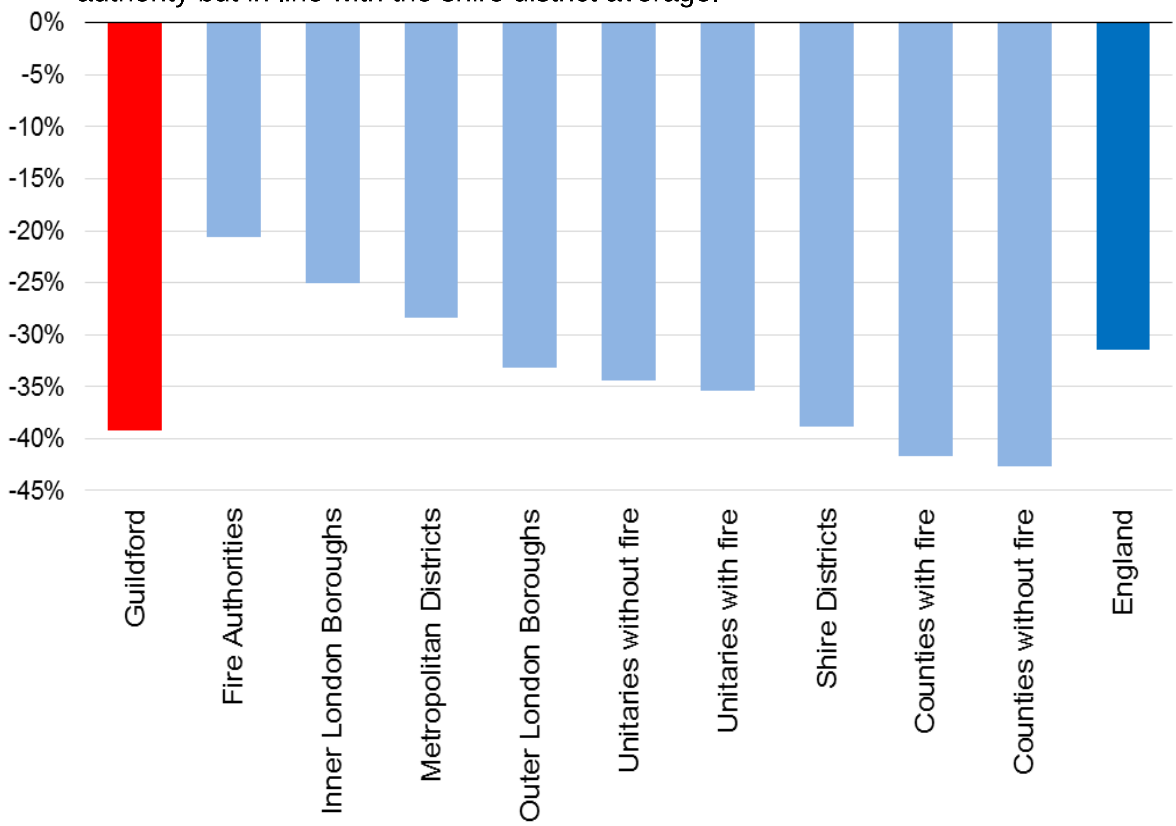
	2016-17	**2017-18[1]**	**2018-19[1]**	**2019-20[1]**
Settlement Funding Assessment	3.8	3.1	2.8	2.9
of which:				
Revenue Support Grant	1.1	0.3	0.0	0.0
Baseline Funding Level	2.7	2.7	2.8	2.9
Tariff/Top-Up[2]	-28.3	-30.2	-22.3	-31.3
2017-18 Tariff and Top-up reconciliation			0.5	
Safety Net Threshold	2.5	2.5	2.7	2.7
Levy Rate (p in £)	0.5	0.5	0.0	0.5

1 In 2017-18 and 2018-19 tariffs and top-ups have been recalculated to reflect the adjustment for the 2017-18 business rates revaluation. In 2018-19 the figures were adjusted for the 100% business rates retention pilot.

3.3 For 2019-20, Guildford's settlement funding assessment (SFA) reduction is 2.3%, which is lower than the national average reduction for shire districts. However, due to the variable nature of the business rates element of local authority funding, the draft settlement no longer sets the absolute funding level for local authorities, but gives a baseline funding level. The actual level of funding the Council receives will depend on the business rate income for the year, any section 31 grants and whether the Council is part of a business rate pilot or pool. At the start of the year, we estimate the business rate income, but the actual amount is unknown until after the year ends. For 2019-20, we estimate our net business rate income will be a 14% reduction from our 2018-19 income, this is predominantly due to not being part of a business rate retention pilot or pool in 2019-20. The table below shows the volatility of our net business rate income over the multi-year settlement period along with the proportion of total business rates collected.

Year	Actual 2016-17 £million	Actual 2017-18 £million	Estimate 2018-19 £million	Estimate 2019-20 £million
GBC Share of Business Rate Income (NNDR1/3)	33.1	35.2	26.1	35.7
S31 Grant	0.5	1.1	1.4	2.2
Business rate tariff	-28.3	-29.7	-22.3	-31.3
Levy / Safety Net payment	-0.9	0	0	-1.3
Pilot or pooling gain	0	0.5	0.8	0
Net BRRS Income	**4.4**	**7.1**	**6.1**	**5.3**
Total Business Rates Collected	84.4	88.1	91.1	89.2
% Business Rates Retained	5.2%	8.0%	6.7%	5.9%

3.4 The graph below shows the cumulative changes in SFA over the multi-year settlement period and the comparative reduction in central government support for Guildford in relation to the average of other local authorities. Our local government advisors, LGFutures, who are able to benchmark data across different local authority classes nationally, produce this graph. It shows that the cumulative reduction in Guildford's SFA over the multi-year settlement has been more than other classes of authority but in line with the shire district average.



3.5 Over the multi-year settlement, the revenue support grant (RSG) element of the SFA has reduced by 100%. Since 2018-19, the Council no longer receives RSG from Government. The RSG reduction has affected Guildford and other Surrey Councils more severely due to the way the government changed the mechanism of distributing grant in 2016-17. Rather than all local authorities receiving the same percentage reduction in RSG funding, the government now takes into account the amount that can be raised locally from Council Tax, thereby increasing the reduction in RSG funding for higher tax base authorities such as Guildford (in terms of the ratio of council tax income to SFA). Due to the unanticipated impact of changing the mechanism on the medium term financial plans of local authorities in 2016-17 and 2017-18, the government introduced a transition grant of £102,000 per annum for 2016-17 and 2017-18 to delay the implementation of the changes, however, the transition grant has now ceased.

3.6 The Council's new homes bonus (NHB) in 2019-20 has reduced by £161,000 or 13% from 2018-19. This is despite an increase in the number of properties added to the Council tax system in the year. The reduction is due to the implementation of changes to the NHB allocations introduced in 2017-18, which mean that award of NHB is only made if growth exceeds a 0.4% baseline. As the funding is only guaranteed for 4 years, it will fall out of the budget in the future.

Changes in Government Support

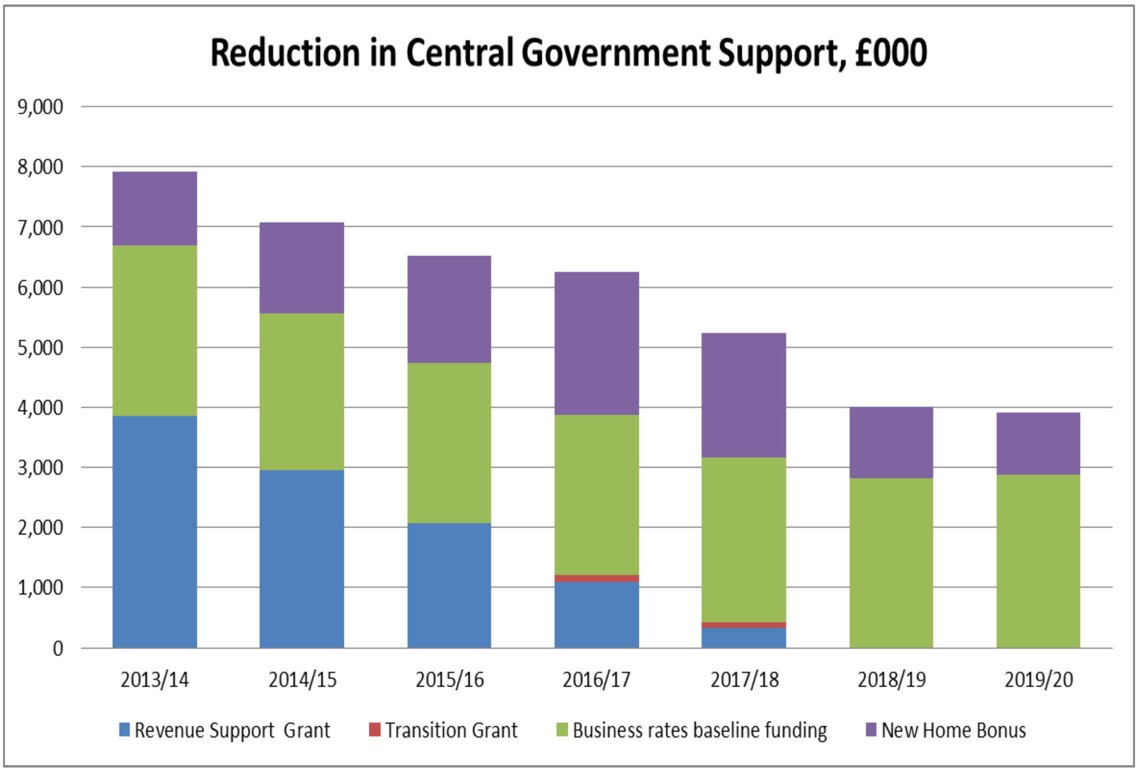
4.1 Taken together, the settlement funding assessment (business rates and RSG) and new homes bonus (NHB) are the key elements of central government support the Council receives. In total, the three elements have reduced by 2% (£96,000) since 2018-19; this represents a cumulative reduction of 50% since 2013-14. When comparing local authorities in the local government finance settlement the government uses a term spending power, this includes the council tax that the government expects the Council to raise and some specific grants. The government states that Guildford's spending power has reduced by 1% between 2018-19 and 2019-20; however, I feel that this does not properly reflect the true reduction in central government support.

4.2 The proposal set out in the LGFS is that by the end of the Parliament (i.e., April 2020), local government will retain 75% of business rate revenues (it currently keeps 50%), however, the system of top-up and tariffs, which re-distributes revenues between local authorities nationally, will be retained. Whilst the system retains the redistribution mechanism, 75% of the business rates will not be retained locally by the Council. As the table in paragraph 3.3 shows, the actual retention of business rates locally is around 5%.

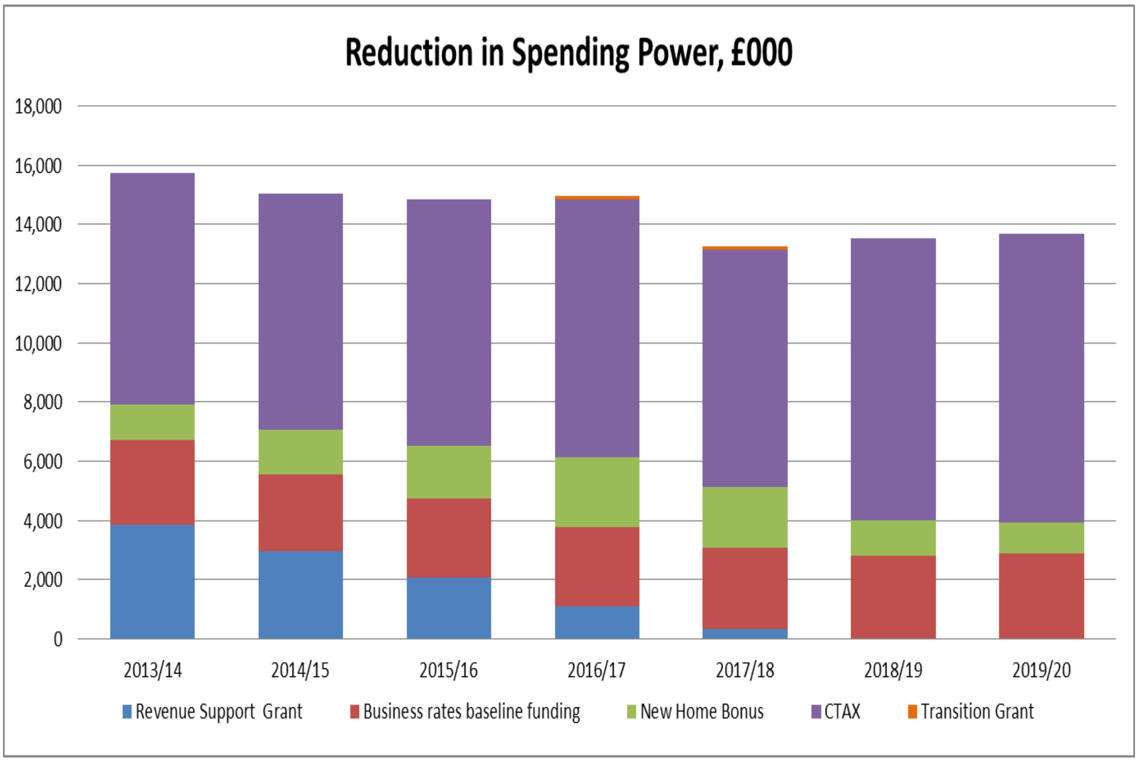
4.3 The LGFS shows that Council's core spending power[1] reduced by 5.9% over the multi-year settlement period. However, within this government have assumed a level of council tax base increase for 2019-20, which is in excess of the Council's own estimates. As a result, our own estimate of the reduction in spending power over the multi-year settlement period to 2019-20 is 8%, which is £1.2 million in cash terms. . The majority of the reduction fell on the RSG which, since 2018-19, the Council no longer receives. The cumulative reduction in SFA over the multi-year settlement period was 39% or £1.8 million in cash terms.

4.4 The chart below shows the change in Central Government funding since 2013-14. The overall cumulative reduction in central government support since 2013-14 was £3.9 million in cash terms (50% of our funding).

[1] Core spending power for Guildford comprises: SFA (RSG and retained Business Rates), Council Tax income and new homes bonus



4.5 The comparative graph showing the Council's estimate of the reduction in our spending power (which includes council tax) and the cumulative impact since 2013-14 is shown in the chart below.



Fair Funding Review, Business Rates Retention (BRR) and Surrey Pilot

4.6 During the last two years, the government have consulted on local government funding reform with a view to introducing a new system with effect from 1st April 2020. The consultations have had two elements:

a. a Fair Funding Review and
b. Business Rates Reform (implementation of 75% business rates retention)

4.7 The Council has responded to the consultations issued so far and will continue to respond to current and future consultations. The government issued the third set of consultations on 13 December 2018 and the deadline for response is 21 February 2019. The fair funding review will set the baseline need to spend for the implementation of the new 75% BRR system in 2020. I am currently evaluating the proposals and will discuss the impact and the Council's response with the Lead Councillor for Finance and Asset Management.

4.8 Initial review of the latest fair funding consultation identifies that the Council's level of funding in future will be driven by a formula based on population with an area cost adjustment to reflect the cost of providing services in different parts of the Country. A population based cost driver is felt to be the most common and accurate driver of cost incurred by Shire District Council's across all services. In terms of resources, the government has indicated that it will assess the ability of each Council to raise income using an indicative Council Tax calculation which will assess the council tax base at a point in time (adjusted for non-discretionary discounts and exemptions) multiplied by a notional council tax rate. The consultation sets out that the government is minded not to take sales, fees and charges into account when calculating relative resources but has indicated that it might take surplus car parking income into account. The Council's SFA from 2020 onwards will be the difference between its relative need to spend and its relative resources. The SFA will then represent the amount of business rates the Council can keep under the 75% BRR System.

4.9 Review of the latest business rates consultation confirms that there will be a full reset of the business rates system in 2020 and thus all growth within the business rates system that has been retained by the authority since 2013 will be lost. The government has also put forward an alternative BRRS to the one that had been previously proposed, of which we will need to evaluate the advantages and disadvantages.

New Homes Bonus

4.10 As outlined in paragraph 3.6 the new homes bonus allocation for 2019-20 is a reduction of £161,000 or 13% from 2018-19. This is despite an increase in the number of properties added to the Council tax system in the year. The government have set a national limit on the amount of new homes bonus that can be paid nationally of £900 million and implemented a number of changes to the scheme to enable allocations to fit within the national limit. In particular, the government introduced a deadweight percentage and previously reduced the period of time the bonus is payable for, to 4 years

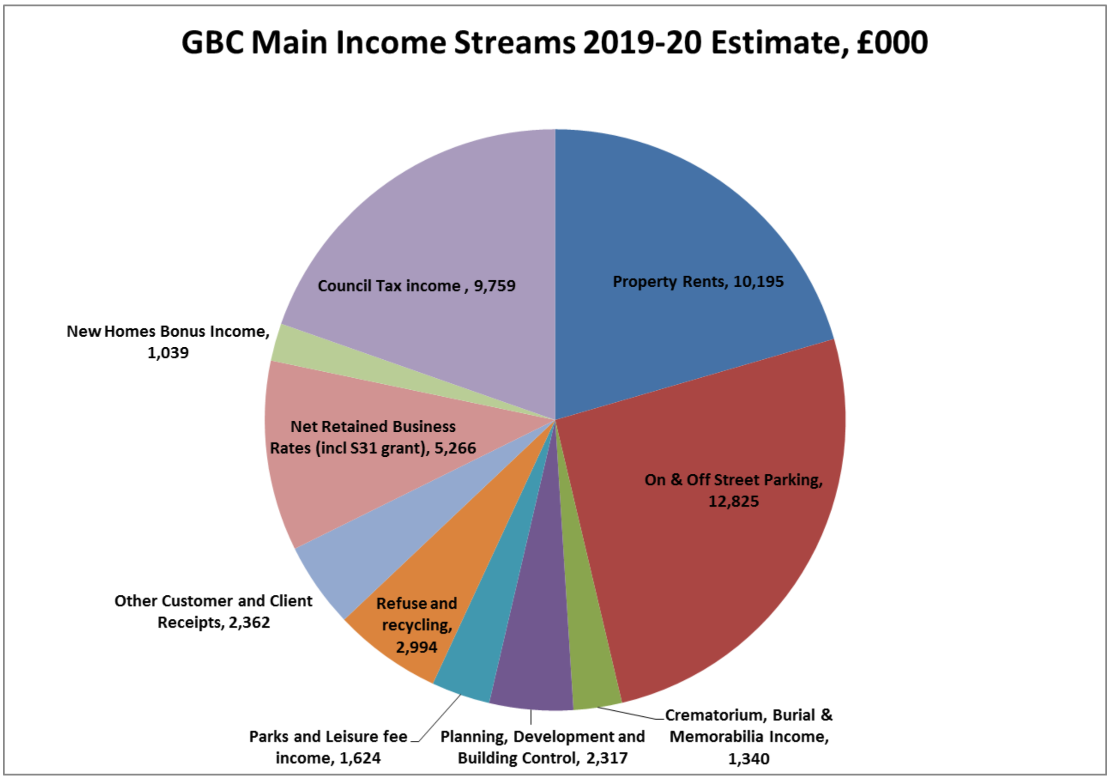
4.11 Guildford Borough Council submitted its new Local Plan to the planning inspector in December 2017 and underwent the local plan examination in the Summer of 2018. Following the public examination, the inspector indicated that the plan was substantially sound subject to modifications which were consulted on in the Autumn of 2018. A further round of public hearings will take place in February 2019 with the Inspector.

4.12 Whilst the local plan suggests an increase in housing in the borough, we do not expect any significant increase in the New Homes Bonus (NHB) in the medium and long term. This is because the Government have set the national limit on NHB allocations as £900 million and it is likely the allocation will further reduce if the government does not meet its national austerity targets. Therefore, the bonus is likely to be subject to on-going reform to keep within the national allocation.

4.13 Our budget and medium term financial plan assumes that any increase in NHB is transferred to reserves to finance one off short to medium term revenue projects or capital projects in line with the New Homes Bonus Policy adopted by the Council in February 2016 and therefore does not affect the council tax calculation or the budget gap identified below. This is because NHB funding is currently only available for 4 years and so it would not be prudent to rely on the income as a permanent source of finance to fund on-going revenue expenditure.

General Fund Main Income Streams

4.14 As a result of the reduction in the level of government grant support and switch to retention of business rates, the Council is becoming increasingly reliant on its locally raised income. Risk awareness and management of local income risks will become increasingly important over the medium term period to ensure the on-going financial sustainability of the Council. A graph showing the main sources of income, which the Council uses to fund services, is set out below. Parking income which represents 26% of the council's income is the largest income stream, this is followed by property rent which represents 21% of our income. Council tax is the third largest income stream at 20% whilst net retained business rates represents 11% of the Council's income.



Economic Outlook

5.1 The economic situation continues to pose a risk. As the government's austerity measures impact on residents, then our income streams could be affected.

5.2 Interest earnings will not form a significant source of income to the Council due to decreasing investment balances over the medium term and continued low interest rates. The Council will still continue to hold investments. The preservation of our capital whilst maximising our income is of paramount importance when managing the investments.

5.3 Interest payable on debt will start to feature as a significant cost to the Council over the medium term. In managing our debt portfolio we aim to strike a balance between securing low interest costs and achieving cost certainty over the period for which the borrowing is required.

5.4 The adoption of the Capital and Investment Strategy is designed to mitigate these risks.

5.5 The Council is aware of the significant pressure that continuing austerity and increasing demand for services is placing on the NHS and social care authorities. There is a significant lack of resources to properly fund social care, which is placing a significant strain on our local NHS partners and Surrey County Council (SCC). As these bodies focus their attention on providing statutory services, there will be an impact on the preventative services, which Guildford Borough Council receives funding from SCC to provide. Currently the Council receives £1.5 million of funding from SCC to provide a range of services, all of which could be at risk in future.

Guildford Borough Council Medium Term Financial Plan

Corporate Plan

6.1 The Council's Corporate Plan was developed for the 5-year period April 2018 to March 2023 and includes bold ambitions for service delivery for the future. The budget for 2019-20 includes projects proposed as part of the 2018-2023 corporate plan. Many of the priorities within the plan involve significant investment in services, infrastructure and housing to deliver the outcomes.

6.2 A new capital and investment strategy has been developed with the aims of realising the Council's Corporate Plan, raising the quality of life for residents and improving the long term financial planning process. The capital strategy demonstrates that the Council takes capital expenditure and investment decisions in line with the corporate plan and takes account of stewardship, value for money, prudence, sustainability and affordability in the decision making process. The first five years of the capital strategy are the capital programme. The capital programme (both general fund and HRA) is significant and includes potential investment in key projects to support our corporate plan such as:-

- Investment in new affordable housing at various sites such as Guildford Park, Bright Hill, Ladymead, Apple Tree Pub (Park Barn), Slyfield and various infill sites
- Increased investment in acquiring land and property for affordable housing development
- HRA property regeneration and intensification
- Investment in residential accommodation for rent (through the Council's subsidiary company, North Downs Housing Ltd)

- Regeneration of North Street
- Potential regeneration of Council owned sites in the town centre e.g., Bedford Road / cinema area
- Slyfield regeneration and internal estate road
- Provision of a new railway station at Guildford West (Park Barn)
- Investment in additional car park capacity in the town centre
- Investment in transport infrastructure & sustainable transport routes (town centre, west Guildford & cycling)
- Westfield Road / Moorfield Road (Slyfield) resurfacing
- Redevelopment of Midleton Industrial Estate
- Infrastructure improvements to the A331/A31 and A331/A323 junctions (Blackwater Valley road)
- Contributions to improved disability access at Ash Vale railway station
- New Walnut Bridge
- Rebuilding the Crematorium
- Introduction of a bicycle sharing scheme in the town centre
- Producing a masterplan for Stoke Park
- Investment in the Museum
- Investment in the ICT of the Council
- Investment in protecting the Council's parks and commons from unauthorised encampments

6.3 The capital and investment strategy splits the capital programme between 'income generating and redevelopment/ economic growth schemes' which will be required to meet a target level of return to proceed and 'essential schemes' that are necessary to maintain the Council's assets and deliver services. To ensure the affordability of the capital programme, we have suggested a limit on the total number of essential schemes that can be undertaken in any one year to ensure that the revenue implications of the schemes can be afforded by the Council's general fund revenue account. The income generating and redevelopment / economic development schemes are anticipated to provide a net overall increase in income or reduction in cost to the Council's general fund revenue budget and therefore positively contribute towards the Council's future financial sustainability.

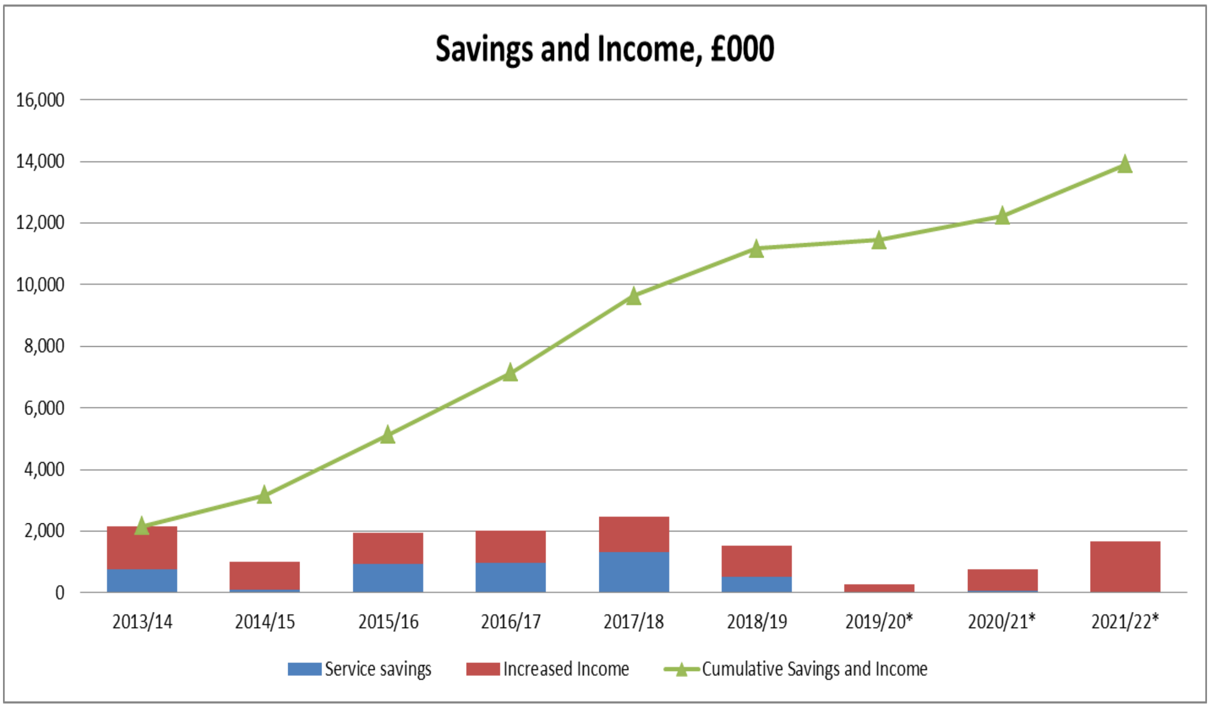
6.4 To finance the capital strategy, a variety of funding sources, such as capital receipts, capital reserves, revenue contributions, S106 contributions and borrowing will be required. Unless the Council is able to generate capital receipts it will need to borrow from its own internal resources, or the market. Any borrowing will have a direct impact on the revenue budget, as there is a requirement to charge a minimum revenue provision (MRP) for the use of borrowing as well as interest payments. The impact of MRP is included within the general fund revenue budget. Whilst the 5-year capital programme is ambitious, the capital strategy assumes that there will be some capital receipts or revenue income arising, particularly from the redevelopment schemes that will offset some of the expenditure in the long-term.

General Fund Savings and Income

7.1 As part of the drive to continue to deliver services with fewer resources, the Council is undertaking a transformation programme to remodel services, achieve savings and increase income to achieve a sustainable financial future. Since 2013-14, the Council has generated a total of £4.5 million in savings and £6.6 million in additional income.

7.2 The budget assumes a further £161,000 savings and £2.5 million additional income can be achieved between 2019-20 to 2021-22, which were identified from the business planning process undertaken in 2017-18 and 2018-19. The additional income mainly relates to income to be generated from capital schemes that are included within the Council's capital programme and scheduled for delivery within the medium term period.

7.3 The graph below summarises the savings and additional income achieved since 2013-14.



<u>General Fund Medium Term Financial Strategy</u>

8.1 The medium term financial strategy (MTFS) and new capital and investment strategy provide a framework within which we will prepare annual spending plans. In essence, it sets a framework for our spending plans and use of resources over the medium term, ensuring that we have a sustainable financial future.

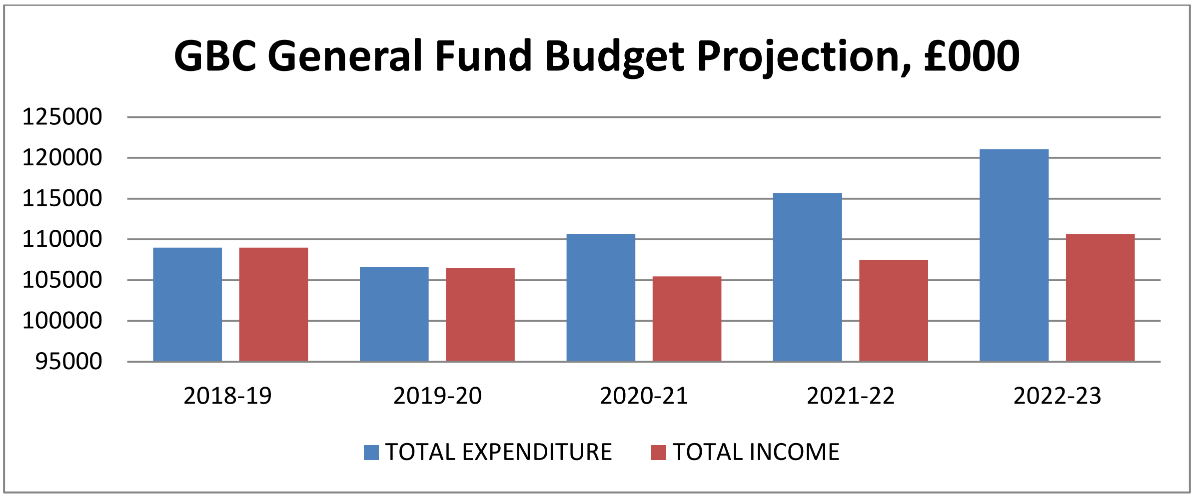
8.2 We have reworked the financial projections to 2022-23 at a summary level, but many of the assumptions (for example, interest rate movements and MRP) could in reality be significantly different.

8.3 Officers prepared the medium term figures using the assumptions in the table below. The Executive approved the assumptions at its meeting on 17 July 2018. These assumptions are for outline planning purposes only and have been reviewed and updated throughout the budget process. Assumptions which have changed from the July Executive report are shown in Italics. They will be subject to further review and update before detailed estimates are prepared for each financial year.

	2019-20	2020-21	2021-22	2022-23	Benchmark
General Inflation	2.0%	2.0%	2.0%	2.0%	CPI
Payroll	2.0%	2.0%	2.0%	2.0%	AWE (PS)
Income	3.0%	3.0%	3.0%	3.0%	RPI
Council Tax increase	£5 (approx 3.3%)	1.9%	1.9%	1.9%	CPI
Business Rates Inflation	3%	2%	2%	2%	RPI until 2020, CPI after 2020
Impact of the fair funding review and business rates reform	*£0*	*£0.6 million*	*£1.2 million*	*£1.9 million*	*Local estimate*
Council Tax Base Increase	*-0.5%*	*0.73%*	*0.73%*	*1.27%*	*Planning applications and local plan forecast*
New Homes Bonus	*£1.0 million*	*£1.0 million*	*£1.8 million*	*£2.9 million*	*Planning applications and local plan forecast*
Housing Rents	1% reduction	2% increase	2% increase	2% increase	Government Guidance until 2020 then CPI
Average Weighted Investment Returns	1.48	1.49	1.63	1.64	Target % above BoE Base rate as per TMSS

8.4 Approved capital project expenditure and a percentage of provisional capital expenditure are built into the cash flow projections. The statutory MRP relating to the capital-financing requirement (the underlying need to borrow) has been built in with reference to the life of the assets involved, in accordance with the MRP policy within the Capital Strategy.

8.5 Given these assumptions, our projections show that there is a significant gap between projected income and expenditure over the period 2020-21 to 2022-23 as demonstrated below.



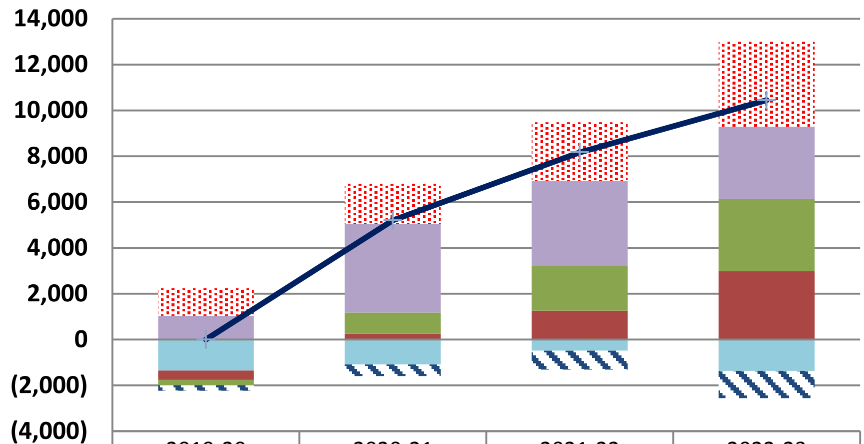
8.6 We estimate that the funding gap totals approximately £10.4 million over the plan period (to 2022-23). However, sensitivity analysis shows this could be within the range £6 million to £14 million.

8.7 A budget gap of £5.2 million is currently projected for 2020-21. The gap arises due to

- a projected £3.4 million decrease in net retained business rates following the fair funding review and business rate reform,
- the removal of £1 million New Homes Bonus and £958,000 business rate levy funding from the Council's base budget on the basis that the funding streams are not certain post April 2020

8.8 The principal causes of the budget gap over the medium term are follows:

Analysis of Budget Gap, £000



	2019-20	2020-21	2021-22	2022-23
(Increase) in Council Tax	(233)	(496)	(821)	(1,178)
Change in Use of Reserves	1,195	1,740	2,565	3,709
Reduction in Brates & NHB Income	1,038	3,873	3,702	3,156
Increase in MRP	(234)	926	1,958	3,144
Increase in Net Interest Payable	(406)	251	1,254	2,979
Increase / (Decrease) in Directorate spend	(1,359)	(1,094)	(489)	(1,371)
Total Budget (Surplus) / Deficit	1	5,200	8,169	10,439

8.9 Councillors and Senior Officers are acutely aware of the need to retain a firm grasp on controlling expenditure, efficiency programmes and budget monitoring.

8.10 As outlined in paragraph 7.2, the medium term budget gap already assumes that further savings and additional income identified in previous year business planning exercises can be achieved. There is a risk that if the savings and income proposals are not achieved then the budget gap will be higher.

8.11 For some years, the Council has identified a gap between available resources and projected expenditure over the medium term. During 2018-19, to address the shortfall, the Managing Director, in consultation with the Leader of the Council, launched the Future Guildford Transformation Programme. The review is a detailed cross-organisational review of business processes, systems and operating structures. The Future Guildford Blueprint has been produced which identifies a detailed action plan, investment in ICT, business process re-engineering, additional income generating activity and implementation costs necessary to balance the Council's budget in the medium term. Council will consider a separate report on Future Guildford at its meeting on 26 February 2019.

<u>Housing Revenue Account (HRA)</u>

8.12 The HRA business plan and budget report sets out the changing legislative framework within which the we operate the council's HRA. There have been significant changes during 2018-19 to government policy such as:

- Removal of the HRA borrowing cap and application of the CIPFA prudential code for the HRA
- Reversion to an index linked (CPI) rent setting policy from April 2020

- Removal of the proposal to force councils to sell high value council houses.

8.13 Since HRA self financing in 2012, the Council has maintained a policy of not re-paying its HRA debt. This has enabled significant surplus' to be accumulated on the HRA which have been transferred to earmarked reserves to finance new build affordable housing and on-going investment in existing housing stock. In addition, the Council ring fences all capital receipts from the sale of council houses under the right to buy (RTB) scheme for re-investment into new build affordable housing and regeneration.

8.14 The Council has ambitions to significantly expand its HRA capital programme across a range of sites. The decision to remove the HRA borrowing cap, along with the use of RTB receipts and HRA earmarked reserves offers the Council substantial capacity to deliver new homes across its 30-year business plan.

Robustness of Estimates

9.1 The budget process was started in July 2018 and the inflation assumptions outlined in paragraph 8.3 above were used in the preparation of the 2019-20 estimates outlined in the budget report.

9.2 Staffing costs have been included based on the Full Time Equivalents (FTEs) included within the establishment and charged to the General Fund (approximately 720).

9.3 A composite loss allowance of 1.5% has been assumed for the council tax base.

9.4 The effects of the capital programmes have been taken into account both in the revenue budget and in predicting cash flow for investment purposes. For the purposes of calculating interest on balances, the average base rate has been assumed to be 1.17%. The impact of longer-term investments made in order to protect the Council's investment income means that an average rate for in-house investments of 1.38% has been assumed and a weighted average return of 3.73% has been assumed on externally managed investments. Interest rate predictions remain extremely uncertain.

9.5 Service level risk assessments are in place for major areas. The corporate risks are included in the corporate risk register, whilst service risk registers are available on the intranet along with comprehensive guidance about how to identify and score risks. We complete a financial risk register, which is reported as **Appendix 6**. This outlines the main financial risks the Council will face in terms of operating within its budget for 2019-20. In addition to assessing the risks, as set out in paragraph 8.6, we carry out a sensitivity analysis of the budget gap against changes in the key assumptions.

9.6 The Joint Executive Advisory Board (at its meetings on 21 November 2018) and the Executive (at its meeting on 27 November 2018) considered the outline budget in detail. The Joint EAB considered the Capital and Investment Strategy report and the Housing Revenue Account Budget report at its meeting on 10 January 2019 and Executive will consider the reports on 22 January 2019. As part of the Joint EAB review, the capital and HRA bids for funding have been reviewed and assessed for alignment with the corporate plan.

Financial Resilience and the adequacy of reserves and balances

10.1 During 2018-19, the Chartered Institute of Public Finance and Accountancy (CIPFA) produced a financial resilience index in response to concerns within the local government sector and central government about the financial resilience of some local authorities following the significant funding reductions incurred by the sector since 2013-14.

10.2 The financial resilience index shows how the Council compares to other similar authorities across a basket of financial indicators based on its 2017-18 accounts. Guildford compares well on the analysis to other authorities with the majority of indicators showing that the Council is at low risk of financial stress. Key determinants of the Council's position are its comparatively high level of reserves, a low reliance on government grant, and a high reliance on council tax, net retained business rates and other locally raised revenue to finance expenditure on delivery of services The CIPFA financial resilience index is shown below.

Guildford

	Min	**Authority**	Max
Reserves Depletion Time	0.00	100.00	100.00
Level of Reserves	16.6%	300.0%	300.0%
Change in Reserves	-100.0%	52.7%	360.8%
Unallocated Reserves	0.0%	32.0%	300.0%
Earmarked Reserves	6.4%	300.0%	300.0%
Change in Unallocated Reserves	-84.5%	36.4%	400.5%
Change in Earmarked Reserves	-63.2%	54.3%	1946.3%
Grants to Expenditure Ratio	0.0%	2.7%	24.8%
Council Tax Requirement / Net Revenue Expenditure	37.0%	91.7%	100.0%
Retained Income from Rate Retention / Net Expenditure	2.1%	55.6%	100.0%
Auditors VfM Assessment		**Unqualified**	

10.3 In addition to the CIPFA financial resilience indicators, as part of the capital and investment strategy we have introduced a series of local indicators which look at:

- Gearing ratio (total debt / total assets)
- Total debt as a % of long term assets
- Ratio of equity by net revenue expenditure
- Unringfenced reserves as a % of net revenue expenditure
- Working capital as a % of net revenue expenditure
- Short term liability pressure (short term liabilities as a % of total liabilities)
- Total investments as a % of net revenue expenditure
- Investment property as a % of net revenue expenditure

Other indicators have also been proposed by government. The indicators will be included in the statement of accounts, the capital and investment strategy and the Council's financial monitoring reports.

10.4 The indicators currently show that the council is in a healthy financial position and its gearing ratio is projected to remain between 35% and 46% over the medium term period.

10.5 The value of General Fund revenue reserves, as at 1 April 2018 was £45.6 million. The estimated value of all revenue reserves over the plan period is:

Reserve	Actual 2017-18 Balance £ million	Projected 2018-19 Balance £ million	Projected 2019-20 Balance £ million
General Fund Reserves (working balance)	3.7	3.7	3.7
Housing Revenue Account (HRA) Reserve	2.5	2.5	2.5
Earmarked GF Reserves Split between reserves held for:- • Risk management • Specific service purposes • SPA developer Contributions	41.9 20.9 15.6 5.4	38.6 17.4 15.8 5.4	39.1 16.7 17.0 5.4
Earmarked HRA Reserves	83.7	80.4	75.5
Usable Capital Receipts Reserve (General)	0	0	0
Usable Capital Receipts Reserve (housing related)	24.1	15.7	6.4
Total Usable Reserves	**156.1**	**141.0**	**127.2**

10.6 The earmarked GF revenue reserves include some earmarked reserves held for specific purposes (for example, Insurance) and SPA contributions. The service specific reserves and SPA contributions would need to be replaced if used to support the general budget. This approach, which enables the Council to even out the impact of significant costs, is considered prudent.

10.7 The earmarked HRA revenue reserves and usable capital receipts reserves are substantial, which as described in paragraphs 8.12 to 8.14, affords the Council significant finance for its existing HRA capital programme and offers an opportunity to significantly expand its housing development and regeneration programme.

10.8 The General Fund revenue balance (working balance) is maintained at £3.75 million, and the HRA working balance is maintained at £2.5 million which are considered adequate levels.

Budget risks

11.1 The Council faces many risks to the successful delivery of a balanced budget. The Financial Risk Register at **Appendix 4** quantifies the risks and demonstrates that the general reserves and those held for risk management purposes are adequate to cover the risks. The major risks are explained in more detail below.

11.2 **National economic volatility**. Particular consideration will need to be given to the following in the budget proposals:

- Loss of rental income on investment properties
- Loss of interest from investments arising from bank base rates remaining at a low level for longer than expected
- Increase in housing benefit claimants and bad debts
- Potential increase in homelessness
- Loss of income from Fees and Charges, particularly parking

11.3 **Delivery of savings and income**. The Council has embarked on transformation programme to deliver savings and income generation required to balance the budget over the medium term. If the programme is not be delivered on target it will affect the

Council's ability to contain expenditure within budget in year, thus potentially reducing reserves and will increase the budget gap in future years of the medium term financial plan.

11.4 **Regeneration.** The Council is likely to promote regeneration of parts of the town centre where we are a landowner, in order to promote better use of our assets and better transportation links. All will necessitate the identification and acceptance of an appropriate level of risk and return. There are three major capital regeneration schemes during the medium term budget period; North Street, Slyfield and parts of the town centre along the river corridor. These schemes are schemes that only happen once in a generation and we would not normally expect the Council's on-going capital programme to include schemes of this size under normal operating cycles. Taking these schemes forward will have significant financial risks for the Council but are expected to deliver significant benefits in terms of housing, economic growth and potential income for the Council. Officers are currently looking at alternative legal structures and delivery mechanisms to help us manage those risks. In particular, Slyfield Area Regeneration Scheme will carry significant financial risk to the Council. The scheme is likely to require the Council to undertake significant upfront investment and the time lag between the investment and the eventual sale of properties will be a number of years. The Council will seek to understand the level of risk and mitigate wherever possible.

11.5 **Capital Programme**. As a consequence of the corporate plan, the Council has an ambitious capital programme, in order to invest in the Borough, and Council services, to deliver the targets within the corporate plan. The decision on how each individual scheme is funded will be taken as part of a further, more detailed, business case for each scheme, than that submitted as part of the bids included within the capital programme report.

11.6 The capital programme for 2019-20 to 2023-24 shows the Council has an underlying need to borrow of £333 million. The revenue impact of borrowing includes:

- borrowing costs
- interest
- on-going operating costs and
- where known, income associated with each scheme.

11.7 The revenue implications of the capital programme are included within the Council's general fund revenue budget and contribute towards its medium term financial plan budget gap.

11.8 As stated in sections 6 and 10 and paragraph 11.5 the impact of each individual scheme on the new indicators, limits, targets and financial sustainability of the Council will be reported to the Council's Executive prior to approval of each scheme.

11.9 To meet its medium to long-term financial commitments, the Council will need to generate further capital receipts, transformation efficiencies, additional revenue income and capital grant income and contributions.

11.10 **Business rates retention scheme**. There continues to be volatility in our business rate income due to voids, appeals, revaluations and bad debts. This uncertainty makes it difficult to accurately budget for business rate income and close monitoring through the year is crucial to identify any shortfalls at an early stage. If a large business chose to close or relocate away from Guildford, it would adversely affect our income.

11.11 In setting the business rate multiplier for 2019-20, the Government has taken into account the estimated value of appeals it anticipates following the 2017 revaluation exercise. History shows that government have consistently under estimated the level of appeals following a revaluation exercise. If appeals are higher than government estimates, this will result in a loss of business rate income for the Council. The risk of volatility in income due to appeals will increasingly fall on the Council post 2020 under the proposal for local government to keep 75% of business rates.

11.12 As outlined in Paragraph 4.7 to 4.9, the government are proposing to introduce significant changes to local government finance on 1st April 2020 which adds considerable uncertainty in projecting the medium term financial position for the Council. I expect that the Council's settlement funding assessment will be reduced by government as part of the fair funding review, as government will look to re-allocate resources into high demand services such as social care and will continue to expect local authorities to contribute towards meeting national austerity targets. This is likely to mean that the baseline need to spend for the Council will reduce and the tariff payable by the Council under the business rates retention scheme could increase from 2020 onwards. In addition, on implementation of business rate reform in 2020 all previous business rate growth which the Council has benefitted from since 2013-14 will be lost as part of 'resetting' the business rate baseline. The impact of increasing the tariff adjustment is that Guildford will retain less business rates locally than it does now. The Council currently keeps approximately 5% of the business rates collected.

11.13 **Surrey County Council**. The Council is aware of the significant financial pressure faced by our partner, Surrey County Council (SCC) because of demand and cost pressures within the social care system. The financial sustainability of the social care system is a nationally recognised problem however, the impact it is having at a local level within Surrey is severe. Guildford Borough Council currently receives approximately £1.9 million of funding from SCC for various services such as waste and community care and further funding of £250,000 within the HRA for supported and sheltered housing. There is a significant risk that this funding will cease, if not in 2019-20, then in future years of the medium term financial plan as SCC looks to deliver its unprecedented scale of service transformation.

11.14 **'Brexit'**. In June 2016, following a referendum, the United Kingdom (UK) voted to leave the European Union (EU). In autumn 2018, the government negotiated the terms of a withdrawal agreement, a transitional agreement and issued heads of terms for the UK's future relationship with the EU. However so far, there is a significant risk that the UK parliament does not accept the deal and the UK therefore leaves the EU without any 'deal'. The financial consequences of leaving the EU without a deal pose a significant risk to the UK economy, in particular the need for, and length of, any further government spending reductions pose a significant risk to the medium term financial plan of the Council. In addition, the Council is increasingly reliant on EU migrant workers for the delivery of services, particularly waste collection. The impact of Brexit on our work force, potential agency costs and other risks are currently being assessed. The overview and scrutiny committee of the Council will be reviewing the impact of Brexit in the coming months.

<u>Conclusion</u>

12.1 The Council faces many challenges over the medium term. We have an exciting and ambitious corporate plan and will continue to have a high demand for some of our services, particularly relating to welfare and environmental services. Continued significant reductions in Government funding mean that we have a gap between projected expenditure and funding that we will have to address and which we intend to address through our Future Guildford transformation programme.

12.2 The Council starts the 2019-20 financial year in a good financial position, we have a strong balance sheet, with a high asset base, significant level of reserves, good diversity in our income streams, significant level of liquidity and a reasonable gearing ratio. However in order to maintain our strong financial position and financial stability into the future the Council needs to ensure that it pushes forward with the Future Guildford transformation project to deliver the efficiencies necessary to balance our budget in the medium term.

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