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 2020-21 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 Since then the revenue support grant has been withdrawn and 2020-21 is the third year that the Council will receive no revenue support grant funding from Government. The Council is 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 Spending Round 2019, announcement in September 2019, confirmed that due to the current political turbulence around Brexit the Government would not be holding a spending review covering 2020-21 to 2022-23 instead there will be a one year spending round provided covering 2020-21 followed in 2020 by a full Spending review, reviewing public spending as a whole and setting multi-years budgets.

2.4 Other announcements that may benefit or impact Guildford Borough Council were:

- additional funding for health and 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
- a real term increase in Public Health Grant
- an additional £54m to help reduce homelessness and rough sleeping
- £24m of additional funding for the Building Safety Programme
- £241m to be made available through the Towns Fund in 2020-21 to support the regeneration of high streets and town centres

2.5 The announcement of the provisional local government finance settlement (LGFS) for 2020-21 on 20 December 2019 was in line with expectations following the LGFS technical consultation issued in October 2019.

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.

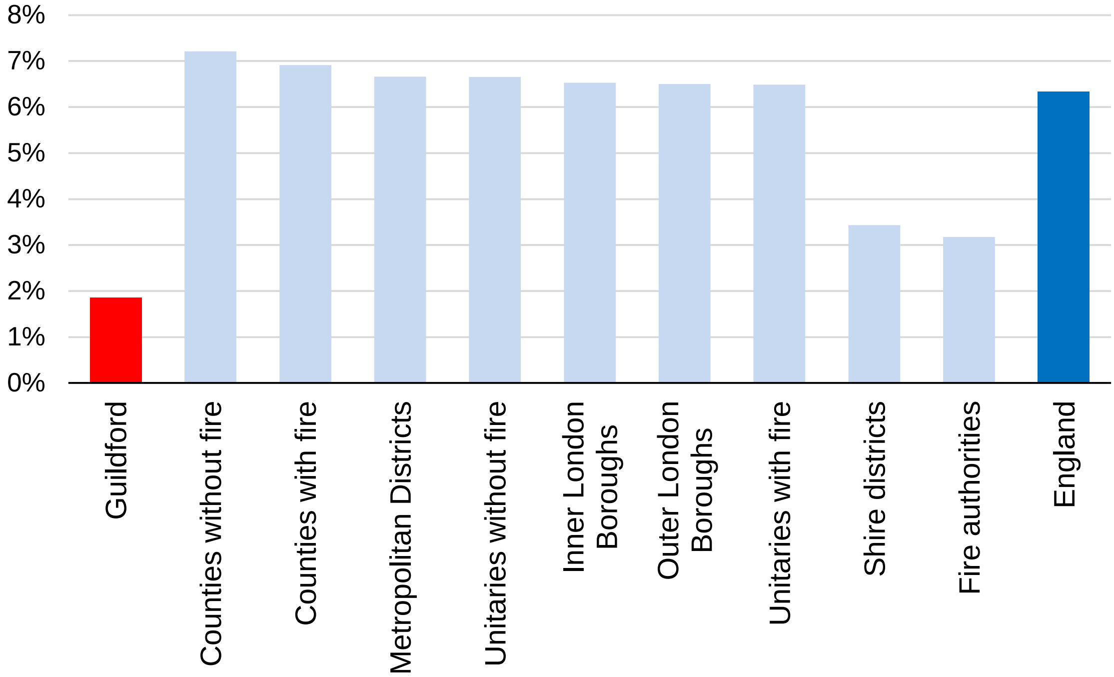
3.2 As stated above, the draft LGFS for 2020-21, was issued on 20 December 2019. The 2020-21 LGFS is a one-year settlement before a new multi-year settlement in 2020. The figures provided by the government are in the table below:

	2016-17	**2017-18**[1]	**2018-19**[1]	**2019-20**[1]	**2020-21**[1]
Settlement Funding Assessment	3.8	3.1	2.8	2.9	2.9
of which:					
Revenue Support Grant	1.1	0.3	0.0	0.0	0.0
Baseline Funding Level	2.7	2.7	2.8	2.9	2.9
Tariff/Top-Up[2]	-28.3	-30.2	-22.3	-31.3	-31.8
2017-18 Tariff and Top-up reconciliation			0.5		
Safety Net Threshold	2.5	2.5	2.7	2.7	2.7
Levy Rate	0.5	0.5	0.0	0.5	0.5

[1] In 2017-18, 2018-19, 2019-20 and 2020-21, figures have been adjusted to reflect authorities with increased business rates retention arrangements. Please refer to the Settlement Funding Assessment Model and the explanatory note on authorities with increased business rates retention arrangements.

[2] Tariffs and top-ups have been recalculated in 2017-18 and 2018-19 to reflect the adjustment for the 2017-18 business rates revaluation.

3.3 For 2020-21, Guildford's settlement funding assessment (SFA) increase is 1.6%. The government has only issued a one-year settlement for 2020-21 due to Brexit and the recent General election. A comparison has been made for core spending power between local authorities, as shown in the graph below. The graph shows that the change in core spending power for Guildford is lower than most other types of Council's and the shire district average.

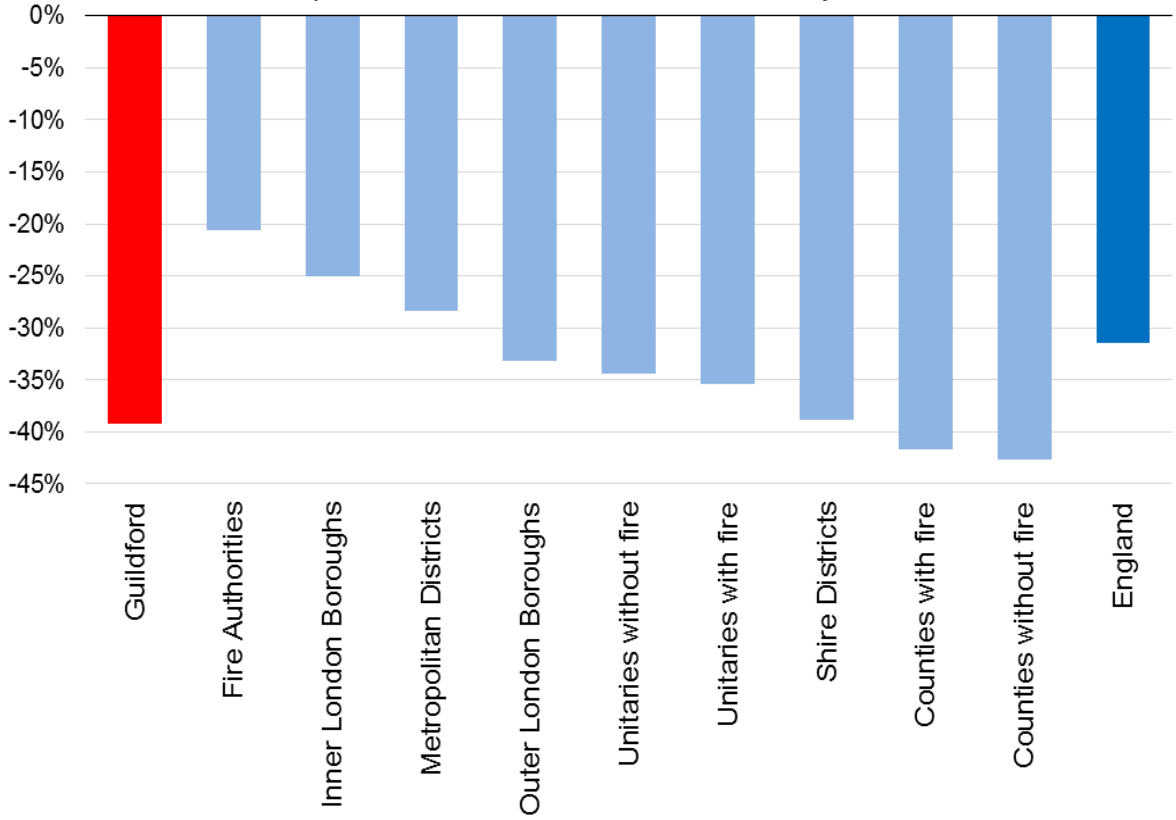


3.4 Due to the variable nature of the business rates element of local authority funding, the draft settlement no longer sets the absolute funding level for local authorities, but gives a baseline funding level. The actual level of funding the Council receives will depend on the business rate income for 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 2020-21, we estimate our net business rate income will be a 4.9% increase from our 2019-20 income, this is predominantly due to projected increases in S31 Grants. The table below shows the volatility of our net business rate income over the last three year period along with the proportion of total business rates collected and the estimates for 2020-21.

Year	Actual 2017-18 £million	Actual 2018-19 £million	Estimate 2019-20 £million	Estimate 2020-21 £million
GBC Share of Business Rate Income (NNDR1/3)	35.2	26.1	34.9	35.5
S31 Grant	1.1	1.2	1.8	3.2
Business rate tariff	-29.7	-21.8	-31.3	-33.1
Levy / Safety Net payment	0	0	-1.3	-1.2
Pilot or pooling gain	0.5	1.0	0	0
Net BRRS Income	**7.1**	**6.5**	**4.1**	**4.4**
Total Business Rates Collected	88.1	87.2	89.1	88.8
% Business Rates Retained	8.0%	7.4%	4.6%	4.9%

3.5 The graph below shows the cumulative changes in SFA over previous 4 years (2016-17 to 2019-20) 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 this period 2016-17 to 2019-20 has been more than other classes of authority but in line with the shire district average.



3.6 Over the last four years of the previous 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.

3.7 The Council's new homes bonus (NHB) in 2020-21 has reduced by £188,000 or 18% from 2019-20. 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. Although the Government continues to pay the legacy payments from New Homes Bonus Grant awarded since 2017-18 for a period of 4 years, the award in respect of 2020-21 is for one year only.

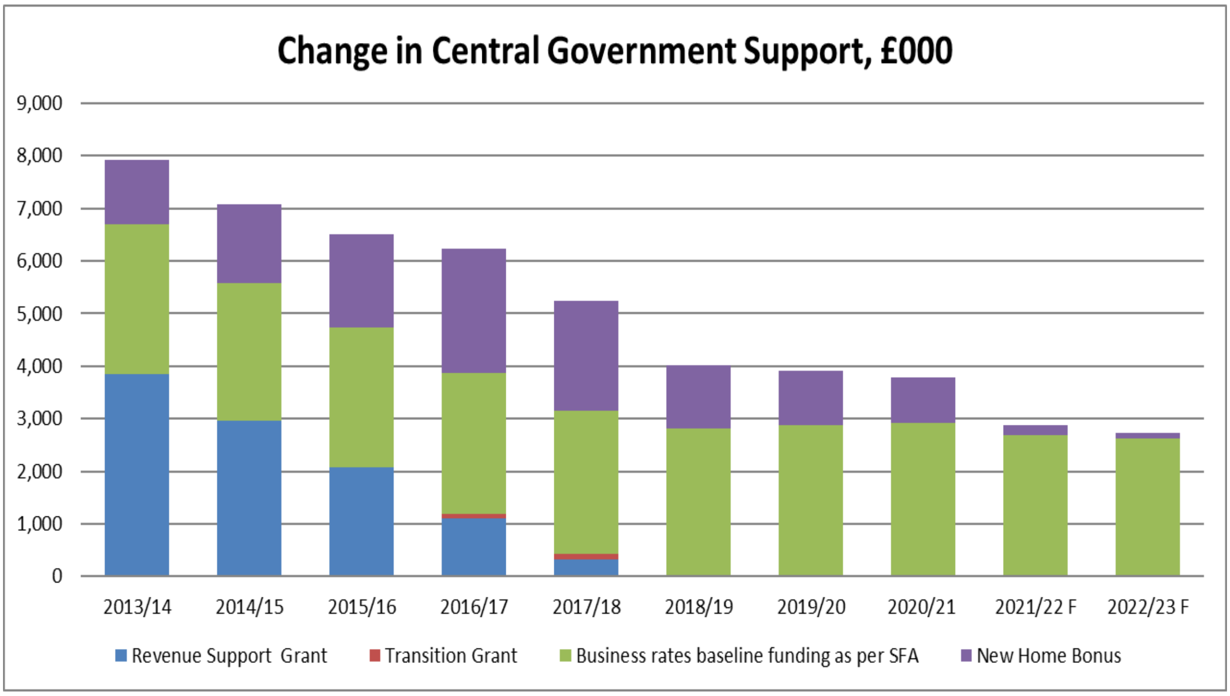
Changes in Government Support

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

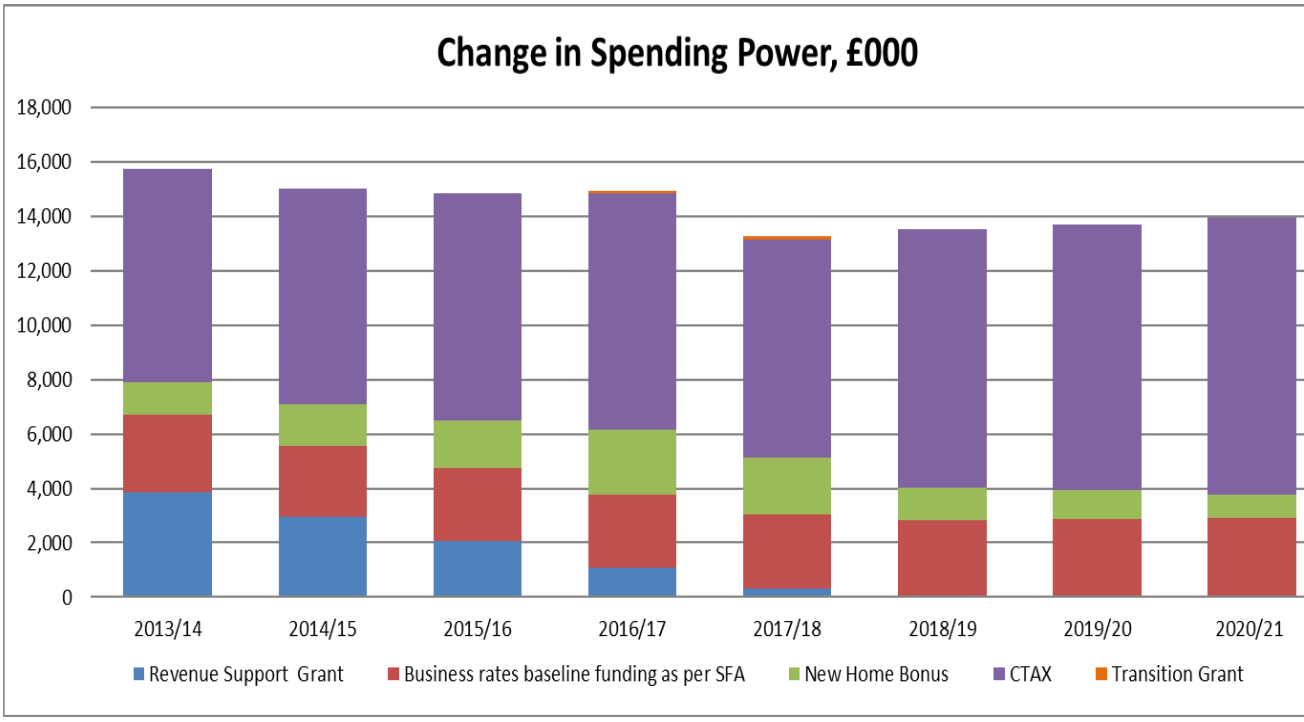
Council receives. In total, the three elements have Increased by 0.2% (£10,000) since 2019-20; but overall there has been a cumulative reduction of 34% since 2013-14. When comparing local authorities in the local government finance settlement the government uses a term spending power, this includes the council tax that the government expects the Council to raise and some specific grants. The government states that Guildford's spending power has increased by 1.9% between 2019-20 and 2020-21 however, I feel that this does not properly reflect the true impact of the reduction in central government support.

4.2 The proposal set out in the LGFS is that by April 2021, 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 chart below shows the change in Central Government funding since 2013-14. The overall cumulative reduction in central government support since 2013-14 was £4.1 million in cash terms (52% of our funding). The forecast for the next two years are based on analysis of recent consultations for the fair funding review (see paragraph 4.5).



4.4 The comparative graph showing the Council's estimate of the change in our spending power (which includes council tax) and the cumulative impact since 2013-14 is shown in the chart below. The chart shows the change in balance of core spending power between Council Tax, Business Rates and Government grants.



Fair Funding Review and Business Rates Retention (BRR)

4.5 During the last three years, the government have consulted on local government funding reform with a view to introducing a new system with effect from 1st April 2021. The consultations have had two elements:

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

4.6 The Council has responded to the consultations issued so far and will continue to respond to current and future consultations. The fair funding review will set the baseline need to spend for the implementation of the new 75% BRR system in 2021.

4.7 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 2021 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.

4.8 Review of the latest business rates consultation confirms that there will be a full reset of the business rates system in 2021 and thus all growth within the business rates system that has been retained by the authority since 2013 will be lost.

New Homes Bonus

4.9 As outlined in paragraph 3.6 the new homes bonus allocation for 2020-21 is a reduction of £188,000 or 18% from 2019-20. 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 to 4 years, there has been a further change in the LGFS, the Government will continue to pay the legacy payments from New Homes Bonus Grant awarded since 2017-18 for a period of 4 years, but the award in respect of 2020-21 is for one year only.

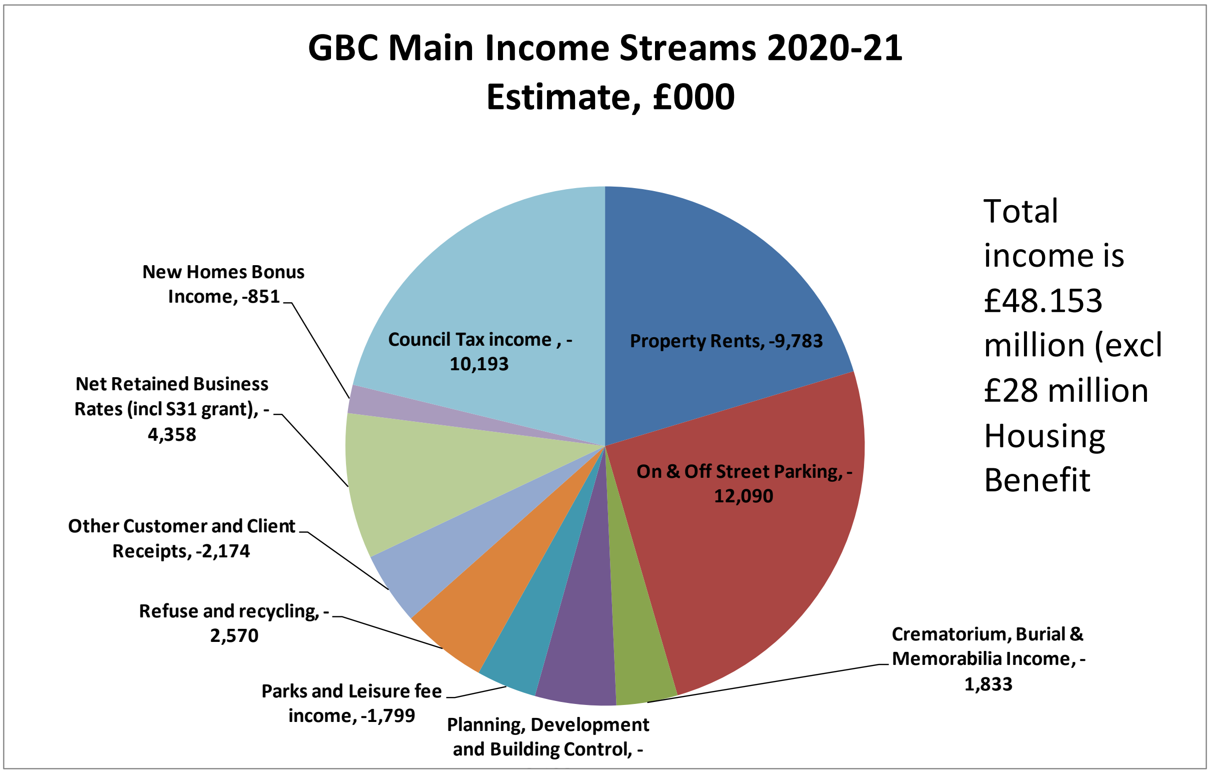
4.10 For 2020-21 all new NHB grant awards are for one-year only and the Government has stated its intention to carry out a further review of the NHB scheme in 2020-21 to ‘sharpen its incentive’ and to link the payment of the bonus to planning performance. As such, it is high likely that NHB grant to the council will continue to reduce or disappear in the future.

4.11 The council adopted its Local Plan in April 2019. 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.

4.12 Our budget and medium term financial plan assumes that any NHB received 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 not on-going 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

4.13 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 25% of the council’s income is the largest income stream, this is followed by Council Tax which represents 21% of our income. Property rent is the third largest income stream at 20% whilst net retained business rates represents 9% 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 £1.0 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. Following the local election in May 2019, the Corporate Plan is currently undergoing a review to reflect the political priorities of the new Council. The budget for 2020-21 includes projects proposed as part of the existing corporate plan and some new projects to address the Council's new priorities. Many of the priorities within the plan involve significant investment in services to address climate change, housing and infrastructure to deliver the outcomes.

6.2 The capital and investment strategy has been developed with the aims of realising the Council's Corporate Plan and the political priorities of the new Council, 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 Council priorities 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, Weyside urban Village (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)
- Improvements to the Council's assets to improve energy efficiency and address the impact of climate change
- Regeneration schemes in the Town Centre and Weyside Urban Village
- Provision of a new railway station at Guildford West (Park Barn)
- 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 bypass)
- New Walnut Bridge
- Introduction of a bicycle sharing scheme in the town centre
- Producing a masterplan for stoke park
- Investment in the museum

6.3 The capital and investment strategy splits the capital programme between 'income generating and redevelopment schemes' which will be required to meet a target level of return to proceed, 'infrastructure schemes' which will contribute to economic growth and development but may not necessarily have a direct income stream to the Council, 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 and infrastructure 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 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.

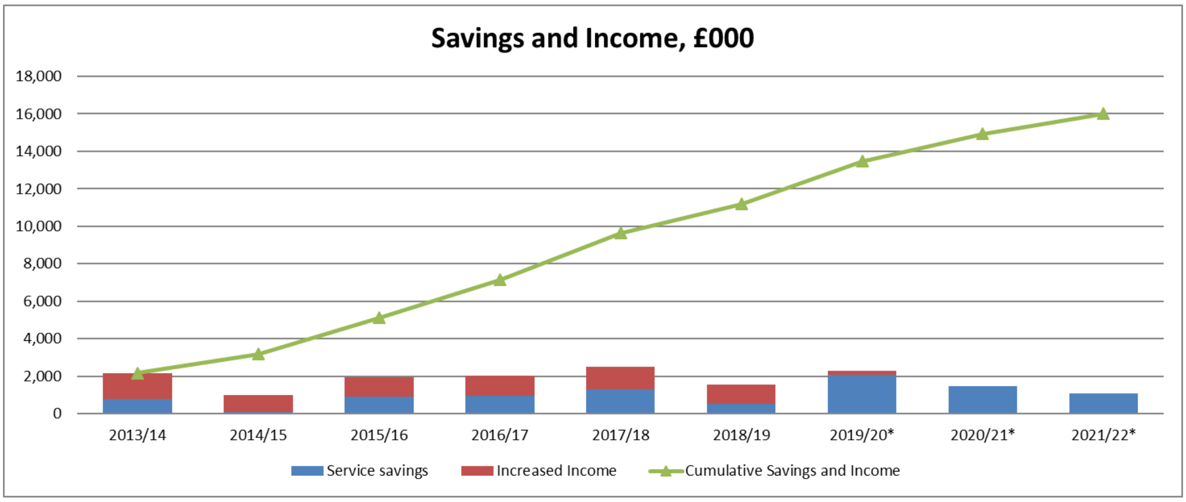
6.4 To finance the capital strategy, a variety of funding sources, such as capital receipts, capital reserves, revenue contributions, S106 contributions and borrowing will be required. Unless the Council is able to generate capital receipts it will need to borrow from its own internal resources, or the 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 £6.6 million in savings and £6.8 million in additional income.

7.2 The budget assumes a further £3.4m savings can be achieved between 2020-21 to 2023-24, the majority of these savings are as a result of the Future Guildford transformation programme.

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



General Fund Medium Term Financial Strategy

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.

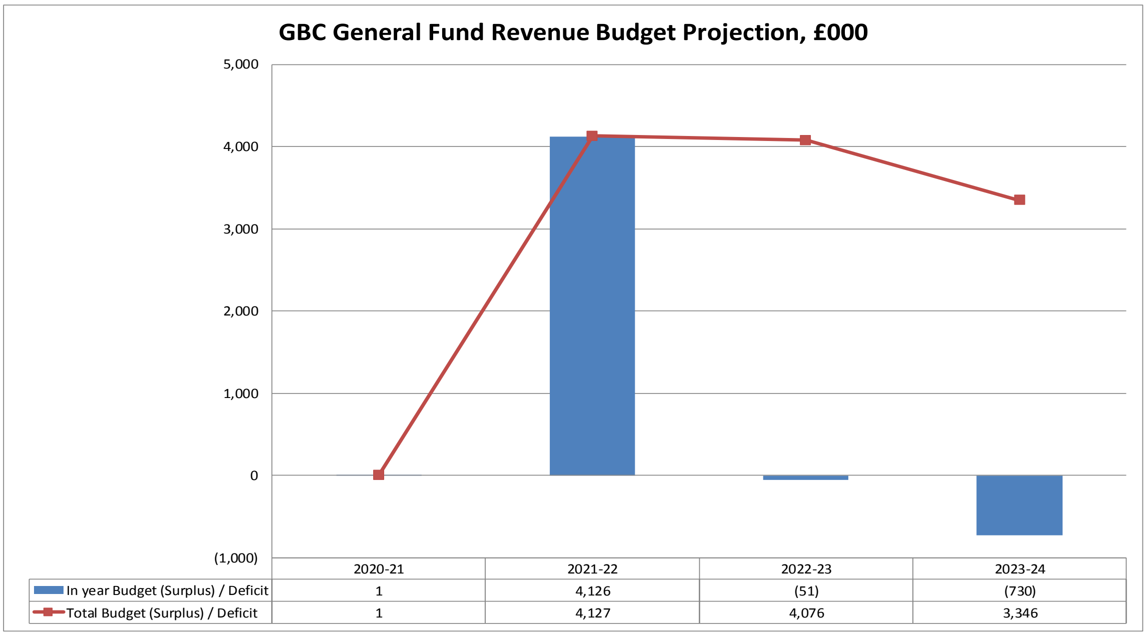
8.2 We have reworked the financial projections to 2023-24 at a summary level, but many of the assumptions (for example, interest rate movements and MRP) could in reality be significantly different.

8.3 Officers prepared the medium term figures using the assumptions in the table below. The Executive approved the assumptions at its meeting on 26 November 2019. These assumptions are for outline planning purposes only and have been reviewed and updated throughout the budget process. They will be subject to further review and update before detailed estimates are prepared for each financial year.

	2020-21	**2021-22**	**2022-23**	**2023-24**	**Benchmark**
General Inflation	2.0%	2.0%	2.0%	2.0%	CPI
Payroll	2.0%	2.0%	2.0%	2.0%	CPI
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	2%	2%	2%	2%	CPI
Impact of the fair funding review and business rates reform	*£0*	*£0.4 million*	*£0.6 million*	*£0.7 million*	*Local estimate*
Council Tax Base Increase	*1.50%*	*1.07%*	*1.28%*	*1.54%*	*Planning applications and local plan forecast*
New Homes Bonus	*£0.851m*	*£0.178m*	*£0.113m*	*£0*	*Planning applications and local plan forecast*
Housing Rents	2.7% Increase	3% increase	3% increase	3% increase	CPI plus 1%
Average Weighted Investment Returns	2.14%	2.08%	2.54%	2.39%	Target % above BoE Base rate as per TMSS

8.4 Approved capital project expenditure and a percentage of provisional capital expenditure is 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 gap between projected income and expenditure over the period 2021-22 to 2023-24 as demonstrated below.

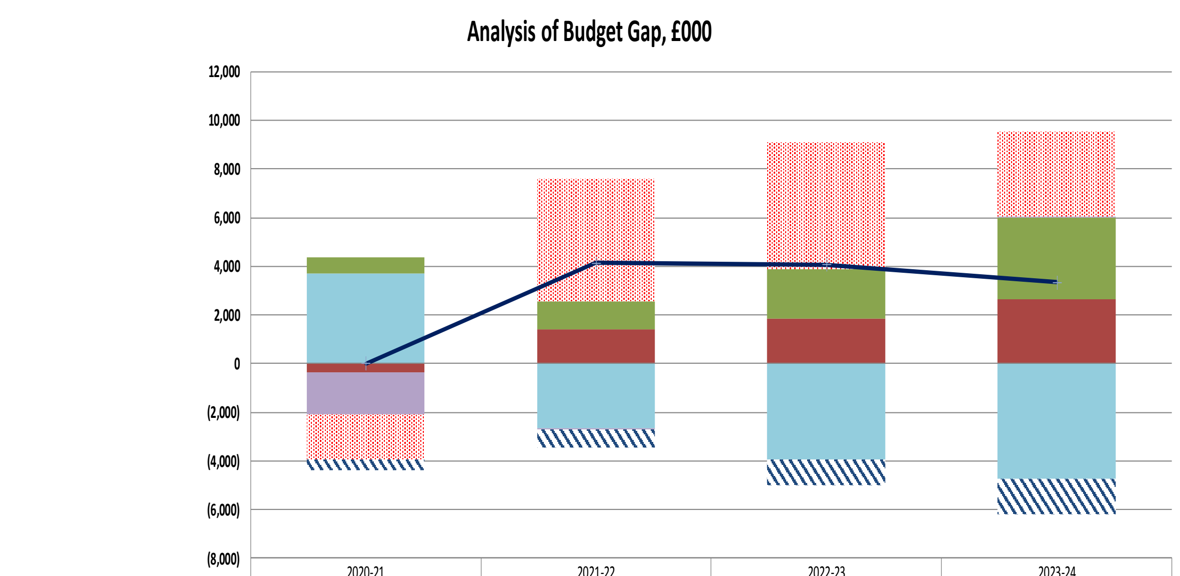


8.6 We estimate that the funding gap totals approximately £3.3 million over the plan period (to 2023-24). However, sensitivity analysis shows this could be within the range £0.5 million to £7.5 million.

8.7 A budget gap of £4.1 million is currently projected for 2021-22. The gap arises due to

- a projected £1.6 million decrease in net retained business rates following the fair funding review and business rate reform,
- a projected £1.1million increase in the minimum revenue provision due to the increase in the Council's capital programme and the need to borrow to finance this expenditure,
- A project increase of £1.4million in interest payments as a result of the need to borrow to finance the Council's capital programme.

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



	2020-21	2021-22	2022-23	2023-24
(Increase) in Council Tax	(434)	(739)	(1,075)	(1,451)
Change in Use of Reserves (incl NHB Income)	(1,831)	5,020	5,194	3,487
Reduction in retained Brates (SFA)	(1,733)	(69)	(2)	60
Increase in MRP	673	1,155	2,032	3,379
Increase in Net Interest Payable	(362)	1,403	1,867	2,627
Increase / (Decrease) in Directorate spend	3,688	(2,643)	(3,940)	(4,756)
Total Budget (Surplus) / Deficit	1	4,127	4,076	3,346

8.9 Senior Officers are acutely aware of the need to retain a firm grasp on controlling expenditure, efficiency programmes and budget monitoring. In particular, controlling the impact of the Council's capital programme on the general fund revenue account.

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 transformation programme is currently being implemented with the phase A structure completed in 2019/20 which will be followed by a transition period and the second phase due to be completed in 2020-21. There are currently £3.4 million of savings identified as part of the Future Guildford programme that have not currently been included in the Council's medium term financial plan as further assessment of their achievability and plans for their implementation need to be put in place. If these savings can be achieved then the Council is able to balance its budget over the medium term.

<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.

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 Government's decision to remove the HRA borrowing cap in 2018-19, 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 November 2019 and the inflation assumptions outlined in paragraph 8.3 above were used in the preparation of the 2020-21 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 0.75%. 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 1.33% has been assumed and a weighted average return of 2.18% 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 4**. This outlines the main financial risks the Council will face in terms of operating within its budget for 2020-21. 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 meeting on 20 November 2019) and the Executive (at its meeting on 26 November 2019) considered the outline budget in detail. The Joint EAB will consider the Capital and Investment Strategy report and the Housing Revenue Account Budget at its meeting on 19 December 2019 and Executive will consider the reports on 21 January 2020. 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 Since 2018-19, the Chartered Institute of Public Finance and Accountancy (CIPFA) has 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 2018-19 accounts and a trend analysis of changes since 2017-18. The analysis can be found on the CIPFA Website (**https://www.cipfa.org/services/financial-resilience-index/financial-resilience-index**). 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.

10.3 There are two indicators within the financial resilience index which currently show as just above average risk, they are the 'ratio of interest payable to net revenue expenditure' and the 'overall level of gross external debt'. The indicators are slightly skewed for Guildford at present as they do not distinguish between the HRA and the General Fund. At present the external debt and the majority of the interest payable relates to the HRA and is comfortably funded from Council Housing tenant rents rather than by Council tax. In addition, looking solely at the overall level of debt with out looking at the value of assets held by the Council only provides part of the picture. However, given the Council's ambitious capital programme, these indicators are forecasted to deteriorate as external debt and therefore interest payable will increase over time and the percentage of interest funded by the Council tax rather than Housing rent will also increase, creating pressure on the Council's general fund and therefore Council tax. Whilst I prefer to look at the gearing ratio (see below) rather than the overall level of debt, I will be keeping the indicators under review, particularly the 'ratio of interest payable to net revenue expenditure', and will advise Councillors accordingly on the financial sustainability of the Council.

10.4 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
- Un-ringfenced 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.

10.5 The indicators currently show that the council is in a relatively healthy financial position compared to the local government sector and its gearing ratio is projected to remain between 35% and 45% over the medium term period.

10.6 The value of General Fund revenue reserves, as at 1 April 2019 was £41.1 million. The estimated value of all revenue reserves over the plan period is:

Reserve	Actual 2018-19 Balance £ million	Projected 2019-20 Balance £ million	Projected 2020-21 Balance £ million
General Fund Reserves	3.7	3.7	3.7
Housing Revenue Account (HRA) Reserve	2.5	2.5	2.5
Earmarked GF Reserves	45.1	37.0	34.2
Earmarked HRA Reserves	93.2	98.9	97.4
Useable Capital Receipts Reserve (General)	0	0	0
Useable Capital Receipts Reserve (housing related)	20.5	14.1	12.1
Total Useable Reserves	**164.9**	**156.2**	**149.9**

10.7 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.

10.8 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.

10.9 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, Weyside Urban Village 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, the Weyside Urban Village Scheme will carry significant financial risk to the Council. The scheme requires the Council to undertake significant upfront investment and the time lag between the investment and the eventual sale of land or property will be a number of years meaning that inflation and interest costs have a significant impact on the scheme viability. 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 2020-21 to 2024-25 shows the Council has an underlying need to borrow of £338 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.

11.16 **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.

11.17 In setting the business rate multiplier for 2020-21, 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 2021 under the proposal for local government to keep 75% of business rates.

11.18 As outlined in Paragraph 4.7 to 4.9, the government are proposing to introduce significant changes to local government finance on 1st April 2021 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 2021 onwards. In addition, on implementation of business rate reform in 2021 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.

11.19 **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 £0.9 million of funding from SCC for various services such as waste and community care and further funding of £92,000 within the HRA for supported housing. There is a significant risk that this funding will cease, if not in 2020-21, then in future years of the medium term financial plan as SCC looks to deliver its unprecedented scale of service transformation.

11.20 **'Brexit'**. In June 2016, following a referendum, the United Kingdom (UK) voted to leave the European Union (EU). The government has negotiated the terms of a withdrawal agreement, a transitional agreement and issued heads of terms for the UK's future relationship with the EU. Following the General Election in December 2019, the UK is now scheduled to withdraw from the EU on 31st January 2020 and the end of the transition period will be 31 December 2020. Whilst the financial consequences of leaving the EU are now more certain in the withdrawal agreement, the future relationship with the EU still somewhat uncertain and it is not clear whether there will need to be any further government spending reductions which may pose a 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.

Conclusion

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 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 2020-21 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 remainder of the future guildford transformation project to deliver the efficiencies necessary to balance our budget in the medium term.

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