

Joint Executive Advisory Board Report / Executive Report

Wards affected: All

Report of Chief Financial Officer

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Date: 11 November 2020 / 24 November 2020

## **General Fund Outline Budget 2021-22 and Business Planning 2021-22 to 2024-25**

### **Executive Summary**

This report outlines the current position on the 2021-22 outline general fund budget and the business planning assumptions for 2021-22 to 2024-25. The report asks the Executive to note the position and agree the proposed strategy for savings and efficiencies in order to set a balanced budget in the medium term.

The Joint Executive Advisory Board (JEAB) will consider the outline budget at their meetings on 11 November.

In order to prepare both the General Fund and Housing Revenue Account (HRA) outline budgets for 2021-22, officers must know the parameters within which they are expected to work. Setting parameters for the whole term of the plan is beneficial in the calculation of projections over the medium term. Officers therefore propose working assumptions to use in the preparation of projections for the following three years.

These assumptions are as follows:

#### **Summary table**

	<b>2021-22</b> %	<b>2022-23</b> %	<b>2023-24</b> %	<b>2024-25</b> %
<b>General inflation</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
<b>Pay award</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
<b>Pay Increments</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
<b>Increases in fees and charges</b>	<b>0.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
<b>Income reduction due to COVID19</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-1.0</b>	<b>0.0</b>
<b>Council Tax</b>	<b>1.94</b>	<b>1.94</b>	<b>1.94</b>	<b>1.94</b>
<b>Housing rents</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

<b>Council Tax Base</b>	<b>1.5</b>	<b>1.07</b>	<b>1.28</b>	<b>1.54</b>
<b>Vacancy Factor</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>	<b>2%</b>
<b>Government Settlement Funding Assessment (SFA)</b>	<b>1.99% increase</b>	<b>15 % Reduction</b>	<b>20% Reduction</b>	<b>24% Reduction</b>

The Council will make the final decision on the estimates for 2021-22 at its meeting on 10 February 2021; agreement of an allowance at this stage (for example the assumed pay award) does not mean that it cannot be changed later in the process.

It is usual in terms of building the budget to use the current year as a base for moving forward and then adjust for known changes from growth and savings, this is known as an incremental budget. The current financial year (2020-21) will also need to be considered as this is likely to generate a net overspend of around £7m (this will be confirmed as the year progresses) due to the Covid-19 pandemic and the shortfall in additional expenditure incurred and the loss of income received when compared with support from central government. Reserves will need to be utilised to address this position requiring the Council to replenish its reserves over the next three years.

The report explains that we have included our best assumptions about the level of government funding that we will not know the amount of our retained business rates for certain until central government releases the provisional local government finance settlement which the Ministry of Housing, Communities and Local Government (MHCLG) has provisionally indicated will be in December 2020. We have assumed a 1.94% increase in Council Tax which is the maximum increase the Council can levy without needing to set a referendum.

The draft Council Tax base is xxxxx, which is xxx% higher than 2020-21. This has increased the resources available by approximately £xxxxx.

The current position on the 2021-22 outline budget currently shows a shortfall between the likely resources and the proposed net expenditure of £2.7million. In addition, the draft projection for 2021-22 to 2024-25 shows a medium term budget shortfall (gap) of £4.4 million.

The major reasons for movements between 2020-21 and 2021-22 are set out in the report and the variances at service level are set out in **Appendix 2**. Due to the shortfall between the Council's likely income and its current anticipated expenditure (i.e., the budget gap) we have not invited any new growth bids for increases in service provision for 2021-22. This is consistent with the fact the Council is currently going through a programme of transformation under 'Future Guildford' which is looking to reduce expenditure. However, officers have included some assumptions around loss of income within the 2021-22 budget to allow for the potential on-going impact of COVID19. Some capital bids may have revenue implications attached to them. These will be considered as part of the capital and investment strategy report in January 2021.

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

The financial monitoring report for the first six months of 2020-21 will be reported to the Corporate Governance and Standards Committee on 26 November 2020. The projected net expenditure on the General Fund for the current financial year is estimated to be £xx million more than the original estimate. The main factor contributing to the forecasted

position in 2020-21 is the cost and loss of income arising from the COVID19 pandemic. The Council approved an emergency budget in May 2020 to allow the net cost of the COVID19 pandemic to be taken from the Council's reserves. Officers anticipate that at the end of March 2021, the Council will need to draw down £x million of reserves and that this will require to the Council to plan to replenish some of its reserves in the medium term over the 3 years to 2024-25.

**Recommendation to Executive:**

The Executive is recommended to:

1. Approve the budget assumptions used in the preparation of the 2021-22 outline budget and three year forward projections
2. Note the current position on the outline budget for 2021-22 and the budget shortfall anticipated over the 3 years to 2024-25
3. Approve the savings strategy for 2021-22 through to 2024-25 (Section 13 & Appendix 3)
4. Agree to the proposal to Council to make the contributions to/from the Council's various earmarked reserves for specific purposes as set out in section 9 of the report as part of the budget report in February 2021
5. Agree the use of the Council's earmarked reserves as set out in section 10 to fund the cost of the COVID19 Pandemic, in line with the supplementary estimate agreed by Council in May 2020.

Reason(s) for Recommendation:

To assist the Executive in the preparation of the General Fund estimates for 2021-22.

**Is the report (or part of it) exempt from publication?** Yes - Appendix 3.

**1. Purpose of report**

- 1.1 This report outlines the current position on the 2021-22 outline budget and asks the Executive to note the position.
- 1.2 Because it is still early in the budget process, the report also sets out the areas of uncertainty that will influence the final position and a savings strategy to be implemented over the period 2021-22 to 2024-25 in order to achieve a balanced budget over the medium term.

**2. Strategic Priorities**

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

**3. Background**

- 3.1 This report will cover the following areas:
  - Budget assumptions (Section 4)
  - Revenue Support Grant and Business Rate Retention Scheme (Section 5)
  - Council Tax, tax base and collection fund (Section 6)
  - New Homes Bonus (Section 7)
  - Capital expenditure and minimum revenue provision (Section 8)
  - Use of reserves and interest earnings (Section 9)
  - Forecasted outturn position for 2020-21 (Section 10)

- Draft outline budget for 2021-22 (Section 11)
- Projections for the financial years 2022-23 through to 2024-25 (Section 12)
- A savings strategy to achieve a balanced budget in the medium term (Section 13)

#### **4. Budget Assumptions**

- 4.1 In order to prepare the outline budget for 2021-22 officers need to know the parameters within which they need to work.
- 4.2 Setting parameters for the whole plan period is beneficial in the calculation of projections over the medium term. The working assumptions used have therefore been used for the whole plan period up to 2024-25.
- 4.3 The Council will make the final decision on the estimates for 2021-22 at its meeting on 10 February 2021; agreement of an allowance at this stage (for example the assumed pay award) does not mean that this cannot be changed later in the process.

##### *Inflation and Pay assumptions*

- 4.4 There are generally three accepted inflation measures:
- 4.4.1 Retail Prices Index (RPI) - A long standing measure of UK inflation that has historically been used for a wide range of purposes.
- 4.4.2 Retail Prices Index excluding mortgage interest (RPIX) - RPIX is the equivalent to RPI excluding the effects of mortgage interest payments.
- 4.4.3 Consumer Prices Index (CPI) - A measure of consumer price inflation and is currently the measured targeted by the Bank of England.
- 4.5 The Council's policy is not to allow provision for general inflation on specific budget heads and only allow for contractual increases. It is proposed that this policy continues to maintain tight control of inflationary increases. It is also proposed that a central inflation allowance be included in both the General Fund and HRA estimates so that officers may bid for an increase where the effect of cash limiting detailed budgets become unsustainable.
- 4.6 For planning purposes, it is proposed that a 0.0% central inflation allowance for 2021-22 is set on budget heads that are not subject to contractual inflation and thereafter a 2% from 2022-23 to 2024-25. This amounts to £604,000 for the General Fund. This is in line with the medium-term CPI forecast, thus maintaining a real reduction in Council budgets.
- 4.7 The impact of a 1% change in this assumption would be approximately £302,000 for the General Fund.
- 4.8 Average Weekly Earnings growth (excluding bonuses and arrears) over the period June 2019 to June 2020 has been 2.5%. However, since April 2020, has been negative due to the impact of COVID 19 across most sectors.
- 4.9 In 2020-21, an increase of 2.0% was awarded for pay increases in July 2020.

- 4.10 It is recommended for planning purposes that an assumption of 0.0% pay allowance is applied for 2021-22 allowing only for increases in incremental pay grades (which is estimated to be equivalent to 2% pay) and 2% for each remaining year of the planning horizon. The assumption is consistent with the trend in the average weekly earnings index. The cost to the General Fund in 2021-22 of pay increments is approximately £587,000.
- 4.11 The impact of a 1% change in pay inflation assumption would be approximately £294,000 for the General Fund.
- 4.12 When setting the budget, officers make an assumption about the natural turnover of staff during the year. This is known as the 'vacancy factor'. The use of a vacancy factor means that the Council does not budget for all staff posts to be filled 100% throughout the year and thus reduces the staffing budget requirement. It is proposed that a 2% vacancy factor is used over the period 2021-22 to 2024-25.

*Sales, Fees and Charges Income*

- 4.13 Recent Council policy has been to increase income by RPI, thereby increasing the proportion of services financed by the users of the service rather than through the Council Tax or housing rents. However, in practice, reviews of the markets in which services operate has meant the target has not been consistently achieved. It is proposed that a target of 0.0% is used for increases in fees and charges for 2021-22 and 3% for each year of the remaining planning horizon, applied where there is capacity in the market. This is broadly in line with the RPI forecasts over the same period. These assumptions represent what we expect to increase fees and charges by, however, it is anticipated that the COVID 19 pandemic will present a more permanent correction to the Council's income due to reduction in activity levels and usage of services. Officers have included an estimate that this reduction in income could be around 2% for the next two years, reducing to 1% in 2023-24 and then back to pre-COVID 19 levels by 2024. This assumption is highly uncertain, the optimistic scenario is that activity and therefore income will return to pre-COVID19 levels in 2021-22, and the pessimistic scenario is that income will be permanently reduced by 10%. The optimistic and pessimistic scenarios have been modelled in section 13.
- 4.14 On this basis fees and charges for 2021-22 will remain unchanged from the 2020-21 fees and charges agreed by Council in February 2020. On this basis they have not been re-presented as part of this report.
- 4.15 In summary, the assumptions used in the 2021-22 outline budget are set out in the table below.

	<b>2021-22</b> %	<b>2022-23</b> %	<b>2023-24</b> %	<b>2024-25</b> %
<b>General inflation</b>	0.0	2.0	2.0	2.0
<b>Pay award</b>	0.0	2.0	2.0	2.0
<b>Increases in fees</b>	0.0	3.0	3.0	3.0

<b>and charges</b>				
<b>Income reduction due to COVID19</b>	-2.0	-2.0	-1.0	0.0
<b>Vacancy Factor</b>	2.0	2.0	2.0	2.0

## **5. Business Rates Income under the Business Rates Retention Scheme (BRRS)**

- 5.1 Since 2018-19 the Council has not received a Revenue Support Grant (RSG) from Central Government. Funding from central government to the Council now solely consists of the amount of business rates the Council can retain under the Business Rates Retention Scheme. The government sets out what this is as part of the local government finance settlement (LGFS) each year. The Council's Settlement Funding Assessment (SFA) is the amount of business rates it can retain.
- 5.2 Within the period covered by the business planning horizon, there will be significant change to the system of local government finance. It is anticipated that by 2022, government will re-assess the baseline need to spend of each local authority through the "fair funding review" and will establish a financing system based on 75% business rates retention.
- 5.3 As part of the fair funding review, further powers and responsibilities will be passed to local government and the cost drivers and demand for local government services will be re-assessed. It was originally anticipated that the new funding system would come into effect from April 2020, however, the implementation date was first pushed back to April 2021, and has now been delayed for a further year by central government due to the COVID19 pandemic.
- 5.4 The settlement for 2021-22 is likely to be very similar to that of 2020-21 ahead of the changes proposed for 2022-23. We anticipate that the 2021-22 local government finance settlement (LGFS) will be a "roll-forward" settlement and therefore will increase by inflation of 2% for 2021-22. Based on previous consultations around the fair funding review, officers anticipate that there will be a 15% reduction in SFA for 2022-23 increasing to 24% by 2024-25. The Ministry of Communities and Local Government (MHCLG) has provisionally indicated that the draft Local Government Finance Settlement (LGFS) will be announced in December 2020, therefore a further update on government funding will be provided to Executive in January 2021 as part of the final budget report.

## **6. Council Tax, tax base and collection fund**

- 6.1 The outline budget assumes that council tax will increase by 1.94% (approximately £3.43) which officers anticipate will be the maximum increase the Council will be allowed without having to hold a referendum. This means that the band D tax will go up from £176.82 to £180.25. The increase will generate approximately £197,000 based on the 2020-21 tax base.
- 6.2 Officers have estimated the draft council tax base for 2021-22 at 58,262. This is 1.07% higher than the 2020-21 figure. The final Council Tax Base will be confirmed by the end of November when the Director of Resources sets the Council tax base. The assumed increase will increase the available resources by approximately £109,000.

- 6.3 Any surplus or deficit on the Collection Fund in the current financial year (2020-21) would normally feed into the 2021-22 budget. The figures presented assume no deficit, however it is likely that the impact of COVID19 on the collection fund during 2020-21 will mean that there is likely to be a deficit. The government have changed the local government accounting rules so that the deficit may be recovered over a three year period rather than in the following financial year. Officers are currently assessing what the potential deficit for 2020-21 on the collection fund will be and will update the amount in time for Executive in January 2021. Although the deficit can be spread over three years, in order to balance the budget for 2021-22, officers propose that the Council uses one of its earmarked reserves to offset the impact of the council tax collection fund deficit in 2021-22. Further details will be presented in the final budget report in January 2021.
- 6.4 At present, it also seems likely that there will be a deficit on the business rates element of the Collection Fund, also due to the COVID 19 pandemic and an increase in the number of empty properties. Officers propose that any business rates deficit is financed from the Business Rates Equalisation Reserve, which has been the Council's policy in recent years.

## **7. New Homes Bonus (NHB)**

- 7.1 The NHB was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. In December 2016 the Government announced reforms to the NHB as follows;
- (i) Reduction in the number of years payments are made (legacy payments) from 6 to 5 in 2017-18, to 4 years for 2018-19 to 2019-20, and to 1 year in 2020-21
  - (ii) Introduction of a national baseline for housing growth of 0.4% of council tax base from 2017-18, below which new homes bonus is not paid
- 7.2 In the technical consultation published on 3<sup>rd</sup> October 2019 the government set out its intention to review the NHB for future years. Further consultation will happen on any proposals prior to implementation which has not yet been forthcoming, however, it is widely anticipated that the NHB scheme will cease from April 2022 onwards. The 2021-22 outline budget therefore assumes no NHB grant.

## **8. Capital expenditure and minimum revenue provision**

- 8.1 The Council has a single capital programme for the General Fund that we finance from the Capital Schemes reserve, capital receipts and revenue contributions towards specific schemes. Unless we generate significant capital receipts, the Council needs to borrow from either its own resources (earmarked for other uses) or from the market; at the current time borrowing is internal as it is more financially advantageous.
- 8.2 Because the capital programme shows an underlying need to borrow, represented at the year-end by the capital-financing requirement (CFR), there is a requirement to make a debt charge to the revenue account called the minimum revenue provision (MRP). This charge is based on the value and life of the assets funded by borrowing (internal or external). The minimum revenue

provision for 2020-21 was estimated to be £1.639million, which was based on a General Fund CFR at 31 March 2020 of £149.5 million. It is currently estimated that the CFR at 31 March 2021 will be £xxx million and the MRP for 2021-22 will be £2.121 million. This figure is included in the outline budget.

Officers are currently preparing an updated capital programme for Councillors to consider early in 2021. The level of capital programme that Councillors wish to support will determine the level of capital receipts used, interest earnings and MRP for 2021-22.

## 9. Use of Reserves and interest earnings

- 9.1 An important element of the Council's budget is the income it receives from investment of the cash held in reserves. The balances held at the end of 2019-20 and the projected balances at the end of 2020-21 financial years are shown below:

Reserve	Actual	Projected
	2019-20 Balance £ million	2020-21 Balance £ million
General Fund Reserves	3.7	3.7
Housing Revenue Account (HRA) Reserve	2.5	2.5
Earmarked GF Reserves	44.5	23.3
Earmarked HRA Reserves (incl MRR*)	101.7	102.8
Capital Contributions Unapplied	0.6	0
Useable Capital Receipts Reserve (General)	0	0
Useable Capital Receipts Reserve (housing related)	13.9	14.2
<b>Total Useable Reserves</b>	<b>166.9</b>	<b>146.5</b>

\*Major Repairs Reserve (MRR)

- 9.2 HRA reserves are considered as part of the HRA budget. During 2020-21 officers are anticipating using £8.3million of general fund earmarked reserves to fund the implementation of Future Guildford and around £7million of earmarked reserves to fund the COVID19 overspend. As a result, earmarked general fund reserves are expected to substantially reduce from £44million to £23million. This means that all of the Council's earmarked reserves which were held for financial risk management purposes to support the revenue or capital budget will be fully utilised by March 2021. Officers do anticipate the Council being able to retain its general fund unallocated reserves of £3.7million into 2021-22.



- 9.3 The £23million of earmarked reserves includes £9.7million of reserves relating to SPA/SANGS which the Council is required, under accounting practice, to hold as endowment funds received from developer planning contributions for the long term repairs and maintenance expenditure on Special Protection Areas (SPA) or Suitable Alternative Natural Greenspaces (SANGs). These reserves are required to fund the revenue costs of SPA / SANGS in perpetuity and therefore cannot be used by the Council to support other expenditure. The remaining balance of £13.6million reserves all relate to reserves which are earmarked for specific policy and risk management purposes (e.g., insurance reserve, car parks or spectrum reserves) and should not normally be used to support revenue expenditure without replacement.
- 9.4 The level of projected earmarked reserves available for general purposes, to support the revenue or capital budgets for 2021-22 will therefore be nil. Should any overspend occur on the revenue budget for 2021-22 the Council will need to use its unallocated general fund reserves. Any use of the Council's unallocated reserves will present a risk to the financial sustainability of the Council as the reserve levels will fall to a level that will be considered too low for the operating costs of the Council.
- 9.5 In the 2020-21 budget, we anticipated a net interest receipt of £1.173million. The estimate for net interest in the outline budget for 2021-22 is interest payable of £641,955. Interest payable to the Housing Revenue Account (HRA) is estimated at £481,700 reflecting the level of balances and investment returns consistent with the application of a risk-free rate of return. The Bank of England base rate is currently 0.75%. The average cost of external borrowing has been budgeted at x.xx%.....

#### *Proposed Use of Key Earmarked Reserves*

- 9.6 As set out in paragraph 9.2, the Council is anticipating using a substantial amount of reserves in 2020-21 to fund the cost of the Future Guildford Transformation programme and the additional costs of the COVID 19 Pandemic on the Council. This means that the ability to use reserves to fund unplanned revenue expenditure in the future will be limited and should be avoided.

#### New Homes Bonus Reserve

- 9.7 The balance on the NHB reserve at the 31<sup>st</sup> March 2021 is anticipated to be £0.6million as the Council intends to use around £2.4million of the NHB reserve in 2020-21 to fund the Covid19 pandemic costs.
- 9.8 Officers propose to use the remaining balance on this reserve to fund the £125,000 contribution towards the Town centre masterplan in 2021-22 and 2022-23 as previously agreed by Council in February 2020, and to fund the Council's contribution to the rebuild of Ripley Village Hall as previously agreed by the Executive in January 2020. It is anticipated that the reserve will be closed during 2021-22.

#### Invest to Save Reserve

- 9.9 The invest to save reserve exists to pump prime the upfront costs of service transformation and efficiency projects, including staff redundancy costs. The Council has previously agreed to fund the implementation costs associated with

the Future Guildford transformation programme from this reserve. The costs of Future Guildford are anticipated to predominantly fall in 2020-21 leaving a balance of just under £2million on the reserve as at 31<sup>st</sup> March 2021. Over recent years, the Council has made a contribution to the Invest to Save reserve of £250,000 per annum. Officers recommend not to make the annual contribution of £250,000 and do not propose any further use of the reserve in 2021-22. A contribution of £250,000 per annum to the invest to save reserve is included within the forward projections for 2022-23 to 2024-25 so that the reserve is rebuilt to support further transformation of Council services.

#### The Car Parks Maintenance Reserve

- 9.10 The balance on the car parks maintenance reserve as at 31<sup>st</sup> March 2021 is anticipated to be £1.5 million due to officers anticipating having to use this reserve during 2020-21 to fund the costs of COVID 19 and the Future Guildford Transformation Programme. This reserve was originally established to fund repairs, maintenance and improvement of car parks and the Council normally budgets to contribute around £500,000 per annum to the reserve from parking income and then expenditure on capital projects and repairs and maintenance of car parks is taken from the reserve. Officers propose that the Council budgets to rebuild this reserve by £250,000 in 2021-22 and then gradually increase the annual budget contribution to the reserve back up to £500,000 per annum over the three year period up to 2024-25. This will rebuild the reserve to a level that can be used for future repairs and maintenance of the car parks.

#### IT Renewals

- 9.11 The anticipated balance on the ICT renewals fund as at 31<sup>st</sup> March 2021 is £0.283million. The reserve has been used in the last two years to fund the investment in technology required under the ICT refresh and Future Guildford Programmes to aid new ways of working and improve value for money and efficiency in the delivery of Council services. Officers recommend that the Council budgets to make a contribution of around £542,000 to the ICT renewals reserve in the period 2021-22 to 2024-25 to replenish the reserve to fund on-going annual ICT renewals.

#### Business rates equalisation reserve

- 9.12 The balance on the business rate equalisation fund is anticipated to be a deficit of £407,000 at the 31<sup>st</sup> March 2021. The main reason for the deficit is that the Council made a one-off lump sum contribution to the Surrey Pension fund in lieu of the Council's annual backfunding superannuation contribution for the period 2020-21 to 2022-23 which was funded from this reserve. The reserve will be repaid in 2021-22 and in 2022-23 through budgeted contribution of £1.98million per annum to the reserve to replenish it to former levels. It is the Council's policy that the reserve is used to even out fluctuations in the business rate retention scheme including the business rates element of the surplus or deficit on the Collection fund. As a result, officers recommend making a contribution to the reserve of £2.7million (which represents the S31 grant, the Council's share of the business rates levy, and business rates income above SFA funding level) and funding the business rates deficit on the collection fund from the reserve in 2021-

22 (the amount of which will be confirmed as part of the final budget report in January 2021).

#### Other Reserves

- 9.13 Officers propose contributions to the Election costs reserve, on-street parking reserve, spectrum reserve and 'other' reserves as set out in Appendix 1.

### **10. Forecasted position for 2020-21**

- 10.1 The financial monitoring report for the first six months of 2020-21 will be reported to the Corporate Governance and Standards Committee on 19 November 2020. The projected net expenditure on the General Fund for the current financial year is estimated to be **£xx million** more than the original estimate. The main factor contributing to the forecasted position in 2020-21 is the costs incurred in respect of dealing with the COVID 19 pandemic and the resulting loss of income across the majority of services. In May 2020, Council agreed that the net costs of the COVID19 pandemic, which were not funded by central government would be funded from the Council's reserves and agreed a supplementary estimate of up to £15million for this purpose. Whilst Council agreed the supplementary estimate, it did not set out which specific reserves would be used to fund the COVID19 pandemic. Officers recommend that the additional costs of COVID19 on the 2020-21 budget are funded from the reserves set out in the following table:-

<b>Reserve</b>	<b>Amount to be used to fund COVID 19</b>
New Homes Bonus (reserve to close)	£2.4million
Carry forward reserve	£1.1million
Car Parks Maintenance reserve	£1.5million
Legal actions reserve (reserve to close)	£0.3million
Invest to save reserve	£0.6million
Budget Pressures reserve (reserve to close)	£1.8million
<b>TOTAL</b>	<b>£7.7million</b>

### **11. 2021-22 outline budget – current position**

- 11.1 Although it is still early in the estimates process (the Council does not set its 2021-22 budget and Council Tax until 10 February 2021), the current outline budget shows a shortfall between the likely resources and the proposed net expenditure of £2.7million. This shortfall needs to be funded by identifying further savings to be made in 2021-22 beyond those already proposed as part of the Future Guildford transformation programme.
- 11.2 In order to arrive at the final budget, service managers prepare an outline budget based on existing levels of service, which has then been amended for existing commitments and agreed savings arising from Future Guildford. For 2021-22

Officers have not been invited to submit any new service growth proposals due to the need to reduce expenditure and resolve the budget shortfall. However, assumptions regarding on-going loss of income due to COVID19 have been included within the budget and forward projections as set out in section 4 (paragraph 4.13).

- 11.3 Paragraph included in exempt Appendix 3.
- 11.4 The base outline budget position, excluding the revenue implication of capital bids to be considered as part of the capital and investment strategy report in January 2021 is projecting net expenditure levels to be higher than the estimated income, assuming a 1.94% council tax increase, leading to a shortfall of £2.7million. Service managers and the finance team continue to work on these figures and update them as appropriate.
- 11.5 The shortfall above includes the effect of the increase in council tax base as set out in section 6 of this report.
- 11.6 At present, the figures assume no deficit on the collection fund as referenced in paragraph 6.4.
- 11.7 Savings from the Future Guildford transformation programme have been included in the outline budget and forward projections as follows:

	2021-22 £	2022-23 £	2023-24 £	2024-25 £
Staffing savings	£4.228million	£4.228million	£4.228million	£4.228million
Service Challenge efficiency savings	£0.742million	£1.125million	£1.636million	£2.229million
<b>Total</b>	<b>£4.970million</b>	<b>£5.353million</b>	<b>£5.864million</b>	<b>£6.457million</b>

- 11.8 The Future Guildford transformation project identified a number of potential service challenge savings. Some of these savings have been incorporated in the draft outline budget as set out above where projects are active and there is a medium to high confidence in achieving the savings. The remainder of the Future Guildford savings, and some further additional savings proposals are set out in section 13 as a strategy to deal with the shortfall in the budget.

Major changes from 2020-21

- 11.9 The estimated directorate level expenditure excluding depreciation charges for 2021-22 is £9.880 million, which is £6.7 million less than the 2020-21 directorate level expenditure estimate of £16.667 million. The major variances are the inclusion £4.9million of the Future Guildford savings set out in paragraph 11.6, and the removal of the one-off lump sum payment made to the Surrey Pension Scheme which was funded from the Business Rates Equalisation reserve. Further details of variances at service level are set out in **Appendix 2**.

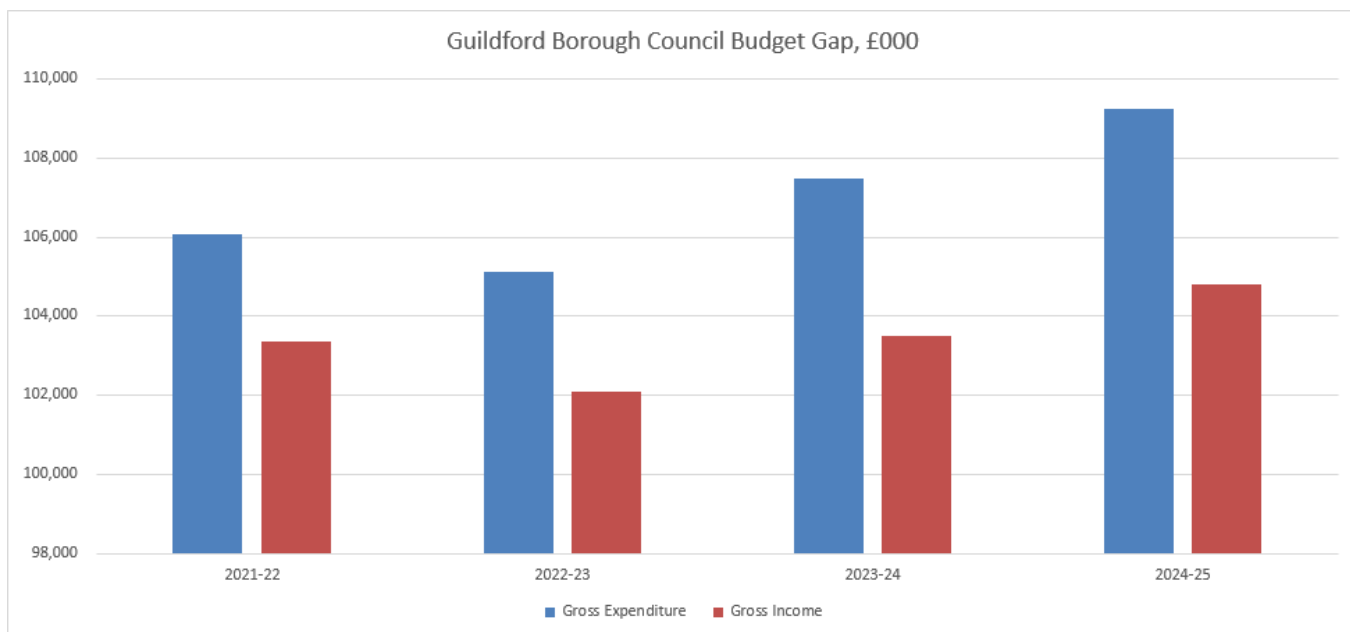
Major changes from 2021-22 projection included in the 2020-21 estimates

11.10 When the 2020-21 estimates were approved, we projected an increasing budgetary pressure in 2021-22 and beyond. The 2021-22 outline budget shows an improvement in the position compared to what was projected largely due to the delay in implementing the business rate retention scheme reset and fair funding review and the savings being achieved through the future Guildford transformation programme. The major movements that have contributed to this overall position:

- Reduction in the anticipated directorate budgets - £0.455 million [this includes a working assumption around the level of savings from the Future Guildford transformation project]
- increase in the proposed use of reserves - £1.5 million mainly the use of the business rate retention scheme to offset fluctuations in business rate income

**12. Projections for 2022-23 to 2024-25**

12.1 The projections for the budget for 2022-23 to 2024-25 based on the assumptions set out in this report is that there will be a cumulative budget deficit of £4.435million by 2024-25. The budget gap (i.e., the difference between the expenditure and income of the Council) is shown in the chart below and Appendix 1 shows further detail.



Year	GBC Budget, £000			
	2021-22	2022-23	2023-24	2024-25
Gross Expenditure	106,068	105,114	107,483	109,244
Gross Income	103,358	102,090	103,507	104,809

<b>Budget Gap (difference between Expenditure and Income)</b>	<b>2,710</b>	<b>3,024</b>	<b>3,976</b>	<b>4,435</b>
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### 13. Savings Strategy

- 13.1 The scale of the shortfall between income and expenditure is significant, particularly considering the fact that the Council has made substantial savings, efficiencies and additional income in the last 3 years and already has a programme of transformation savings which is programmed to deliver substantial savings over the next four years which have already been accounted for when calculating the budget shortfall.
- 13.2 In order to deliver further savings of around £4.4million against the net service budget (before reserves transfers) of £13.6million means that savings equivalent to around 32% (just under one third) of the Council's budget need to be found. This may require some very difficult decisions to be made around the level of service provision that the Council can afford to provide to the community.
- 13.3 In order to deliver the required savings officers have identified a number of work streams:-
- a. Review and potential reduction of the Council's discretionary services
  - b. Review of the Council's capital programme to reduce MRP and Interest costs falling on the general fund revenue budget
  - c. Review the Council's need for office accommodation
  - d. Consideration of merging the Council with a neighbouring borough
  - e. Consideration of merging the Council with a number of other neighbouring boroughs and part of the County Council to create a Unitary Council (one of multiple unitary Council's in Surrey)
- 13.4 Further detail regarding the proposed workstreams is set out in Appendix 3 (Not for publication). As part of implementation of these workstreams it is recommended that the Council undertake a consultation on the Council's budget and the areas of service which may need to reduce.

### 14. Comments of Joint EAB

- 14.1 The Joint Executive Advisory Board (JEAB) will consider the outline budget at its meeting on 11 November 2020.

### 15. Consultations

- 15.1 The Joint Executive Advisory Board (JEAB) will be consulted about the outline budget for 2021-22 and the proposed savings strategy. Its comments are included in section 14. The Leader of the Council has requested that residents are aware, informed and understand decisions made on the Council's strategy for savings. The timescale for the consultation for this is currently under consideration but it is anticipated to be after the Council has set its budget for 2021-22 in February 2021 but before the implementation of any savings set out within the strategy in Appendix 3.

## **16. Equality and diversity implications**

- 16.1 There are no equality or diversity implications arising from this report. Where changes to services are included within the budget the service managers will carry out the relevant equality impact assessments as part of the changes before they are implemented. The assessment of impact under the equalities act will also form part of the public consultation exercise.

## **17. Financial implications**

- 17.1 The financial implications are considered throughout the report.

## **18. Legal implications**

- 18.1 The Council is required by the Local Government Finance Act 1992 to calculate its budgetary requirements on an annual basis. Under S151 of the Local Government Act 1972 the Chief Finance Officer is appointed to ensure the proper administration of the Council's finances.

## **19. Human Resources implications**

- 19.1 Each year the Council reviews whether to make a pay award, in agreement with Unison, and takes into account factors such as changes in the UK economy and the Council's financial situation. In considering the level of pay award we aim to achieve a fair balance between the competing pressures of offering an attractive pay and benefits package and securing the best value for money for our residents and taxpayers. We are pleased to confirm that a 2% increase will be applied to all of our salary bands with effect from 1 July 2020.

## **20. Summary of options**

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

## **21. Conclusion**

- 21.1 At this early stage in the budget process, there is a gap between the projected net expenditure for 2021-22 and our estimated resources of £2.7million. There remain a number of external factors that may result in a budget gap developing further as we move through the process. It remains possible that there will be revisions to the local government finance settlement but we will not know this until December.
- 21.2 The medium term financial plan position remains challenging and we estimate that we will need to find savings of approximately £4.4 million over the period to 2024-25. In order to set a balanced budget for 2021-22 and the medium term period, the report sets out a savings strategy in section 13, with further detail in Appendix 3.

## **22. Appendices**

**Appendix 1** - General Fund summary and 3 year projections.

**Appendix 2** - Variances between 2020-21 estimate and 2021-22 outline budget at service level.

**Appendix 3** - Savings Strategy (Not for Publication).