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 2021-22 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. Up to 2020-21 Local Government had continued to play its part in helping to address the national funding deficit, and each Council had been required to contribute accordingly by continuing to deliver services with fewer resources. As a result, the Council had experienced a reduction in government grants and taken on significant responsibilities in relation to council tax benefits and business rates over the last 7 years.

2.2 In 2020-21 the Covid-19 pandemic has had a seismic impact on both the Council's finances and the National Government's finances. In the short term, the government has provided welcome financial support but given the level of national debt that has been acquired to support the economy during the pandemic, it is inevitable that in the medium to long term further public sector spending reductions will need to be made as part of a package of measures the government will need to pursue to reduce the public sector debt to pre-covid-19 levels. This will mean that in the medium to long term local authorities will need to play a further part in reducing public expenditure. Although the additional financial support from Government in 2020-21 and for the first 3 months of 2021-22 is welcome to help mitigate the impact of the pandemic, the Council is still facing an unprecedented overspend during 2020-21 which will have a significant impact on the level of reserves and the future financial sustainability of the Council.

2.3 The announcement of the provisional local government finance settlement (LGFS) for 2021-22 on 17 December 2020 was positive news for the Council. In addition to the Settlement Funding Assessment (explained below) the Council received notification of:

a. Ability to increase the level of Council tax by up to £5 (2.83%) before needing to hold a referendum
b. That the business rates multiplier for 2021-22 would be frozen at 2020-21 levels and a section 31 grant of £153,000 would be received to compensate the Council for the lost income
c. That a one-off New Homes Bonus of £192,000 would be provided
d. That a new one-off 'lower tier services grant' of £237,000 would be provided to support the Council's services
e. That additional funding of £633,000 will be received to help mitigate the impact of the COVID-19 pandemic in the first 3 months of 2021-22
f. That the Sales, Fees and Charges Covid compensation scheme would operate for the first 3 months of 2021-22

g. That a Section 31 grant of £100,000 will be received to compensate the Council for a reduction in the tax base as a result of increasing claimant numbers for local council tax support
h. That the council will be able to spread over 3 years, any deficit arising on the Collection fund as a result of lower tax collection due to Covid

Other announcements that may impact on the council were an increase in Social Care funding for upper tier authorities which will go to Surrey County Council but some of which may come to this Council as part of the better care funding for disabled adaptations.

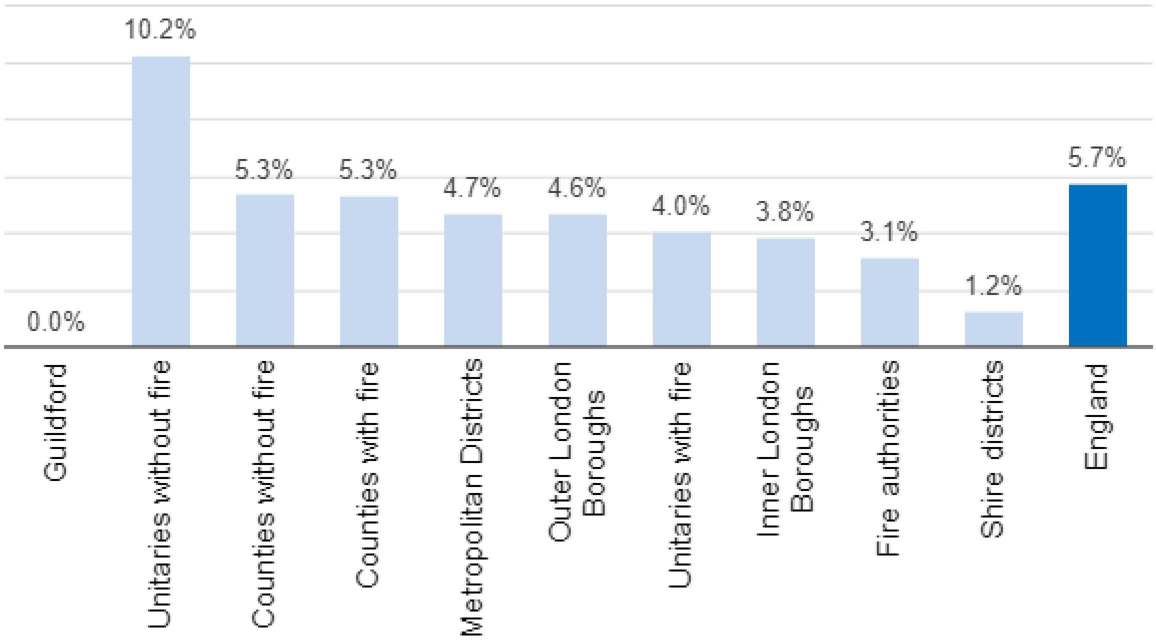
Business rates, Revenue Support Grant and New Homes Bonus

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 2021-22, was issued on 17 December 2020. The 2021-22 LGFS is a one-year settlement before, hopefully, a new multi-year settlement is provided from April 2022. The figures provided by the government are in the table below:

	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Settlement Funding Assessment	3.8	3.1	2.8	2.9	2.9	2.9
of which:						
Revenue Support Grant	1.1	0.3	0.0	0.0	0.0	0.0
Baseline Funding Level	2.7	2.7	2.8	2.9	2.9	2.9
Tariff/Top-Up[2]	-28.3	-30.2	-22.3	-31.3	-31.8	-31.8
2017-18 Tariff and Top-up reconciliation			0.5			
Safety Net Threshold	2.5	2.5	2.7	2.7	2.7	2.7
Levy Rate	0.5	0.5	0.0	0.5	0.5	0.5

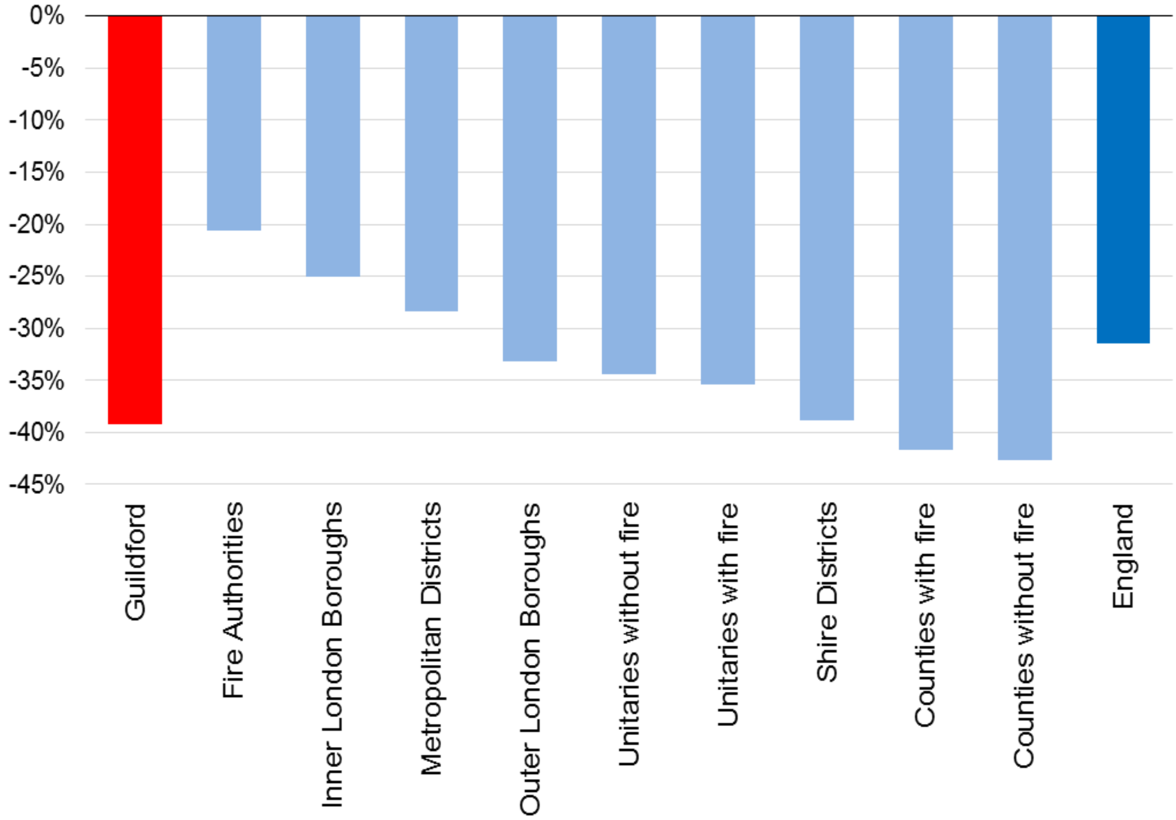
3.3 For 2021-22, Guildford’s settlement funding assessment (SFA) has been frozen at the same level as 2020-21. The government has only issued a one-year settlement for 2021-22 due to the Covid-19 pandemic and Brexit. It is the second year in a row that there has been a one-year settlement. A comparison has been made for core spending power (which is defined as the SFA, council tax and other grants) 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 2021-22, we estimate our net business rate income will be an increase of £3000,000 more than in 2020-21. 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 2021-22.

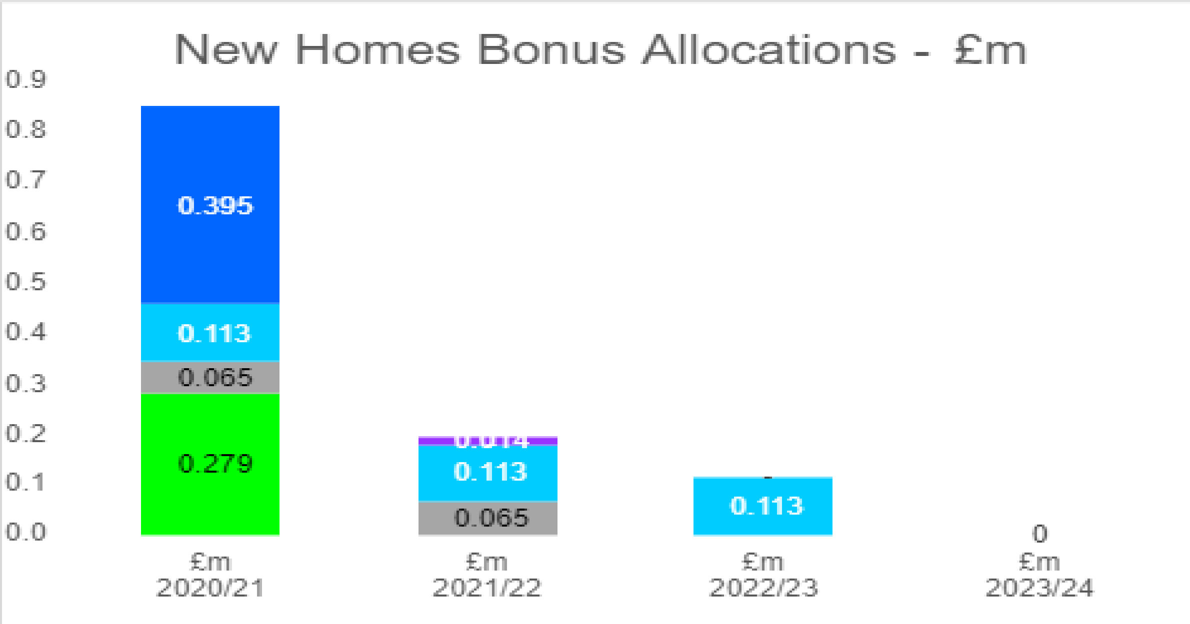
Year	Actual 2017-18 £million	Actual 2018-19 £million	Actual 2019-20 £million	Estimate 2020-21 £million	Estimate 2021-22 £million
GBC Share of Business Rate Income (NNDR1/3)	35.2	26.1	34.9	34.7	33.7
S31 Grant	1.1	1.2	2.4	1.9	1.3
Business rate tariff	-29.7	-21.8	-31.3	-33.1	-31.8
Levy / Safety Net payment	0	0	-1.4	-0.8	-0.1
Pilot or pooling gain	0.5	1.0	0	0	0
Net BRRS Income	**7.1**	**6.5**	**4.6**	**2.7**	**3.0**
Total Business Rates Collected	88.1	87.2	90.5	86.8	84.3
% Business Rates Retained	8.0%	7.4%	5.0%	3.1%	3.5%

3.5 The graph below shows the cumulative changes in SFA over the 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 finance advisors, LGFutures, who are able to benchmark data across different local authority classes nationally, produced this graph. It shows that the cumulative reduction in Guildford's SFA over the period 2016-17 to 2019-20 has been more than other classes of authority but in line with the shire district average. The SFA has been frozen at the 2019-20 level for the two years 2020-21 and 2021-22.



3.6 Since 2018-19, the Council has not received Revenue Support Grant (RSG) from Government. As a result the SFA for Guildford is now entirely related to the business rates baseline funding level.

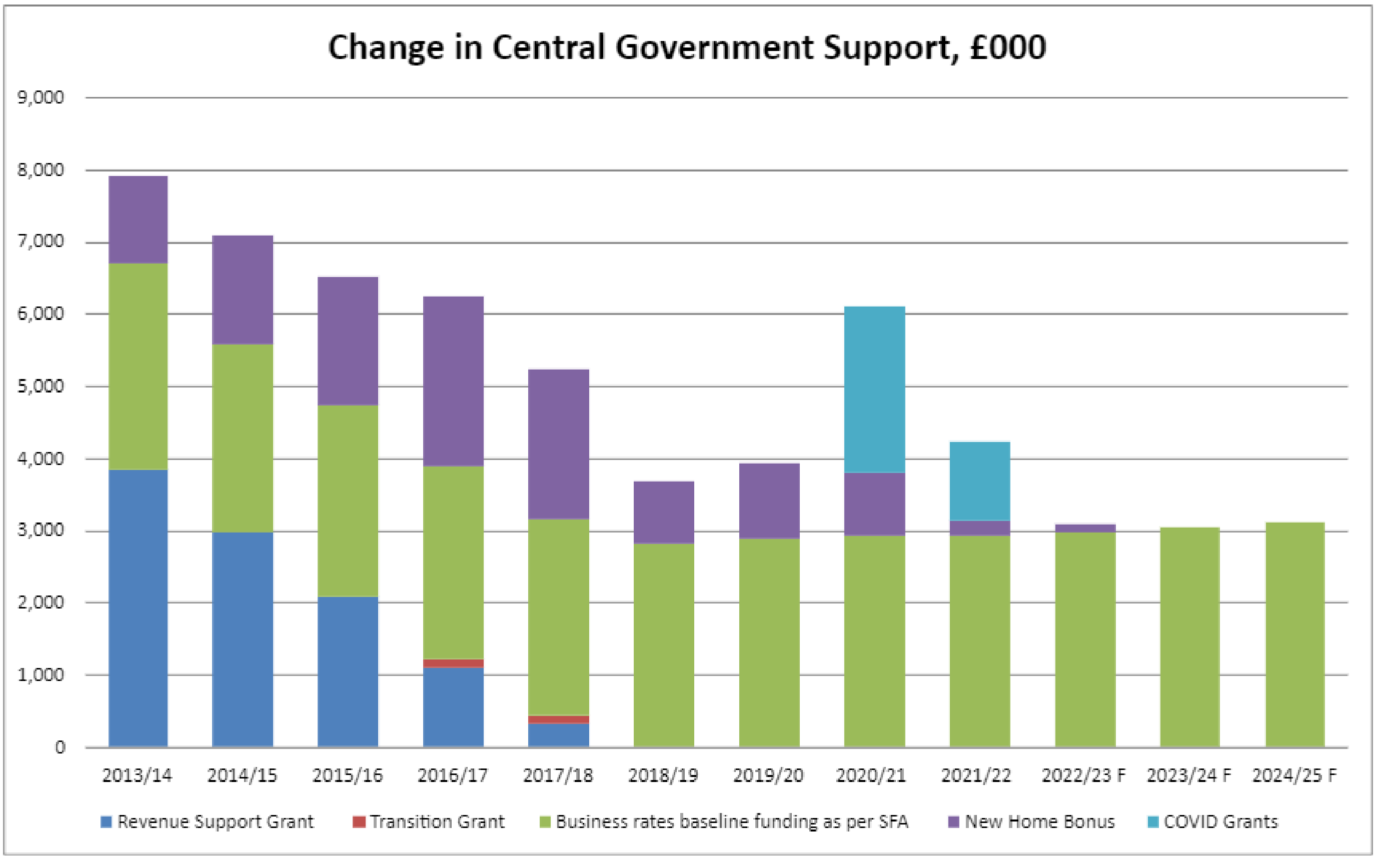
3.7 The Council's new homes bonus (NHB) in 2021-22 will be £192,000 which is a reduction of £659,000 or 77% from the 2020-21 allocation of £851,000. This is despite an increase in the number of properties added to the Council tax system in the year. The reduction is due to the implementation of changes to the NHB in recent years, which mean that award of NHB is only made if housing growth exceeds a 0.4% baseline and legacy allocations of funding being phased out. Although the Government continues to pay the legacy payments from New Homes Bonus Grant awarded since 2018-19 for a period of 4 years, the awards in respect of 2020-21 and 2021-22 are both for one year only.



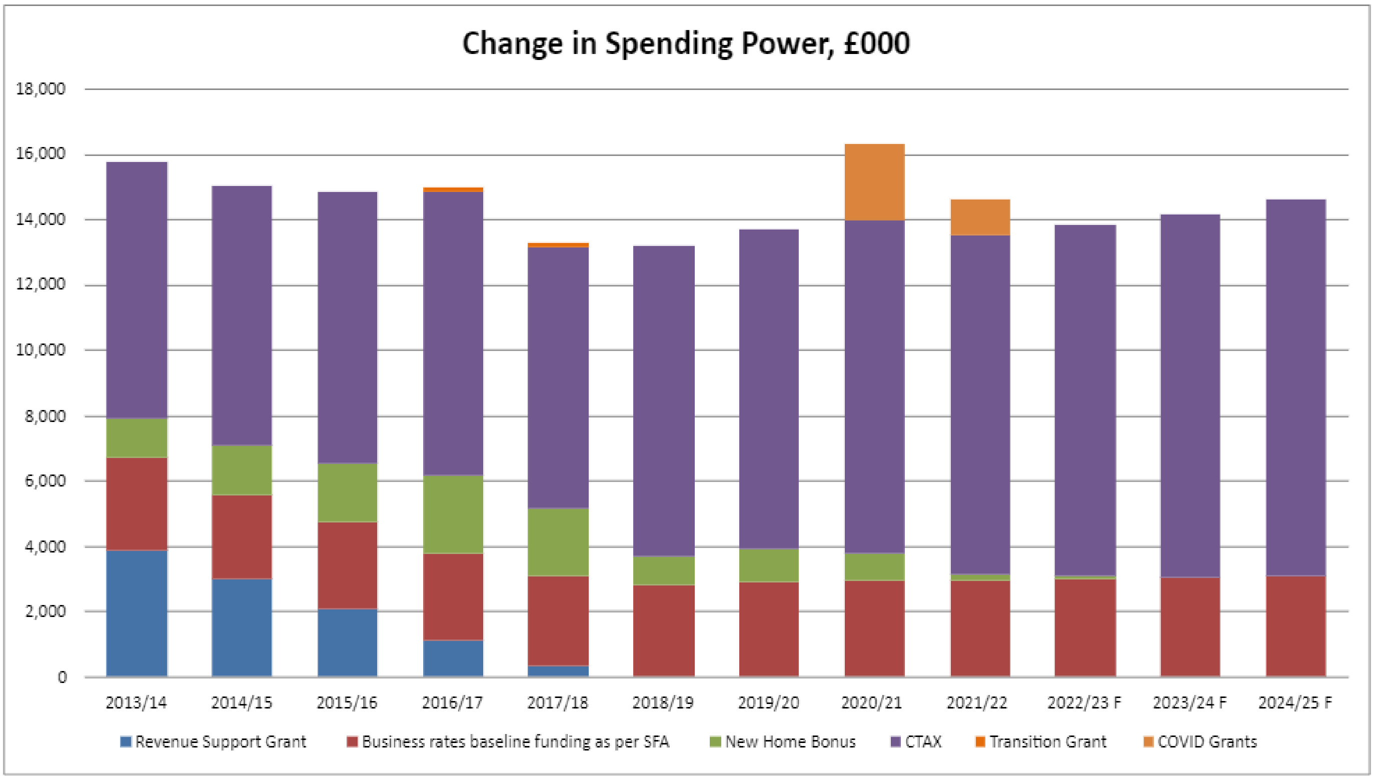
3.8 Our budget and medium term financial plan assumes that any NHB received is transferred to reserves to finance one-off short to medium term revenue projects or capital projects in line with the New Homes Bonus Policy adopted by the Council in February 2016 and therefore does not affect the council 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.

3.9 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 seen a reduction in recent years, however the Government has provided additional support in the form of Covid-19 grants during 2020-21 and will continue to provide support for the first 3 months of 2021-22.

3.10 The chart below shows the change in Central Government funding since 2013-14. The forecast for the next three years are based on analysis of recent consultations for the delayed fair funding review (see below).



3.11 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)

3.12 During recent years, the government have consulted on local government funding reform with a view to introducing a new system. The consultations have had two elements:

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

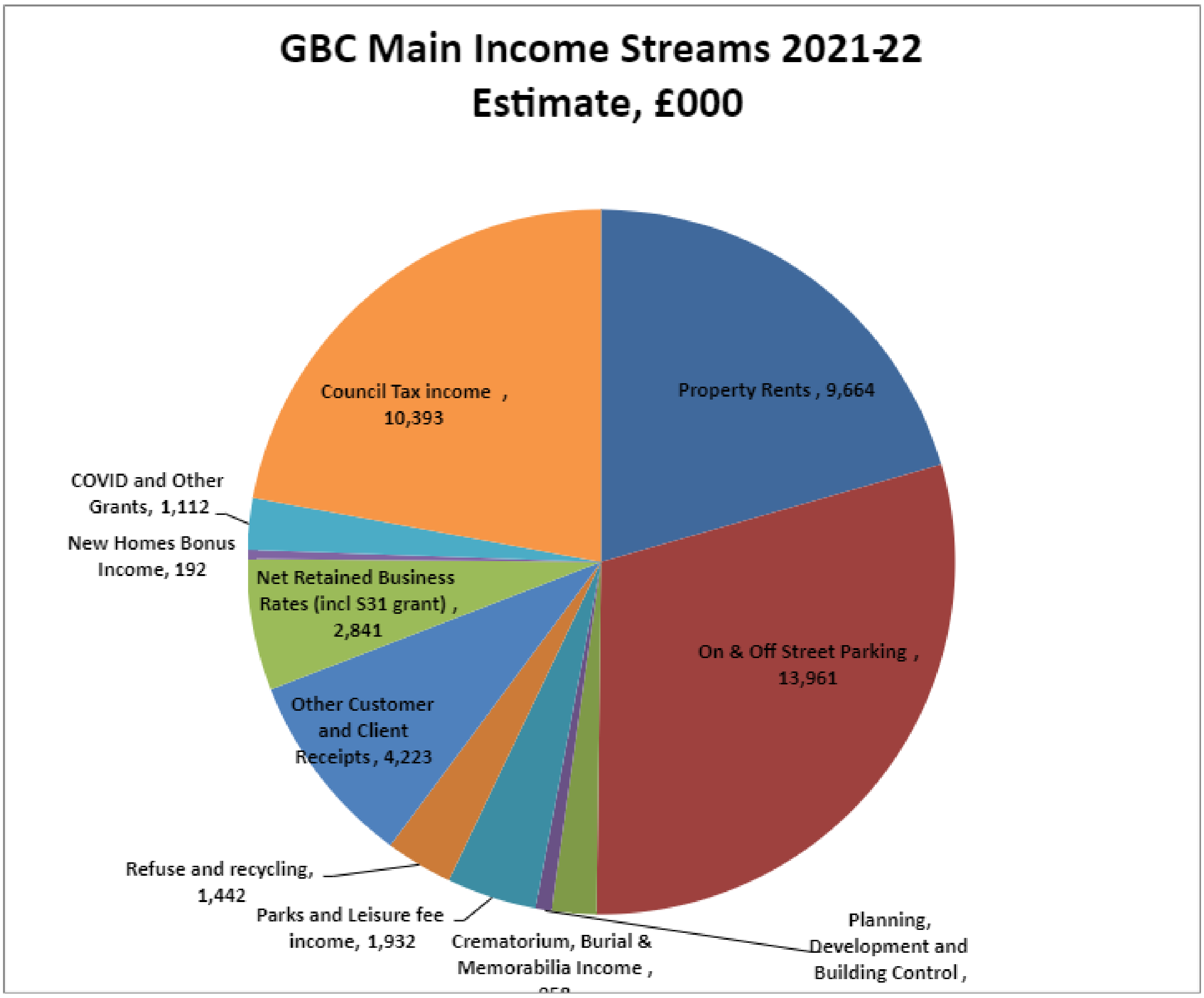
3.13 Initially the reform was scheduled to be implemented in April 2020, it was then delayed until April 2021 due to Brexit and then due to the current pandemic, has been further delayed until at least April 2022. The Council has responded to the consultations issued so far and will continue to respond 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.

3.14 Initial review of the latest fair funding consultations identify 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 implementation 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 proposed 75% BRR System. At present our best estimates of the impact on the reform on the Council's budget are included in the medium term financial projections from 2022-23 onwards.

3.15 The reform of business rates was intended to sit alongside a revaluation of business rates originally scheduled for 2021 but has now been delayed until April 2023. At this point it is envisaged that there will be a full reset of the business rates system in 2023 and thus all growth within the business rates system that has been retained by the authority since 2013 will be lost.

<u>General Fund Main Income Streams</u>

4.1 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 have become increasingly important 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.



4.2 The reliance on local income streams set out above has meant that Guildford Borough Council has been particularly impacted by the Covid-19 pandemic restrictions, possibly more so than other similar District and Borough Council's. Analysis of the Covid financial returns which Council's provide to Government by the Local Government Association in August 2020 identified that Guildford was in the top five of council's most impacted in the south east when looking at both the impact of additional covid-19 expenditure and therefore the total deficit as a percentage of net revenue expenditure.

Economic Outlook

5.1 The economic situation continues to pose a risk. Although the risk due to Brexit seems to have been partially mitigated with the agreement of a trade deal with the EU, the Covid-19 Pandemic has forced the government to take on significant levels of public borrowing. The slow down in the national recovery experienced during 2020-21 has been deemed to be the deepest recession since records began. The pace of the recovery from the pandemic and the impact of our new trading relationship with the EU and other countries is yet to be determined and will be a key risk going forward. It is anticipated that to help re-pay the significant public sector debt, further reductions in public spending will need to be made as part of a package of measures. Local Government will no-doubt need to take a share of any public sector spending reductions in the future.

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 and minimum revenue provision for debt repayment 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.

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, however, this has been delayed due to the covid-19 pandemic. The budget for 2021-22 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 mixed-housing schemes 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)

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 £7.5 million in savings and £6.8 million in additional income.

7.2 The budget assumes a further £3.4m savings can be achieved between 2021-22 to 2023-24, most of these savings are because of the Future Guildford transformation programme.

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.

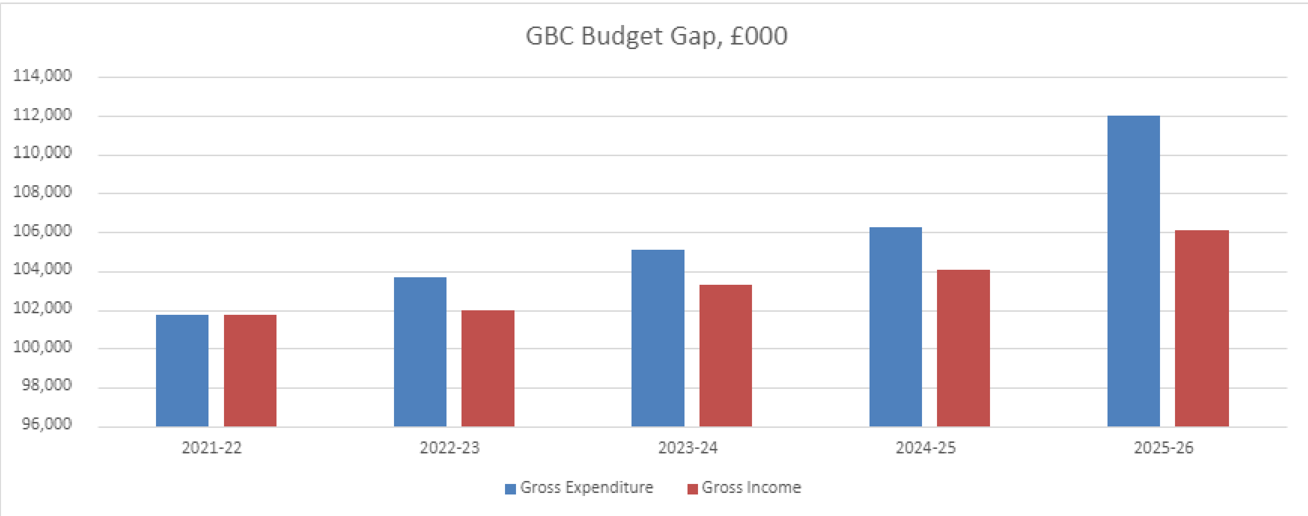
8.2 We have reworked the financial projections to 2025-26 at a summary level, but many of the assumptions (for example, interest rate movements and MRP) could be significantly different.

8.3 Officers prepared the medium term figures using the assumptions in the table below. The Executive approved the assumptions at its meeting on 24 November 2020. 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.

	2021-22 %	2022-23 %	2023-24 %	2024-25 %	2025-26 %
General inflation	0.0	2.0	2.0	2.0	2.0
Pay award	0.0	2.0	2.0	2.0	2.0
Pay Increments	2.0	2.0	2.0	2.0	2.0
Increases in fees and charges	0.0	3.0	3.0	3.0	3.0
Income reduction due to COVID19	-5.0	-2.0	-2.0	-1.0	0.0
Council Tax	2.83	1.94	1.94	1.94	1.94
Housing rents	0.0	2.0	2.0	2.0	2.0
Council Tax Base	-0.84	1.3	1.57	1.52	1.24
Vacancy Factor	2%	2%	2%	2%	2%
Government Settlement Funding Assessment (SFA)	nil	£442k Reduction	£588k Reduction	£735k Reduction	£735k Reductio n

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 2025-26 as demonstrated below.



	GBC Budget, £000				
Year	2021-22	2022-23	2023-24	2024-25	2025-26
Gross Expenditure	101,724	103,658	105,105	106,241	112,026
Gross Income	101,724	101,973	103,278	104,064	106,096
Budget Gap (difference between Expenditure and Income)	**(0)**	**1,685**	**1,828**	**2,177**	**5,930**

8.6 We estimate that the funding gap totals approximately £5.9 million over the plan period (to 2025-26). However, sensitivity analysis shows this could be within the range £0.5 million to £7.5 million.

8.7 A budget gap of £1.6 million is currently projected for 2022-23. The gap arises due to

- a projected £1.4 million decrease in net retained business rates following the fair funding review and business rate reform,
- a projected £1.0million 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 projected increase of £1.1million in interest payments as a result of the need to borrow to finance the Council's capital programme.
- The above points are offset by additional £1.6million savings of from the Future Guildford programme and an increase in council tax income of around £400,000.

8.8 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.

8.9 As outlined in paragraph 7.2, the medium-term budget gap already assumes that further savings and additional income identified as part of the Future Guildford Programme and shown in the list of savings and growth at **Appendix 3** can be achieved. There is a risk that if the savings and income proposals are not achieved then the budget gap will be higher.

8.10 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. Phase A was completed in 2019-20 and Phase B in 2020-21 although the transition period will run into 2021-22.

8.11 There further 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. These savings along with other actions were set out in a savings strategy discussed with the Joint EAB and then agreed by Executive in November 2020. The savings strategy includes several work streams: -

a. Review and potential reduction of the Council's discretionary services

b. Review of the Council's capital programme and Major projects to reduce debt and interest costs
c. Review the Council's need for operational assets
d. Consideration of merging the Council with a neighbouring borough
e. Consideration of merging the Council with several other neighbouring boroughs and part of the County Council to create a Unitary Council (one of multiple unitary Council's in Surrey)

8.12 Many of the savings identified in the savings strategy will need to be actioned to balance the Council's budget over the medium term to 2025-26.

Housing Revenue Account (HRA)

8.13 The HRA business plan and budget report sets out the changing legislative framework within which the we operate the council's HRA.

8.14 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.

8.15 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 2020 and the inflation assumptions outlined in paragraph 8.3 above were used in the preparation of the 2021-22 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 2.5% has been assumed within the calculation of the council tax base.

9.4 The effects of the capital programmes have been considered both in the revenue budget and in predicting cash flow for investment purposes.

9.5 Service level risk assessments are in place as part of the service plan for each service area. The corporate risks are included in the corporate risk register. 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 2021-22. 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 in November 2020) and the Executive (at its meeting in November 2020) considered the outline budget in detail.

The Joint EAB considered the Capital and Investment Strategy report and the Housing Revenue Account Budget at its meeting in January 2021 and Executive considered the final reports on 26 January 2021. The main actions included in the list of Savings in Appendix 3 have previously been considered by the Joint EAB. Further actions set out in the savings strategy approved by Executive in November 2020 will be considered by the Executive Advisory Boards in the future.

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. It is worth noting that this analysis has not been updated yet for 2019-20 accounts and does not reflect the impact of the Covid-19 pandemic.

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 without 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 30% and 38% over the medium-term period. However, as with the CIPFA resilience index, the indicators do not currently show the impact of the Covid-19 pandemic.

10.6 The value of General Fund revenue reserves, as at 1 April 2020 was £48.1 million. The estimated value of all revenue reserves over the plan period is:

Reserve	Actual 2019-20 Balance £ million	Projected 2020-21 Balance £ million	Projected 2021-22 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	44.4	30.8	23.0
Earmarked HRA Reserves	101.6	102.8	112.1
Capital Contributions	0.5	0	0
Useable Capital Receipts Reserve (General)	0	0	0
Useable Capital Receipts Reserve (housing related)	13.9	14.2	15.0
Total Useable Reserves	**166.6**	**154.2**	**156.4**

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. The level of available reserves held by the Council's general fund will significantly decrease between April 2020 and March 2022 however, they are still considered sufficient to cover the financial risks identified on the financial risk register shown at **Appendix 4** and are also sufficient to cover the medium term projected budget gap if the actions identified at paragraph 8.11 are not progressed.

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 2021-22 to 2025-26 shows the Council has an underlying need to borrow of £400 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 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.

11.9 **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.

11.10 As outlined in Section 3, the government are proposing to introduce significant changes to local government finance in future 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. In addition, on implementation of business rate reform 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 3-5% of the business rates collected.

<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 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 continuing to implement our future guildford transformation programme and savings strategy presented agreed by Executive in November 2020.

12.2 The Council started 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, Covid-19 has had a significant impact on the Council's level of reserves during the year and those reserves are significantly lower as we move into 2021-22. 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 and its newly adopted savings strategy to deliver the efficiencies necessary to balance our budget in the medium term. I recommend that the Council seeks to avoid any further reduction in general fund reserves over the medium term.

Claire Morris, BEng (Hons), FCPFA, Cert IPSFR

Director of Resources and Chief Finance Officer