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 2022-23 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 and 2021-22 the Covid-19 pandemic had a seismic impact on both the Council's finances and the National Government's finances. In the short term, the government 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 was welcome to help mitigate the impact of the pandemic, the Council still incurred an unprecedented overspend of around £6million in 2020-21 which had a significant impact on the level of reserves. For 2021-22, the Council has been forecasting a year end overspend against its budget of between £1million and £2million. As a result an in-year savings action plan of a series of one-off items was approved by Executive in November 2021 which it is hoped will contain the overspend and bring the Council's financial position back in line with its budget by the end of the financial year, thus avoiding the need for any further unplanned use of reserves in 2021-22.

2.3 The announcement of the provisional local government finance settlement (LGFS) for 2022-23 on 16 December 2021 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 (2.75%) 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 £240,000 would be received to compensate the Council for the lost income
c. That a one-off New Homes Bonus of £766,000 would be provided
d. That the 'lower tier services grant' would be paid for a second year to support the Council's services but at a reduced level of £131,00 (£237,000 in 2020-21)

e. That a new 'services grant' of £202,000 would be received to help offset the cost of national insurance increase (note the cost of the increase is £343,000). This grant is for one year only and will not be subject to any transition arrangement in any funding reform for local government

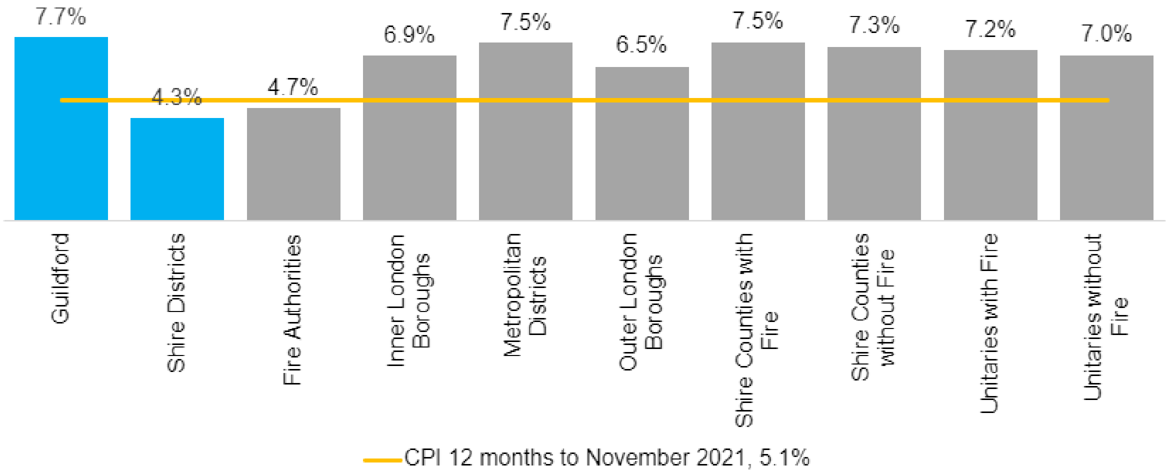
Business rates, Revenue Support Grant and New Homes Bonus

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 2022-23, was issued on 16 December 2021. The 2022-23 LGFS was, disappointly another one-year settlement. It is the first time that during a multi-year spending review period, that local government has been provided with a single year settlement. There is hope that a new multi-year settlement is provided from April 2023. The figures provided by the government are in the table below:

	2016-17	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Settlement Funding Assessment	3.8	3.1	2.8	2.9	2.9	2.9	2.9
of which:							
Revenue Support Grant	1.1	0.3	0.0	0.0	0.0	0.0	0.0
Baseline Funding Level	2.7	2.7	2.8	2.9	2.9	2.9	2.9
Tariff/Top-Up[2]	-28.3	-30.2	-22.3	-31.3	-31.8	-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	2.7
Levy Rate	0.5	0.5	0.0	0.5	0.5	0.5	0.5

3.3 For 2022-23, Guildford's settlement funding assessment (SFA) has been frozen at the same level as 2021-22 and 2020-21. The government has only issued a one-year settlement for 2022-23 due to significant funding reform being anticipated. It is the third 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, for the first time, the change in core spending power for Guildford is higher than most other types of Council's and the shire district average. This is increase is due to the significant increase in new homes bonus grant.



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 2022-23, we estimate our net business rate income will be an increase of £1.3million less than in 2021-22. The table below shows the volatility of our net business rate income over the last six years along with the proportion of total business rates collected and the estimates for 2022-23. The figures for 2020-21 are distorted by the exceptional level of rate reliefs awarded to businesses during the Covid pandemic.

Year	Actual 2017-18 £million	Actual 2018-19 £million	Actual 2019-20 £million	Actual 2020-21 £million	Estimate 2021-22 £million	Estimate 2022-23 £millions
GBC Share of Business Rate Income (NNDR1/3)	35.2	26.1	34.9	15.4	33.7	34.2
S31 Grant	1.1	1.2	2.4	20.2	2.9	1.3
Business rate tariff	-29.7	-21.8	-31.3	-33.1	-31.8	-31.8
Levy / Safety Net payment	0	0	-1.4	-0.8	-0.1	-0.3
Pilot or pooling gain	0.5	1.0	0	0	0	0
Net BRRS Income	**7.1**	**6.5**	**4.6**	**1.7**	**4.7**	**3.4**
Total Business Rates Collected	88.1	87.2	90.5	38.6	84.3	85.5
% Business Rates Retained	8.0%	7.4%	5.0%	4.4%	5.6%	4.0

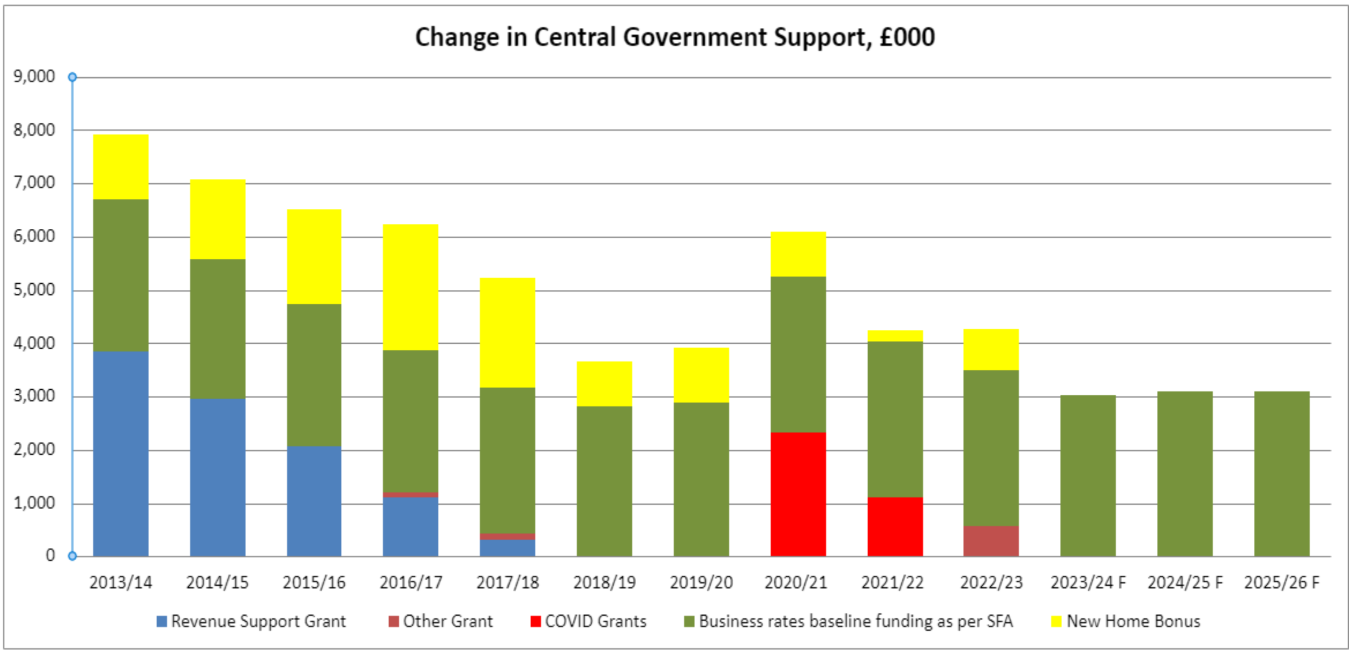
3.5 Since 2018-19, the Council has not received Revenue Support Grant (RSG) from Government. As a result the SFA for Guildford is now entirely related to the business rates baseline funding level.

3.6 The Council's new homes bonus (NHB) in 2022-23 will be £766,000 which is a significant increase from the 2021-22 allocation of £192,000. The implementation of changes to the NHB in recent years, means that award of NHB is only made if housing growth exceeds a 0.4% baseline and legacy allocations of funding are 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, 2021-22 and 2022-23 are all for one year only.

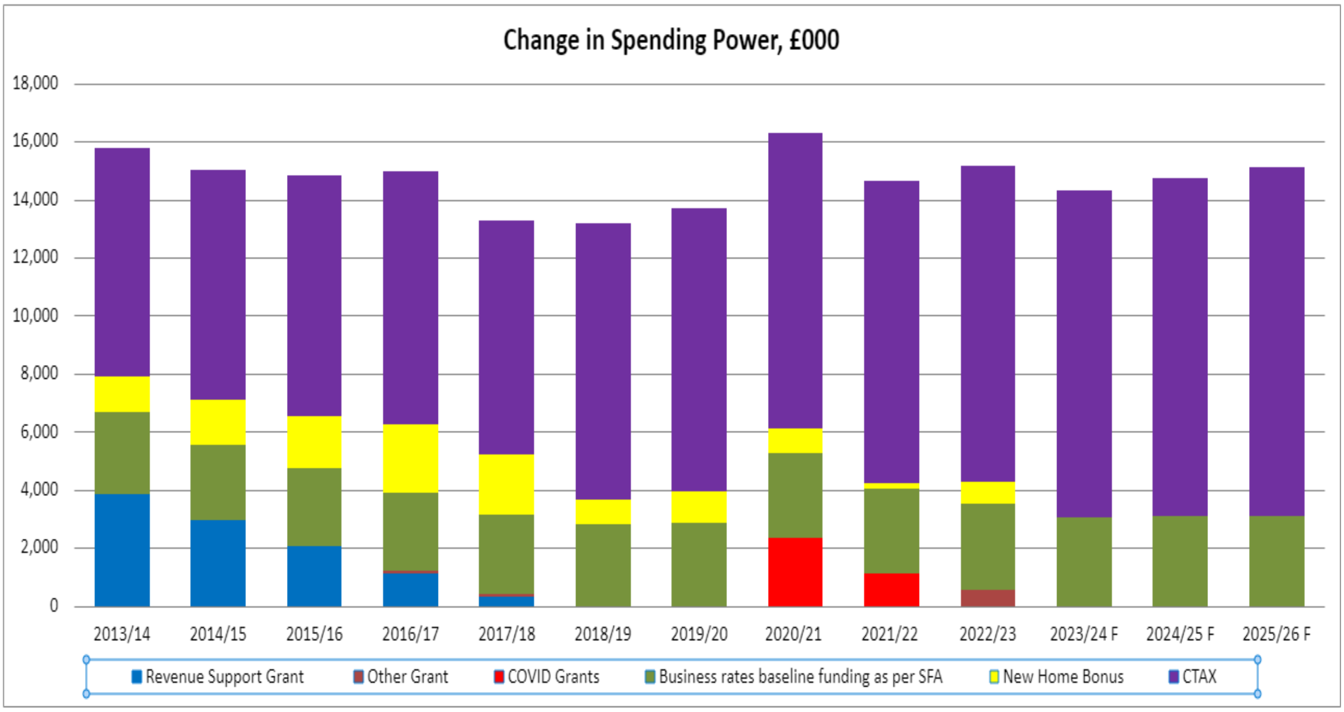
3.7 Our budget and long term financial strategy assumes that any NHB received is transferred to the new homes bonus reserve to finance one-off feasibity work and provide match funding for strategic regeneration and infrastructure projects for the borough. The NHB grant does not affect the council tax 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.

3.8 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 the first 3 months of 2021-22.

3.9 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).



3.10 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)

3.11 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:

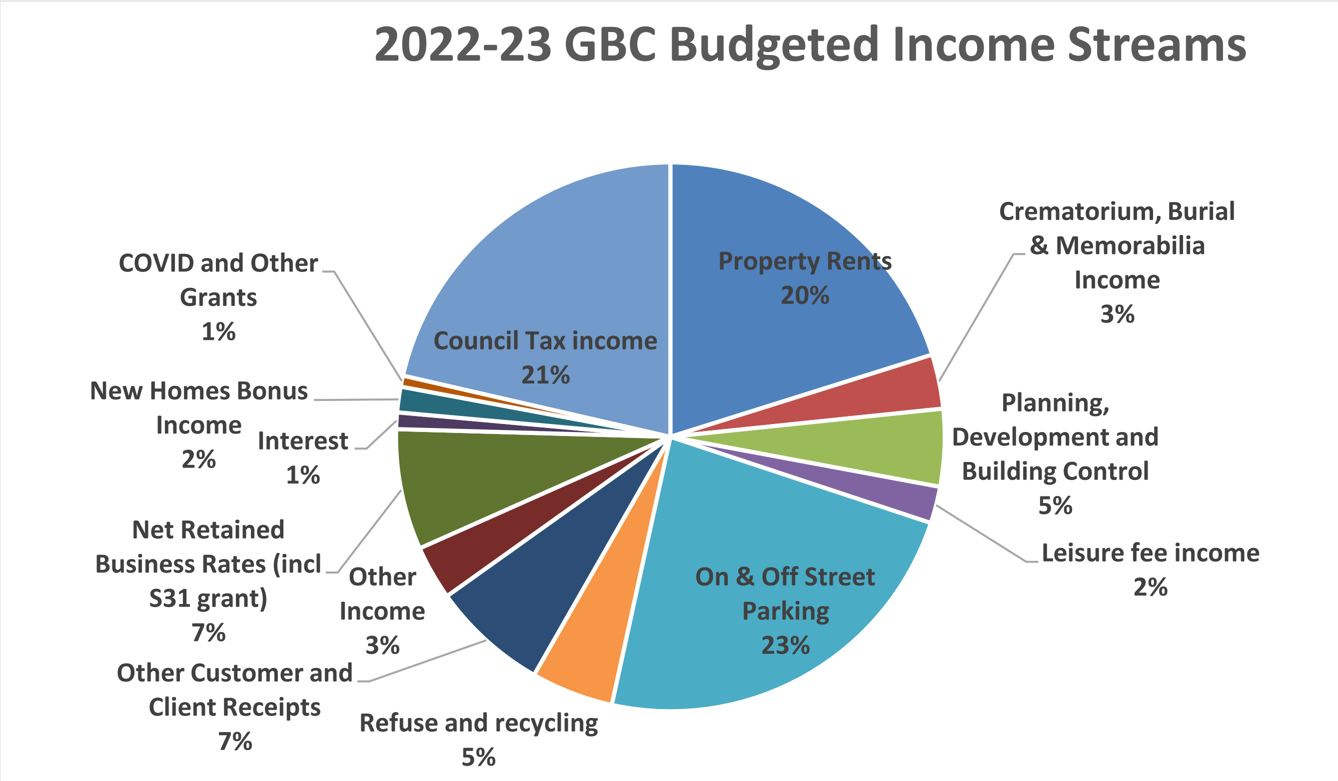
a. A Fair Funding Review and
b. Business Rates Reform (implementation of 75% business rates retention)

3.12 Initially the reform was scheduled to be implemented in April 2020, it was then delayed initially due to Brexit and then due to the current pandemic, and is now anticipated to be implemented by April 2023. 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 all authorities and then the business rates reform will determine how this is implemented. It is believed that the fair funding review will be replaced by 'Levelling up' and that implementation of 75% business rate retention has now been abandoned however, this has not yet been confirmed by Government. It is understood that the 'Levelling Up White Paper' is due to be issued in Spring 2022 and this will outline the reform of local government finance. Until the white paper is announced, it is incredibly difficult to predict what the reforms may hold for the Council.

3.13 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.

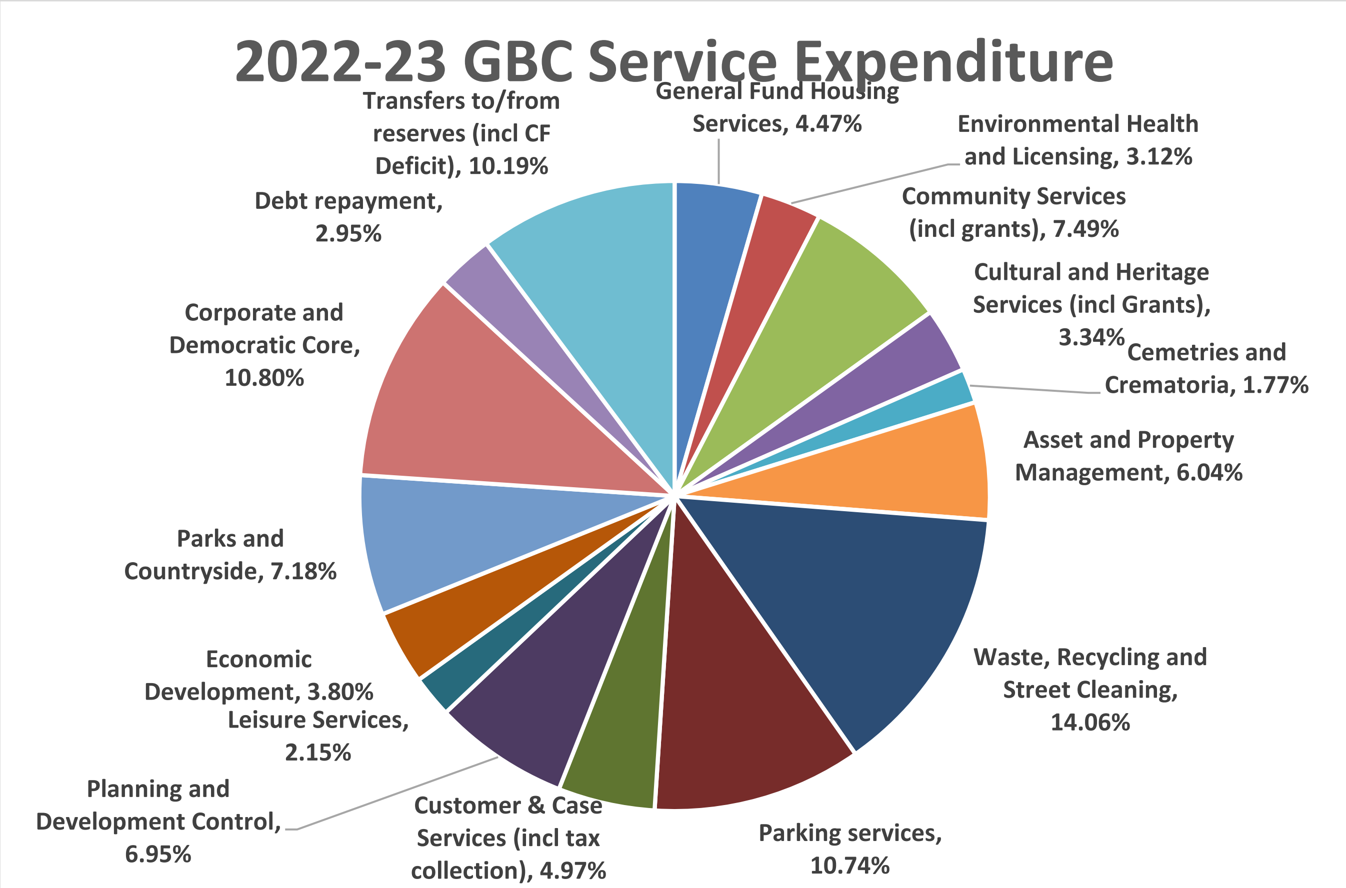
<u>General Fund Main Income Streams and Expenditure</u>

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 (excluding housing benefits), which the Council uses to fund services, is set out below. Parking income represents 23% of the council's income (down from 25% in previous years) but remains 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 7% 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. This is because of the significance of fees anc charges to our overall budget but also because the Spectrum Leisure Centre is the largest leisure centre in the South East of England.

4.3 The main areas of general fund expenditure (excluding housing benefits) are shown in the chart below:



<u>Economic Outlook</u>

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. 2020-21 was deemed to be the deepest recession since records began however, the economic recovery has also exceeded initial expectations as the country moved out of pandemic restrictions. The continued pace of the recovery from the pandemic and the impact of our new trading relationship with the EU and other countries is 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, which are currently around 1% of income, will not form a significant source of income to the Council due to decreasing investment balances (linked to spending the money on the capital programme) 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 to long 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 2021 to March 2025 and includes bold ambitions for service delivery and investment in the borough for the future. The general fund, HRA budgets and capital programme for 2022-23 includes projects proposed as part of the new corporate plan and provides 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, 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 (ash road railway bridge, town centre, west guildford & cycling)

6.3 The capital and investment strategy splits the capital programme between 'income generating development 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 and be contained within the amount the council can increase council tax. The income generating development schemes are anticipated to provide a net overall increase in income or reduction in cost to the Council's general fund revenue budget and therefore positively contribute towards the Council's future financial sustainability.

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

General Fund Medium to Long Term Financial Strategy (Appendix 1a)

7.1 The medium to long-term financial strategy (LTFS) (set out in Appendix 1a) and capital and investment strategy provide a framework within which we will prepare annual spending plans and medium term financial plans. In essence, it sets a framework for our spending plans and use of resources over the long term, ensuring that we have a sustainable financial future and the council will be financially resilient moving forward.

7.2 We have made financial projections to 2025-26 at a summary level and high-level projections through to 2050-51, but many of the assumptions (for example, inflation, interest rate movements and MRP) could be significantly different.

7.3 Officers prepared the medium term figures using the assumptions in the table below. The Executive approved the assumptions at its meeting on 23 November 2021. These assumptions are for outline planning purposes only and have been reviewed and updated throughout the budget process (items changed are in italics). They will be subject to further review and update before detailed estimates are prepared for each financial year.

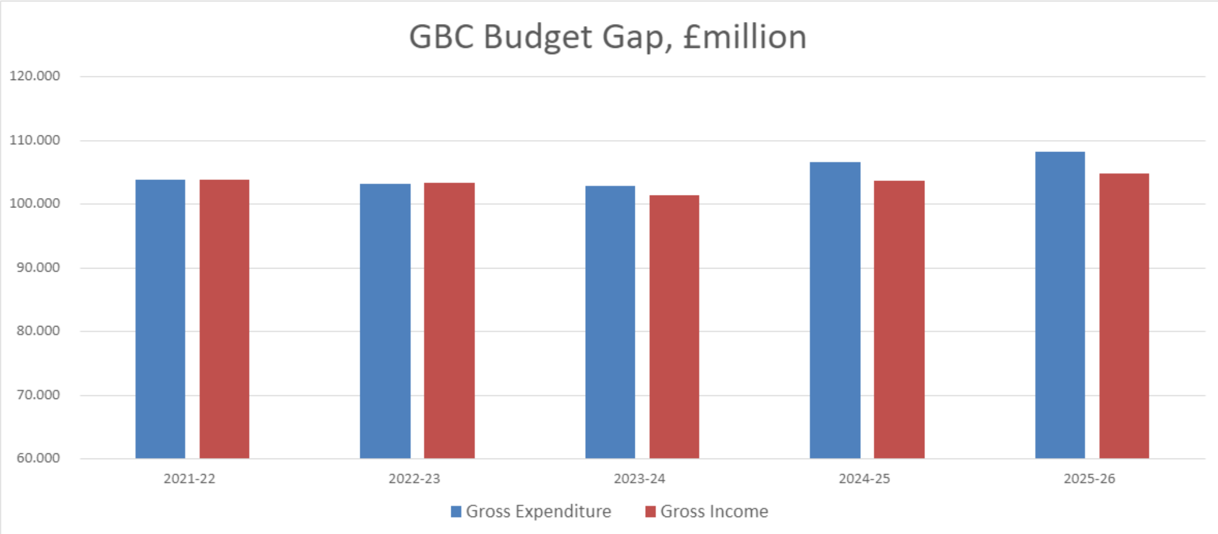
	2022-23 %	**2023-24 %**	**2024-25 %**	**2025-26 %**
General inflation	2.0	2.0	2.0	2.0
Pay award	3.1	3.0	3.0	2.0
Pay Increments	1.0	1.0	1.0	1.0
Increases in fees and charges	3.0	3.0	3.0	3.0
Council Tax	*£5 (2.75%)*	1.94	1.94	1.94
Housing rents	4.1	3.0	3.0	3.0
Council Tax Base	2.0	1.4	1.3	1.1
Vacancy Factor	2%	2%	2%	2%
Government Settlement Funding Assessment (SFA)	nil	£503k Reduction (17%)	£650k Reduction (21%)	£663k Reduction (21%)

7.4 As part of the drive to continue to deliver services with fewer resources, the Council has recently undertaken the ‘Future Guildford’ 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 £9.6 million in savings and £7.1 million in additional income.

7.5 The budget and medium term financial plan assumes a further £2.5m savings can be achieved between 2022-23 to 2025-26, the savings relating to asset investment and procurement are savings relating to the on-going implementation of Future Guildford. The remaining savings are set out in the Council’s Medium Term Financial Strategy (Appendix 4) which was approved by Executive in June 2021 (formerly called the savings strategy).

7.6 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.

7.7 Given these assumptions, our projections show that there is a gap between projected income and expenditure over the period 2022-23 to 2025-26 as demonstrated below.



	GBC Budget, £m				
Year	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**
Gross Expenditure	103.732	103.277	102.728	106.473	108.132
Gross Income	103.732	103.277	101.265	103.681	104.825
Budget Gap (difference between Expenditure and Income)	**0.000**	**(0.000)**	**1.463**	**2.792**	**3.307**

7.8 We estimate that the funding gap totals approximately £3.3 million over the plan period (to 2025-26). However, sensitivity analysis shows this could be within the range £2.9 million to £6.3 million.

7.9 A budget gap of £1.4 million is currently projected for 2023-24. The gap arises principally due to increased costs of borrowing to fund the capital programme (MRP and interest).

7.10 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.

7.11 As outlined in paragraph 7.2, the medium-term budget gap already assumes that further savings and additional income shown in the budget movement summary 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.

7.12 For some years, the Council has identified a gap between available resources and projected expenditure over the medium term. During 2021-22, to address the shortfall, the Executive approved a strategy for savings. This is now relected in as the Council's medium term financial strategy at Appendix 1a and Appendix 4. 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. Collaboration with and sharing services with Waverley BC

7.13 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.

7.14 In July 2021, Guildford Borough Council and Waverley Borough Council agreed to a long term collaboration and approved the first stages of appointing a joint Chief Executive and a joint senior management team. Further collaboration opportunities will be identified once this platform is in place. In total, the collaboration report from July 2021 identified a potential opportunity for each council to save in the region of £700,000 from the collaboration over and above what would be achievable individually. These savings have been reflected in the budget movement summary at Appendix 3.

Housing Revenue Account (HRA)

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

7.16 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 to meet new legislative requirements. 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.

7.17 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

8.1 The budget process was started in June 2021 with the identification and Executive adoption of the savings strategy. The inflation assumptions outlined in paragraph 8.3 above were used in the preparation of the 2022-23 estimates outlined in the budget report.

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

8.3 A composite loss allowance of 2.0% has been assumed within the calculation of the council tax base.

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

8.5 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 5**. This outlines the main financial risks the Council will face in terms of operating within its budget for 2022-23. 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.

8.6 The Joint Executive Advisory Board (at its meeting in November 2021) and the Executive (at its meeting in November 2021) considered the draft budget in detail. The Joint EAB considered the Capital and Investment Strategy report and the Housing Revenue Account Budget at its meeting in January 2022 and Executive considered the final reports on 25 January 2022. The main actions included in the list of Savings in Appendix 4 have previously been considered by the Joint EAB and as projects come forward, individual savings project mandates have been presented to EABs during the course of the year. Further actions set out in the medium term financial strategy approved by Executive in June 2021 will be considered by the Executive Advisory Boards in the future.

Financial Resilience and the adequacy of reserves and balances

9.1 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.

9.2 The financial resilience index shows how the Council compares to other similarauthorities across a basket of financial indicators based on its 2019-20 accounts and a trend analysis of changes since 2017-18. The analysis can be found on the CIPFA Website (Financial Resilience Index | CIPFA). Guildford compares well on the analysis to other authorities with the majority of indicators showing that the Council is at low to average 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 low percentage of fees and charges income to service expenditure ratio. It is worth noting that this analysis has not been updated yet for 2020-21 accounts and does not therefore, reflect the impact of the Covid-19 pandemic.

9.3 There are three indicators within the financial resilience index which show the council to be above average risk, they are the 'ratio of council tax requirement to net revenue expenditure, 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 debt attributable to 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.

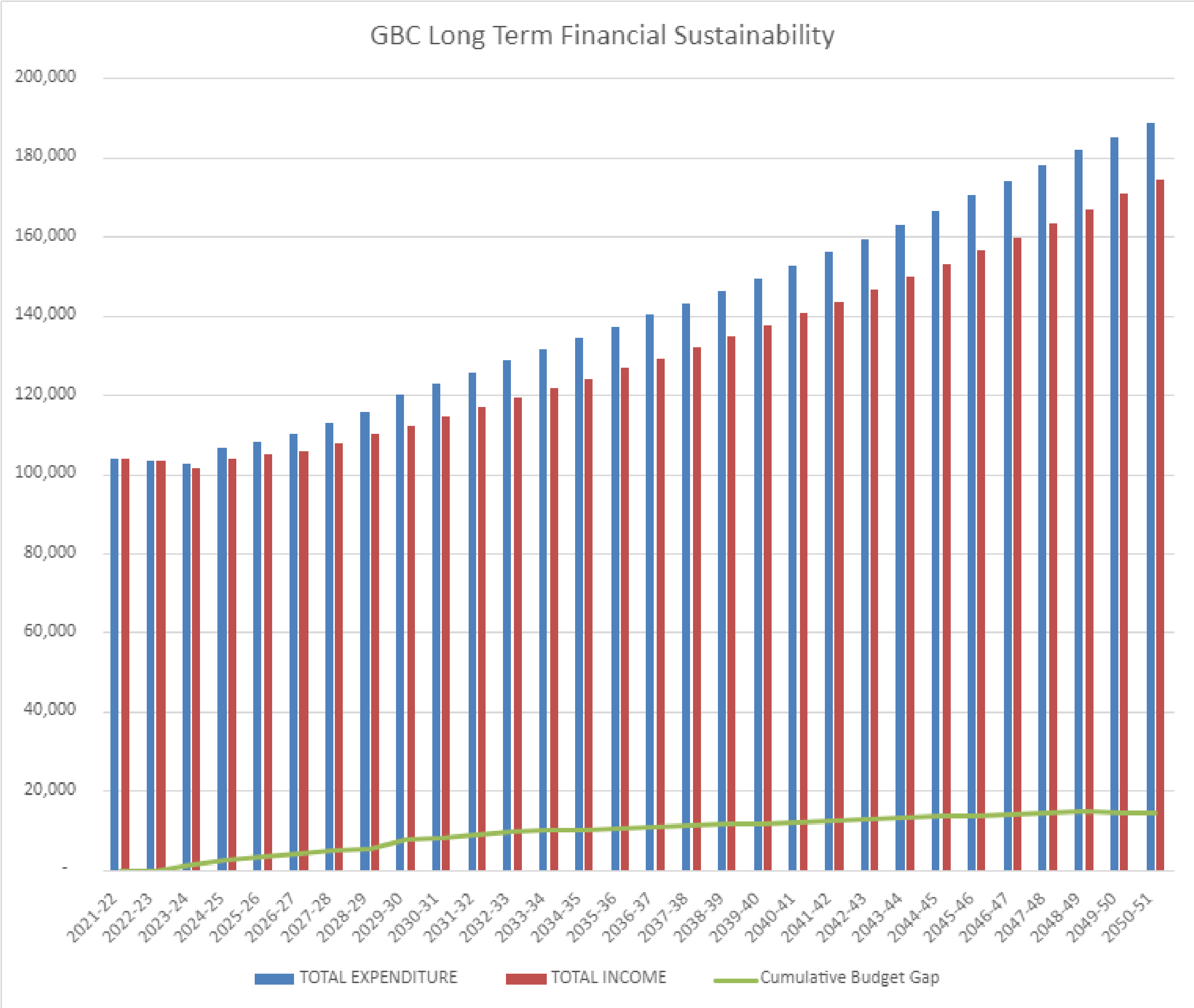
9.4 In addition to the CIPFA financial resilience indicators, as part of the capital and investment strategy we have introduced a series of local indicators which look at:

- 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, and the capital and investment strategy.

9.5 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 27% and 33% over the medium-term period. However, as with the CIPFA resilience index, the indicators do not currently show the full impact of the Covid-19 pandemic.

9.6 In order to assess financial resilience it is useful to look at the long term prospects for the Council. A high level 30 year budget projection has been produced. The long term budget projection extrapolates core income and expenditure lines by inflation (using the target Bank of England rate of 2%) and the revenue impact of the capital programme as measured by the liability benchmark set out in the capital and investment. A high level allowance for growth in costs due to growth in the numbers of residential properties set out in the local plan has also been included for years beyond the current medium term plan period. The following graph sets out the high level projected position over the long term and shows a rising budget gap as a % of expenditure. The cause of the rising budget gap is partially down to borrowing costs, which as a percentage of council tax income rise from around 15% in 2021-22 up to around 47% by 2031-32 before reducing to 32% by 2050-51.



9.7 The value of General Fund revenue reserves, as at 1 April 2021 was £69 million however this was artificially high as it included the carry forward of a range of Covid-19 related grants that must be used or repaid. The underlying level of general fund reserves excluding the COVID grants was £38million. The estimated value of all revenue reserves over the plan period is:

Reserve	Actual 2020-21 Balance £ million	Projected 2021-22 Balance £ million	Projected 2022-23 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	65.7	33.1	27.9
Earmarked HRA Reserves	109.5	78.7	89.4
Capital Contributions	0.7	0	0
Useable Capital Receipts Reserve (General)	0.1	0.1	0.1

Useable Capital Receipts Reserve (housing related)	8.8	3.7	0
Total Useable Reserves	**191.0**	**121.9**	**123.6**

9.8 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.

9.9 The earmarked HRA revenue reserves and usable capital receipts reserves are substantial, which as described in paragraphs 7.15 to 7.17, affords the Council significant finance for its existing HRA capital programme and offers an opportunity to significantly expand its housing development and regeneration programme.

9.10 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 2021 and March 2022 however, they are still considered sufficient to cover the financial risks identified on the financial risk register shown at **Appendix 5** and are also sufficient to cover the medium term projected budget gap if the actions identified at paragraph 7.12 are not progressed.

Budget risks

10.1 The Council faces many risks to the successful delivery of a balanced budget. The Financial Risk Register at **Appendix 5** 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.

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

- Loss of rental income on investment properties
- Inflation
- Increased costs of borrowing from rising interest rates
- Increase in housing benefit claimants and bad debts
- Potential increase in homelessness
- Loss of income from Fees and Charges, particularly parking

10.3 **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.

10.4 **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 Guildford Economic Regeneration Programme. 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 continue to consider whether alternative legal structures and delivery mechanisms will 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.

10.5 **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.

10.6 The capital programme for 2021-22 to 2025-26 shows the Council has an underlying need to borrow of £551 million. The revenue impact of borrowing includes:

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

10.7 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.

10.8 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.

10.9 **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.

10.10 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.

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. 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 medium term financial strategy agreed by Executive in June 2021.

12.2 The Council started the 2021-22 financial year in a weakened financial position following a £6million overspend due to Covid in 2020-21, we continue to have a strong balance sheet, with a high asset base, good diversity in our income streams, significant level of liquidity and a reasonable gearing ratio. The Council's underlying level of reserves during the year are significantly lower than we have been used to in previous years. In order to maintain our strong financial position and financial stability into the future the Council needs to ensure that it pushes forward with its medium term financial strategy to deliver the efficiencies necessary to balance our budget in the medium term. I recommend that the Council seeks to avoid any further unplanned reduction in general fund reserves over the medium term.

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