

Guildford Borough Council

Report to: Council

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Ward(s) affected: All

Report of Director: Ian Doyle, Transformation and Governance

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Report Status: Open

Medium Term Financial Plan (MTFP) and Financial Recovery Plan – November Update Report

1. Executive Summary

- 1.1. The Council agreed the 2023-24 budget in February 2023 with a £3.3m shortfall requiring further work to remove this gap, with the fallback position being the deployment of usable reserves.
- 1.2. An updated MTFP position was presented to the Council in July 2023 which set out the key issues and the position in which the Council was now left. In summary this was a remaining in-year deficit of £1.7m and a budget gap of £18.3m over the MTFP period to 2026-27.
- 1.3. A Financial Recovery Plan was presented to Council in August and updated in October. This set out the immediate and medium-term

actions being taken to address both the in-year and medium-term budget gaps.

- 1.4. In October, the Interim s151 officer concluded that sufficient progress had been made to avoid the need for a s114 report to be issued but that significant work was still required to produce a balanced budget for 2024-25 and beyond.
- 1.5. This report updates on the MTFP position, potential funding changes, and progress on the Recovery Plan workstreams.
- 1.6. The report also sets out the outcome of the review of the Capital Programme. If approved, this will remove £96.6m from the Approved and Provisional programmes which will reduce the Council's projected borrowing needs.
- 1.7. Section 9 of the report gives a high-level update on the potential remaining budget gap to be addressed and the actions ongoing to address this. The work to date on the Financial Recovery Plan has reduced the July MTFP gap of £18.3m by £11m to £7.3m.
- 1.8. Although excellent progress has been made, significant further work is still required to produce a balanced budget for 2024-25.
- 1.9. This report was considered by the Corporate Governance & Standards Committee at its meeting on 16 November 2023. The Committee supported the recommendation below, subject to a number of comments which are set out in section 10 below. At its meeting on 23 November 2023, the Executive noted the updated MTFP position and the further work ongoing to produce a balanced budget for 2024-25, and also commended the recommendation to the Council below for adoption.

2. Recommendation to Council

- 2.1. That the proposed changes to the Approved and Provisional Capital Programmes set out in Appendix 1 to this report be approved.

3. Reason for Recommendation:

- 3.1 To enable the Council to protect the current level of reserves and to set a balanced budget and a robust Medium-Term Financial Plan.

4. Exemption from publication

- 4.1. None

5. Purpose of Report

- 5.1. This report sets out the progress to date in addressing the MTFP budget gap through the workstreams established as part of the Council's Financial Recovery Plan.
- 5.2. The report details the output from the workstream dealing with reviewing the Council's capital programme and recommends a revised programme for approval.

6. Strategic Priorities

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

7. Background

- 7.1. The Council agreed the MTFP in February 2023 but with further work required at that stage to remove the need for reserves and balances to be used to close the in-year budget gap.
- 7.2. A number of issues were identified during the audit of the 2020-21 statement of accounts which led to the usable reserves of the Council being restated at a level of around £20 million less than previously reported. Significant due diligence work was undertaken to establish the baseline position and an updated General Fund budget was presented to Council in July 2023. This set out the gravity of the financial position and raised the possibility of the Council issuing a s114 report if insufficient action was taken.
- 7.3. A first issue of the Financial Recovery Plan was endorsed by the Council on 30 August 2023, establishing both immediate actions such

as a freeze on both vacancies and non-essential expenditure to help bring the current year back into balance. It also established a number of workstreams to deal with the MTFP budget gap together with a programme of improvements needed within the finance service.

- 7.4. A second issue of the Financial Recovery Plan was endorsed by Council on 10 October 2023 which detailed the actions to bring the current year's budget back within balance and an update on the other workstreams.
- 7.5. This report provides a further update, reflects upon how this will impact on the MTFP, and the further work still required to produce a balanced budget for 2024-25 which will be set in February.

8. Medium Term Financial Plan Update

- 8.1 The revised budget agreed by the Council on 25 July 2023 showed a projected budget gap over the MTFP period of £18.268m

	2023-24 Approved £'000	2024-25 Forecast £'000	2025-26 Forecast £'000	2026-27 Forecast £'000
Deficit / Surplus in-year	3,100	8,694	5,865	609
Cumulative Deficit	3,100	11,794	17,659	18,268

- 8.2 The funding assumptions used were as follows:

	2023-24 £m	2024-25 £m	2025-26 £m	2026-27 £m
Council Tax	11.253	11.851	12.207	12.575
CT surplus	0.140	0	0	0
Business Rates	3.670	3.211	3.093	3.093
New Homes Bonus	1.283	0	0	0
Services Grant	0.199	0.114	0.114	0.114
Revenue Support Grant	0.134	0	0	0
Funding Guarantee	0	0	0	0
TOTAL	16.161	15.176	15.414	15.782

- 8.3 The Local Government Finance Settlement will confirm funding levels for 2024-25. However, this is not expected to be received until mid-December. The latest assumptions are set out below.

Council Tax

- 8.4 The 2023 finance settlement confirmed that capping rules for District Councils in 2023-24 and 2024-25 would be 2.99%. There is no indication that this is likely to change. For Guildford, 1% on Council Tax equates to around £116,000 of funding.
- 8.5 The mid-year taxbase estimates have been submitted to the Department for Levelling Up, Housing and Communities (DLUHC) and show an increase of around 1.2% from last year. This is a small increase from the 1% assumed in the MTFP estimates.
- 8.6 Work is in train to look at the discretionary council tax policies and compliance in areas such as single person discount to ensure that the Council is receiving the income that it is due.

Business Rates

- 8.7 A reset of the business rates baseline has been anticipated for several years, with the implementation of the Fair Funding Review. It has now been confirmed that this will not take place in the current parliamentary term.
- 8.8 The business rates multiplier for 2024-25 has not been confirmed but should increase with inflation or if not, compensation given to local authorities via s31 grant.

New Homes Bonus (NHB)

- 8.9 A new scheme was due to be introduced two years ago but has still not even reached consultation stage. The notes included in the exercise for collection of the mid-year taxbase would suggest that a further single year of NHB is likely to be received as part of the Finance Settlement.
- 8.10 The value of this depends upon housing growth and empty homes brought back into use. In the current year, a sum of £1.283m has

been received. No NHB is currently factored into the MTFP projections.

Other Non-ringfenced Grants

- 8.11 In the current year, £0.199m of Services Grant and £0.134m of revenue support grant have been received.
- 8.12 In the 2023-24 settlement, a funding guarantee was included which guaranteed all councils a minimum increase of 3% in Core Spending Power.
- 8.13 At present, only a small amount of Services Grant is factored into the MTFP projections. If the funding guarantee is repeated for 2024-25, then losses of NHB and other non-ringfenced grants should be compensated through this mechanism. It is therefore likely that the current funding projection for 2024-25 is too prudent but this will only be confirmed in the December settlement.

Cost Pressures

- 8.14 Inflation remains stubbornly high, with the latest CPI figure (September 2023) unchanged at 6.7%. Whilst down from the October 2022 peak of 11.1%, this still remains well above the Bank of England target of 2%.

Pay Award

- 8.15 The pay award for Guildford is locally negotiated and has not yet been agreed for 2024-25. The MTFP assumptions were based upon an average increase of 3.3% over the MTFP period. Note – an additional 1% on the pay award would add an extra £0.32m to the budget gap.

Contract Inflation

- 8.16 Where possible, service budgets across the Council will be held at 2023-24 levels. However, there are areas of expenditure which we are contractually obliged to increase.

- 8.17 Major areas will include Utilities, Repairs and Maintenance, ICT, Telephony, contracted services, materials etc.
- 8.18 On utilities, the current contract runs to September 2024 and will be re-tendered. On rates available presently, this could produce a significant saving to the Council. However, with world events, this is a very volatile market so this cannot be secured until nearer the renewal date.

Borrowing Costs

- 8.19 Around half of the projected £18.3m MTFP gap relates to capital financing costs. This is due partly to the Council's ambitious capital programme and also due to the fact that the cost of borrowing has increased significantly since many of the major schemes in the capital programme were approved.
- 8.20 The largest capital project is the Weyside Urban Village (WUV) and although that will require significant borrowing during the 10-year project, that is not the driver for the MTFP gap. The interest payments on WUV are being capitalised so they will form part of the overall net project cost and MRP charges will not be made until the scheme is operational (in line with local authority accounting arrangements).
- 8.21 It is anticipated that total borrowing for the Council could peak at £600m (including HRA debt) prior to land sales on the WUV scheme which will generate capital receipts to repay some of the debt. The actions detailed below are intended to reduce the peak debt to £450m (including HRA debt).
- 8.22 With this in mind, a full review of the capital programme has been undertaken as part of the Financial Recovery Plan workstreams. This review has identified over £96m of schemes within the Approved and Provisional capital programmes which are now recommended to be removed.
- 8.23 The full list of proposed amendments to the capital programme are set out in **Appendix 1**, with key items summarised below:

Approved Programme

- Rodboro buildings – delayed due to planning.
- Property acquisitions – removed due to changes in the prudential code £20.823m
- Shaping Guildford’s Future – revised approach £4.170m

Provisional Schemes

- Energy efficiency compliance – delayed.
- Westfield/Moorfield Rd resurfacing – brought forward.
- Guildford West Station – moved back to Capital vision £1,000.
- Property acquisitions – removed due to changes in the prudential code £38.292m
- EV for waste vehicles – delayed until new depot available.
- North Downs Housing Ltd / Guildford Borough Council Holdings Ltd – further investment removed £30.1m

8.24 Savings will be made against the £18.3m budget gap due to both a delayed and reduced need for further borrowing.

8.25 It must, however, be noted that only those items within the MTFP period will help to reduce the borrowing costs within the MTFP, and hence contribute towards the £18m budget gap. The other future changes will help reduce the future capital financing needs and hence reduce the extra budget requirements which would need to be dealt with in future years.

8.26 Additionally, a further workstream within the Financial Recovery Plan is looking at the potential for asset disposals. A target sum of £50m of capital receipts is being sought which will help to further reduce the long-term borrowing needs of the Council. These disposal plans will be more fully developed over the next few months, prior to the Council’s budget being set in February 2024. This will also have an additional knock-on effect of reducing the revenue costs for the running and maintenance of our assets.

9. Revised MTFP Position

9.1 The table below summarises the indicative impact on the MTFP gap from the Financial Recovery Plan work to date.

	2023-24 Approved £'000	2024-25 Forecast £'000	2025-26 Forecast £'000	2026-27 Forecast £'000
Deficit / Surplus in-year	3,100	8,694	5,865	609
On-going savings in July report	(1,600)			
Reduced borrowing costs – capital programme reduction		(2,250)	(275)	(150)
Reduced borrowing costs – capital receipts. {details not yet identified}			(1,200)	(1,300)
Income reviews	(900)	(1,400)		
Contract renewals		(1,250)	(500)	
Other e.g., grants		(140)		
Potential total to date		(5,040)	(1,975)	(1,450)
Remaining target	600	3,654	3,890	(841)

9.2 Although the 2023-24 in year position is balanced, some of the savings are being delivered through one-off savings such as from the freeze on vacancies and discretionary spend. These therefore need to be replaced by ongoing savings in the 2024-25 budget.

9.3 The sum still required to be identified for 2024-25 is around £4.2m. However, this does not factor in the potential additional funding highlighted in section 8 which is likely to come in the form of either New Homes Bonus or Funding Guarantee. This could be in the order of £1.2 to £1.5m. This would still, however, leave a gap of around £3m to be identified.

9.4 Further work is ongoing to address this, exploring:

- Service delivery options
- Collaboration opportunities
- Policy changes – accounting and discretionary policies
- Full cost recovery / income generation / fees and charges
- Contract and procurement reviews
- Treasury Management
- Grants and subscriptions

9.5 Alongside this, the budget for 2024-25 is being built using a Zero-Based Budgeting approach. This will help to address some of the current issues where historic budgets have been rolled over. It is too early to say whether this will reduce or increase the remaining budget gap, but it will mean that budgets will be accurate going forwards and budget holders can then be held to account for their management of them.

9.6 A further workstream was also agreed as part of the Financial Recovery Plan, to look at the operation of the Finance Service. Significant progress has been made on many issues and the Council now has robust monthly monitoring in place, a budget book published, monitoring and review of debts and establishment control.

10. Consultations

Corporate Governance & Standards Committee – 16 November 2023

10.1 At its meeting on 16 November 2023, the Corporate Governance and Standards Committee considered this report and commended it to the Executive subject to the following comments made by the Committee during its debate:

- In response to a question as to whether increased housebuilding was factored into future Council Tax funding assumptions and whether it had much of a significant effect, the Interim Section 151 Officer confirmed that the finance team had built an assumption each year, both around the actual increase in Council Tax, assuming that the capping limit would remain at 2.99%, and also an assumption of taxbase growth year on year.
- Concern that measures to be actively implemented over the four-year period only constituted approximately half what was assumed to be the total range of measures that would be needed to get the Council back to the financial position in which it wanted to be. In response, the Interim Section 151 Officer confirmed that approximately half of the £18.3 million budget gap effectively comprised of additional borrowing costs, but that other workstreams being undertaken as part of the Financial Recovery Plan such as income reviews, for example around car parking were generating a significant contribution towards closing that budget gap. Contract renewals, such as utilities, were likely to generate further significant savings.
- Concerns over proposals in the approved capital programme to delay flood resilience measures, and traveller transit site provision. A response from the relevant heads of service, setting out the reasons for the delay would be circulated to the Committee.
- In response to a question as to whether extra car park revenue of approximately £950,000 would be achieved in the current year, the Interim Section 151 Officer confirmed that was his expectation, and that it may even be exceeded. It was noted that approximately £80,000 of that figure was expected to comprise parking fines.
- It was noted that the wording of paragraph 11.2 of the report needed to be updated to reflect the fact that the revised projected budget gap over the MTFP period was now £7.3 million, rather than £18.3 million. This would be corrected.
- It was noted that not all of the £96 million of the reduction in the capital programme attracted MRP, and the revenue saving was only £2.5 million. It would be useful to understand what the implications for MRP were for each of the proposed reductions in the various capital projects. In response, the Interim Section 151 Officer indicated that this could be incorporated into the report on the Capital &

Investment Strategy to be taken to the budget Council meeting in February.

- Support the assumptions in the report about capital asset disposal.
- Query the pay assumption at 3.3% when inflation was still high. The Interim Section 151 Officer stated that the average pay award over the three-year period was 3.3%, but understood that it was frontloaded in the provision for next year.
- Concern was expressed, and clarification was sought, in respect of the Council's intentions in relation to the Shaping Guildford's Future project. The Interim Section 151 Officer informed the Committee that it was proposed to remove the capital allocation of £4.1 million within the programme, and that there would be some revenue impacts which would be brought forward as part of the budget proposals in February.
- Clarification was sought in respect of the reference in paragraph 9.2 of the report that the 2023-24 in-year position was balanced whilst the table in paragraph 9.1 had indicated that the remaining target to be achieved in 2023-24 was £600,000. In response, the Interim Section 151 Officer explained that in terms of balancing the budget for the current financial year, many of the actions taken, for example, holding vacancies and stopping some discretionary expenditure, were of a one-off nature, and would not be repeated as base budget adjustments for the next financial year. The £600,000 referred to needed to be addressed as extra base budget savings to balance the budget in the next financial year.
- Clarification was also sought in respect of the reference in the report to possible policy changes (accounting and discretionary policies) as one of the potential further measures to reduce the shortfall. In response, the Interim Section 151 Officer explained that this related to matters over which the Council had some discretion such as reviewing the charges we make both into and out of the Housing Revenue Account, which impacted on the General Fund.
- The report needed to be explicit and honest about the climate change and sustainability implications of some of the proposed changes to provisional schemes in particular. For example, energy efficiency compliance, flood resilience, and electric waste vehicles were being delayed, and the sustainable movement corridor was no longer required.

10.2 The Joint Executive Advisory Board will scrutinise the budget proposals at its meeting on 8 January 2024. Any savings plans will need to be reviewed to ensure that the correct public / user consultations are undertaken prior to implementation.

11. Key Risks

11.1 With depleted reserves, the key risk for the Council in the current financial year is that if insufficient action was taken to ensure a balanced end of year position, then any overspend would have to be met from the remaining reserves. This would further worsen the financial resilience of the Council, making a s114 position more likely.

11.2 The projected budget gap over the MTFP period is now £7.3m and plans need to be developed to address this so that a balanced and robust budget can be agreed in February 2024.

11.3 One off events such as planning appeals and judicial reviews are difficult to predict and therefore not provided for within the base budget.

11.4 Recovery of debts is becoming more difficult due to the current cost of living crisis. These therefore need to be dealt with in a timely manner.

11.5 The ongoing impact of inflation and interest rates is difficult to predict.

11.6 A full risk-based assessment of the financial risks will be presented in the February budget papers, within the Interim S151 Officer's Section 25 report. This will also make a judgement on the adequacy of the Council's reserves.

12. Financial Implications

12.1 All decisions made with regard to the Council's budget will impact on the resources available for provision of the Council's services.

- 12.2 Significant further work is still required to remove the budget gap for 2024-25 and beyond. This will continue with engagement both across the wider Council and with councillors.

13. Legal Implications

- 13.1 The Council's legal duty to set a balanced budget is set out in section 31 Local Government Finance Act 1992, which provides that the Council must balance its expenditure with its revenue.
- 13.2 Section 114(3) Local Government Finance Act 1988 requires that: "The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."
- 13.3 The Council must continue to act lawfully in making decisions on service delivery, regardless of any s114 report. There continues to be a requirement to conduct needs assessments, undertake consultation where appropriate, assess and have regard to equalities implications, and take into account all other relevant considerations to inform their decisions about service delivery.

14. Human Resource Implications

- 14.1 The Council has been required to reduce operational and service delivery costs immediately. The immediate measures set out in the September Financial Recovery Plan halted most recruitment, and this is being kept under review. This is therefore impacting workforce matters, including the recruitment of directly employed staff, as well as contingency workers, i.e., agency staff, interims, and consultants, although the risks of doing so will have to be considered before individual decisions are taken.
- 14.2 Arrangements are in place for the consideration of exceptional cases, for example where there are significant Health and Safety risks, or the risk of statutory requirements not being met.

14.3 The Council will ensure careful and consistent communications to staff and unions and has drafted a communications plan to deliver this.

15. Equality and Diversity Implications

15.1 There are no direct equality, diversity or inclusion implications resulting from this point. These issues will continue to be considered as further savings options are appraised in due course.

16. Climate Change/Sustainability Implications

16.1 None at this point but will be considered as options are appraised in due course.

17. Summary of Options

17.1 Further Options will be developed through the workstreams set out within the Financial Recovery Plan and brought forward to councillors for decision as appropriate.

18. Conclusion

18.1 The work on the Financial Recovery Plan removed the immediate threat of a Section 114 report in October.

18.2 Progress has been made on reducing the MTFP gap as set out within this paper, but significant work is still required to produce a balanced budget for consideration in February 2024.

19. Background Papers

General Fund Budget Update – Council 25 July 2023

Issue 1 – Financial Recovery Plan – Council 30 August 2023

Issue 2 – Financial Recovery Plan 27 September 2023

20. Appendices

Appendix 1: Proposed changes to the Approved and Provisional Capital Programme.