

Guildford Borough Council

Report to: Council

Date: 23 July 2024

Ward(s) affected: All

Report of Strategic Director of: Finance

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Status: Open

Medium-Term Financial Plan Update

1. Executive Summary

- 1.1 This report provides an update on the budget / Medium-Term Financial Plan (MTFP) since the budget was set in February 2024.
- 1.2 The budget gap for 2025-26 and beyond has increased by around £130,000 at this point, due to new commitments agreed. This will be the starting point for the detailed work to be undertaken over the summer / autumn.
- 1.3 The proposed committee process for development of the MTFP is detailed in paragraph 6.40 and Appendix 1.

2. Recommendation to Council

That the Council:

- 2.1 Notes the updated MTFP position which will be used as the starting point for the detailed work now required.
- 2.2 Provide comment / feedback on the proposed MTFP committee timetable.

2.3 Highlight any areas of the budget for further consideration.

3. Reasons for Recommendations

3.1 The General Fund Budget is a major decision for the Council and setting a balanced budget is a statutory requirement.

3.2 Scrutiny of the MTFP and Budget proposals demonstrate transparency and good governance.

4. Status of Report

4.1 This report is 'open'.

5. Strategic Priorities

5.1 The budget underpins the Council's strategic framework and delivery of the Corporate Plan

6. Background

6.1 The budget and medium-term financial plan was agreed at Full Council on 7 February 2024. This paper provides an update on changes since that date and provides details of the process for developing the 2025-26 budget and MTFP.

6.2 The budget set for 2024-25 was balanced; however, there was still a remaining budget gap over the following two years as illustrated in the table below.

	2024-25 £'000	2025-26 £'000	2026-27 £'000
Budget Gap	0	740	1,628
Cumulative Gap	0	740	2,368

6.3 There are a number of factors which change these projections and the key changes are set out below.

Budget Outturn 2023-24

- 6.4 The unaudited draft accounts for 2023-24 were closed by the statutory deadline of 31 May.
- 6.5 The outturn position was an underspend of £4.1m on the General Fund (£0.2m services, £3.4m corporate, £0.5m grants) and £8.1m on the Housing Revenue Account.
- 6.6 Key variances were as follows:
- Adverse
- Back dated rent review on investment property
 - Additional agency and consultancy spend in Development Control
 - Increased utility costs at Spectrum
 - Increased insurance costs
 - Reduction in building control fees received
- Positive
- Increased recovery of council tax collection expenses
 - Reduced bad debt provision
 - Recovery of election costs for PCC and parish council elections
 - Increase in interest received on investments
 - Revised interest allocations to SANG and HRA
- 6.7 There are some on-going issues / opportunities arising from the outturn and these will need to be properly analysed and reflected in the updated budget projections for the current and future years.
- 6.8 A detailed analysis of the budget variances will be provided to Overview & Scrutiny Committee – Resources in the Budget Outturn report in September 2024.

Reserves and Balances

- 6.9 The Council's position on usable reserves had been a serious concern in July 2024 but the work done on the Financial Recovery Plan and year end position have significantly improved this.
- 6.10 The General Fund underspend has been added to general balances which now stand at £8.291m. HRA general balance remains at £2.5m. However, £1m of the General Fund underspend was

committed to one-off expenditure in the February MTFP report (see below). The uncommitted balance is therefore £7.3m.

- Revenue costs for Shaping Guildford’s Future project: £200,000
- Health and Safety improvements at Woking Rd Depot: £25,000
- Air Quality match funding: £200,000 (£40,000 per annum for 5 years)
- Local Plan Review preparation: £100,000
- Microsoft Licences for 2024-25 and 2025-26: £500,000

6.11 The HRA reserves have benefited from the 2023-24 underspend and the position at 1.4.24 is set out below.

	Balance 31.3.23 £'000	Used in 2023-24 £'000	Added in 2023-24 £'000	Balance 31.3.24 £'000
<u>HRA Reserves</u>				
Capital Programme	-37,905			-37,905
New Build	-59,377	9,281	-3,665	-53,761
	-97,282	9,281	-3,665	-91,666

6.12 An updated position as at 31.03.24 of the usable reserves is shown below.

General Fund Reserves				
	Balance 31.3.23 £'000	Used in 2023-24 £'000	Added in 2023-24 £'000	Balance 31.3.24 £'000
<u>Usable Reserves</u>				
Carry Forward Items	-870		-50	-920
Insurance	-500			-500
IT Renewals	-405		-531	-936
Spectrum	-773	38		-735
Elections	-266		-47	-313
Car Park Maintenance	-1,975	92	-200	-2,083
G Live sinking fund	-130	43	-10	-97
Business Rates Equalisation	-2,931			-2,931
BR Covid discount	1			1
MTFP Reserve * ¹	-6,087	341	-589	-6,335
Business Rates New Burdens	-330			-330
	-14,266	514	-1,427	-15,179
* ¹ adjusted for corrected treatment of HRA and SANG				
interest (Financial Recovery Plan actions)				
<u>Usable but Earmarked</u>				
Hls Reserve	-231			-231
Salix	-314		-31	-345
SPA Reserves	-13,589	100	-857	-14,346
Refugee Support	-394	191	-1,984	-2,187
Safer Guildford Partnership	-27			-27
Family Support Programme	0		-209	-209
UKSPF	0	4		4
Other	-3,910	1,472		-2,438
	-18,465	1,767	-3,081	-19,779
	-32,731	2,281	-4,508	-34,958

6.13 A review of reserves and balances is being undertaken to confirm that each provision is still required for the purpose that it is currently held. Any changes will be recommended to Full Council in due course.

6.14 Since the year end, an historic VAT refund on leisure services has also been received of £4.6m, giving the Council a one-off boost in balances of £3.8m after fees.

Funding assumptions / outlook / economy

6.15 In setting out the MTFP for 2024-25 to 2026-27 the key assumptions were:

- Cash neutral government funding
- Any loss of RSG / NHB etc compensated by the Funding Guarantee
- Council Tax referendum limit to remain at 2.99% for district councils
- No implementation of the previous Fair Funding Review.

6.16 These assumptions remain the current view of the s151 officer. It is highly likely that an incoming government will want to undertake a review of local government funding in due course, but that is likely to take some time and any future changes are likely to be smoothed with transitional arrangements.

6.17 The chances of major changes for 2025-26 are therefore deemed to be very limited.

6.18 July 2024 sees a General Election in the UK. There appears to be little within the party manifestos to suggest that local government funding is likely to be prioritised.

6.19 The first real indications of future funding are likely to come in the Chancellor's Autumn statement. This normally gives us some information on the allocation of funding to each government department.

6.20 The timing of the Local Government Finance Settlement is normally mid/late December, and this is unlikely to change.

6.21 CPI Inflation has continued to fall, as anticipated and is currently at 2.3% (April 2024). This will therefore not cause any unforeseen issues for contract renewals.

6.22 Energy prices are falling, with a further reduction due shortly. Global uncertainties continue to pose price risks in this area.

6.23 The UK economy remains fairly flat, with some growth in early 2024 but the latest monthly figures fairly static. This is therefore unlikely

to promote growth in taxation yields and hence public sector funding will remain constrained.

- 6.24 Interest rates have remained at 5.25% since August 2023. They are now expected to start to reduce in the summer with inflation now lower and growth still restrained. The Council is currently benefiting from additional interest on lending but has a significant borrowing need over the next few years, so falling rates would be very beneficial.

Changes to the Budget / MTFP since February

- 6.25 Whilst the budget is set in February, there are always changes during the year. Some are of a one-off nature and others are on-going commitments. All need to be funded in-year but the on-going commitments need to be built into future budgets as well.

On-going budget changes

- 6.26 Restructure of Legal and Democratic Services. Strengthen the teams, partly in response to the SOLACE governance review.

Cost £375,318 on-going plus £90,605 one-off

- 6.27 Appointment of Head of Business Improvement to drive the improvement plans.

On-going cost £95,484. Part funded from insurance renewal savings.

- 6.28 G-Live retender. Budget was set on the basis that this would be cost neutral from previous £275,000 annual subsidy. Actual result was a 25-year contract starting at £240,000 per annum income, annual inflationary increases, capex contribution and potential profit share.

On-going saving £240,000 from September 2024.

- 6.29 Finance restructure later in 2024-25, partly in response to the corporate improvement plan and to deal with remaining issues in the financial recovery plan. Cost to be determined.

One-off budget changes

- 6.30 Household Support Fund – 5th allocation of funds

One-off £175,784 grant which will be allocated to eligible households.

- 6.31 Cost of SOLACE review and on-going housing investigations will need to be met from reserves.
- 6.32 Cost of senior recruitment exercises which will be a shared cost with Waverley BC, funded from reserves.

Impact of Budget changes

- 6.33 The net increase in on-going costs from the items highlighted above will be around £130,000, but that will increase after the finance restructure proposals are considered.
- 6.34 The impact on reserves from the one-off items above will be quantified and reflected in the review of reserves and balances currently underway.

New Opportunities

- 6.35 The 2023-24 underspend and the recent VAT refund will enable the council to consider potential Invest to Save opportunities which had been identified prior to the financial issues but could not progress due to the depleted reserves position. This could provide on-going savings opportunities without affecting service provision.

MTFP Savings Plan

- 6.36 The budget set in February set out a schedule of budget savings which contributed to the balanced budget position. These need to be reviewed to ensure that they are on track.

Corporate Strategy

- 6.37 An updated Corporate strategy is also being considered by this meeting of the Council. Work on the MTFP over the summer will need to consider how the revised corporate priorities can be addressed. This will require investment which will have to be factored into the budget gap.

Major Projects

- 6.38 The Council has several large projects currently underway or being procured. The main risk points on Ash Road Bridge have now passed and the only scheme causing concern at present is the Weyside Urban Village project.

6.39 Whilst the impact is outside of the current MTFP period, it is important that steps are taken now to deal with the potential financial implications for the Council. Work is currently underway on how the potential shortfall on this project will be mitigated. This will be presented to Council in summer 2024.

Budget Timetable

6.40 Update reports will be made to Overview and Scrutiny Committee - Resources in September, November, January as the budget proposals are developed. This will allow detailed scrutiny of proposals as they progress. The timetable is attached at Appendix 1.

6.41 Key work to be completed prior to the September meeting will be:

- Work to align budgets to the new Corporate Priorities / Plan
- Growth Bids / prioritisation
- Opportunities for savings, collaboration and Invest to Save
- Capital Programme review & new bids
- Review reserves & Balances
- Fees and Charges review / benchmarking
- Union consultation
- Weyside Mitigation Strategy

6.42 Update reports will be presented to Full Council in October and December. Each of these Full Council meetings to be preceded by all-member briefings which will provide an opportunity to update all councillors and for any questions to be answered.

6.43 There may be a need for an update in January 2025 if the Local Government Finance Settlement out of line with our assumptions and adjustments to budget proposals are required.

6.44 Final budget papers will be presented to Full Council on 5 February 2025 for approval.

7. Options

7.1 Options to enable a balanced budget to be set for 2025-26 will be developed during the summer of 2025 and will be considered by Overview and Scrutiny Committee - Resources in due course.

8. Consultation

- 8.1 The need for consultation on budget proposals will be considered in due course.
- 8.2 Early engagement and consultation with the Trade Unions will be implemented for this year's budget process.
- 8.3 This report was presented to Overview and Scrutiny Committee - Resources on 11 July and was received positively.

9. Key Risks

- 9.1 The risks associated with the 2024-25 budget were set out in the Section 25 report alongside the February budget report. At present, there are no major variations from these, but they will be monitored throughout the year.

10. Legal and Governance Implications

- 10.1 The Council's legal duty to set a balanced budget is set out in section 31 of the Local Government Finance Act 1992, which provides that the Council must balance its expenditure with its revenue.

11. Financial Implications

- 11.1 All decisions made with regard to the Council's budget will impact on the resources available for provision of the Council's services.
- 11.2 Decisions will be needed in due course on the options to deliver a balanced budget for 2025-26.

12. Human Resources Implications

- 12.1 None at present but will need to be considered as budget options are developed.

13. Equality and Diversity Implications

13.1 None at present but will need to be considered as budget options are developed.

14. Climate Change and Sustainability Implications

14.1 None at present but will need to be considered as budget options are developed.

15. Background Papers

Budget reports – Council 7 February 2024

16. Appendices

Appendix 1: Committee timetable 2024-25 for MTFP development