Executive Report
Report of Chief Finance Officer
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Business planning – General Fund budget 2015-16

Executive Summary

The report outlines the proposed budget for 2015-16, which includes a Council Tax requirement of £8,356,540 (excluding parish precepts) and a Council Tax increase of 1.9% (£2.84 per year), resulting in a band D charge of £152.42. Subject to actions outlined in paragraphs 10.3 to 10.7, the Council will achieve a balanced budget. The increase in Council Tax is below inflation, as measured by RPI(X), despite a cut in our Government Settlement Funding Assessment (SFA) of 15%.

The budget includes previously reported[1] additional investment in our services of £1.7 million to meet our corporate plan priorities. The principal areas of additional investment in services included in the budget relate to:-

- Investment in our waste and recycling services
- Investment to support improvement in our customer services
- Continued investment in the family support programme
- Further infrastructure modelling and consultation relating to the Local Plan
- Investment in upgrading facilities at Woodbridge Road sports ground
- Investment in our parks

To help finance the investment in services and balance our budget, we have identified efficiency savings of £932,000 and additional income of £1 million.

The Chief Finance Officer's (CFO) report is included at **Appendix 1**. This gives information about the strategic context within which our budget has been prepared, the medium term financial plan, the robustness of the estimates, adequacy of reserves and budget risks.

The CFO report outlines that, since 2010-11, the Council has achieved a total of £6million efficiency savings and £3.6million in additional income. In addition to the savings and additional income for 2015-16, the medium term financial plan includes further savings and additional income totalling £2.4million to be achieved in the period

[1] Joint Scrutiny Committee 13 November 2014 and Executive 25 November 2014

leading up to 2018-19. However, our medium term financial position presents the Council with a significant challenge due to continuing reductions in government grant, increasing demand for our services, unavoidable operating cost increases and an increasing capital programme.

The projected outturn for 2014-15 based on eight months' actual expenditure and income is £738,110 less than the original budget for 2014-15. The Executive will decide the treatment of the final balance in June 2015. Any ongoing variances between actual expenditure and budget identified in 2014-15 have been taken into account when preparing the budget for 2015-16.

Appendix 4 contains a list of fees and charges for approval as part of the budget. The target increase given to service managers was 4%, subject to market conditions.

Recommendation to Council (11 February 2015)

The Executive is asked to recommend to Council:

(1) That the Council Tax requirement (excluding parish precepts) for 2015-16 be set at £8,356,540

(2) That the Band D Council Tax for 2015-16 (excluding parish precepts) be set at £152.42, an increase of 1.9%.

(3) That the proposed fees and charges for 2015-16 relating to General Fund, are attached at **Appendix 4** to be adopted with effect from 1 April 2015.

Recommendation to Executive:

The Executive is asked to agree:

(1) That a supplementary estimate in 2014-15 of £85,600 to meet the additional costs of preparing the Local Plan be approved (para 9.5).

(2) That £35,000 be released from the town centre masterplan reserve to fund the preparation of a masterplan for the Slyfield Area (para 9.7).

(3) That the sums included in the proposed budget at **Appendix 2**, plus any additional transfers to or from reserves set out in section 10 of this report, be transferred to reserves.

<u>Reason for Recommendation:</u>
To enable the council to set the Council Tax requirement and council tax for the 2015-16 financial year.

1. Purpose of report

1.1 This is the final report in the 2015-16 budget process. The Executive is asked to approve a budget for presentation to Council, incorporating a number of associated decisions. The report takes into account the implications of the General Fund Capital Programme report, the Treasury Management report and the Car Parks Business Plan report, all of which councillors can find elsewhere on this agenda.

2. Strategic Framework

2.1 The budget underpins the Council's strategic framework and delivery of the corporate plan.

3. Background

3.1 At its meeting on 25 November 2014, the Executive received a report on the outline budget that indicated a projected gap of approximately £922,000 between predicted expenditure and income before growth, savings and additional income items were included.

3.2 The Executive accepted all the growth, savings and additional income items suggested by officers, leaving a reduced gap of approximately £309,000.

3.3 The report indicated that within these figures there were still some areas of uncertainty, where the figures could change significantly before the budget was finalised. It also suggested some ways in which a balanced budget could be presented to Council in February

3.4 A 1.9% increase in Council Tax was assumed in the November 2014 report and was accepted by the Executive as a working assumption.

3.5 The November Executive report also included the comments of Joint Scrutiny Committee, which considered the outline budget at its meeting on 13 November 2014.

3.6 This report will cover the changes since we presented the outline budget to the Executive and suggests a way in which a balanced budget can be recommended to Council. Specifically it will cover the following areas:

- Chief Finance Officer's statutory report – attached at **Appendix 1**
- the parameters within which the budget has been prepared
- Business Rates Retention Scheme (BRRS) and assumptions on the level of Government Grant
- Council Tax, tax base and collection fund
- capital expenditure and minimum revenue provision
- reserves and interest earnings
- projected outturn for 2014-15
- proposed budget for 2015-16
- fees and changes

3.7 The Chief Finance Officer's report on the budget is contained at **Appendix 1** and covers the strategic context within which the budget is prepared, the medium term financial strategy, the robustness of estimates, the adequacy of reserves and budget risks.

4. Budget parameters

4.1 The figures are based on the factors approved by the Executive at its meeting on 22 July 2014.

- General Inflation – 1.5% (we have included a £232,000 inflation budget to be kept centrally and bid against)
- Payroll – 1.5% (plus increments where appropriate)
- Income – 4% increase wherever possible
- Council Tax – 1.9% increase

5. Business Rates Retention Scheme (BRRS) and Government grant

5.1 We received the provisional Local Government Finance Settlement for 2015-16 on 18 December. The figures largely confirmed those already included in the outline budget, with a small increase in net income of £3,849. This is a reduction of 15% in our Settlement Funding Assessment (SFA) from 2014-15.

5.2 We have included the net income at the SFA level; that is without any allowance for additional income from Business Rates or associated levy payment.

5.3 Officers are currently working on our NNDR1 business rates return to central government, which estimates our business rate income and our share in any business rates growth (known as the business rates levy). We have to send the return to the Government by 31 January 2015.

5.4 If we maintain our current practice of putting the equivalent of any levy amount (i.e. our share of any additional income) to a Business Rates Equalisation reserve it will not affect our budget. Building up the Business Rates Equalisation reserve will help us manage the fluctuations in our business rate income that will occur as we carry out our development plans for the town centre. However, we could use additional retained income for the benefit of the General Fund if necessary.

5.5 The government has notified us of the additional New Homes Bonus (NHB) payment for 2015-16. This is £268,415 and the proposed budget assumes that this is transferred to the New Homes Bonus reserve. The total NHB payment that we will receive in the year is £1,779,365. We are currently consulting with residents on how the NHB reserve should be spent and will orally report the findings from the consultation to councillors at the Executive meeting.

6. Council Tax, tax base and collection fund[2]

6.1 The proposed budget assumes that our council tax will increase by 1.9%. This means that the band D tax would go up from £149.58 to £152.42; an increase of

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[2] The collection fund is a separate account that we must keep that collects all the income from council tax and business rates and pays it out to other bodies. For council tax, the recipients are Surrey County Council, Surrey Police and Crime Commissioner and Guildford Borough Council. For business rates, the recipients are the Government, Surrey County Council and Guildford Borough Council. We have to predict the surplus or deficit on each part of the fund and that is paid out to (or recovered from) the relevant beneficiaries in proportion to their original share. The surplus or deficit arises because of movements in the amount collectable (i.e. the total amount of the bills we have sent out) and provisions for bad debts and business rates appeals.

£2.84 per year or five pence a week. The increase would generate approximately £156,000 based on the 2015-16 tax base.

6.2 The Council has a policy of keeping council tax increases below inflation, using the RPI(X) measure. In November 2014, the latest published month, RPI(X) was 2%. In addition, the government set a limit each year above which increases in council tax have to be supported by a referendum. The Government has confirmed the limit for 2015-16 at 2%.

6.3 The government is again offering a grant equivalent to a 1% increase in Council Tax for those authorities that freeze their Council Tax for 2015-16. Councillors are aware of the argument against freezing Council Tax, and the implications for our ongoing tax income. With the severe financial pressure that the Council will face from 2016-17, as set out in **Appendix 1**, officers recommend that Council Tax is increased by 1.9%, as included in the proposed budget.

6.4 Officers have set the 2015-16 tax base at 54,825.76. This is a 3.1% increase on the previous year, which benefits the General Fund by approximately £249,000 by allowing a higher council tax requirement for a given level of council tax.

6.5 We must declare the 2014-15 expected surplus or deficit on the Council Tax element of the collection fund by 15 January 2015. This is shared between ourselves, Surrey County Council and the Police and Crime Commissioner for Surrey in proportion to the 2014-15 precepts. The estimated surplus for 2014-15 is £2,343,761 and this Council's share is £256,915. This has been included in the proposed budget.

6.6 The expected surplus or deficit on the business rates element of the collection fund forms part of the NNDR1 return mentioned in paragraph 5.3. We will therefore not know the position on this element of the fund until that return is completed. However, in year monitoring indicates that it could be a substantial surplus, which is split between the government (50%), Surrey County Council (10%) and this council (40%). Officers recommend that any surplus is transferred to the Business Rates Equalisation reserve to repay the amounts taken out of the reserve in 2013-14 and 2014-15 due to paying a higher than expected business rates levy to government in those years.

7. Capital expenditure and minimum revenue provision

7.1 The Council has a single capital programme for the General Fund that we finance from the Capital Schemes reserve, capital receipts and revenue contributions towards specific schemes. Unless we generate significant capital receipts, the Council needs to borrow from either its own resources (earmarked for other uses) or from the market; at the current time borrowing is internal as it is more financially advantageous.

7.2 Because the capital programme shows an underlying need to borrow, represented at the year-end by the capital financing requirement (CFR), we must make a charge to the revenue account called the minimum revenue provision (MRP). This charge is based on the value and life of the assets funded by borrowing (internal or external). The minimum revenue provision for 2014-15 will be £493,837, which is based on a General Fund CFR at 31 March 2014 of £23.495 million. Officers currently estimate that the CFR at 31 March 2015 will be £31.578 million and the MRP for 2015-16 will be £676,680. This figure is included in the proposed budget.

7.3 There is a separate report on this agenda relating to the General Fund capital programme. As this relates to schemes to start from 1 April 2015 it will not affect the 31 March 2015 CFR or MRP for 2015-16 but will affect MRP from 2016-17. However, if councillors make any changes to the 2014-15 capital programme, then the MRP figure included in the draft budget may change.

8. Reserves and interest earnings

8.1 An important element of the Council's budget is the income it receives from investment of the cash held in reserves. The balances held at the end of the 2013-14 and 2014-15 (estimated) financial years are shown below:

	31.3.2014	31.3.2015
	£m	£m (Est)
General Fund revenue account balance	3.7	3.7
Earmarked reserves - General Fund	20.3	15.2
Useable Capital Receipts (general)	5.8	0.0
	29.8	18.9

8.2 We do not use reserves to support ongoing expenditure but do use them as a mechanism to release funding in a controlled way to even out the impact of spending on the General Fund (for example the car parks maintenance or invest to save reserves). The revenue reserves also include some earmarked reserves that are not available for spending, because they are of a contingency nature (for example the insurance reserve).

8.3 Officers manage the investment of cash backed reserves, together with day-to-day balances, in accordance with the Treasury Management Strategy. A report on the proposed strategy for 2015-16 is included elsewhere on this agenda.

8.4 In the current year's budget, we anticipated net interest earnings to be approximately £483,000. The estimate for net interest included in the proposed budget for 2015-16 is £592,170; an increase of around £109,000. Base rate, which has been at 0.5% since 5 March 2009, is not expected to rise until September 2015 when we have assumed a 0.25% increase with a further 0.25% in March 2016.

8.5 As a borough election will be held in 2015-16, the proposed estimates include a withdrawal of £129,000 from the elections reserve to finance the estimated expenditure, which has been included in the service unit figures. This withdrawal and contributions to and from other reserves are included in the proposed budget as shown in **Appendix 2** (the General Fund summary).

9. Projected outturn for 2014-15

9.1 The outline budget report to the Executive on 25 November 2014 included details of the projected outturn based on six months data, which was £798,522 less than the original estimate.

9.2 The projected outturn for 2014-15 based on eight months' actual expenditure and income is £738,110 less than the original estimate and therefore approximately £60,000 less than the figure based on six months data. The Executive will decide the treatment of the final balance in June 2015.

9.3 Although there are movements in the projected outturn of many services, the major change between periods six and eight is an increase in the expected expenditure on the Planning Policy service of £91,000 of which £85,600 relates to the Local Plan (see paragraphs 9.4 and 9.5 below).

Supplementary estimate for Local Plan

9.4 The Council consulted on a draft Local Plan in the summer of 2014. It is now undertaking further work, particularly on infrastructure requirements. We are commissioning extensive traffic and transport studies to support the Local Plan and to develop a programme of interventions that can form the basis of future bids to the M3 Local Enterprise Partnership. The Council works with the Highways Authorities in developing the strategy for servicing the Local Plan and in identifying the priority schemes which otherwise would not be scoped and costed in a timely fashion for submission to Control Period 5 [3]for implementation in the next few years.

9.5 The result of the additional costs outlined is additional expenditure of £85,600, which is included in the period eight budget monitor mentioned above. The Executive is asked to approve a supplementary estimate for this expenditure.

Release of funds from the Town Centre Master plan Reserve

9.6 At its meeting on 26 June 2014, the Executive approved the transfer of £350,000 to the Town Centre Masterplan reserve in respect of masterplanning. The Executive meeting on 25 November 2014 approved the release of £290,000 for the Town Centre Masterplanning.

9.7 Officers propose that a further £35,000 is used from the reserve to supplement an estimate of £25,000[4] that is included in the draft budget (thus giving total of £60,000) to prepare a masterplan for the Slyfield Industrial Estate. This plan is required to provide clear targets and objectives for the management of the council's property interest in the development site and ensuring that there is a growth and development strategy in place for the area. The Executive is asked to approve the release of £35,000 from the town centre masterplan reserve.

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[3] The Treasury control period within which we aim to submit funding bids for transport schemes

[4] The original £25,000 budget is financed from the Invest to Save reserve

10. Proposed budget 2015-16

10.1 At the time the officers presented the outline budget, there was a gap of approximately £922,000. The Executive agreed to the inclusion of additional growth totalling approximately £940,000 and savings/additional income of approximately £1.553 million (net of a 20% non-achievement allowance). At that stage, therefore, the gap was £307,601, assuming a 1.9% increase in Council Tax.

10.2 Since that time several changes have occurred, which are summarised in the table below. The current General Fund summary is shown at **Appendix 2**

Item	£	£	Comment
Gap at 25 November report		307,600	After inclusion of growth, savings and additional income
Service changes			
Refuse and recycling	233,730		Correction to recycling credit income
Housing benefits	28,000		We have now received notification of our 2015-16 housing benefit administration grant
Council Tax collection	(20,610)		New burdens grant to assist with the implementation of the Local Council Tax Support Scheme, notified with the SFA settlement
Treasury Management	14,220		Adjustment to the brokers' fee budget to reflect the Treasury Management Strategy
Corporate Services	30,000		Reinstatement of the management development training budget, omitted in error
Other minor changes to service budgets totalling	(310)	285,030	
		592,630	
Local Government Finance Settlement		(3,849)	Increase in net income due to the SFA announcement
Net interest and MRP cost		(49,220)	We have reviewed our interest and MRP calculations in the light of updated information on cash flows and the proposed capital programme.
Pay and grading review and establishment changes		(25.170)	Officers have amended the salaries estimates to reflect the implementation of the pay and grading review from 1 March 2015, together with any establishment changes approved since

Item	£	£	Comment
			the outline budget was prepared.
Collection Fund surplus re Council Tax		(256,915)	As at 30 November – subject to confirmation
Revised gap per **Appendix 2**		**257,476**	
<u>Items subject to Executive approval</u>			
Parking Business plan	(130,100)		The Parking Business Plan is reported elsewhere on this agenda. It includes suggested tariff increases that will generate £5,100 additional income above the figure already included in the proposed budget. It also suggests that the contribution to the Car Parks Maintenance reserve is reduced by £125,000.
Audit growth bid	42,600		The Council's CFO has identified that the Internal Audit service is under-resourced and the Executive Head of Service has therefore submitted a late growth bid. This is attached at **Appendix 3**. Officers recommend that this bid is approved.
Heritage growth bid re Access to collections	(4,700)	(92,200)	At the joint scrutiny committee meeting, officers undertook to review the growth bid for access to collections. Because of the review, they have reduced the bid by £4,700 to £15,300.
Remaining gap		**165,276**	

<u>Balancing the budget</u>

10.3 We are carrying out a consultation on the use of the New Homes Bonus reserve that will finish on 16 January. Officers will report the outcome of the consultation to the Executive at the meeting on 20 January. Pending the consultation results officers recommend that the budget is balanced by:

- financing the growth bid for a SANGS[5] officer from the new homes bonus reserve (£48,150).

- Financing part of the costs of the Local Plan growth bid of £288,500 from the new homes bonus reserve (£117,126)

[5] SANGS is an abbreviation for Suitable Alternative Natural Green Space

10.4 Joint Scrutiny committee supported the use of the NHB reserve for these two items when it considered the outline budget at its meeting on 13 November.

10.5 An alternative way of balancing the budget is to use of BRRS income and/or our share of the business rates surplus on the collection fund rather than transferring to the business rates equalisation reserve.

10.6 **Appendix 2** shows the General Fund summary without the items subject to Executive approval (from the table in 10.2) or the balancing items. The council tax requirement (excluding parish precepts) at that point is £8,614,016. The items subject to Executive approval and the balancing items reduce the requirement to £8,356,540.

10.7 Parish councils will send us their precept figures by 22 January and we will incorporate these in the report to the budget meeting of the Council on 11 February. The parish precepts do not affect our band D council tax but do form part of our overall budget.

11. Fees and charges

11.1 **Appendix 4** shows the proposed fees and charges for 2015-16. The Joint Scrutiny committee considered these at its meeting on 13 November and did not make any comments. The Executive is asked to recommend these to Council, except for those fees and charges identified as being agreed under delegated authority.

12. Financial implications

12.1 The financial implications are considered throughout the report.

13. Legal implications

13.1 The Council is required by legislation to set a balanced budget.

14. Human Resources implications

14.1 There are no immediate human resources implications because of this report. Officers will address any changes in the level of resources because of growth or savings initiatives as the changes are implemented.

15. Conclusion

15.1 The proposed budget includes a Council Tax requirement (excluding parish precepts) of £8,356,540 resulting in a Council Tax increase of 1.9%. This is below inflation, as measured by RPI (X), despite a 15% reduction in our Government SFA.

15.2 The budget includes significant investment in our services together with savings and additional income, which were all reported in detail to the Joint Scrutiny Committee on 13 November and the Executive on 25 November. The Chief Finance Officer’s report, attached at **Appendix 1**, covers the medium term financial plan, the robustness of the estimates, adequacy of reserves and budget risks.

16. Background Papers

None

17. Appendices

Appendix 1: Chief Finance Officer’s statutory report
Appendix 2: General Fund summary
Appendix 3: Internal Audit growth bid
Appendix 4: Fees and Charges

CHIEF FINANCE OFFICER'S STATUTORY REPORT

1. 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 2015/16 budget.

2. 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. Local Government will continue to play its part in helping to address the national funding deficit, and each Council will be required to contribute accordingly by continuing to deliver services with fewer resources.

2.2 Since 2013/14, the Council has experienced a reduction in government grants and has taken on significant responsibilities in relation to council tax benefits and business rates (explained below). Both these changes placed more resource demands on the Council and increased risks. The Business Rates Retention Scheme moved local government funding away from formula grant to a combination of retained business rates and revenue support grant. In addition, many specific grants were merged with the formula grant to provide a rolled up resource position known as *Start-Up Funding*.

2.3 The autumn statement made by the Chancellor on 3 December 2014, announced that while there would be further savings for government departments, local government would be protected for 2015-16 (i.e. the provisional settlement would be as already indicated). This was to encourage councils to take up the council tax freeze grant offer. The statement also revealed that:

- the 2% cap on the increase in business rates, introduced in 2014-15, will continue in to 2015-16
- the doubling of small business rate relief (SBRR) will be extended to April 2016
- there will be a discount against business rate bills for certain shops, food and drink premises
- transitional relief will be extended for certain small businesses to delay business rate increases introduced following the 2010 revaluation
- there will be a review of the structure of business rates in time for the 2016 budget
- the chancellor has committed to providing local government with multi year budgets in future
- real term public sector spending reductions are to continue until 2018 at the same rate as reductions were made between 2010 and 2015
- public sector pay restraint is expected to continue until 2018

2.4 The government outlined that local Councils will be fully funded for the loss in revenue resulting from the business rates changes announced in the autumn statement through a specific grant, known as a section 31 grant, as happened in 2014-15. However, it is expected that the section 31 grant will be rolled into the Revenue Support Grant (RSG) from 2016-17 onwards.

3. Localisation of 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 as a result of increased growth. 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 outlined in paragraph 2.3, the autumn statement announced some changes to the scheme but the Government has stated that local authorities will be fully funded for the loss in revenue.

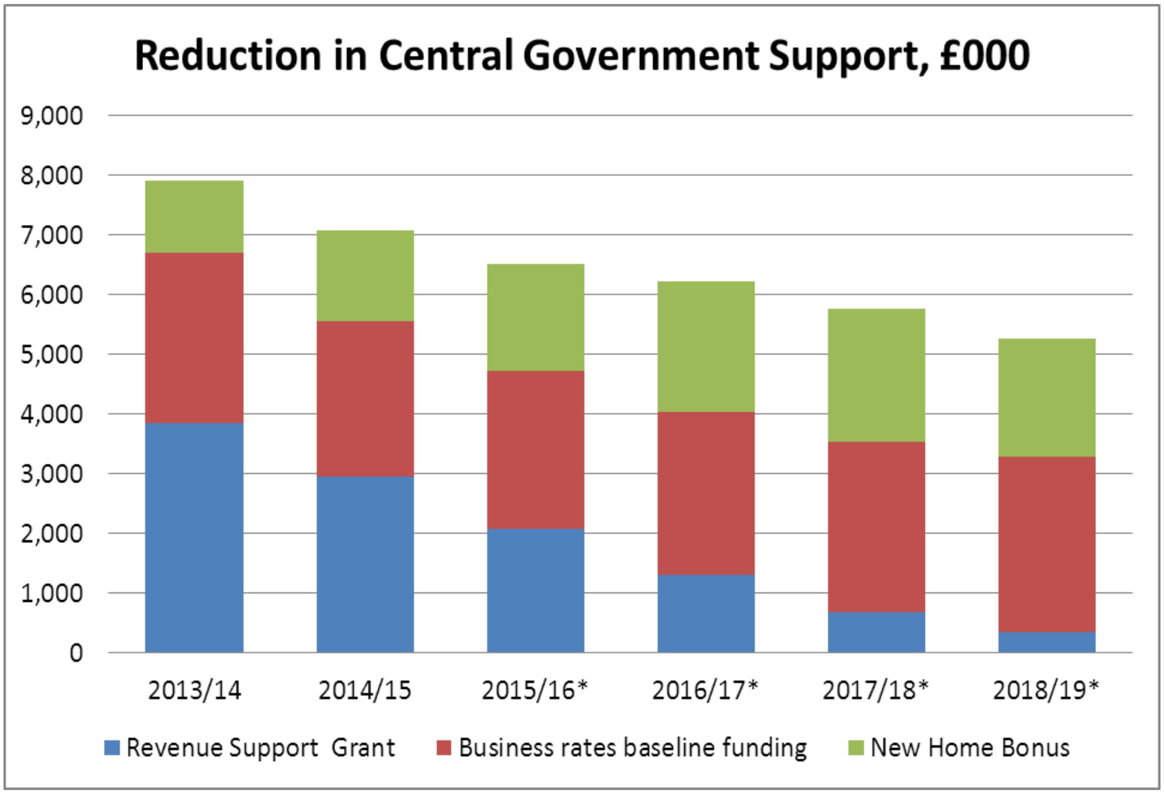
3.3 The draft local government finance settlement for 2015-16 issued on 18 December 2014 reduced funding to local authorities in cash terms. Guildford's settlement funding assessment (SFA) reduction was 15%, which is higher than the national average reduction of 13.9%. However, due to the variable nature of the business rates element of local authority funding, the draft settlement no longer sets the absolute funding level for local authorities. The actual level of funding the Council receives will depend on the business rate income for the year. At the start of the year, we estimate the business rate income, but the actual amount is unknown until after the year ends. For 2015-16 we estimate our net business rate income will be a 2% increase on 2014-15.

3.4 The revenue support grant element of the SFA has reduced by 30% between 2014-15 and 2015-16. Due to an increase in the number of properties on the council tax system, the Council's new homes bonus (NHB) in 2015-16 has increased by £268,404 or 18% from 2014-15. However, the funding is only guaranteed for six years and so will fall out of the budget in the future.

3.5 Taken together, the settlement funding assessment (business rates and RSG) and new homes bonus are the key elements of Central Government support the Council receives. In total, the three elements have reduced by 8% (£564,338) since 2014-15, and a cumulative reduction of 14.5% since 2013-14.. When comparing local authorities in the local government finance settlement the government uses a term *spending power;* this includes the council tax that the government expects the Council to raise and some specific grants. The government states that Guildford's spending power has reduced by 3.8% between 2014-15 and 2015-16 however, I feel that this does not properly reflect the true reduction in Central Government Support.

4. Changes in Government Support

4.1 Over recent years, the level of Central Government support to Guildford Borough Council has been reducing as the Government addresses the national deficit. The chart below shows the change in Central Government funding since 2013-14 and our projections to 2018-19.



* Projection

4.2 Our medium term projections show a continuing reduction in Central Government support to 2018-19. The 2014 Autumn Statement projected further cuts to departmental expenditure limits beyond 2015-16. Analysis shows that this is likely to have a cumulative impact of around 10.6% between April 2016 and March 2019.

4.3 The income we receive from business rates is also projected to fall in the medium term due to the redevelopment of North Street (see below).

4.4 We expect a moderate increase in New Homes Bonus (NHB) in the medium term. This is based on expected completions and hard commitments[6] generated in 2014/15, however, our budget and medium term financial plan assumes that any increase in NHB is transferred to reserves to finance one off short to medium

[6] Hard Commitment is a term used to describe sites where planning permission has been granted and it is known that the building work has started, ie a commitment to build out the planning permission is in place

term revenue projects or capital projects and therefore does not affect the council tax calculation or the budget gap identified below. This is because NHB funding is only available for 6 years and so it would not be prudent to rely on the income to finance on-going revenue expenditure. We also foresee a risk that NHB will cease to exist as a separate grant in the future depending on which political party wins power at the general election in May 2015. We expect that our NHB income will start to fall in 2018/19 unless any new developments are identified however, as the Local Plan is developed we anticipate being able to change this assumption.

5. Economic Outlook

5.1 The economic situation continues to pose a risk. As the government's austerity measures impact on residents, then our income streams could be affected.

5.2 Interest earnings, whilst no longer form a significant source of income, are still estimated to be approximately £592,170 (net) and the preservation of our capital whilst maximising our income is of paramount importance. The adoption of the Treasury Management Strategy elsewhere on the agenda is designed to mitigate this risk.

6. Guildford Borough Council Medium Term Financial Plan

Corporate Plan

6.1 The Council's Corporate Plan was developed for the 3 year period April 2013 to March 2016 and includes bold ambitions for service delivery for the future. Many of the priorities within the plan involve significant investment in services, infrastructure and housing to deliver the outcomes.

6.2 A 10-year capital strategy is being 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 first five years of the capital strategy are effectively the capital programme, which is subject to a separate report on the agenda. The capital programme is significant but includes investment in key projects to support our corporate plan such as:-

- Redevelopment of North Street
- Investment in affordable houses
- Investment in new social housing (HRA)
- A new link road at Clay Lane, Slyfield
- Pedestrian and cycling routes around the town
- Funding for transport schemes
- Development of Guildford castle and museum
- Replacement of the roof at the Spectrum
- Upgrading of Woodbridge road sports ground
- Acquisition of new burial ground
- Investment in property under the asset investment strategy
- Increasing the car parking provision in the town
- Rebuilding the crematorium

6.3 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. The impact of MRP is included within the revenue budget outlined in this report.

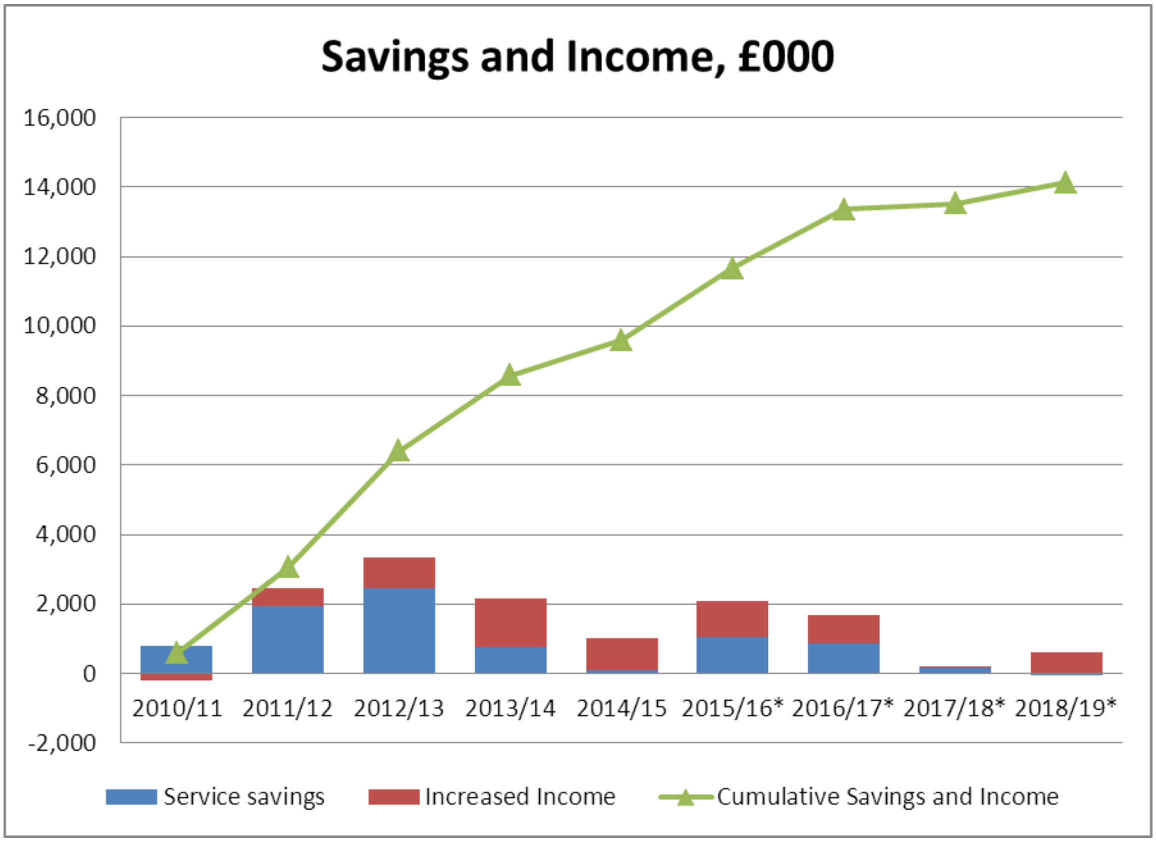
6.4 Growth included within the revenue budget for 2015-16 supports the delivery of the Corporate Plan. The growth arising from investment in services to meet the Corporate Plan for 2016-17 to 2018-19 has been included in the medium term financial plan. The main areas of investment to support our corporate plan include:

- Investment in our waste and recycling services
- Investment to support improvement in our customer services
- Continued investment in the family support programme
- Further infrastructure modelling and consultation relating to the local plan
- Investment in upgrading facilities at Woodbridge Road sports ground
- Investment in our parks

7. 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. In addition, we undertook a business planning exercise in 2015-16 to identify transformation and other savings for the medium term. Since 2010-11, the Council has generated a total of £6.0 million in savings and £3.6 million in additional income.

7.2 The budget includes further savings and additional income proposals of £2million for 2015/16 and the medium term financial plan assumes a further £2.4 million savings and additional income can be achieved between 2016/17 and 2018/19 which were identified from the business planning process undertaken in 2015/16.



8. Medium Term Financial Strategy

8.1 The medium term financial strategy (MTFS) (attached at **Appendix 1A**) provides 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. Adopted by the Executive for the first time for the 2009-10 financial year, it has provided a framework that has enabled officers to focus on the delivery of savings without impacting on service levels or quality.

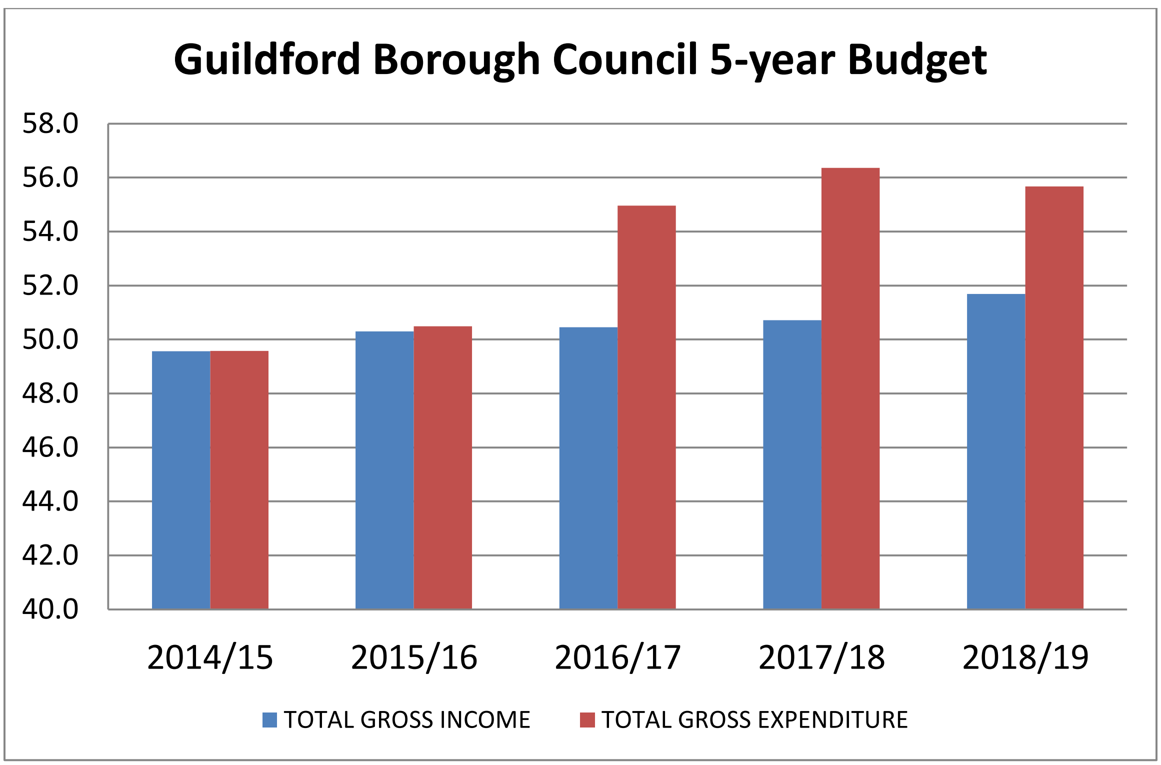
8.2 We have reworked the financial projections to 2018-19 at a summary level, but many of the assumptions (for example, interest rate movements) could in reality be significantly different. We will review the MTFS at a more detailed level once the budget for the year is approved by the Council and we will include it in the final budget book.

8.3 Officers prepared the medium term figures using the assumptions in the table below. The Executive approved the first six assumptions at its meeting on 22nd July 2014. These assumptions are for outline planning purposes only and will be reviewed and updated before detailed estimates are prepared for each financial year.

	2015-16	2016-17	2017-18	2018-19
General Inflation	1.5%	1.5%	2.0%	2.0%
Payroll	1.5%	1.5%	2.0%	2.0%
Income	4%	4%	3.6%	3.8%
Council Tax increase	1.9%	1.9%	1.9%	1.9%
Business Rates Inflation	2.76%	3.3%	3.6%	3.8%
Revenue Support Grant (RSG)	-30%	-37%	-47%	-50%
Average interest rate	1.22%	1.69%	2.20%	2.33%

8.4 Approved 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 Treasury Management Strategy.

8.5 There is a gap between projected income and expenditure over the period 2015-16 to 2018-19 as demonstrated below.



8.6 We estimate that the funding gap totals approximately £4 million over the plan period (to 2018-19), the majority of which relates to 2016-17. The exact gap is hard to identify due to the Government's next Comprehensive Spending Review, which will impact from 2015.

8.7 The principal causes of the budget gap are follows:

	£million
RSG Reduction	£0.775
Inflation	£0.890
Employers National Insurance increase	£0.675
Net growth in services	£0.260
Increase in provision for debt repayment (MRP)	£1.400
Total	**£4.000**

8.8 As part of our Corporate Plan, it is likely that we will undertake the redevelopment of North Street in the next 3-5 years. During the redevelopment scheme, we expect that our income from business rates will fall. We have planned to mitigate the loss and spread the impact of the reduction in income over time. As a result, our medium term financial plan assumes that we will contribute our share of business rate levy into a business rate equalisation reserve in 2015-16 to offset future reductions. During the development phase of the project, we will transfer funds from the reserve to support the revenue budget. Once development is completed, we should experience a growth in business rates.

8.9 As outlined in paragraph 7.2, the medium term budget gap already assumes that £2.4million savings and additional income proposals (put forward as part of the 2015/16 business planning process) identified for 2016-17 to 2018-19 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 The Council is continuing to pursue a programme of transformation to address the budget gap and ensure a financially sustainable future. The transformation programme has three strands:

i. Commercial / traded services
ii. Asset investment
iii. Fundamental service reviews.

8.11 All of these figures are subject to further scrutiny and will be revised as the budget process for 2016-17 to 2019-20 proceeds and further information becomes available. Any action taken to close the gap in one year will benefit future years (assuming that it is not a one-off saving).

9. Robustness of Estimates

9.1 The budget process was started in July 2014 and the inflation assumptions outlined in paragraph 8.3 above were used in the preparation of the 2015-16 estimates outlined in the budget report.

9.2 Staffing costs have been included on the basis of the Full Time Equivalents (FTEs) included within the establishment and charged to the General Fund (approximately 703).

9.3 A composite loss allowance of 1.5% has been assumed for the council tax base, the same as used in 2014-15.

9.4 The effects of the capital programmes have been taken into account both in the revenue budget and in predicting cash flow for investment purposes. For the purposes of calculating interest on balances, the average base rate has been assumed to be 0.5%. The impact of longer term investments made in order to protect the Council's investment income means that an average rate for in-house investments of 0.79% has been assumed and a weighted average return of 3.32% has been assumed on externally managed investments. Interest rate predictions remain extremely uncertain.

9.5 Service level risk assessments are in place for major areas. The corporate risks are included in the corporate risk register, whilst service risk registers are available on the intranet along with comprehensive guidance about how to identify and score risks. For the first time in 2015-16 we have compiled a financial risk register which will be reported as part of the final budget book. This will outline the main financial risks the Council will face in terms of operating within its budget for 2015-16.

9.6 The outline budget was considered by the Joint Scrutiny Committee at its meeting on 13 November and the Executive at its meeting on 25 November 2014.

9.7 The assets review programme currently underway may identify some assets that could be disposed of, but none are expected to be of significant value individually to generate capital receipts

9.8 Looking forward, based on our current assumptions, we predict a significant budget deficit over the outline period (to March 2019) as outlined in paragraphs 8.6 to 8.9. Action to address the deficit is underway as outlined in paragraph 8.10; however, this remains a significant challenge for the Council.

10. Adequacy of reserves and balances

10.1 The value of General Fund revenue reserves as at 1 April 2014 was £20.3 million. The estimated value of all revenue reserves over the plan period is:

	GF revenue reserves (£m)
31 March 2015	15.2
31 March 2016	15.6
31 March 2017	14.5
31 March 2018	14.8
31 March 2019	16.2
31 March 2020	16.5

10.2 The figures include some earmarked reserves held for specific purposes (for example, Insurance) which cannot be used to support the council tax or capital schemes. This approach, which enables the Council to even out the impact of significant costs, is considered prudent.

10.3 The General Fund revenue balance is maintained at £3.75 million, which is considered an adequate level.

11. Budget risks

11.1 The Council faces many risks to the successful delivery of a balanced budget. The major ones are explained below.

11.2 **The economic situation**. Particular consideration will need to be given to the following in the budget proposals:

- 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
- Loss of rental income on investment properties
- Higher than expected cuts in central government support following the 2015 general election

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. There is a risk that the programme will not be delivered on target.

11.4 **Welfare Reform**. We have retained the Local Council Tax Support Scheme (LCTSS) of 2014-15 for 2015-16, with a minor amendment. Although we did not make any changes to the LCTSS for 2015-16, some residents may find themselves in financial difficulty as a delayed reaction to the savings in the national welfare budget. In addition, there will be further welfare reforms in the future, which are likely to influence the support we are able to offer council tax payers. Although the number of claims is currently stable, any increase in take-up of the scheme is a direct cost to the General Fund as we no longer receive a direct grant linked to expenditure levels.

11.5 Universal credit, which will replace housing benefit, is still expected to come into effect. Key staff may decide to look for other jobs and leave whilst the Council is managing the run down to 2017 (when housing welfare costs are earmarked for removal from Council business). It is possible that new burdens grant funding will not cover all of the Council's run-down expenses (for example communications strategy and redundancy costs).

11.6 The welfare changes will also affect the Council through their effects on vulnerable people where there is likely to be an increase in demand for services such as homelessness and housing advice.

11.7 Businesses and Council Tax payers now have the right to request payment of their bill by 12 instalments instead of 10. If large numbers of payers take this option it will adversely affect cash flow and therefore interest receipts.

11.8 **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.

11.9 **CSR 2015.** It is clear from the continued economic difficulties experienced in the UK, Europe and the USA and the statements made by the Chancellor of the Exchequer in the 2013 Autumn Statement that the 2015 CSR will bring further government funding reductions for local authorities.

11.10 The Council is likely to embark on two major regeneration schemes during the medium term budget period; North Street and Slyfield. Taking both schemes forward will have significant financial risks for the Council. Officers are currently looking at alternative legal structures to help us manage those risks.

12. 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. Continued significant reductions in Government funding mean that we have a gap between projected expenditure and funding that we will have to address, which we intend to do through projects such as commercialisation and traded services, asset investment and fundamental service reviews.

Sue Sturgeon, Managing Director and Chief Finance Officer

Appendix 1A

Medium Term Financial Strategy

Revenue

1. To set an annual revenue budget and a council tax that is increased by less than the prevailing rate of inflation.
2. The detailed budget will be prepared with an allowance for a pay award, but with no allowance for general inflation unless there is a contractual agreement. Each year, members will determine a guideline increase for fees and charges.
3. To conduct a business planning exercise to direct resources to meet council priorities and to consider bids for growth with reference to the strategic priorities.
4. To produce an outline budget for a rolling 4 year period, and in doing so seek to identify a package of measures to balance the budget over the medium term.
5. To review charging policies for all service areas, to ensure that those who can pay the full cost of a service do so.
6. Supplementary estimates will only be approved in exceptional circumstances; we will firstly seek to identify savings as a means of meeting additional costs or bids for additional expenditure.
7. A working balance, currently £3.748 million, will be retained and will be assessed for reasonableness on a regular basis as part of the final accounts process.
8. All items of expenditure, even if funded by a grant from a third party must have an approved capital or revenue budget. Where a specific grant is received, the expenditure must be approved; any under spending is returned to the general reserve and not left as a contingency in the service budget.
9. Any under spending on grants will be treated as an under spending and not carried forward for spending in the following year.
10. The principle of having a special works budget will be discontinued, these items need to be submitted as growth bids and considered alongside other growth bids.

Capital

11. A single capital programme will be prepared each year over a 4/5 year rolling period as part of the detailed budget process, so that the impact of decisions on the capital programme will be considered as part of the budget process. The capital programme will include both approved and provisional schemes so that we can clearly see the impact of our future capital requirements.
12. A 10-year capital strategy or vision will be prepared to include the impact of some of our long term strategic projects.
13. We will review each year how the capital programme is to be funded in relation to capital receipts, revenue or earmarked reserves.
14. The council will consider whether it is appropriate to borrow to fund large capital schemes: in doing so it will consider the impact on the budget and the cost of early repayment.
15. In planning our capital expenditure we will only take account of future capital receipts where there is a reasonable degree of certainty about their receipt.

16. We will undertake a periodic review of our property portfolio to determine whether they are still required to meet our strategic priorities; and dispose of assets that are not required in accordance with our disposals policy.

Reserves

17. We will identify a level of earmarked reserves to be held which support our service delivery (for example, insurance, spectrum, and car parks maintenance reserve) such that annual contributions from the general fund can be evened out.
18. We will retain an invest to save fund which will be used to fund the upfront costs of new initiatives or one off costs not of an ongoing nature.
19. We will review the level of reserves which need to be retained to support the council tax by way of interest earnings.