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 2018-19 budget.

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. Since then the revenue support grant has been reducing, as a result 2018-19 is the first year that the Council will receive no revenue support grant funding from Government. The Council is now completely reliant on Council Tax and retained Business Rates as its core funding streams.

2.3 There were no significant announcements in the autumn budget made by the Chancellor on 22 November 2017, which related to local government. The main areas of interest related to Business Rates, the changes announced were:

a. From April 2018, CPI will be used to uprate the multiplier for business rates, rather than RPI, bringing forward the change already announced from April 2020;
b. The business rates revaluation cycle will switch from five years to three years following the next revaluation. This should mean that, following the planned 2022 revaluation, the next revaluation will be in 2025;
c. There will be an extension of one-year to the £1,000 discount to business rates bills for pubs with a rateable value of less than £100,000 to 2018/19;
d. London was awarded the opportunity to become a pilot area for business rates retention and it was promised further pilot areas would be announced with the local government finance settlement.

2.4 The announcement of the provisional local government finance settlement (LGFS) for 2018-19 on 19 December 2017 was also in line with expectations following the council's acceptance of the multi-year settlement. In addition the Council learned that the Surrey bid to become a pilot area for business rates retention in 2018-19 had been successful. This means that for 2018-19, Guildford Borough Council, along with all the other Surrey District and Borough Council's and Surrey County Council will form a business rates pool.

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 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 The draft local government finance settlement (LGFS) for 2018-19, issued on 19 December 2017, continued the trend of reducing funding to local authorities in cash terms. The outline figures provided by the government are in the table below:

	2016-17	**2017-18[1]**	**2018-19[1]**	**2019-20[2]**
Settlement Funding Assessment	3.8	3.1	2.8	2.9
of which:				
Revenue Support Grant	1.1	0.3	0.0	0.0
Baseline Funding Level	2.7	2.7	2.8	2.9
Tariff/Top-Up[3]	-28.3	-30.2	-22.1	-21.5
Tariff/Top-Up adjustment				-0.7
Safety Net Threshold	2.5	2.5	2.7	2.7
Levy Rate (p in £)	0.50	0.50	0.00	0.50

[1] .

3.3 For 2018-19, Guildford's settlement funding assessment (SFA) reduction is 7.8%, which is in line with the national average reduction for shire districts. 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, but gives a baseline funding level. 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 2018-19, we estimate our net business rate income will be a 3.0% increase on 2017-18.

3.4 The graph below shows the cumulative changes in SFA over the multi-year settlement period and the comparative reduction in central government support for Guildford in relation to the average of other local authorities. Our local government advisors, LGFutures, who are able to benchmark data across different local authority classes nationally, produce this graph. It shows that under the new method of calculating SFA, introduced in 2016-17 as part of the multi-year settlement, the government altered the split of funding between tiers of government, which appears to favour upper tier services and lead to higher funding reductions for district councils, such as Guildford.

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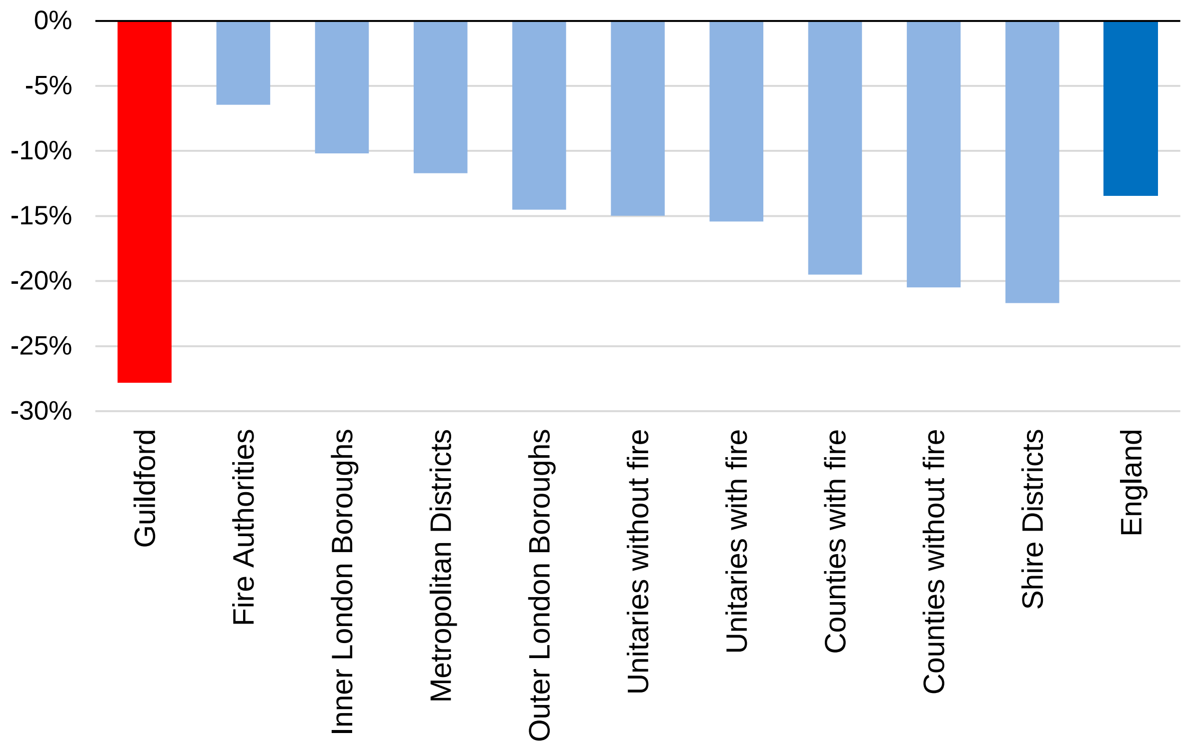
[1] In 2017-18 and 2018-19, figures have been adjusted to reflect the 100% Business Rates Retention pilots. Please refer to the Settlement Calculation Model for pilots and the Pilots Explanatory Note. The details for pilot authorities in future years will be confirmed at a later date.
2 Settlement Funding Assessment in 2019-20 is modified, where applicable, by the provisional Tariff/Top-Up adjustment.
3. Tariffs and top-ups have been recalculated in 2017-18 and 2018-19 to reflect the adjustment for the 2017-18 business rates revaluation



3.5 The revenue support grant element of the SFA has reduced by 100% between 2017-18 and 2018-19. For the first time in 2018-19 the Council no longer receives revenue support grant from Government. The RSG reduction has affected Guildford and other Surrey Councils more severely due to the way the government changed the mechanism of distributing grant in 2016-17. Rather than all local authorities receiving the same percentage reduction in RSG funding, the government now takes into account the amount that can be raised locally from Council Tax, thereby increasing the reduction in RSG funding for higher tax base authorities such as Guildford (in terms of the ratio of council tax income to SFA). Due to the unanticipated impact of changing the mechanism on the medium term financial plans of local authorities in 2016-17 and 2017-18, the government introduced a transition grant of £102,000 per annum for 2016-17 and 2017-18 to delay the implementation of the changes. There is no transition grant due to the council in 2018-19.

3.6 The Council's new homes bonus (NHB) in 2018-19 has reduced by £862,000 or 42% from 2017-18. This is despite an increase in the number of properties added to the Council tax system in the year. The reduction is due to the implementation of changes to the NHB allocations introduced in 2017-18, which mean that award of NHB is only made if growth exceeds a 0.4% baseline. In addition the government have reduced the number of years for which the bonus is payable from 5 to 4 for 2018-19. As the funding is only guaranteed for a specific number of years, it will fall out of the budget in the future.

Changes in Government Support

4.1 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 reduced by 21% (£1.093 million) since 2017-18; this represents a cumulative reduction of 49% 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 5.3% between 2017-18 and 2018-19 however, I feel that this does not properly reflect the true reduction in central government support.

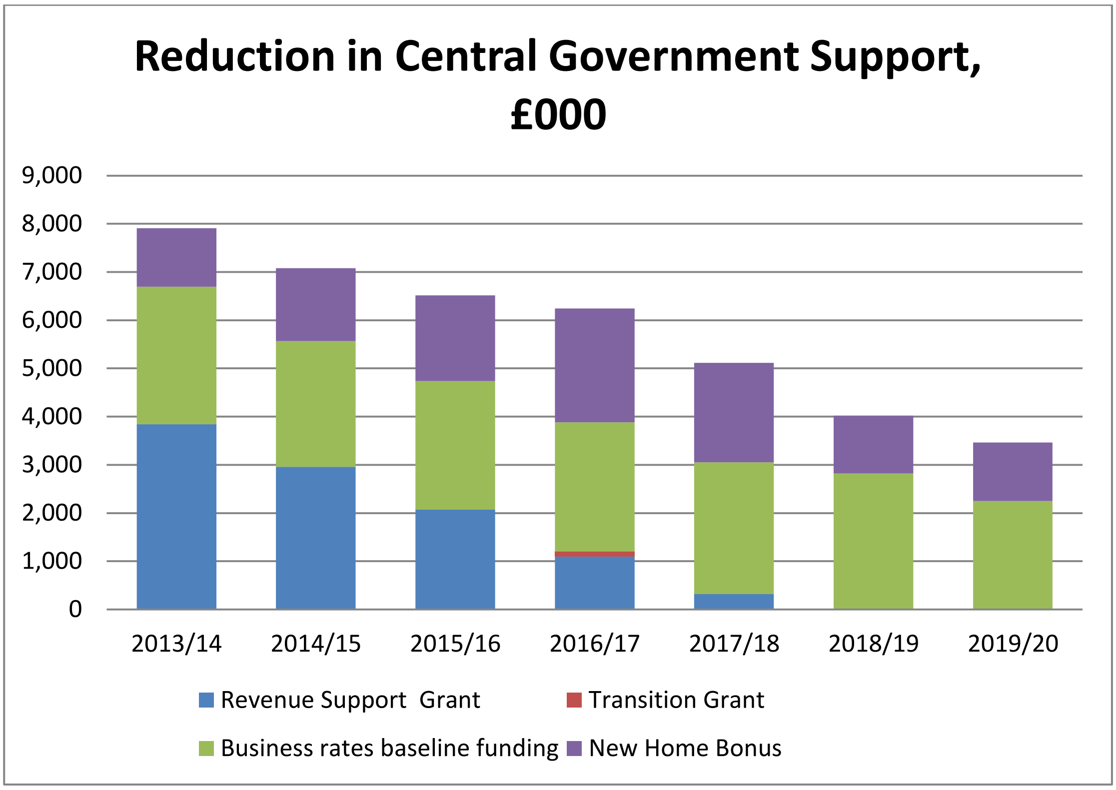
4.2 Over recent years, the level of central government support to Guildford Borough Council has been reducing as the government addresses the national deficit. As part of the final 2016-17 LGFS issued on 8 February 2016, the government released indicative settlement figures for the 4-year period 2016-17 to 2019-20. This is known as the multi-year settlement. It required local authorities to make efficiency savings but in return offered new levers to generate growth for their areas. The proposal set out in the LGFS is that by the end of the Parliament, local government will retain 100% of business rate revenues, however, the system of top-up and tariffs, which re-distributes revenues between local authorities nationally, will be retained. Whilst the system retains the redistribution mechanism, 100% of the business rates will not be retained locally.

4.3 As part of the reforms, the government is phasing out RSG out and devolving additional responsibilities to local government such as responsibility for funding public health and housing benefit to pensioners.

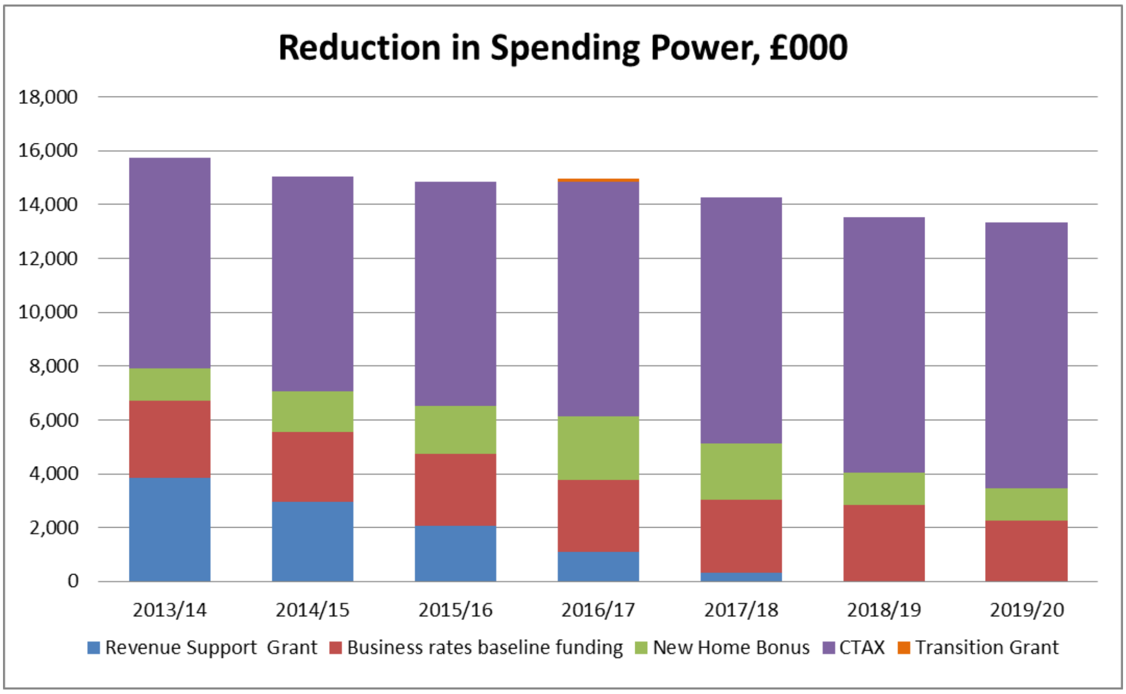
4.4 The multi-year LGFS 2016-17 to 2019-20 shows that the Council's core spending power[2] is expected to reduce by 9.2% over the period. However, within this government have assumed a level of council tax base increase and new homes bonus award for 2019-20 which is in excess of the Council's own estimates. As a result, our own estimate of the reduction in spending power over the period to 2019-20 is 10% which is £1.5 million in cash terms. . The majority of the reduction fell on the RSG which will be nil for the Council for 2018-19. To enable the government to still have a mechanism for controlling/reducing our ability to raise funding locally, it has introduced an adjustment to the tariff the Council pays to central government under the business rates retention scheme, which has the impact of, further reducing resources in 2019-20 (shown in the table in paragraph 3.2). This has the impact of reducing the Council's income below the amount determined by Government as Guildford Borough Council's 'baseline need to spend'. Taken together the reduction in RSG and adjustment to the tariff payment over the period represents a reduction in SFA of 53% or £2.5 million in cash terms.

4.5 The chart below shows the change in Central Government funding since 2013-14 and the impact of multi-year LGFS to 2019-20.

[2] Core spending power for Guildford comprises: SFA (RSG and retained Business Rates), Council Tax income and new homes bonus



4.6 The comparative graph showing the Council's estimate of the reduction in our spending power (which includes council tax) and the cumulative impact since 2013-14 is shown in the chart below.



Fair Funding Review, Business Rates Retention (BRR) and Surrey Pilot

4.7 During the last two years, the government have consulted on local government funding reform with a view to introducing a new system with effect from 1st April 2020. The consultations have had two elements:

a. a fair funding review and
b. implementation of 100% business rates retention

4.8 The Council has responded to the consultations issued so far and will continue to respond to current and future consultations. In particular the government are currently consulting on a review of relative need to spend by each authority under a second fair funding review consultation. The fair funding review will set the baseline need to spend for the implementation of the new BRR system in 2020. The closing date for the consultation is 12 March 2018 so the Council will consider its response and the impact of the proposals over the course of the next few months.

4.9 Initial review of the fair funding consultation has identified that, with the exception of waste collection, services provided by District and Borough Council's are not recognised as having any service specific cost drivers (eg, homelessness) and therefore the relative need to spend for a Council such as Guildford will be predominantly based around the total and age profile of our population in the future.

4.10 In September 2017, Guildford Borough Council, along with other Surrey District and Borough Council's and Surrey County Council submitted a bid to government for Surrey to become a pilot area for 100% BRR in 2018-19. The lead authority for the bid is Surrey County Council.

4.11 100% Business Rates Retention (BRR), as with 50% BRR only provides additional resources to areas that are achieving business rate income growth / economic growth. Under the 50% scheme, Surrey authorities pay government £121 million in business rates (through the business rates tariff). Under the 100% scheme, this fixed payment will increase to £370 milllion across Surrey. Surrey Authorities collect a total of £481 million in business rates income across the County. Therefore, whilst the scheme is called '100% Business Rates Retention' a significant amount of business rates, approximately £370 million, is still being redistributed from Surrey around the Country.

4.12 The 100% retention of business rates refers only to the increase in business rates income over the baseline set in 2013/14, based on the government's target of what should be collected (i.e., we will only keep 100% of the amount we expect to exceed the target by). The financial benefit to all Surrey authorities from being part of the pilot is better than acting individually or as the existing Surrey-Croydon Business Rates Pool.

4.13 The Council's were notified as part of the provisional LGFS on 19 December 2017 that the bid was successful and so will now enter into a memorandum of understanding with the Government. As part of the Pilot, the Council has committed to using the additional revenue from retention of business rates under the pilot to support economic development and infrastructure improvements within the borough, working in partnership with Surrey County Council, Enterprise M3 LEP and Network Rail.

New Homes Bonus

4.14 As outlined in paragraph 3.6 the new homes bonus allocation for 2018-19 is a reduction of £862,000 or 42% from 2017-18. This is despite an increase in the number of properties added to the Council tax system in the year. The government have set a national limit on the amount of new homes bonus that can be paid nationally of £900 million and implemented a number of changes to the scheme to enable allocations to fit within the national limit. In particular, the government introduced a deadweight percentage and reduced the period of time the bonus is payable for, to 4 years

4.15 Guildford Borough Council recently submitted its new Local Plan to the planning inspector with a view to adopting the new Local Plan by summer 2018.

4.16 Whilst the local plan suggests an increase in housing in the borough, we do not expect any significant increase in the New Homes Bonus (NHB) in the medium and long term. This is because the Government have set the national limit on NHB allocations as £900 million and it is likely the allocation will further reduce if the government does not meet its national austerity targets. Therefore, the bonus is likely to be subject to on-going reform to keep within the national allocation.

4.17 Our budget and medium term financial plan assumes that any increase in NHB is transferred to reserves to finance one off short to medium term revenue projects or capital projects in line with the New Homes Bonus Policy adopted by the Council in February 2016 and therefore does not affect the council tax calculation or the budget gap identified below. This is because NHB funding is currently only available for 4 years and so it would not be prudent to rely on the income as a permanent source of finance to fund on-going revenue expenditure.

<u>Economic Outlook</u>

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 will not form a significant source of income to the Council due to decreasing investment balances over the medium term and continued low interest rates. The Council will still continue to hold investments. The preservation of our capital whilst maximising our income is of paramount importance when managing the investments.

5.3 Interest payable on debt will start to feature as a significant cost to the Council over the medium term. In managing our debt portfolio we aim to strike a balance between securing low interest costs and achieving cost certainty over the period for which the borrowing is required.

5.4 The adoption of the Capital and Investment Strategy is designed to mitigate these risks.

5.5 The Council is aware of the significant pressure that continuing austerity and increasing demand for services is placing on the NHS and social care authorities. There is a significant lack of resources to properly fund social care, which is placing a significant strain on our local NHS partners and Surrey County Council (SCC). As these bodies focus their attention on providing statutory services, there will be an impact on the preventative services, which Guildford Borough Council receives funding from SCC to provide. Currently the Council receives £1.9 million of funding from SCC to provide a range of services, all of which could be at risk in future.

Guildford Borough Council Medium Term Financial Plan

Corporate Plan

6.1 The Council's Corporate Plan was developed for the 5-year period April 2015 to March 2020 and includes bold ambitions for service delivery for the future. The budget for 2018-19 includes projects proposed as part of the 2015-2020 corporate plan. Many of the priorities within the plan involve significant investment in services, infrastructure and housing to deliver the outcomes.

6.2 A new capital 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 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 affordable housing at sites such as Guildford Park, Bright Hill, Ladymead, Apple Tree Pub (Park Barn), Slyfield and various garage sites
- Investment in residential accommodation for rent (through the Council's subsidiary company, North Downs Housing Ltd)
- Regeneration of North Street
- Investment in purpose built student accommodation in the borough
- Potential regeneration of Council owned sites in the town centre e.g., Bedford road / cinema area
- Slyfield regeneration/Clay Lane link road
- Provision of a new railway station at Guildford West (Park Barn)
- Investment in additional car park capacity in the town centre
- Investment in transport infrastructure & sustainable transport routes (town centre, west guildford & cycling)
- Westfield Road / Moorfield Road (Slyfield) resurfacing
- Redevelopment of Midleton Industrial Estate
- Infrastructure improvements to the A331/A31 and A331/A323 junctions (blackwater valley bypass)
- New Walnut Bridge
- Rebuilding the crematorium
- New burial ground
- Introduction of a bicycle sharing scheme in the town centre
- Design work to support the potential relocation of the bus station
- Producing a masterplan for stoke park
- Investment in the museum
- Investment in the ICT of the Council

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 as well as interest payments. The impact of MRP is included within the general fund revenue budget outlined in this report. 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.

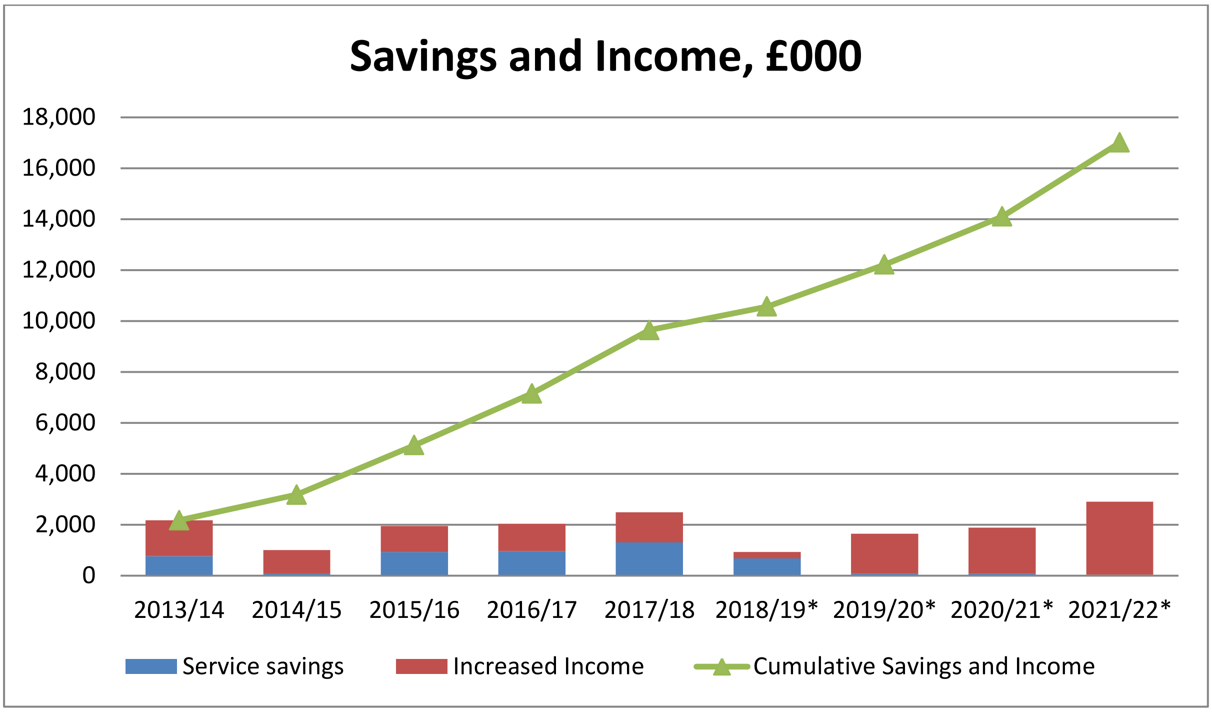
6.4 Growth included within the revenue budget for 2018-19 also supports the delivery of the Corporate Plan. The growth arising from investment in services to meet the Corporate Plan for 2019-20 to 2021-22 has been included in the medium term financial plan. The main areas of investment in 2018-19 to support our corporate plan include:

- Feasibility study into decking of Millbrook Car Park
- Development of a plan and programme to replace the spectrum leisure centre in the long term
- Producing a development brief for Guildford Railway Station Development of a planning application for the installation of a bridge over the railway line on the A323 in Ash
- Production of supplementary planning documentation and design framework to support the local plan
- Feasibility study for the introduction of a bicycle sharing scheme in Guildford
- Further design work for a new railway station at Guildford West (Park Barn)

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 2018-19 to identify transformation and other savings for the medium term. Since 2013-14, the Council has generated a total of £4 million in savings and £5.6 million in additional income.

7.2 The budget includes further savings and additional income proposals of £927,000 for 2018-19 and the medium term financial plan assumes a further £184,000 savings and £6.1 million additional income can be achieved between 2019-20 to 2021-22, which were identified from the business planning process undertaken in 2017-18 and 2018-19. The graph below summarises the savings and additional income achieved since 2013-14.



<u>Medium Term Financial Strategy</u>

8.1 The medium term financial strategy (MTFS) and new capital strategy provide a framework within which we will prepare annual spending plans. In essence, it sets a framework for our spending plans and use of resources over the medium term, ensuring that we have a sustainable financial future.

8.2 We have reworked the financial projections to 2021-22 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 Council approves the budget for the year and we will include it in the final budget book.

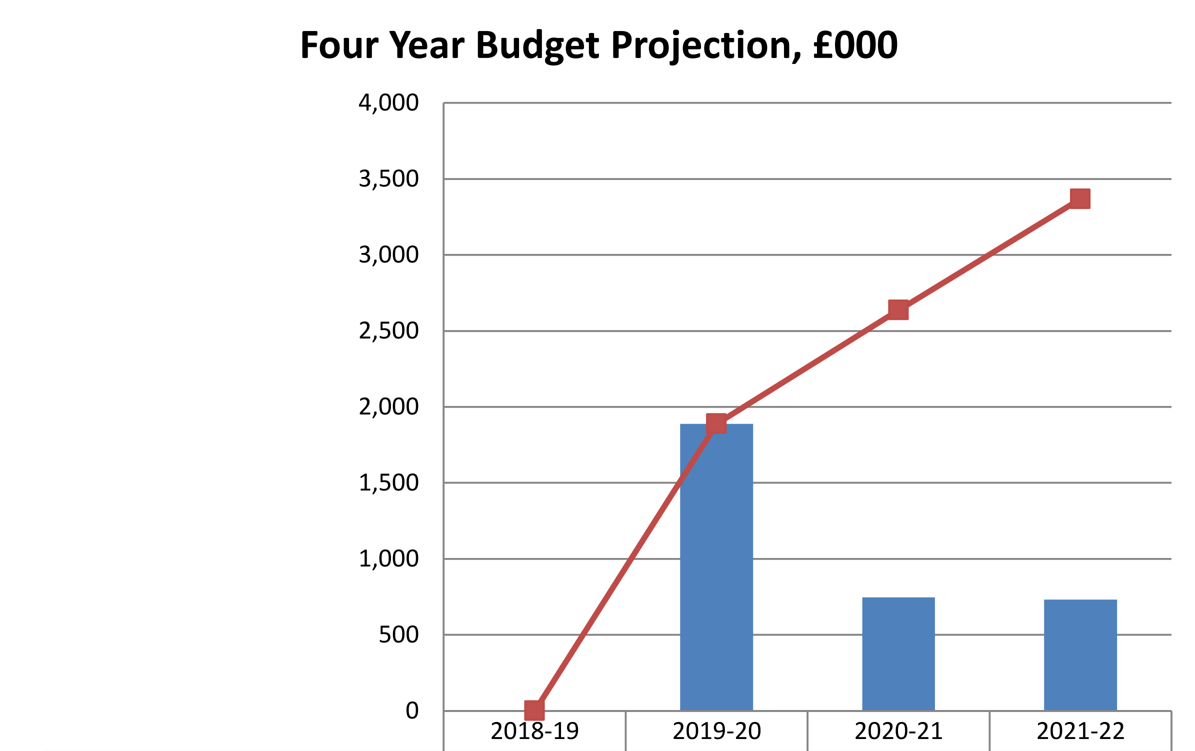
8.3 Officers prepared the medium term figures using the assumptions in the table below. The Executive approved the assumptions at its meeting on 18 July 2017. These assumptions are for outline planning purposes only and have been reviewed and updated throughout the budget process. They will be subject to further review and update before detailed estimates are prepared for each financial year.

	2018-19	**2019-20**	**2020-21**	**2021-22**
General Inflation	2.0%	2.0%	2.0%	2.0%
Payroll	2.0%	2.0%	2.0%	2.0%
Income	3.0%	3.0%	3.0%	3.0%
Council Tax increase	£5 (approx. 3.3%)	£5 (approx. 3.3%)	1.9%	1.9%
Business Rates Inflation	3%	2%	2%	2%

	2018-19	2019-20	2020-21	2021-22
Revenue Support Grant (RSG) decrease	No RSG	No RSG	No RSG	No RSG
Council Tax Base Increase (New homes)	0.82%	0.73%	1.2%	1.18%
Housing Rents	1% reduction	1% reduction	CPI	CPI
Average Weighted Investment Returns	1.63%	1.48%	1.49%	1.63%

8.4 Approved and a percentage of provisional capital expenditure is built into the cash flow projections. The statutory MRP relating to the capital-financing requirement (the underlying need to borrow) has been built in with reference to the life of the assets involved, in accordance with the MRP policy within the Capital Strategy.

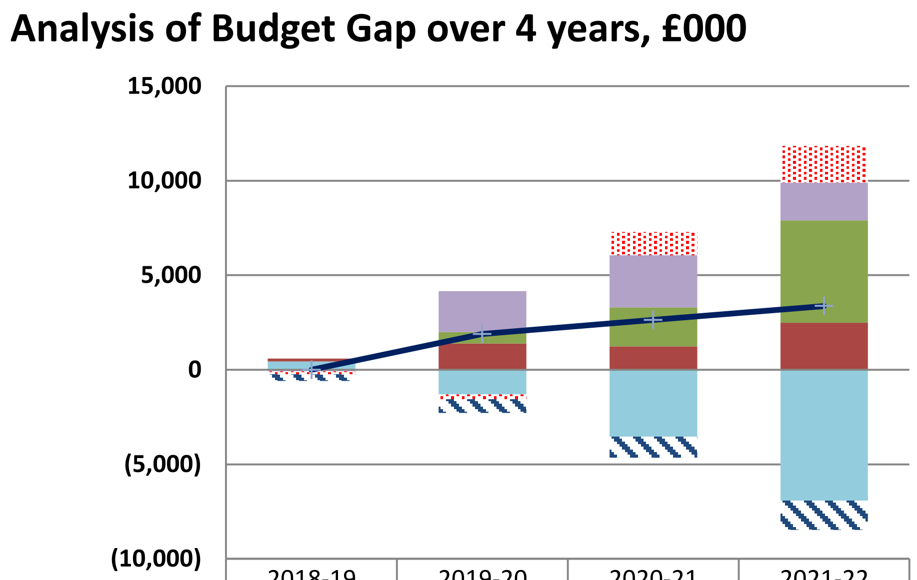
8.5 Given these assumptions, our projections show that there is a significant gap between projected income and expenditure over the period 2019-20 to 2021-22 as demonstrated below.



	2018-19	2019-20	2020-21	2021-22
In year Budget (Surplus) / Deficit	0	1,889	747	732
Total Budget (Surplus) / Deficit	0	1,889	2,636	3,368

8.6 We estimate that the funding gap totals approximately £3.4 million over the plan period (to 2021-22). However, sensitivity analysis shows this could be within the range £3 million to £5 million.

8.7 The principal causes of the budget gap are follows:



	2018-19	2019-20	2020-21	2021-22
(Increase) in Council Tax	(361)	(718)	(1,127)	(1,544)
Change in Use of Reserves	(150)	(254)	1,229	1,932
Reduction in Brates & NHB Income	(59)	2,172	2,773	1,996
Increase in MRP	(28)	601	2,054	5,413
Increase in Net Interest Payable	165	1,392	1,238	2,493
Increase / (Decrease) in Directorate spend	433	(1,304)	(3,531)	(6,922)
Total Budget (Surplus) / Deficit	0	1,889	2,636	3,368

8.8 Councillors and Senior Officers are acutely aware of the need to retain a firm grasp on controlling expenditure, efficiency programmes and budget monitoring.

8.9 Bearing in mind our ambitious corporate plan, plans to regenerate the Slyfield Area, North Street area and other parts of the town centre, in the medium term we expect that our income from business rates will fall as these schemes are implemented. 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 any unused amount of our share of business rate levy into the business rates equalisation reserve in 2018-19 to offset future reductions. During the development phase of the projects, we will transfer funds from the reserve to support the revenue budget. Once developments are completed, we should experience a growth in business rates, rental income and/or capital receipts.

8.10 As outlined in paragraph 7.2, the medium term budget gap already assumes that £184,000 million savings and £6.1 million additional income proposals (put forward as part of the 2017-18 and 2018-19 business planning processes) identified for 2019-20 to 2021-22 can be achieved. In addition, the 2018-19 budget includes a total transformation target of £720,000 which is the £500,000 savings proposal bid put forward for the 2018-19 budget and an amount of £220,000 savings carried forward from 2017-18 that have yet to be achieved. There is a risk that if the savings and income proposals are not achieved then the budget gap will be higher.

8.11 For some years, the Council has identified a gap between available resources and projected expenditure over the medium term. To address the shortfall, we continue to pursue a programme of transformation to ensure a financially sustainable future. The transformation programme has three strands:

Commercial / traded services

8.12 Although we already have a significant base in these services, it is thought that more can be done. Any service activity traded specifically for a profit will have to be carried out through a company. In 2016, the Council set up a local authority housing company. Other potential commercial services projects are in the pipeline. The Society EAB considered a presentation on options for business case development at its meeting in May 2017. Any costs associated with these projects, which will be subject to further committee reports outlining the business cases in due course.

Asset investment

8.13 The Executive received a report on 2 September 2014, which set out our strategy for the investment in property assets to support our strategic priorities. The two main reasons for property investment are to increase income generated and to stimulate and encourage business growth and sustainable economic development within the borough.

8.14 The Executive approved the investment strategy and acquisition programme, including an asset investment fund of £25 million to be spent on buying new or investing in existing property assets. At that time, the anticipated annual rental income from expenditure of £25 million was £1.2 million. Following Executive approval of a capital supplementary estimate in July 2016; we have spent £40.5 million and achieved additional rental income of £2.4 million. The asset investment portfolio is now included within the Capital and Investment strategy and a more detailed report on the performance of the asset investment programme will be presented to the Overview and Scrutiny Committee in Spring 2018.

8.15 Since 2017-18, the Council has been focussing its asset investment strategy and acquisition programme on our regeneration strategy, industrial estates strategy, housing strategy and the Council's corporate plan. The Council's draft capital programme for 2018-19 to 2022-23 includes schemes that will require strategic acquisitions and development of property as part of the following projects:

a. North Street
b. Slyfield Area Regeneration Project (SaRP)
c. Bedford Wharf development
d. Midleton Industrial estate redevelopment and intensification strategy
e. Slyfield Industrial estate redevelopment and intensification strategy
f. Potential longer term redevelopment of Woodbridge Industrial Estate
g. provision of homes across a range of tenures other than social rent either directly or through an appropriate delivery vehicle.

Fundamental service reviews (FSR)

8.16 To date, there have been reviews of Office Services, Bereavement Services, Street Cleansing, Parking, Planning (including Building Control), Recycling More, Parks and Leisure and the Electric Theatre, which followed some of the process. The Council's Transformation Board is overseeing the programme and timetable of reviews and monitoring the implementation of service changes to realise savings.

8.17 Since 2015, we have brought together the corporate and service planning process, the transformation programme and financial planning as part of an overall business planning process to ensure we deliver a medium term budget to achieve the Council's corporate plan. Whilst there is an overall programme to deliver savings in the medium term, the Council needs to identify the detailed actions which will deliver between £3 million and £5 million of savings and additional income in order to address the budget gap and ensure the Council remains financially sustainable into the future. If the Council does not identifying detailed actions to address the gap, then it will need to use reserves in order to balance its budget in the medium term, which is not a sustainable action.

8.18 All of these figures are subject to further scrutiny and will be revised as the budget process for 2019-20 to 2021-22 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).

<u>Robustness of Estimates</u>

9.1 The budget process was started in July 2017 and the inflation assumptions outlined in paragraph 8.3 above were used in the preparation of the 2017-18 estimates outlined in the budget report.

9.2 Staffing costs have been included based on the Full Time Equivalents (FTEs) included within the establishment and charged to the General Fund (approximately 720).

9.3 A composite loss allowance of 1.0% has been assumed for the council tax base.

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 0.25%. 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 0.92% has been assumed and a weighted average return of 3.48% 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. We complete a financial risk register, which is reported as **Appendix 6**; this will be reviewed, updated and reported as part of the 2018-19 budget book. This outlines the main financial risks the Council will face in terms of operating within its budget for 2018-19.

9.6 The Joint Executive Advisory Board (at its meeting on 23 November 2017) and the Executive (at its meeting on 28 November 2017) considered the outline budget.

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 large capital receipts

9.8 Looking forward, based on our current assumptions, we predict a significant budget deficit over the outline period (to March 2022) as outlined in paragraphs 8.5 to 8.10.

Action to address the deficit is underway as outlined in paragraphs 8.11 to 8.18; however, this remains a significant challenge for the Council.

Adequacy of reserves and balances

10.1 The value of General Fund earmarked revenue reserves, as at 1 April 2017 was £35.7 million. The estimated value of all revenue reserves over the plan period is:

Reserve	**Actual 2016-17 Balance, £ million**	**Projected 2017-18 Balance £ million**	**Projected 2018-19 Balance £ million**
General Fund Reserves (working balance)	3.7	3.7	3.7
Housing Revenue Account (HRA) Reserve	2.5	2.5	2.5
Earmarked GF Reserves Split between reserves held for:- • Risk management • Specific service purposes • SPA developer Contributions	35.7 16.5 14.8 4.4	34.4 16.8 13.2 4.4	29.6 11.7 13.5 4.4
Earmarked HRA Reserves	72.0	74.0	73.5
Usable Capital Receipts Reserve (General)	0.3	0	0
Usable Capital Receipts Reserve (housing related)	27.4	19.2	8.5
Total Usable Reserves	**141.8**	**133.8**	**117.9**

10.2 The include some earmarked reserves held for specific purposes (for example, Insurance) and SPA contributions. The service specific reserves and SPA contributions would need to be replaced if used to support the general budget. This approach, which enables the Council to even out the impact of significant costs, is considered prudent.

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

Budget risks

11.1 The Council faces many risks to the successful delivery of a balanced budget. The Financial Risk Register at **Appendix 6** quantifies the risks and demonstrates that the general reserves and those held for risk management pirposes are adequate to cover the risks. The major risks are explained in more detail below.

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

- Loss of rental income on investment properties
- Loss of interest from investments arising from bank base rates remaining at a low level for longer than expected
- Increase in housing benefit claimants and bad debts
- Potential increase in homelessness
- Loss of income from Fees and Charges

11.3 **Delivery of savings and income**. The Council has embarked on transformation programme to deliver savings and income generation required to balance the budget over the medium term. If the programme is not be delivered on target it will affect the Council's ability to contain expenditure within budget in year, thus potentially reducing reserves and will increase the budget gap in future years of the medium term financial plan.

11.4 **Welfare Reform**. At its meeting on 5 December 2017 the Council approved the Local Council Tax Support Scheme (LCTSS) for 2018-19. Seven changes were made, which officers forecast can be met within the existing revenue budget. We are aware that some residents may find themselves in financial difficulty as a result of our local scheme and have maintained a £40,000 hardship fund for these cases. In addition, there will be further welfare reforms in the future, which are likely to influence the support we are able to offer council taxpayers. 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 The roll out of Universal Credit (which replaces housing benefit) has been delayed a number of times. The latest postponement for Guildford moves the rollout of new benefit claims from July 2018 to October 2018. The final stage (converting the stock of existing housing benefit claims to Universal Credit) is expected to be complete by 2022. The pace of roll-out will be dictated by the number of new claims, which will either be brand new claims or those coming back on to benefit having previously been a recipient. We will be closely monitoring the pace of change, as it will significantly influence our use of human and financial resources during this time. Some staff may choose to leave in advance of the final transfer of work to the Department for Work and Pensions (DWP), which could affect the speed of our processing and the level of customer service we can provide.

11.6 The government commissioned an independent review of local council tax support scheme, which reported in 2016. As yet the government has not commented on the report, or the recommendations that it contains. One of the recommendations is for clarity over the future of local council tax support, and for confirmation that it will not be rolled into Universal Credit in the long term.

11.7 The welfare changes may also affect the Council through vulnerable people placing an increase in demand for services such as homelessness and housing advice.

11.8 Businesses and Council Tax payers 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.

11.9 **Corporate Plan.** The Council has an ambitious corporate plan, but it will present risks, which will need to be identified on an item-by-item basis and the Council's appetite for taking on risk agreed.

11.10 **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. There are three major capital regeneration schemes during the medium term budget period; North Street, Slyfield and parts of the town centre along the river corridor. These schemes are schemes that only happen once in a generation and we would not normally expect the Council's on-going capital programme to include schemes of this size under normal operating cycles. Taking these schemes forward will have significant financial risks for the Council. Officers are currently looking at alternative legal structures and delivery mechanisms to help us manage those risks. In particular, Slyfield Area Regeneration Scheme will carry significant financial risk to the Council. The scheme is likely to require the Council to undertake significant upfront investment and the time lag between the investment and the eventual sale of properties will be a number of years. The Council will seek to understand the level of risk and mitigate wherever possible.

11.11 **Capital Programme**. As a consequence of the corporate plan, the Council has an ambitious capital programme, in order to invest in the Borough, and Council services, to deliver the targets within the corporate plan. The decision on how each individual scheme is funded will be taken as part of a further, more detailed, business case for each scheme, than that submitted as part of the bids included within the capital programme report.

11.12 The capital programme for 2018-19 to 2022-23 shows the Council has an underlying need to borrow of £419 million. The revenue impact of borrowing includes:

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

11.13 The revenue implications of the capital programme are included within the Council's general fund revenue budget and contribute towards its medium term financial plan budget gap.

11.14 As part of the new Capital and Investment Strategy we have introduced a number of new local indicators, including a new financial stability indicator showing our debt to assets ratio. The new indicators will help assess the financial sustainability of the Council and its investment decisions. We have also introduced a limit on the amount of capital expenditure that can be funded for 'essential capital schemes' and investment return targets for those regeneration and other capital schemes on the 'capital investment programme'. The impact of each individual scheme on the new indicators, limits and targets will be reported to the Council's Executive prior to approval of each scheme.

11.15 To meet its medium to long-term financial commitments, the Council will need to generate further capital receipts, service and transformation efficiencies, additional revenue income and capital grant income and contributions.

11.16 **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. At 30 November 2017 the Valuation Office Agency (VOA) had 335 appeals outstanding for properties in the borough in relation to the 2010 Rating List. Successful reductions may result in overpayments going back as far as 2010, which need to be repaid to ratepayers in a lump sum. A new rating list took effect from 1 April 2017, along with a different system of appeals. The new system has a number of stages, and the consequence is that we do not yet have information from the VOA on likely appeals. This adds further uncertainty to our budgeting..

11.17 The new rating list on 1 April 2017 was the first revaluation for seven years. Whilst some businesses saw their rates reduce a considerable number saw their rates increase. In response to pressure from the business community the government announced three discretionary rate relief schemes in the March 2017 budget. These have all provided additional help to ratepayers in the borough. In the Autumn 2017 budget they extended one of the schemes. They also confirmed that they would bring forward the planned switch in the indexation of business rates from RPI to the main measure of inflation (currently CPI) by two years to April 2018. The discretionary rate relief schemes for 2017 were the latest of a series of such schemes in recent years. Whilst we will be compensated (via section 31 grant) for our loss in income as a result of all these changes, implementing all the different discretionary schemes is putting pressure on our resources and adds considerable complexity to the calculation of liability..

11.18 In setting the business rate multiplier for 2018-19, the Government has taken into account the estimated value of appeals it anticipates following the 2017 revaluation exercise. History shows that government have consistently under estimated the level of appeals following a revaluation exercise. If appeals are higher than government estimates, this will result in a loss of business rate income for the Council. The risk of volatility in income due to appeals will increasingly fall on the Council post 2020 under the proposal for local government to keep 75% of business rates.

11.19 As outlined in Paragraph 4.7 to 4.9, the government are proposing to introduce significant changes to local government finance on 1st April 2020 which adds considerable uncertainty in projecting the medium term financial position for the Council. I expect that the Council's relative need to spend 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 from 2020 onwards. 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 5% of the business rates collected.

11.20 **Surrey County Council**. The Council is aware of the significant financial pressure faced by our partner, Surrey County Council (SCC) because of demand and cost pressures within the social care system. The financial sustainability of the social care system is a nationally recognised problem however, the impact it is having at a local level within Surrey is severe. When SCC agreed its 2017-18 budget on 7 February 2017 received advice from its Chief Financial Officer (CFO) that the budget represented a very serious threat to the council's financial sustainability and included a significant risk of not balancing as additional and material service reductions, in addition to already stretching service reduction plans, are required to be delivered and had not at that stage been identified. The CFO of SCC went on to say that it was her view that there would need to be a significant unplanned use of earmarked reserves which would take reserves below the safe minimum levels unless they are replenished in the following year. In the same report, the Council received advice that the CIPFA financial resilience review of SCC, undertaken in November 2016, reported that SCC could not manage until 2019-20 through reliance wholly on reserves, which are already somewhat depleted. We are aware that some of the savings that SCC proposed in its 2017-18 budget have been found to be undeliverable or delayed and that SCC's budget monitoring reports are projecting an in-year overspend which will further deplete reserves. The Surrey Business Rates Retention pilot will provide additional resources for the authority during 2018-19 but uncertainty still surrounds the financial sustainability of the Council for 2019-20 onwards.

11.21 Guildford Borough Council currently receives approximately £1.9 million of funding from SCC for various services such as waste and community care and further funding of £250,000 within the HRA for supported and sheltered housing. There is a significant risk that this funding will cease, if not in 2018-19, then in future years of the medium term financial plan as SCC looks to deliver its unprecedented scale of service transformation.

11.22 **'Brexit'**. In June 2016, following a referendum, the United Kingdom (UK) voted to leave the European Union (EU). The financial consequences of leaving the EU and the terms on which the UK leaves pose a significant risk to the UK economy, in particular the need for, and length of, any further government spending reductions pose a significant risk to the medium term financial plan of the Council.

<u>Conclusion</u>

12.1 The Council faces many challenges over the medium term. We have an exciting and ambitious corporate plan and will continue to have a high demand for some of our services, particularly relating to welfare and environmental services. Continued significant reductions in Government funding mean that we have a gap between projected expenditure and funding that we will have to address and which we intend to address through our transformation programme.

12.2 The Council starts the 2018-19 financial year in a good financial position, we have a strong balance sheet, with a high asset base, significant level of reserves, significant level of liquidity and a reasonable gearing ratio. However in order to maintain our strong financial position and financial stability into the future the Council needs to take the following actions:

I. Ensure that it pushes forward with the projects it has already idenfitied to deliver savings and additional income over the medium term period (see **Appendix 4**)

II. Identify the detailed transformative actions which will deliver between £3 million and £5 million of savings or additional income in order to address the medium term budget gap.

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