

Guildford Borough Council

Report to: Council

Date: 30 August 2023

Ward(s) affected: All

Report of Director: Transformation & Governance

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Report Status: Open

Financial Recovery Plan – Update Report

1. Executive Summary

- 1.1. GBC agreed the 2023-24 budget in February 2023 with a £3.3m shortfall requiring further work to remove this gap, with the fallback position being the deployment of usable reserves.
- 1.2. The delayed audit of the 2020-21 accounts identified errors relating to accounting for COVID grants and the Collection Fund, which took place in 2021. These were both sums which were due to be repaid to the Government in 2021-22 rather than sums which were available for use by the Council.
- 1.3. The impact of this was that the level of usable reserves was around £20m less than had been thought when the 2023-24 budget was set in February 2023.

- 1.4. The budget outturn position for 2022-23 was an overspend of £6.4m on the General Fund and this has therefore further reduced the sums available to the Council.
- 1.5. An updated Medium Term Financial Plan (MTFP) position was presented to the Council at its meeting on 25 July 2023, which set out the key issues and the position in which the Council was now left. In summary this was a remaining in-year deficit of £1.7m and a budget gap of £18.3m over the MTFP period to 2026-27.
- 1.6. The report therefore concluded the Council is facing a potential s114 report if actions are not agreed to bring this situation back in to balance. The deadline set for this is October 2023.
- 1.7. The October report will set out the significant work required to avoid the other potential s114 trigger-point which is the statutory requirement to set a balanced budget in February 2024.
- 1.8. Over the past year, the Council has commissioned several due diligence workstreams to examine the issues identified in more detail. This has been done through a number of expert organisations such as the Chartered Institute of Public Finance & Accountancy (CIPFA), LG Futures, Arlingclose, and Savills, together with additional interim and experienced support within the Finance Team.
- 1.9. This work has helped to clarify the current position and set the baseline from which the Council now needs to work. It has also provided options for the Council to consider. Consideration and then implementation of these options will form an integral part of the Financial Recovery Plan.
- 1.10. The latest work completed is a review of the 2022-23 outturn position and Period 4 monitoring against the revised budget used for the July 2023 MTFP update. This shows that a number of the key areas of overspend in 2022-23 are continuing in the current financial

year and have the potential to take the Council into a far greater in-year deficit than the £1.64m set out in the July 2023 report.

- 1.11. Whilst a fully developed recovery plan will be presented to Council in October, sufficient work has been completed to provide an update report to this meeting. The first issue of the Financial Recovery Plan sets out some immediate actions to help reduce the in-year deficit, the workstreams proposed to aid development of the next MTFP and a work schedule for improvements in the financial procedures and processes within the Council.

2. Recommendation to Council

That the Council:

- 2.1 Endorses the first issue of the Financial Recovery Plan attached as **Appendix 1** to this report.
- 2.2 Notes that a fully developed plan will be presented to the Council in October 2023.

3. Reason for Recommendation:

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

4. Exemption from publication

- 4.1. None

5. Purpose of Report

- 5.1. This report sets out the first issue of the Council's Financial Recovery Plan for endorsement by the Council.
- 5.2. Key areas of the report deal with immediate actions to help address the in-year position, and the establishment of various workstreams

to aid both the medium-term budget position and improvements in financial management across the Council.

6. Strategic Priorities

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

7. Background

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

8. Consultations

- 8.1. The first issue of the Financial Recovery Plan has been reviewed and agreed by Corporate Management Board and the Financial Recovery Executive Working Group.

9. Key Risks

- 9.1. With depleted reserves, the key risk for the Council in the current financial year is that insufficient action is agreed to address the projected overspend which would have to be met from the remaining reserves and would further worsen the financial resilience of the Council, making a s114 position more likely.

- 9.2. The projected budget gap over the MTFP period is £18.3m and plans need to be developed to address this so that a balanced and robust budget can be agreed in February 2024.

10. Financial Implications

- 10.1. The recommended actions within the Financial Recovery Plan will help to reduce the in-year projected overspend and the MTFP budget gap.

11. Legal Implications

- 11.1. Section 151 Local Government Act 1972 requires the Council to make arrangements for the proper administration of their financial affairs and to secure that one officer has the responsibility for those affairs (the s151 officer).
- 11.2. The Council's legal duty to set a balanced budget is set out in section 31 Local Government Finance Act 1992, which provides that the Council must balance its expenditure with its revenue.
- 11.3. Section 114(3) Local Government Finance Act 1988 requires that: "The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure."
- 11.4. The Council must continue to act lawfully in making decisions on service delivery, regardless of any s114 report. There continues to be a requirement to conduct needs assessments, undertake consultation where appropriate, assess and have regard to equalities implications, and take into account all other relevant considerations to inform their decisions about service delivery.

12. Human Resource Implications

- 12.1. The Council is required to reduce operational and service delivery costs immediately. The immediate measures set out in the Financial

Recovery Plan will halt most recruitment, initially until October. This will therefore impact on workforce matters, including the recruitment of directly employed staff, as well as contingency workers, i.e., agency staff, interims, and consultants, although the risks of doing so will have to be considered before individual decisions are taken.

- 12.2. Arrangements are set out within the Recovery Plan for the consideration of exceptional cases, for example where there are significant Health and Safety risks, or the risk of statutory requirements not being met.
- 12.3. The Council will ensure careful and consistent communications to staff and unions and has drafted a communications plan to deliver this.

13. Equality and Diversity Implications

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

14. Climate Change/Sustainability Implications

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

15. Summary of Options

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

16. Conclusion

- 16.1 The first issue of the Financial Recovery plan sets out:
 - immediate actions to help constrain expenditure in the current financial year;

- a series of workstreams to close the MTFP gap and deliver a balanced budget for 2024-25;
- a series of key areas within the Finance function of the Council which require review and improvement.

17. Background Papers

General Fund Budget Update Report to Council 25 July 2023

18. Appendices

Appendix 1: Financial Recovery Plan 14 August 2023 (Issue 1)