Executive Summary

The report outlines the proposed budget for 2015-16, which includes a Council Tax requirement of £8,323,650 (excluding parish precepts) and a Council Tax increase of 1.5% (£2.24 per year), resulting in a band D charge of £151.82. 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 additional investment in our services of £1.7 million to meet our corporate plan. The principal areas of additional investment in services included in the budget relates 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

A full summary of growth is included in Appendix 3.

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. These are summarised in Appendix 4.

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.

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1 Joint Scrutiny Committee 13 November 2014 and Executive 25 November 2014
and additional income totalling £2.4million to be achieved in the period 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 5 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.

Under The Local Authorities (Standing Orders) (England) (Amendment) Regulations 2014 and Council Procedure Rule 19 (d), the Council is required to conduct a recorded vote on the proposed budget and Council tax resolution as set out in this report and Appendix 6 thereto.

Recommendation to Council

(1) That the proposed fees and charges for 2015-16 relating to General Fund services, as set out in Appendix 5 to the report, be adopted with effect from 1 April 2015.

(2) That the Council Tax requirement for 2015-16 be set at £8,323,650 (excluding parish precepts) and £9,730,055 to include parish precepts.

(3) That Band D Council Tax for 2015-16 (excluding parish precepts) be set at £151.82, an increase of 1.5%.

(4) That Band D Council Tax for 2015-16 (including parish precepts) be set at £177.47.

(5) That the Council Tax resolution set out in Appendix 6 to this report be adopted.

Reason for Recommendation:
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 and asks the Council to set the fees and charges, council tax requirement and Band D council tax for Guildford Borough Council for the financial year 2015-16. The report takes into account the implications of the General Fund Capital Programme report and the Treasury Management report, set out respectively in items 11 and 12 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 The November Executive report also included the comments of Joint Scrutiny Committee, which considered the outline budget, including all the growth and savings bids, at its meeting on 13 November 2014.

3.5 The Executive considered a further report on 20 January 2015.

3.6 A 1.9% increase in Council Tax was assumed in the November 2014 report and was accepted by the Executive as a working assumption. This assumption was changed to 1.5% following release of inflation statistics in January 2015. The Council’s policy is to set Council Tax at a level below inflation, in reference to the RPI(X) inflation measure. As RPI(X) in January 2015 was 1.6%, it is recommended that the Council Tax increase should be reduced to 1.5%. This has added £32,890 to the 2015-16 budget gap.

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

- CFO’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 charges

3.8 The CFO’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

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 Officers have now completed the NNDR1 form which estimates the amount of business rates the Council will collect and retain in 2015-16. The Council’s retained business rate income is estimated to be £32,066,981. We have to pay £28,059,754 of this income to central government as the tariff payment under the BRRS. We are also required to pay a further estimated £879,482 to central government as a levy payment under the BRRS. This represents its share of estimated additional income above our Government baseline funding level, which we share 50:50 with the Government. This leaves the Council with total income of £3,127,745 from business rates that we can use to fund our services. In addition, we will receive s31 grants estimated at £643,239. These grants compensate us for the cost of changes to the business rates system announced in the Government’s 2013 and 2014 Autumn Statements.

5.3 The Council’s current policy is to transfer an amount equal to the business rates levy, £879,482 for 2015-16, to a Business Rates Equalisation reserve. This represents our share of the additional income above the Government’s base line funding level. In completing the NNDR1 we have also identified additional retained business rates income of £233,510 above our Settlement Funding Assessment. This amount has also been transferred to the Business Rates Equalisation reserve. 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.

5.4 The government has notified us that the additional New Homes Bonus (NHB) payment for 2015-16, will be £268,415, which will be transferred to the New Homes Bonus reserve. The total NHB payment that we will receive in the year is £1,779,365. We have recently consulted with residents on a number of options for using NHB reserve. The consultation results support using the NHB reserve to fund Guildford Borough Council’s contribution to three sustainable transport and infrastructure schemes contained in the proposed capital programme for 2015-16 to 2019-20. Further details are included in the General Fund Capital Programme report (item 11 on this agenda).
6. **Council Tax, tax base and collection fund**

6.1 The proposed budget assumes that our council tax will increase by 1.5%. This means that the band D tax would go up from £149.58 to £151.82; an increase of £2.24 per year or under five pence a week. The increase would generate approximately £123,000 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 January 2015, the latest published month, RPI(X) was 1.6%. 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 be increased by 1.5%, 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 The 2014-15 expected surplus or deficit on the Council Tax element of the collection 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 5.2. Officers have calculated the surplus on the business rates element of the collection fund to be £1,917,221. The surplus is split between central government (50%), Surrey County Council (10%) and this council (40%). Guildford Borough Council’s share of the surplus is £766,888. Officers recommend that £32,366 of this surplus is used to balance the budget and the remaining share of the 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

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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.
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. Following a review of our MRP policy and calculations, officers currently estimate that the CFR at 31 March 2015 will be £31.578 million and the MRP for 2015-16 will be £506,330. This figure is included in the proposed budget and is £170,350 less than reported to the Executive on 20 January.

7.3 The revenue implications of the proposed capital schemes are included in Appendix 2.

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:

<table>
<thead>
<tr>
<th></th>
<th>31.3.2014</th>
<th>31.3.2015 (Est)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund revenue account balance</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>Earmarked reserves - General Fund</td>
<td>20.3</td>
<td>15.2</td>
</tr>
<tr>
<td>Useable Capital Receipts (general)</td>
<td>5.8</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>29.8</td>
<td>18.9</td>
</tr>
</tbody>
</table>

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 per cent 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 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).


9.1 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. The Executive approved a supplementary estimate for this additional expenditure at its meeting on 20 January.

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, which has subsequently changed to £977,850 by a reduction in the access to collections bid and the inclusion of a new bid for Internal Audit resources. The growth bids are summarised in Appendix 3. The Executive also agreed savings/additional income of approximately £1.554 million (net of a 20% non-achievement allowance) (summarised in Appendix 4). At that stage, therefore, the gap was £307,600, 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.

<table>
<thead>
<tr>
<th>Item</th>
<th>£</th>
<th>£</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gap at 25 November</td>
<td></td>
<td>307,600</td>
<td>After inclusion of growth, savings and additional income</td>
</tr>
<tr>
<td>Executive report</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service changes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refuse and recycling</td>
<td>233,730</td>
<td></td>
<td>Correction to recycling credit income</td>
</tr>
<tr>
<td>Housing benefits</td>
<td>28,000</td>
<td></td>
<td>We have now received notification of our 2015-16 housing benefit administration grant</td>
</tr>
<tr>
<td>Council Tax collection</td>
<td>(20,610)</td>
<td></td>
<td>New burdens grant to assist with the implementation of the Local Council Tax Support Scheme, notified with the SFA</td>
</tr>
<tr>
<td>Item</td>
<td>£</td>
<td>£</td>
<td>Comment</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>------</td>
<td>------</td>
<td>---------</td>
</tr>
<tr>
<td>Treasury Management</td>
<td>14,220</td>
<td></td>
<td>Adjustment to the brokers’ fee budget to reflect the Treasury Management Strategy</td>
</tr>
<tr>
<td>Corporate Services</td>
<td>30,000</td>
<td></td>
<td>Reinstatement of the management development training budget, omitted in error</td>
</tr>
<tr>
<td>Other minor changes to service budgets totalling</td>
<td>(310)</td>
<td>285,030</td>
<td></td>
</tr>
<tr>
<td>Local Government Finance Settlement</td>
<td>(3,849)</td>
<td></td>
<td>Increase in net income due to the SFA announcement</td>
</tr>
<tr>
<td>Net interest and MRP cost</td>
<td>(49,220)</td>
<td></td>
<td>We have reviewed our interest and MRP calculations in the light of updated information on cash flows and the proposed capital programme.</td>
</tr>
<tr>
<td>Pay and grading review and establishment changes</td>
<td>(25.170)</td>
<td></td>
<td>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 the outline budget was prepared.</td>
</tr>
<tr>
<td>Collection Fund surplus re Council Tax</td>
<td>(256,915)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revised gap</td>
<td></td>
<td>257,476</td>
<td></td>
</tr>
<tr>
<td>Items approved by Executive - 20 January</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parking Business plan</td>
<td>(130,100)</td>
<td></td>
<td>The Parking Business Plan included suggested tariff increases that will generate £5,100 additional income above the figure already included in the proposed budget. The contribution to the Car Parks Maintenance reserve was reduced by £125,000.</td>
</tr>
<tr>
<td>Audit growth bid</td>
<td>42,600</td>
<td></td>
<td>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.</td>
</tr>
<tr>
<td>Heritage growth bid re Access to collections</td>
<td>(4,700)</td>
<td></td>
<td>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</td>
</tr>
</tbody>
</table>
Item | £ | £ | Comment
--- | --- | --- | ---
Revenue consequences of Surface Water Management Plan | 25,000 | | £4,700 to £15,300.
Introduction of new planning fee for household planning advice meeting | (12,500) | (79,700) | 
Gap after Executive 20 January | 177,776 | 

**Further changes to provide a balanced budget**

Minor changes to service budgets | (7,950) | 
Reduce Council Tax increase to 1.5% | 32,890 | Paragraph 3.6
Minimum Revenue Provision change | (170,350) | Paragraph 7.2
Collection Fund surplus re BRRS | (32,366) | (177,776) | Paragraph 6.6

0

10.3 To balance the budget we have used £32,366 of the collection fund surplus relating to business rates.

10.4 Parish councils have sent us their precept figures and these are incorporated in Appendix 2. The precepts for 2015-16 total £1,406,405, which is an increase of £145,798 (11.57%) on 2014-15. 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 5 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.

11.2 As part of the fundamental service review of the planning service, officers are seeking to introduce a new service to planning agents and members of the public for household planning advice. In short it will be for new cases, will be a 45 minute meeting with agreed notes of the meeting passed to the client at the end of the meeting. Officers suggest that it would be appropriate to charge a fee of
£50 inclusive of VAT per meeting, with effect from 1 April 2015. The Executive agreed this new service on 20 January. Consequently, this new fee has been included in the proposed fees and charges for 2015-16.

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 and to take a recorded vote on any decision to approve the budget and council tax.

14. Human Resource 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

16.1 The proposed budget includes a Council Tax requirement (excluding parish precepts) of £8,323,650 resulting in a Council Tax increase of 1.5%. This is below inflation, as measured by RPI (X), despite a 15% reduction in our Government SFA.

16.2 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 2014 and the Executive on 25 November 2014 and 20 January 2015. 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.

17. Background Papers

None

18. Appendices

Appendix 1 Chief Finance Officer’s statutory report
Appendix 2 General Fund summary
Appendix 3 Growth summary
Appendix 4 Savings and income summary
Appendix 5 Fees and Charges
Appendix 6 Proposed Council Tax resolution
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 (BRRS) 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 above, 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 3.8% 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.

![Reduction in Central Government Support, £000](chart)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue Support Grant</th>
<th>Business rates baseline funding</th>
<th>New Home Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>7,000</td>
<td>3,000</td>
<td>0</td>
</tr>
<tr>
<td>2014/15</td>
<td>6,500</td>
<td>2,500</td>
<td>0</td>
</tr>
<tr>
<td>2015/16*</td>
<td>6,000</td>
<td>2,000</td>
<td>0</td>
</tr>
<tr>
<td>2016/17*</td>
<td>5,500</td>
<td>1,500</td>
<td>0</td>
</tr>
<tr>
<td>2017/18*</td>
<td>5,000</td>
<td>1,000</td>
<td>0</td>
</tr>
<tr>
<td>2018/19*</td>
<td>4,500</td>
<td>500</td>
<td>0</td>
</tr>
</tbody>
</table>

* 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 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 term revenue projects or capital projects and therefore does not affect the council.

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3 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, i.e. a commitment to build out the planning permission is in place.
Appendix 1

tax calculation or the budget gap identified below. This is because NHB funding is only available for six years and so it would not be prudent to rely on the income to finance ongoing 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 forming 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 also the subject of a separate report on this 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 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 also 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 £2 million 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) in reality could 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 first six assumptions at its meeting on 22 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.
Appendix 1

<table>
<thead>
<tr>
<th></th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Inflation</td>
<td>1.5%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Payroll</td>
<td>1.5%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Income</td>
<td>4%</td>
<td>3.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Council Tax increase</td>
<td>1.9%</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Business Rates Inflation</td>
<td>3.3%</td>
<td>3.6%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Revenue Support Grant (RSG)</td>
<td>-37%</td>
<td>-47%</td>
<td>-50%</td>
</tr>
<tr>
<td>Average interest rate</td>
<td>1.69%</td>
<td>2.20%</td>
<td>2.33%</td>
</tr>
</tbody>
</table>

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 2016-17 to 2018-19 as demonstrated below.

![Graph showing budget gap](image-url)
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. It includes an assumed 87% (£1.8 m) reduction in RSG over the period to 2019-20. The exact gap is hard to identify due to the Government’s next Comprehensive Spending Review, which will impact from 2016, and should give more information about the level of reduction in Government support, including RSG.

8.7 The principal causes of the 2016-17 budget gap are follows:

<table>
<thead>
<tr>
<th>Cause</th>
<th>£million</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSG Reduction</td>
<td>£0.775</td>
</tr>
<tr>
<td>Inflation</td>
<td>£0.890</td>
</tr>
<tr>
<td>Employers National Insurance increase</td>
<td>£0.675</td>
</tr>
<tr>
<td>Net growth in services</td>
<td>£0.260</td>
</tr>
<tr>
<td>Increase in provision for debt repayment (MRP)</td>
<td>£1.400</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£4.000</strong></td>
</tr>
</tbody>
</table>

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 above, the medium term budget gap already assumes that £2.4 million 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 Joint Scrutiny Committee considered the budget at its meeting on 13 November and the Executive at its meetings on 25 November 2014 and 20 January 2015.

9.7 The assets review programme currently underway may identify some assets that could be disposed of, but none is 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:
### Appendix 1

<table>
<thead>
<tr>
<th>Date</th>
<th>GF revenue reserves (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 March 2015</td>
<td>15.2</td>
</tr>
<tr>
<td>31 March 2016</td>
<td>15.6</td>
</tr>
<tr>
<td>31 March 2017</td>
<td>14.5</td>
</tr>
<tr>
<td>31 March 2018</td>
<td>14.8</td>
</tr>
<tr>
<td>31 March 2019</td>
<td>16.2</td>
</tr>
<tr>
<td>31 March 2020</td>
<td>16.5</td>
</tr>
</tbody>
</table>

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 budget accurately 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 2014 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.

11.11 **Armed Forces Day National Event.** Guildford Borough Council is hosting the national event in June 2015. There is a risk that additional funding will be required from the Council’s reserves to support the event if costs exceed estimate or sponsorship and income falls below expectations.

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. We intend to do this through projects such as commercialisation and traded services, asset investment and fundamental service reviews.

*Sue Sturgeon, Managing Director and Chief Finance Officer*
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, as measured by RPI (X).
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.
Medium Term Financial Strategy

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.