

# Public Document Pack



## EXECUTIVE 17 NOVEMBER 2022 SUPPLEMENTARY REPORTS PACK

### **PART I – Press and Public Present**

12. Draft Medium Term Financial Strategy (MTFS) and General Fund Budget 2023-24 EXE22-064 (Pages 3 - 24)

Reporting Person – Leigh Clarke

### **Agenda Ends**

Date Published - 11 November 2022



EXECUTIVE – 17 NOVEMBER 2022

## **DRAFT MEDIUM TERM FINANCIAL STRATEGY (MTFS) AND GENERAL FUND BUDGET 2023-24**

### **Executive Summary**

This interim report provides an update on the Medium-Term Financial Strategy (MTFS) and General Fund budget for 2023/24. The MTFS was previously reported to the Executive and Council in July 2022.

The MTFS financial forecasts to 2025/26 have been updated, taking into account:

- Further areas of search for savings which will result in savings proposals being brought forward for 2023/24 – 2025/26;
- Additional service and financial pressures;
- A review of reserves and re-profiling of the timing of commitments against these reserves; and
- A review of the organisational capacity, capability and financial and service insight that is required to drive out further transformation, service re-design and savings opportunities.

The Council has adopted a financial resilience framework that is being used to establish a comprehensive understanding of the Council's resilience; guide actions to improve resilience and maintain an oversight of the impact of these actions on this resilience.

Whilst the work that has been undertaken on the MTFS since July 2022 is bringing forward further savings opportunities, there are additional pressures going forward and, therefore, there remains an ongoing significant budget gap. More far-reaching actions will need to be taken with greater pace and certainty in order to address the forecast budget shortfall.

The financial forecasting continues to show that, despite all actions taken and areas of search for savings being progressed, that without further action reserves would fall beneath the minimum level of £10m by the end of 2023/24, and are fully utilised during 2024/25.

Given this critical position this report has focussed on an operational update on the current position. A further report will be prepared for the next Executive in December which will address the strategic approach and actions the Council have and will need to take in response to the financial position.

### **Recommendations**

The Executive is requested to:

#### **RESOLVE That**

the update to the Medium Term Financial Strategy (MTFS) be noted.

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### Reasons for Decision

Reason: The decision is sought to develop further proposals for consideration to ensure the medium-term financial stability of the Council.

The Executive has the authority to determine the recommendation(s) set out above.

**Background Papers:** None.

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### 1.0 Introduction

- 1.1 This interim Medium Term Financial Strategy (MTFS) report is part of the Council's integrated service and financial planning cycle. The report sets out the context and provides an overview of the latest position in preparation for more detailed planning for 2023/24 and beyond.
- 1.2 It follows the Medium Term Financial Strategy reports presented to the Executive and Council in March and July 2022.
- 1.3 Sections 2 and 3 of this report provide this broader context for the MTFS that is referenced in point 1.1 above. It is important that we understand the wider economic, political, and funding environment that we are operating in and so that we can ensure our MTFS is positioned to respond to these.
- 1.4 The MTFS update in July recognised that commercial and parking income, previously expected to return post pandemic, had continued at levels substantially below 2019 levels. It was likely that income would take much longer to return than earlier forecast and may be a permanent reset of the economic position.
- 1.5 Significant levels of inflation were also being forecast, initially due to the impact of energy prices. The impact on the Council's forecast was substantially higher increases in costs, and a significant reduction in income expectations through the MTFS period.
- 1.6 In total a £11m budget gap was identified to 2025/26, and it was recognised that given high uncertainty around many of the assumptions, that could vary substantially. The assumptions would need to be reviewed on a regular basis to provide more clarity as to the position.
- 1.7 A further savings exercise was launched by the Corporate Leadership Team over the summer 2022, which has identified £5m of savings and additional income. Of this £1.5m has been incorporated into base staffing and fees and charges budgets for 2023/24, and £3.5m is shown contributing towards reducing the budget deficit.
- 1.8 Since July there have been a number of further pressures including increasing finance costs as interest rates rise, external audit fees following the Public Sector Audit Appointments (PSAA) procurement exercise, and costs relating to the transfer of on-street parking to Surrey County Council.
- 1.9 The current forecast shows that, whilst savings of £5m have been identified since July, the timing of delivery, additional pressures and updated reserve position has increased the pressure on reserves in the period to 31 March 2025.
- 1.10 Reserves are likely to fall beneath the minimum acceptable level by the end of 2023/24 and be fully used during the following year.
- 1.11 Given this serious position, a further more detailed update will be provided to the Executive for its meeting in December with proposals for how the Council will address this.
- 1.12 The July MTFS report provided an update on the development of the Council's Financial Resilience Strategy, a key component of the Council's MTFS. The framework of key indicators of good performance which are being used to manage our approach to the MTFS is included at Appendix 3 of this report, with the recommendations from within the EY assessment mapped to the Council's financial resilience framework at Appendix 4.
- 1.13 The key elements of financial resilience work undertaken since July and supporting this MTFS are:

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| Financial Resilience Framework Area            | EY Financial Resilience Recommendation                  | Update  |
|--|---|---|
| Financial Strategy and Planning                | Review Revenue Reserves                                 | The reserves forecast has been reviewed, following update of financial planning assumptions.  |
| Financial Control                              | Review the quality of financial capability and capacity | Additional resource is being secured to strengthen and provide support to the finance team, including through work with Surrey County Council.  |
| Commercial oversight of Investment Performance | Undertake an Appropriate level of Scrutiny on Companies | Victoria Square review completed and reported to November Executive. Review of Thamesway group business plans reporting to Council in December. |

- 1.14 This focus on financial resilience is indicating that the Council's finances are not sufficiently resilient to manage the implications of the current economic climate and the rate of recovery following the Covid pandemic.
- 1.15 The Council needs to take further actions to improve resilience now, significantly reduce the reliance on using reserves to cover the shortfall on the General Fund and establish a level of reserves that reflects the commercial and regeneration operations that the Council has established.
- 1.16 A further report will be produced for the December meeting of the Executive to report on the strategy to delivery greater financial resilience.

## 2.0 Local Government Policy and Funding

### Government Policy and Direction

- 2.1 Since the July update of the MTFS the government position, particularly on financial policy has changed rapidly.
- The 'mini budget' launched by the then Prime Minister and Chancellor in September announced a number of policy initiatives which have subsequently been reversed.
  - Interest rates have increased substantially as markets reacted to the 'mini budget'.
  - The new Prime Minister and Chancellor have stabilised the markets, with a financial statement due to be delivered on 17 November to address the national budgetary shortfall through a combination of spending cuts and tax rises.

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- A new Secretary of State for Levelling Up, Housing and Communities was appointed in September, replaced in October by the Secretary of State, previously in office until July, returning to the department.

2.2 Whilst the 17 November financial statement will determine the direction of the national government finances, it is reasonable to expect the priorities of the Department of Levelling Up Communities and Housing (DLUHC) to remain as prior to the changes in Prime Minister. However, the ability to deliver policies and prioritisation of resource allocation in a tightening budgetary environment is uncertain.

### Local Government Funding

2.3 Whilst the Comprehensive Spending Review (CSR) set government departmental budgets for the 3 years from 2022/23 – 2024/25, the local government settlement for 2022/23 was again for just a single year with no indications of funding beyond.

2.4 Given the uncertainty around the national financial position it is difficult to forecast the impact on funding for 2023/24 and beyond.

2.5 The MTFS in July 2022 removed the earlier assumption of reductions in the level of support from central government, maintain funding levels consistent with 2022/23 for the next 3 years. This recognised the pressures in the sector following the Covid pandemic, particularly affecting income, and significant inflation on costs.

2.6 It is likely that local government funding will continue to be under pressure as the government seeks to cut costs, however at this stage it is assumed that funding continues at cash levels, with the sector required to absorb inflationary pressures within existing budgets.

2.7 Beyond the November financial statement the Provisional Local Government Settlement for 2023/24 is expected in December. Any changes will be included in the General Fund budget set by Council in February and subsequent update to the MTFS.

2.8 No feedback or update has been received following the Council's submission to the Shared Prosperity Fund. The fund has been allocated to economic development, the Innovation Hub, and Green Infrastructure projects.

### MRP Consultation

2.9 Previous MTFS papers have set out the detail of the government consultation on changes to the approach to Minimum Revenue Provision, MRP, which determines amounts to be set aside for the repayment of debt.

2.10 No further updates have been announced by the government and the existing MRP policy continues to be applied in the Council's financial forecasts.

### Business Rates

2.11 The provisional list of new rateable values (RV) is expected in December 2022. The national RV change will be offset by an equal and opposite movement to the multiplier plus the national allowance for appeals that is added to the multiplier.

2.12 In September 2022, DLUHC issued a consultation paper outlining how it plans to adjust authorities' Business Rates top up/tariff amounts over the next three years. These changes would offset the changes in Rateable Value from Revaluation 2023.

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- 2.13 The impact of the proposals in this consultation is being reviewed and will be reflected, together with any outcome part of the Provisional 2023/24 Finance Settlement in December, in the next MTFS update.
- 2.14 The Council is part of the Surrey Business Rates Pool for 2022/23. During September 2022 the 2023/14 position across Surrey was analysed by LG Futures, who have supported the County in applications since the introduction of pooling. Woking was again one of the better placed Districts and was included in the optimum Pool for 2023/24. The pool has been expanded by the inclusion of the London Borough of Sutton in 2022/23 and 2023/24. This enables additional Districts to be included, increasing the resources retained in the County. The analysis prepared considered the impact of the revaluation referred to above.

### DLUHC Engagement

- 2.15 In May 2022 the government announced the Levelling Up and Regeneration Bill which includes amendments to the Local Government Act 2003 Section 12 (power to invest) through adding:
- Risk mitigation directions
  - Risk thresholds
  - Restriction of power to give risk mitigation directions
  - Duty to cooperate
- 2.16 The Department for Levelling Up, Housing and Communities (DLUHC) advised the Council that it is likely to be in scope of the Bill's powers due to its high level of debt.
- 2.17 Officers from the Council and DLUHC have been working collaboratively to assist the Department in understanding the Council's local borrowing and investment practices into regeneration of the Borough in advance of them establishing new measures that will support the implementation of the Bill.
- 2.18 In October the Minister wrote to the Council to request an independent review into the Council's finances, investments, and related governance. Officers continue to liaise with the team at DLUHC but further details of the review are not yet available.

## **3.0 UK Economy**

- 3.1 The UK has experienced a steep increase in inflation in 2022 with Consumer Price Index (CPI) inflation rising to 10.1% in September. The Bank of England's Monetary Policy Committee continues to grapple with getting inflation back on track over a three-year horizon and on the 3 November it increased Bank Rate to 3.00% from 2.25%.
- 3.2 The new Prime Minister, Rishi Sunak, and Chancellor, Jeremy Hunt are set to announce new fiscal policies as part of the 17th of November Autumn Statement that seek to ensure that the public finances are kept on a sound footing and that any projected gaps (possibly £50bn to £60bn) are fully funded from services efficiencies and/or net tax increases. The Bank of England has also intervened in the longer part of the gilt market to ensure that pension funds did not have to undertake a "fire sale" of assets in the wake of the former Chancellor's policy to seek to boost growth with unfunded tax cuts.
- 3.3 Markets now appear to be calming and the £ has risen from a historic low of \$1.03 to \$1.14. Nevertheless the Bank's latest Quarterly Monetary Policy Report detailed that the UK economy is headed for eight quarters of negative growth with markets now forecasting the Bank Rate to peak at between 4.5% and 4.75%.



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- 3.4 Over the upcoming months economic forecasts will be heavily influenced by monetary policies, Government fiscal policies, and the on-going conflict between Russia and the Ukraine.
- 3.5 The Council's Treasury Management advisors, Link, provided an update to their interest rate forecasts on 8 November.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1<sup>st</sup> November 2012.

| Link Group Interest Rate View |        | 08.11.22 |        |        |        |        |        |        |        |        |        |        |        |
|-------------------------------|--------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                               | Dec-22 | Mar-23   | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
| <b>BANK RATE</b>              | 3.50   | 4.25     | 4.50   | 4.50   | 4.50   | 4.00   | 3.75   | 3.50   | 3.25   | 3.00   | 2.75   | 2.50   | 2.50   |
| 3 month ave earnings          | 3.60   | 4.30     | 4.50   | 4.50   | 4.50   | 4.00   | 3.80   | 3.30   | 3.00   | 3.00   | 2.80   | 2.50   | 2.50   |
| 6 month ave earnings          | 4.20   | 4.50     | 4.60   | 4.50   | 4.20   | 4.10   | 3.90   | 3.40   | 3.10   | 3.00   | 2.90   | 2.60   | 2.60   |
| 12 month ave earnings         | 4.70   | 4.70     | 4.70   | 4.50   | 4.30   | 4.20   | 4.00   | 3.50   | 3.20   | 3.10   | 3.00   | 2.70   | 2.70   |
| 5 yr PWLB                     | 4.30   | 4.30     | 4.20   | 4.10   | 4.00   | 3.90   | 3.80   | 3.60   | 3.50   | 3.40   | 3.30   | 3.20   | 3.10   |
| 10 yr PWLB                    | 4.50   | 4.50     | 4.40   | 4.30   | 4.20   | 4.00   | 3.90   | 3.70   | 3.60   | 3.50   | 3.40   | 3.30   | 3.20   |
| 25 yr PWLB                    | 4.70   | 4.70     | 4.60   | 4.50   | 4.40   | 4.30   | 4.10   | 4.00   | 3.90   | 3.70   | 3.60   | 3.50   | 3.50   |
| 50 yr PWLB                    | 4.30   | 4.40     | 4.30   | 4.20   | 4.10   | 4.00   | 3.80   | 3.70   | 3.60   | 3.40   | 3.30   | 3.20   | 3.20   |

| Link Group Interest Rate View |        | 27.09.22 |        |        |        |        |        |        |        |        |        |        |        |
|-------------------------------|--------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                               | Dec-22 | Mar-23   | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 |
| <b>BANK RATE</b>              | 4.00   | 5.00     | 5.00   | 5.00   | 4.50   | 4.00   | 3.75   | 3.25   | 3.00   | 2.75   | 2.75   | 2.50   | 2.50   |
| 3 month ave earnings          | 4.50   | 5.00     | 5.00   | 5.00   | 4.50   | 4.00   | 3.80   | 3.30   | 3.00   | 2.80   | 2.80   | 2.50   | 2.50   |
| 6 month ave earnings          | 4.70   | 5.20     | 5.10   | 5.00   | 4.60   | 4.10   | 3.90   | 3.40   | 3.10   | 3.00   | 2.90   | 2.60   | 2.60   |
| 12 month ave earnings         | 5.30   | 5.30     | 5.20   | 5.00   | 4.70   | 4.20   | 4.00   | 3.50   | 3.20   | 3.10   | 3.00   | 2.70   | 2.70   |
| 5 yr PWLB                     | 5.00   | 4.90     | 4.70   | 4.50   | 4.20   | 3.90   | 3.70   | 3.50   | 3.40   | 3.30   | 3.20   | 3.20   | 3.20   |
| 10 yr PWLB                    | 4.90   | 4.70     | 4.60   | 4.30   | 4.10   | 3.80   | 3.60   | 3.50   | 3.40   | 3.30   | 3.20   | 3.20   | 3.20   |
| 25 yr PWLB                    | 5.10   | 4.90     | 4.80   | 4.50   | 4.30   | 4.10   | 3.90   | 3.70   | 3.60   | 3.60   | 3.50   | 3.40   | 3.40   |
| 50 yr PWLB                    | 4.80   | 4.60     | 4.50   | 4.20   | 4.00   | 3.80   | 3.60   | 3.40   | 3.30   | 3.30   | 3.20   | 3.10   | 3.10   |

### 4.0 Budget Update

- 4.1 Since July work has been undertaken to provide detailed draft budget estimates for 2023/24 whilst completing a further exercise to deliver savings towards the MTFS pressures.
- 4.2 The national economy continues to experience high levels of inflation and these are forecast to continue into next year. Many of the Council's service contracts are linked to indices which will increase in line with headline inflation rates.
- 4.3 Also on the Executive Agenda are updates to the Council's Investment Programme and proposed Fees and Charges for 2023/24. The financial implications have been incorporated into the MTFS position in this report.
- 4.4 The significant pressures are considered in more detail in this section.

#### Staffing costs

- 4.5 The Council's management and administration budget for 2023/24 has been updated to reflect known changes to the staffing structure. Vacant posts offered as savings through the Fit for the Future process have been removed. An increased inflationary allowance of £850k has been included within the budget reflecting current market conditions. The vacancy management target has been retained at 450k.

#### Energy Costs

- 4.6 Energy costs continue to be a significant pressure for the Council. Much of the Council's energy is supplied by Thamesway Energy Ltd (TEL) which is subject to movements in the wholesale gas market. The July MTFS recognised a £1m pressure in 2022/23 and beyond reflecting forecast energy prices at that time, particularly driven by the Council's energy consumption at the Leisure Centre and Pool and the Civic Offices.

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- 4.7 During August and into September the forecast future gas prices continued to rise which resulted in significant additional pressure being forecast in 2022/23 and into 2023/24. The Council embarked on work to identify how energy usage could be reduced to minimise the impact of the cost increases.
- 4.8 In September the government announced the Energy Bill Relief Scheme which provides a discount on wholesale gas and electricity prices for all non-domestic customers (including all UK businesses, the voluntary sector like charities and the public sector such as schools and hospitals) whose current gas and electricity prices have been significantly inflated in light of global energy prices. The support is equivalent to the Energy Price Guarantee put in place for households.
- 4.9 The scheme applies to energy usage from 1 October 2022 to 31 March 2023, running for an initial 6 month period for all non-domestic energy users. It sets a Supported Wholesale Price set at less than half the wholesale prices which were previously anticipated this winter, reflecting a discounted price per unit of gas and electricity.
- 4.10 The impact of the government scheme has been to remove the additional pressure identified after the July MTFS update. The current assumption, for the purposes of setting the 2023/24 budget, is that prices remain at the supported level.

### Fees and Charges

- 4.11 Proposals for Fees and Charges for 2023/24 are also on this agenda and have been incorporated into the forecast in section 5.
- 4.12 The MTFS assumed increased levels of income generated from parking so increased income only meets existing targets and does not provide additional funds to improve the financial forecasts. Budgets will no longer be held at 2019 levels, with a provision for the impact of Covid, but will be rebased to reflect current income forecasts.
- 4.13 The July MTFS reduced parking income previously incorporated into financial forecasts by £1m from 2023/24. This level of income is consistent with the forecasts updated in the fees and charges update for 2023/24. However, current year activity remains less than envisaged and the £1m reduction has now also been applied to 2022/23 income.
- 4.14 Commercial rent forecasts have been maintained at the levels assumed in July. The position continues to be reviewed and forecast likely income assessed, being mindful of break points in tenant leases and levels of demand for the commercial assets available.

### Other budget pressures

- 4.15 In October 2022 the Public Sector Audit Appointments (PSAA) announced the results of the procurement exercise for local authority external audit from 2023/24 onwards. The Council's current auditors, BDO, did not bid for work through this procurement and the PSAA propose to appoint Grant Thornton as the Council's new auditors. The PSAA have indicated that audit fees are expected to increase by approximately 150% compared to existing fees, dependent on the level of work necessary.
- 4.16 As set out above interest rates have increased significantly since July. The latest Link forecast shows a reduction to their forecasts in September, but as the Bank of England seeks to address inflationary pressures, rates are at levels which haven't been seen for many years. Most of the Council's debt is secured at long term fixed rates through the PWLB, however there remains some short term debt which will need to be refinanced over the coming year. There will also be new debt required to support the Council's committed investment programme. Interest rates are expected to return to lower levels during 2025. For the MTFS

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forecast it is assumed that all borrowing requirements are taken at short term rates to be refinanced as longer term debt as considered necessary when the rates fall.

- 4.17 The Council currently undertakes the delivery of on-street parking services on behalf of Surrey County Council (SCC). From 2023/24 SCC have announced the intention to take back the service which will impact on Council through reduced contribution towards the costs of the Woking parking service.
- 4.18 As detailed in the Victoria Place update report also on this agenda, the car park element of the scheme currently remains with the joint venture company. The Council will pay a management fee equivalent to the financing costs incurred by the company managing the asset and retaining income generated. The 2023/24 budget will therefore show this management fee as a service cost where previously it was forecast as increased financing costs for the anticipated asset acquisition.

### Fit for the Future Savings – Phase II

- 4.19 A programme of work has been underway since August to identify savings across the Council to address the financial pressure identified in the last MTFS.
- 4.20 Directorates were tasked with seeking a 10% saving, in addition to savings secured in the 2021 Fit for the Future (FFF) savings exercise. A team has been established to support this work, challenge Directorate returns and compile a summary of the savings identified.
- 4.21 The impact of the £5m savings identified and has been incorporated into the summary financial outlook above. £1.5m relate to changes to fees and charges and staffing costs which have already been incorporated into the detailed budget proposals for 2023/24.
- 4.22 Detailed areas of search can be found in Appendix 1. An additional programme of proposals which require further development has been compiled and was considered by the Corporate Leadership Team on 31 October. Further work is necessary to:
- Monitor the delivery of FFF1 savings.
  - Further establish confidence in the delivery of FFF2 identified savings.
  - Develop, evaluate, prioritise and resource the additional programme of works for inclusion in future updates to the MTFS.

## 5.0 Summary Financial Outlook

- 5.1 The financial forecast has been updated to reflect updated assumptions as set out in section 4. A detailed schedule of changes can be found in Appendix 2.

|   | 2022/23      | 2023/24      | 2024/25        | 2025/26        | TOTAL          |
|---|--------------|--------------|----------------|----------------|----------------|
|   | £'000        | £'000        | £'000          | £'000          | £'000          |
| <b>Projected Budget Shortfall - July 2022</b>     | <b>7,314</b> | <b>8,874</b> | <b>9,935</b>   | <b>11,181</b>  | <b>37,305</b>  |
| <b>Savings identified (-)</b>                     | <b>584</b>   | <b>- 111</b> | <b>- 1,407</b> | <b>- 3,208</b> | <b>- 4,142</b> |
| <b>Projected Budget Shortfall - November 2022</b> | <b>7,898</b> | <b>8,764</b> | <b>8,528</b>   | <b>7,974</b>   | <b>33,163</b>  |

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- 5.2 The update shows that whilst savings have been identified they have been offset by additional pressures. A saving of £3.2m is forecast by 2025/26 but as the savings are less in earlier years, the reduction in use of reserves is only £4.1m over the period to 2025/26.
- 5.3 In July it was forecast that, if action was not taken, by the end of 2024/25 the Council's use of reserves would exceed available balances by £1.8m. By 31 March 2024 balances were forecast to be £9.2m, below the Council's minimum acceptable level of £10m.
- 5.4 Updating the reserves forecasts to reflect the above changes, which reduce the use of reserves by £1m to 31 March 2025, and updating for other committed reserve requirements and timing, results in a reduced level of reserves through the forecast period to 2024/25.

|  | 31/03/2023  | 31/03/2024 | 31/03/2025  | 31/03/2026   |
|--|-------------|------------|-------------|--------------|
|  | £m          | £m         | £m          | £m           |
| <b>Forecast Revenue Reserves July 2022</b>     | <b>19.5</b> | <b>9.2</b> | <b>-1.8</b> | <b>-14.3</b> |
| Movement in forecast                           | -2.8        | -2.7       | -1.7        | 1.4          |
| <b>Forecast Revenue Reserves November 2022</b> | <b>16.7</b> | <b>6.5</b> | <b>-3.5</b> | <b>-12.9</b> |

- 5.5 Despite the efforts over the last 3 months to improve the financial position, the forecast level of reserves in the period to 31 March 2025 has become more critical. Reserves are likely to fall beneath the minimum acceptable level by the end of 2023/24 and be fully used during the following year.
- 5.6 It is clear that further immediate action is required to address this position.
- 5.7 The forecasts are significantly influenced by the assumptions around income generation from the Council's commercial interests where there remains significant uncertainty. The launch of the Victoria Place town centre regeneration, including the Italia Conti dance school, during 2022/23 and the future opening of the hotel and conference facilities has generated additional town centre activity. This is expected to lead to additional levels of footfall, car parking and interest in town centre property. However, the delay in completion of the scheme and the national economic outlook, where a downturn is now anticipated, result in any benefit being too late to support the Council's reserves.

### 6.0 Actions to address

- 6.1 Given the serious financial challenge outlined above, a further report will be brought to the next Executive meeting on 8 December. This will provide further proposals on how the Council will respond to the ongoing issues set out in this report. It is likely to consider in more detail, the opportunities provided by:
- Consideration of the level of discretionary services
  - Deferral of projects
  - Transformational opportunities
  - Capitalisation of costs
  - Consideration of potential structural budget changes
- 6.2 Further work will also continue on reviewing and challenging the detailed financial assumptions and projections set out in sections 4 and 5.

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- 6.3 The government allows the use of capital receipts to fund some transformation costs where projects are designed to generate revenue savings or transform service delivery. A Flexible Use of Capital Receipts Strategy is required, and details of those projects which will be funded under the strategy must be approved by Council and the government notified. The Council's approach and Flexible Use of Capital Receipts Strategy will be included in the December Executive report.

### **7.0 Investment Programme**

- 7.1 The draft Investment Programme for 2022/23 to 2026/27 is also considered on this agenda. The revenue implications are incorporated in the updated financial forecast.
- 7.2 Given the financial pressures of the Council and the work with DLUHC on debt levels, borrowing is minimised where not committed. The budget for Opportunity Purchases has been removed and the budget for Housing acquisitions reduced to the minimum level considered necessary to facilitate necessary tenant moves.
- 7.3 The final Investment Programme will be updated to reflect Council decisions relating to the Thamesway Business Plans and Victoria Place update reports.

### **8.0 Implications**

#### Equalities and Human Resources

- 8.1 No specific Human Resource or Training and Development implications.
- 8.2 There are no equalities implications.

#### Legal

- 8.3 Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'. The Local Government Act 2003 places a duty on the Council's Chief Finance Officer to advise on the robustness of the proposed budget and the adequacy of reserves.
- 8.4 The MTFS is a fundamental element of the Council's strategic financial management arrangements. The MTFS is a policy framework document that is required by law to be adopted by Council.
- 8.5 The Council is required by statute to set a balanced budget. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality, and level of services which they consider should be provided against the costs of providing such services.
- 8.6 The MTFS ought to be consistent with the Council's work plans and strategies, particularly the Corporate Plan.
- 8.7 The Council is required to obtain approval by Full Council of its MTFS.

**9.0 Engagement and Consultation**

- 9.1 The Council undertook a significant programme of engagement during 2021/22 in preparing for the adoption of the Woking for All strategy. The feedback from this engagement has identified priority areas for the Council in allocation of resources over this MTFS.

REPORT ENDS

| Communities Directorate                               | SAVINGS          |                  |                 |            |                  |
|---|------------------|------------------|-----------------|------------|------------------|
| Activity  | 2022/23          | 2023/24          | 2024/25         | 2025/26    | Total            |
| <b>Fit For The Future Saving Proposals: ROUND 2</b>   |                  |                  |                 |            |                  |
| Arts, Heritage & Event spend rationalisation.         | £ 57,500         | £ 42,500         | £ 58,000        | £ -        | £ 158,000        |
| Leisure Facilities Energy Savings.                    | £ 22,500         | £ 65,500         | £ -             | £ -        | £ 88,000         |
| Corporate Volunteering Co-ordination                  | £ 16,000         | £ -              | £ -             | £ -        | £ 16,000         |
| Family Support spend rationalisation.                 | £ -              | £ 10,000         | £ -             | £ -        | £ 10,000         |
| Removal of Empty Homes Grant.                         | £ 20,000         | £ -              | £ -             | £ -        | £ 20,000         |
| Community Meals Procurement and service efficiencies. | £ 6,000          | £ 31,000         | £ 5,000         | £ -        | £ 42,000         |
| <b>SAVINGS ROUND 2 TOTALS:</b>                        | <b>£ 122,000</b> | <b>£ 149,000</b> | <b>£ 63,000</b> | <b>£ -</b> | <b>£ 334,000</b> |

| Corporate Resources Directorate                        | SAVINGS          |                    |                  |            |                    |
|--|------------------|--------------------|------------------|------------|--------------------|
| Activity   | 2022/23          | 2023/24            | 2024/25          | 2025/26    | Total              |
| <b>Fit For The Future Saving Proposals: ROUND 2</b>    |                  |                    |                  |            |                    |
| Civic Functions And Events Savings                     | £ -              | £ 107,000          | £ 32,000         | £ -        | £ 139,000          |
| Removal of Member ICT allowance and training budget    | £ -              | £ 17,580           | £ -              | £ -        | £ 17,580           |
| Removal of the Overview & Scrutiny Budget              | £ -              | £ 20,000           | £ -              | £ -        | £ 20,000           |
| Removal of Members Courier and Refreshment budget      | £ -              | £ 12,000           | £ -              | £ -        | £ 12,000           |
| Election Service Savings                               | £ 22,000         | £ 1,000            | £ -              | £ -        | £ 23,000           |
| Working Magazine                                       | £ -              | £ 53,000           |                  | £ -        | £ 53,000           |
| Social media and community engagement budget reduction | £ -              | £ 21,000           | £ -              | £ -        | £ 21,000           |
| Lexcel Accreditation for Legal Services                | £ 35,000         | £ -                | £ -              | £ -        | £ 35,000           |
| Reduction in external legal spend                      | £ 175,000        | £ -                | £ -              |            | £ 175,000          |
| Postage and Courier Savings                            | £ 11,000         | £ 12,000           | £ 15,000         | £ -        | £ 38,000           |
| Human Resources budget reductions                      | £ 17,000         | £ 21,000           | £ 13,000         | £ -        | £ 51,000           |
| ICT System and Customer Services rationalisation       | £ -              | £ 33,000           | £ 30,000         | £ -        | £ 63,000           |
| Pension Fund lump sum holiday                          | £ -              | £ 60,000           | £ 60,000         | £ -        | £ 120,000          |
| Car Park Business Rate valuation appeal                | £ -              | £ 160,000          | £ -              | £ -        | £ 160,000          |
| Savings from Council wide contract spend review        | £ -              | £ 550,000          | £ 550,000        | £ -        | £ 1,100,000        |
| Discretionary Rates Relief                             | £ -              | £ -                | £ 250,000        | £ -        | £ 250,000          |
| <b>SAVINGS ROUND 2 TOTALS:</b>                         | <b>£ 260,000</b> | <b>£ 1,067,580</b> | <b>£ 950,000</b> | <b>£ -</b> | <b>£ 2,277,580</b> |



| Place Directorate  | SAVINGS         |                  |                  |                  |                  |
|--|-----------------|------------------|------------------|------------------|------------------|
|  | 2022/23         | 2023/24          | 2024/25          | 2025/26          | Total            |
| <b>Fit For The Future Saving Proposals: ROUND 2</b>                |                 |                  |                  |                  |                  |
| Termination of Environmental Health external out of hours contract | £ -             | £ 30,000         | £ -              | £ -              | £ 30,000         |
| Environmental Maintenance service redesign and spend review        | £ -             | £ 103,000        | £ -              | £ -              | £ 103,000        |
| Review of Basingstoke Canal annual contribution                    | £ -             | £ -              | £ 27,000         | £ -              | £ 27,000         |
| Car parking income (car parks and permits)                         | £ -             | £ -              | £ 50,000         | £ 40,000         | £ 90,000         |
| Garden waste subscription fees                                     | £ -             | £ -              | £ 178,000        | £ -              | £ 178,000        |
| Waste & Recycling service redesign and spend review                | £ -             | £ 44,000         | £ 3,000          | £ -              | £ 47,000         |
| Building Control Fees  | £ -             | £ -              | £ 26,000         | £ 51,000         | £ 77,000         |
| Civic Offices spend rationalisation.                               | £ 3,000         | £ 39,000         | £ -              | £ -              | £ 42,000         |
| Screen Advertising Income  | £ -             | £ -              | £ 50,000         | £ -              | £ 50,000         |
| Building Services/Estate Management Contract review                | £ -             | £ 50,000         | £ -              | £ -              | £ 50,000         |
| Review of Christmas Lights within the public realm                 | £ -             | £ 15,000         | £ -              | £ -              | £ 15,000         |
| Car Park Energy Savings  | £ 26,000        | £ 19,000         | £ -              | £ -              | £ 45,000         |
| Development Management spend/income rationalisation                | £ -             | £ 7,000          | £ -              | £ -              | £ 7,000          |
| Land Management reduction.   | £ 5,000         | £ 10,000         | £ 10,000         | £ -              | £ 25,000         |
| Estate rationalisation (development / demolition)                  | £ -             | £ 25,000         | £ -              | £ 100,000        | £ 125,000        |
| <b>SAVINGS ROUND 2 TOTALS:</b>                                     | <b>£ 34,000</b> | <b>£ 342,000</b> | <b>£ 344,000</b> | <b>£ 191,000</b> | <b>£ 911,000</b> |



## MTFS Update - November 2022

| <u>In year pressures - November 2022</u>             | 2022/23<br>£'000 | 2023/24<br>£'000 | 2024/25<br>£'000 | 2025/26<br>£'000 | TOTAL<br>£'000 |
|--|------------------|------------------|------------------|------------------|----------------|
| Service Pressures                                    | 1,280            | 1,253            | 1,867            | 862              | 5,262          |
| Specific General Fund Service savings and pressures  |                  | 1,042            |                  |                  | 1,042          |
|  | <b>1,280</b>     | <b>2,295</b>     | <b>1,867</b>     | <b>862</b>       | <b>6,304</b>   |
| Reduced Reliance on Government Funding               |                  | 548              | -68              | 0                | 480            |
| Services Grant (NI increase)                         |                  | 147              |                  |                  | 147            |
| Business Rates Pool                                  |                  | -678             | 678              |                  | 0              |
|  |                  | <b>17</b>        | <b>610</b>       | <b>0</b>         | <b>627</b>     |
| Investment Programme Projects (net of income)        |                  | 2,389            | 1,111            | -720             | 2,780          |
| Car Park Management Fee                              |                  | 1,466            |                  |                  | 1,466          |
| YRP/Gateway (pressures added as in FFF1 savings)     |                  | 510              |                  |                  | 510            |
| Capitalised interest proposed saving HIF/Land        |                  |                  | -1,104           |                  | -1,104         |
|  |                  | <b>4,365</b>     | <b>7</b>         | <b>-720</b>      | <b>3,652</b>   |
| <u>Income:</u>                                       |                  |                  |                  |                  |                |
| Fees and Charges                                     |                  | -276             | 0                | 0                | -276           |
| Parking income                                       |                  | 679              | -930             | -200             | -451           |
| Amend Covid Provision - Parking                      | 1,000            | -2,301           |                  |                  | -1,301         |
| Commercial Rents                                     | 2,000            | -2,000           |                  |                  | 0              |
| Amend Covid Provision - Rents (adj base budget)      |                  | 2,000            |                  |                  | 2,000          |
|  | <b>3,000</b>     | <b>-1,898</b>    | <b>-930</b>      | <b>-200</b>      | <b>-28</b>     |
| Council Tax  |                  | -383             | -297             | -305             | -985           |
| Council Tax surplus                                  |                  | -304             | 304              |                  | 0              |
|  |                  | <b>-687</b>      | <b>7</b>         | <b>-305</b>      | <b>-985</b>    |
| Fit for the Future savings 1                         |                  | -1,976           | -440             | 0                | -2,416         |
| Fit for the Future savings 1 adjusted for salaries   |                  | 209              |                  |                  | 209            |
| FFF 2 (excluding F&C and M&A, 23/24 shown net above) | -416             | -1,559           | -1,357           | -191             | -3,523         |
| Remove general savings target                        |                  | 100              |                  |                  | 100            |
|  | <b>-416</b>      | <b>-3,226</b>    | <b>-1,797</b>    | <b>-191</b>      | <b>-5,630</b>  |
| <b>Budget Shortfall</b>                              | <b>3,864</b>     | <b>866</b>       | <b>-236</b>      | <b>-554</b>      | <b>3,940</b>   |
| <b>Budget shortfall (o/b)</b>                        | <b>4,034</b>     | <b>7,898</b>     | <b>8,764</b>     | <b>8,528</b>     |                |
| In year variations                                   | 3,864            | 866              | -236             | -554             |                |
| <b>Projected Budget Shortfall - November 2022</b>    | <b>7,898</b>     | <b>8,764</b>     | <b>8,528</b>     | <b>7,974</b>     |                |
| <b>Projected Budget Shortfall - July 2022</b>        | <b>7,314</b>     | <b>8,874</b>     | <b>9,935</b>     | <b>11,181</b>    |                |
| <b>Movement July - November 2022</b>                 | <b>584</b>       | <b>-111</b>      | <b>1,407</b>     | <b>3,208</b>     |                |
| <b>Projected Budget Shortfall - November 2022</b>    | <b>7,898</b>     | <b>8,764</b>     | <b>8,528</b>     | <b>7,974</b>     |                |



### Financial Strategy and Planning

- Clear council strategic outcomes driving resourcing decisions
- Strategic approach to financial planning in the short-medium-long term horizons
- Evidence based planning and forecasting incorporating sensitivity analysis
- Periodic review and reporting

### Financial Governance

- Clear understanding of the Financial Environment
- Councillor and Strategic Leadership engagement
- Strategies to apply cost controls to key areas of activity and acceleration actions to key areas of commercial return
- Timely and accurate financial reporting
- Clear performance management of budgets

### Financial Control

- Clear accountability for budget setting
- Focus on and monitoring of savings plans
- Adequately resourced and capable finance function
- Clear strategic finance advice
- Coherent financial systems and financial management information
- Active use of and response to Internal audit
- Effective external audit arrangements

### Commercial oversight of Investment Performance

- Clearly defined and reviewed objectives
- Clear governance arrangements representing shareholder interests
- Annual agreed Business Plans
- Clear roles and responsibilities undertaken by capable and supported officers
- Clear performance monitoring and reporting
- Effective overview and scrutiny arrangements



### Financial Strategy and Planning

- R2 Prepare a response to the Minimum Revenue Provision Consultation
- R4 Structured Review of Policy and Regulatory Change
- R5 Review revenue reserves

### Financial Governance

- R6 Challenge high cost service expenditure
- R8 Develop a Financial Resilience Strategy
- R9 Evaluate the reporting and business intelligence landscape

### Financial Control

- R3 Develop a Shareholder Centre of Excellence that strengthens strategic finance
- R7 Strengthen the contract register and commitment tracking
- R12 Review the quality of financial capability and capacity

### Commercial oversight of Investment Performance

- R1 Undertake an Appropriate level of Scrutiny on Companies
- R10 Develop and Asset Management Strategy
- R11 Define Place Making strategic objectives and investment criteria

