



EXECUTIVE 8 DECEMBER 2022

SUPPLEMENTARY REPORTS PACK

PART I – Press and Public Present

7. Medium Term Financial Strategy (MTFS) EXE22-077 (Pages 3 - 32)
Reporting Person – Leigh Clarke

Agenda Ends

Date Published - 2 December 2022

EXECUTIVE – 8 DECEMBER 2022

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

Executive Summary

The Medium-Term Financial Strategy (MTFS) update to the Executive in November reported the critical financial position of the Council and recognised that further actions would need to be taken with greater pace and certainty in order to address the forecast budget shortfall.

This report sets out the actions which need to be taken for the Finance Director (S151 Officer) to be able to provide the necessary statement on the robustness of the budget estimates and adequacy of reserves to set the 2023/24 budget in February 2023.

The Finance Director (S151 Officer) is of the view that, with the information and analysis that is currently available, the expenditure the authority is projecting for 2023/24 – 2025/26 may exceed the resources that the Council has at its disposal to meet the expenditure.

A fundamental review of the Council's budget is required to rebalance service costs within the resources now available post Covid. This analysis of service provision has commenced, with support from Surrey County Council officers. The review aims to identify areas of discretionary spend and spend on statutory services above the minimum required to meet statutory responsibilities. This analysis will provide details of the further opportunities for savings available to the Council to address the budget gap which is currently being met by reserves.

It is essential that these opportunities are recognised in sufficient detail and included within the Medium-Term Financial Strategy (MTFS), General Fund, Service Plans Budgets and Prudential Indicators 2023-24 report to the meeting of the Council in February 2023. This is required in order to provide confidence in the ability to secure a balanced budget position and address the use of reserves in the time afforded by the level of revenue reserves available.

It is proposed that a meeting of Council (Budget Council) will be arranged for 23rd February 2023. The Medium-Term Financial Strategy (MTFS), General Fund, Service Plans Budgets and Prudential Indicators 2023-24 report will be taken straight to this Council meeting. This will enable additional time to develop savings analysis and proposals and would provide a greater opportunity to align the Council's MTFS with the emerging findings of the non-statutory review that is being commissioned by the Department for Levelling Up Housing and Communities (DLUHC).

An additional MTFS report will be prepared for the 19th January 2023 meeting of the Executive in order to provide a further progress report and update on the Council's financial position in advance of the report to Council.

Alongside this work, this report recommends a number of actions that are targeted at delivering greater financial resilience. These actions would look to identify funds to increase the level of reserves in order to give the Council more time to deliver savings that are sustainable, can be implemented over a manageable and sustainable time frame and are informed by a greater level of strategic financial insight.

The Finance Director's ability to provide a statement of budget robustness is critical and is therefore the target for the work between now and February 2023. Without the ability to provide this statement the Finance Director will need to approach government for financial support, initially looking to the mechanisms established for such discussions. A Capitalisation Direction is such a mechanism that could be available.

Medium Term Financial Strategy (MTFS)

The Finance Director (S151 Officer) has a statutory and mandatory duty to produce a report under Section 114 of the Local Government Finance Act if it appears to them that the expenditure incurred or proposed to be incurred in a financial year is likely to exceed resources available to meet that expenditure. The Council has sufficient contingencies and is managing its budgets during 2022/23 to deliver a position which is projected to be within available resources at the end of the financial year.

The additional work, referred to within the Executive Summary, that will be taking place between now and the update report to the 19th January meeting of the Executive will need to provide additional assurance on the financial position for each of the years 2023/24 – 2025/26 in order to provide assurance the expenditure can be contained within resources. If this is not possible the Council will need to commence discussions with the government on financial support and the Finance Director will determine whether a Section 114 report is appropriate.

Recommendations

The Executive is requested to:

RESOLVE That

the update to the Medium Term Financial Strategy (MTFS), including the actions detailed in Sections 4 and 5 of the report, be noted.

Reasons for Decision

Reason: The decision is sought to develop further proposals 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: [Executive 17 November 2022 - Draft Medium Term Financial Strategy \(MTFS\) and General Fund Budget 2023-24 report](#)

Reporting Person: Leigh Clarke, Finance Director
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Contact Person: Leigh Clarke, Finance Director
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Portfolio Holder: Councillor Dale Roberts
Email: clrdaledale.roberts@woking.gov.uk

Shadow Portfolio Holder: Councillor Kevin Davis
Email: clrkevin.davis@woking.gov.uk

Date Published: 2 December 2022

1.0 Introduction

- 1.1 At its meeting In November, the Executive received a report on the Medium-Term Financial Strategy (MTFS) which updated financial planning assumptions and set out the forecast income, expenditure and use of reserves over the 4 years to 2025/26.
- 1.2 The forecast position described in this report was serious. The use of reserves to balance the budget was forecast to continue at such a rate that reserves fell below the Council's minimum set level by the end of 2023/24 and would be fully utilised during 2024/25.
- 1.3 It was reported that more far-reaching actions would need to be taken with greater pace and certainty in order to address the forecast budget shortfall.
- 1.4 The Council's work on financial resilience requires the Council to significantly reduce and eradicate its reliance on reserves to cover in year budget shortfalls and to establish a level of reserves which reflects the commercial and regeneration operations that the Council has established.
- 1.5 Without a plan to recover the position, it would not be possible for the Finance Director to provide the necessary statement on the robustness of the budget estimates and adequacy of reserves to set a balanced budget for 2023/24.

2.0 Risk and Financial Resilience

- 2.1 The Council has a Risk Management Strategy that is reviewed annually. Within the strategy the Council has a Strategic Risk Register that is held by the Council's Corporate Leadership Team. The Strategic Risk Register is being reported to the January 2023 meeting of the Executive and has been reviewed by the Overview and Scrutiny Committee at its meeting in November 2022 on its way through to the Executive.
- 2.2 In the Draft Strategic Risk Register, the risk of not being able to set a balanced budget has been identified as the most significant risk to the Council (risk 1 in the strategic risk register). The risk register reviewed by the Overview and Scrutiny Committee in November 2022, and due to be considered by the Executive in January, is attached as Appendix 1.
- 2.3 It can be seen from reference to Appendix 1 the recognition of the risk to setting a balanced budget and the mitigating actions the Council has put in place to manage this risk. Despite these mitigations, however, the level of risk remains outside of the Council's established risk appetite and therefore further mitigating actions are required to bring the risk towards a level that the Council can tolerate.
- 2.4 It has been recognised in updates to the MTFS over the last 2 years, from the outset of the Covid pandemic, that the financial position of the Council was in a critical position. The Council had been able to maintain services and provide community infrastructure as a result of its strategy to develop alternative sources of funding through investing in local assets that provide a commercial return for the Council. These returns are then invested in delivering services to the communities of Woking.
- 2.5 The pandemic resulted in an immediate, and dramatic, fall in activity and footfall severely impacting the Council's car parking revenue and affecting tenants across all of the commercial estate. It has become clear over the last 9 months that, despite the removal of all Covid restrictions, the economic model on which the Council's budget is based has changed.

Medium Term Financial Strategy (MTFS)

- 2.6 The Council made an application to Government in 2021 for exceptional support. This application was due to the impact the Covid 19 pandemic had on its commercial income budgets.
- 2.7 The basis of the application related to the impact that Covid 19 was having on the economy and specifically the reduction in income to the Council from car parks and its commercial estate. The Council maintained, at the time, that it had the financial strategy to withstand the vagaries of normal economic cycles but Covid impacts far exceeded the scenarios it envisaged and therefore the Council sought support to enable it to capitalise its “losses” so that these could be spread over time.
- 2.8 The application for Exceptional Support was not approved. It was recognised that although some elements of the financial position in the Council are exceptional, it did not have an immediate and pressing problem in its finances, rather it predicts that it may run out of resources in the medium term. Many other Councils are in this position and will need to rework their MTFS as the pandemic recedes, the economy recovers and more insight is gained to future reform of Local Government Finance.
- 2.9 Many other Councils are experiencing financial pressures from both the current high levels of inflation and the ongoing impact of the pandemic, Brexit and the war in Ukraine. In recent months increasing numbers within the sector have expressed concerns about the sustainability of budgets and ability to balance finances in the current economic climate. The challenge of inflationary pressures on services being experienced by the Council is one shared across the sector. This Council has, however, exposure to reductions in combined income which are more significant than most other local authorities. The costs and lost income experienced over the last 2 years, and the financial climate post pandemic, have resulted in the financial position now becoming an immediate problem.
- 2.10 The Council will provide details of the actions it has taken over the last 18 months against the criteria that was established for Exceptional Support to the non-statutory review that is being commissioned by the Department for Levelling Up Housing and Communities (DLUHC).
- 2.11 The Council has maintained ongoing contact with officers in DLUHC, keeping them updated on the progress of the Council’s MTFS. At this stage they have not had confirmation of appointments to the review panel or when it will commence. Further details are anticipated by 2nd – 3rd week in December and if this is the case it would provide the opportunity to provide some integration of this review with the emerging Council MTFS.
- 2.12 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 in Appendix 3 to this report, with the recommendations from within the EY assessment mapped to the Council’s Financial Resilience Framework at Appendix 4.
- 2.13 An update to the key elements of financial resilience work undertaken between July and October was reported in the Draft MTFS and General Fund Budget 2023-24 report to the 17th November 2022 meeting of the Executive. Since this update, further resilience work has been undertaken which has informed this report to the 8th December 2022 Executive. The key areas of additional work are:

Medium Term Financial Strategy (MTFS)

Financial Resilience Framework Area	EY Financial Resilience Recommendations	Update
Financial Governance	Challenge High-Cost Service Expenditure	<ul style="list-style-type: none"> • See section 6 of this report relating to the work plan over December – January 2023 • Sector support agreement with Surrey County Council – see Appendix 5 for Agreed Scope of work
Financial Governance	Evaluate the reporting and business intelligence landscape	<ul style="list-style-type: none"> • Sector support agreement with Surrey County Council – see Appendix 5 for Agreed Scope of work • Green Book review reported through Overview and Scrutiny Committee and agreed by Council

2.14 A full overview on all of the actions taken on the Financial Resilience Framework will be included in the MTFS update report to the 19th January 2023 meeting of the Executive. This overview forms an integral part of the S151 Officers view on their statement of budget robustness and sustainability.

2.15 The Council does not have the financial resilience to absorb the impacts of the current economic downturn in the short and medium term and cannot solely rely on its investment approach to protecting services. The Council needs to develop a more far reaching strategy of service rationalisation that will enable it to manage within the predicted level of funding available whilst both ensuring it maintains the services it is statutorily required to provide and uses the strategic priorities established within the Woking for All strategy to target funding.

3.0 A Balanced Budget

3.1 Local Authorities are required to set a balanced budget under the Local Government Finance Act. To set a balanced budget the Council must be content that the combination of income, use of reserves and having robust savings plans in place means that underlying income will cover on-going costs and future commitments in a sustainable and manageable way.

3.2 Since the beginning of the Covid pandemic in 2020 the Council has used reserves to cover additional costs and lost income. Whilst it is appropriate that reserves are used to cover the effects of financial shocks, losses of income or increases in costs, over time the position must be brought back into balance.

Medium Term Financial Strategy (MTFS)

- 3.3 The underlying financial position, post Covid, must now be assumed as the new baseline and can no longer be considered 'temporarily' impacted by Covid. The forecasts presented in November showed that, with no further action, costs continue to exceed income and will deplete reserves within the next 2 years.
- 3.4 If the Finance Director (S151 Officer) considers that the Council is unable to set or maintain a balanced budget, after all routes have been explored, then a Section 114 report must be made. The 114 process requires that all non-essential spending is legally suspended while the Council considers the implications. Further detail of the process is provided in Appendix 2.

4.0 Strategic Approach to setting 2023/24 budget

- 4.1 The MTFS update in November showed that the Council's reserves would fall below minimum levels by the end of 2023/24 and would be all be utilised during 2024/25 unless further actions were taken. Whilst savings have been identified through two 'Fit for the Future' exercises during 2021/22 and 2022/23, there have also been offsetting inflationary pressures. The savings to date have simply not been sufficient to alter the financial outlook.
- 4.2 As set out in the sections above, in the absence of a programme of mitigating actions, it would not be possible to set a balanced budget on this basis, nor for the Finance Director to provide the statement on the robustness of the budget estimates and adequacy of reserves to set the 2023/24 budget.
- 4.3 The Council must take some immediate actions in order to be able to present a budget which can be adopted in February for 2023/24. These actions fall into two categories which are further detailed below:
- Analysis to identify cost savings from discretionary services which demonstrate that a sustainable budget can be achieved in the time available, through temporary use of reserves
 - Actions that will have a direct and / or indirect impact on protecting the level of revenue reserves which provide more time to address the annual budget deficit
- 4.4 It is important to recognise that both of these areas must be addressed. Protecting reserves through temporary measures simply delays the use reserves without addressing the net cost of services. Identifying further savings at the level required, is unlikely to be possible before reserves are exhausted.

5.0 Stabilised Reserves 2022/23 onwards

- 5.1 As highlighted in 4.3 earlier in this report, the Council must take some immediate actions in order to be able to present a budget which can be adopted in February for 2023/24.
- 5.2 The actions in this section will have a direct and / or indirect impact on protecting the level of revenue reserves which provides more time to address the annual budget deficit.

Commercial Property transfer

- 5.3 One of the most significant budget pressures for the Council is the impact of fluctuations in commercial property income and void costs. Historically there would be an underlying level of tenant turnover or, at times, a pressure on a particular type of property or tenants in a particular sector. The pandemic impacted almost all businesses resulting in a concentration of business

property decisions being made within a short timescale, and market pressure on the level of rents. Some of these changes are yet to be realised as tenants approach lease break clauses over the coming years.

- 5.4 The Council has a substantial holding of commercial property within the town centre, acquired to support and facilitate the regeneration and growth of the town. Given the scale of the portfolio, and the importance of the income budgets within the Council's budget, it is critical that the Council manages these assets in the most effective and efficient way and protects the Council taxpayer from short term variations in the net income generated.
- 5.5 The Council's asset holdings and the future potential opportunity they offer the Council remains key to the movement towards a stabilised budget position over time. This includes identification of assets for sale, redevelopment or repurposing as well as attracting new business and private investment to the Borough.
- 5.6 It is recommended that the Council explores transfer of town centre strategic property assets to a wholly owned company structure achieving the following benefits:
- Establishing a regular income from the commercial vehicle minimising annual budget fluctuations
 - Achieving efficiency and co-ordination in the management of the Council's commercial property estate
 - Assembly of regeneration assets to drive out greater regeneration synergies and attracting inward investment
 - Allowing greater flexibility over the profile of amounts set aside for the repayment of the underlying debt
- 5.7 The tax and financial implications would need to be fully assessed before a recommendation is made to the Council, however, it is estimated that the flexibility on debt repayment could enable £2.5m of revenue reserves to be preserved annually in the short term.

Car Park Management Fee

- 5.8 In March 2022 the new car parks opened as part of the Victoria Place redevelopment. It has long been recognised that the additional income generated from the new spaces would not initially cover the financing costs of the investment – that the assets were developed for future capacity.
- 5.9 As set out in the Victoria Square update report to the Executive in November, the car parks currently remain an asset of the company, VSWL, with a management arrangement to be put in place with the Council. The Council will retain income generated in parking fees and pay a management fee equivalent to the financing costs on the car park construction.
- 5.10 To date the income generated from new visitors to the town has been substantially less than initial projections, given the delay in the completion of Victoria Place and with the hotel not yet open. This is in addition to material, and ongoing, reductions in parking activity following the Covid pandemic.
- 5.11 It is therefore recommended that the Council negotiates a delay in the payment of the car park management fee until such time as the full development is open and activity has increased. The annual fee is circa £1.5m which could be saved for 2022/23 and 2023/24 with a gradual increase to the full fee over a timescale agreed with the company.

Development income

- 5.12 The Council holds some development income (s106 monies) which have been set aside for investment in affordable housing. There is a good level of confidence that it can be demonstrated that sufficient affordable housing has been delivered by the Council or through Thamesway Housing. Subject to providing the evidence supporting this confidence, these funds could be released to revenue, providing a one-off additional to reserves of approximately £6m.
- 5.13 It is recommended that this be explored with Thamesway with a view to these funds strengthening the reserves position in the short term. This recognises the immense investment the Council has made to housing delivery over recent years through its investment in Thamesway Housing Ltd.
- 5.14 A decision on this issue is not been asked for or required in this report, only that it is explored and brought forward within the update report to the 19th January 2023 meeting of the Executive.

Capitalisation of costs

- 5.15 To protect the use of reserves, project costs which have been financed by revenue or reserves will be reviewed to establish if any could have been funded by capital resources. This will include the cost of officers involved in projects as well as direct project expenditure and will consider spend from 2019/20 onwards where the statement of accounts are yet to be finalised.

6.0 Discretionary and Statutory Service Analysis

- 6.1 The objective of the actions in the section above is to provide time for the Council to realign its budgets within the annual resources available to provide services. Alongside these actions a fundamental review of the Council's services is required, to identify the scope for savings from discretionary services and statutory services where the level of expenditure exceeds the statutory minimum levels.
- 6.2 The Council provides services significantly beyond statutory levels. In order to achieve a balanced budget position, all expenditure beyond statutory level must be reviewed with a view to removing the net cost of any discretionary activity. Given the critical financial position this can no longer be an adjustment of the existing financial model, but must represent an essential structural reset of budgets and commitments.
- 6.3 Work has already commenced on analysing the Council's budgets to assess the opportunity within these to realise reductions in costs. It is critical that the right decisions are made and the impact of any actions are fully understood and costed.
- 6.4 The Council is very appreciative of the support that is being offered by SCC to undertake this analysis. This is part of a sector support approach that is being adopted that looks to maximise the capacity and capability that exists within public sector bodies in Surrey. SCC have provided both dedicated senior finance support at 0.4fte on a project basis as well as support from their commercial finance team to review treasury activity and the loan funding to companies.
- 6.5 The Terms of reference for this support is attached at Appendix 5.
- 6.6 In addition to the review of Council services, a realistic savings programme generating savings from transformation and efficiency is required. This will need to recognise capacity restrictions and resource requirements to support the change.

- 6.7 A programme of reviews is being established to take place over December and January 2023 to identify further budget savings opportunities. This programme provides an essential element of assurance that the S151 officer will need to rely on to enable them to provide their budget robustness and sustainability assessment.
- 6.8 The Terms of reference for this programme of reviews is attached at Appendix 6.

7.0 February 2023 budget report

- 7.1 In order for the Council to set a budget for 2023/24 the Finance Director must be able to provide assurance over the adequacy of the budget estimates and the sustainability of reserves.
- 7.2 The sections above set out details of the work that is required to enable these statements to be made and the budget to be established on a reliable basis.
- 7.3 If all are actioned, the measures to generate additional resilience to the reserves position are likely to provide an additional year to deliver the necessary savings to meet the budget savings gap.
- 7.4 The February budget report will need to provide adequate detail over the level of savings which can be achieved through review of the Council's discretionary spend. Whilst it is likely that it will take longer to prepare business proposals to the level of detail required for final decision making, it will be necessary to understand the potential for savings which can be achieved, and the areas which will be targeted.
- 7.5 The Council must be clear where there is the opportunity to address the budget shortfall, with greater certainty than has previously, and in what timescales these savings can be secured. Without this level of detailed analysis and planning there cannot be confidence that the financial position can be balanced.

8.0 Autumn Statement

- 8.1 The Chancellor's Autumn Statement was delivered on 17 November 2022 alongside the Office for Budget Responsibility's (OBR's) Economic and Fiscal Outlook forecasts. The Autumn Statement responds to the OBR forecasts and sets out the medium-term path for public finances.
- 8.2 The Autumn Statement confirmed that departmental budgets in 2023/24 and 2024/25 will be maintained at least in line with the budgets set at the Spending Review, after removing costs relating to the Health and Social Care Levy which will no longer be introduced as a separate tax from April 2023.
- 8.3 Specific detail on local government funding at an individual local authority level will not be available until the Provisional Local Government Finance Settlement expected in the week commencing 19 December. However, the following announcements were made which directly impact the Council:
- The referendum limit for increases in council tax will be increased to 3% per year from April 2023. The previous policy was a limit of 2%, with additional discretion for District Council's up to a £5 increase. It is not clear whether the £5 will also be amended. For the Council an additional 1% increase generates approximately £110k. This would take Woking Council's share of Council Tax, for a Band D property, from £255.46 in 2022/23 to £263.12 in 2023/24.

Medium Term Financial Strategy (MTFS)

- From 1 April 2023 business rates bills will be updated to reflect changes in property values since the last revaluation in 2017. This will include business rates paid by the Council on its own properties. Transitional support will apply and the Council will be fully compensated for any loss of income from business rates as a result of revaluation and will receive new burdens funding for administrative and IT costs.
 - The increase in social housing rents, with the exception of supported housing, has been limited to 7% - under the current rules rents could have increased by up to 11.1%.
 - Increases were made to the National Living Wage to apply from April 2023.
 - The Energy Bill Relief Scheme (EBRS) will be reviewed to determine support for non-domestic energy consumers, excluding public sector organisations beyond 31 March 2023. The government states that the overall scale of government support offered will be significantly lower and targeted at those most affected.
- 8.4 The Provisional Local Government Finance Settlement is not expected to deliver substantial new funding announcements, with implementation of the fair funding review and business rates retention deferred to a future year. An update of the impact of announcements will be provided in the MTFS report to the Executive in January.
- 8.5 The Council will need to set its element of the Council Tax to achieve the maximum resources possible, currently assumed to be a 3% increase. For a Band D property this will be an increase from £255.46 to £263.12. Any further flexibilities offered through the Local Government Finance Settlement, which would increase revenue generation, will need to be adopted by the Council and will be incorporated into future updates of the MTFS.

9.0 Corporate Strategy

- 9.1 The Council's strategy for Council Investment to stimulate local growth; borough wide social and economic transformational change and delivering the local priorities of social and affordable housing regeneration and town centre regenerated vibrancy, remain and is a constant through the current and previous business planning periods.
- 9.2 Whilst there has been a change in the Council's administration in 2022, the priorities of the incoming administration have been established through the Working for All Corporate Strategy. Of particular relevance are the priority commitments and actions, extracted below, relating to being a High Performing and a financially responsible council with sustainable and affordable plans.

A high performing council

A financially responsible council with sustainable and affordable plans

Ensure that affordability, financial control and delivery of value for money are embedded in how the Council conducts its business

Additional priority commitments

- Get the Council's finances under control – this is our first priority
- Consider new approaches to increase income
- Make decisions in an open and transparent way

Actions

- Work constructively with the Department for Levelling Up, Housing and Communities (DLUHC) to deliver plans for a sustainable budget and directly address the concerns the Government has about the Council's levels of debt and exposure to financial risk
- Deliver clearer and more transparent financial performance reporting through to meetings of the Council
- Seek greater leverage of private sector and market investment into Woking to enhance the economic vitality of the borough and maximise the benefit that Woking communities experience from this investment

A high performing council

Develop and strengthen strategic and financial planning and performance and risk management

Additional priority commitments

- Review the financial model used to fund council owned companies
- Get expert opinion to advise on the financial sustainability of the Council's investments into companies

Actions

- Review all council investments and set clear performance targets for the returns these investments need to provide for the Council and the borough

9.3 The additional priority commitments highlighted above equally align with issues subsequently raised by the Minister within the Department for Levelling Up Housing and Communities in his letter to the Leader of the Council on 18th October 2022 which accepts the strategic regeneration ambitions of the Council but raises expectations (concerns) about:

- Needs to be sustainable
- Needs to have proportionality (Debt and funding arrangements)
- Needs to recognise and address financial risk

The details of this letter have already been made public and brought to the attention of all Councillors.

9.4 In addition to the above, role of the Council was, and is, to initiate; stimulate and create the foundations and conditions for economic and social regeneration – an exit / stage beyond full Council ownership of assets and regeneration vehicles was always envisaged whilst not being explicit about when this should be considered.

10.0 Implications

Finance and Risk

- 10.1 The finance implications are set out within this report, financial reliance and risk considerations are covered in detail in section 2.
- 10.2 The November Draft Medium Term Financial Strategy (MTFS) and General Fund Budget 2023/24 report set out the updated financial forecast for 2022/23-2025/26. The report showed that there remained a significant budget gap over the period. Whilst savings had been identified towards the £11m savings target recognised in July 2022, there were also additional pressures. Inflation on the Council's service expenditure, contracts, and energy in particular, has added significant costs over the MTFS. There has also been a substantial increase in interest rates in recent months which results in increased pressure in the short term.
- 10.3 The forecast £11m target in 2025/26 has reduced to £8m, but the short term position had worsened resulting in an increased use of reserves.
- 10.4 The Council's revenue reserves are currently forecast to fall to £16.7m by 31 March 2023 and £6.5m by 31 March 2024. The forecast shows all revenue reserves utilised with a deficit of £3.5m by 31 March 2025.
- 10.5 This report sets out the Council's response to this critical financial position.

Equalities and Human Resources

- 10.6 No specific human resources or training and development implications.
- 10.7 There are no equalities implications.

Legal

- 10.8 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.
- 10.9 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.
- 10.10 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.
- 10.11 The MTFS ought to be consistent with the Council's work plans and strategies, particularly the Corporate Strategy
- 10.12 The Council is required to obtain approval by Full Council of its MTFS.
- 10.13 If Finance Director considers that the Council is unable to set or maintain a balanced budget, after all routes have been explored, then she is under a statutory duty to make a Section 114 report.

10.14 Section 114 (3) Local Government Finance Act 1988, states that: “The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.

11.0 Engagement and Consultation

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

REPORT ENDS

Woking Borough Council Strategic Risk Register November 2022

Identification and Classification of Risk									Controlling / Managing the Risk						Risk within agreed appetite level?		
Risk No	Directorate	Risk Classification and Appetite	Threat (Cause)	Consequence	Controls in place	Probability	Severity	Risk Score	Approach	Recommendation / Mitigation	Comment/update on progress since last review (August 2022)	Risk Owner	Target Date	Revised Probability		Revised Severity	Revised Score
1	Corporate Resources	Financial Risk - Moderate Appetite (up to 9)	<p>Risk that the Council is unable to set a balanced budget without significant negative impact to, and reduction of, service delivery.</p> <p>The Council's revenue budget is based on predicted levels of demand and need. There are significant financial challenges in the budget due to a range of issues outside of the Council's control. These include national/global challenges resulting from inflation, cost of living, and uncertainty surrounding Ukraine, as well as Council specific issues such as recovery of commercial and fees and charges income post Covid, timing of investment by group companies, levels of government grant settlements, changes in Government policy e.g. HRA rents, removal of funding by SCC and other agencies for services, increased demand/changing arrangements for services and the impact of the Councils Investment Programme. There is also uncertainty on future Government policy regarding Business Rates and the potential impact, including any additional responsibilities.</p>	<ul style="list-style-type: none"> Impact on income. Curtailment of services. Alternative means of provision needed. Reprioritise services. Potential cuts in services. Impact on staff. Adverse audit opinion Political issues Damaged reputation / adverse publicity Reduction in resource available to maintain properties (HRA). 	<ul style="list-style-type: none"> Integrated service and financial planning approach ensuring alignment of budgets to strategic priorities. Budget monitoring in green book. Ongoing update of medium term financial strategy. Mitigation strategies in place for income generation/cost reductions. Invest to save projects and other transformation and efficiency and saving initiatives (Fit For The Future). 	4: Probable	4: High	16	Treat	<ul style="list-style-type: none"> Maintain current controls. Continue to review financial monitoring/forecasts. Continue to review Investment Programme. Explore income generation opportunities. Completion of the Strategic Asset Management Plan. Development of a clear approach to commercialisation, risk appetite, and investment as part of the MTFS. Review staffing levels. Seek different delivery models. Undertake a programme of service reviews, transformation and savings opportunities 	<ul style="list-style-type: none"> MTFS reports to March and July Council. Update to November Executive Company financial models reviewed and being incorporated into MTFS. Financial resilience framework developed and reported as an integral part of the MTFS. Fit for the Future programme established and working on phase 2 savings Engaged and supporting work with DLUHC review of the Councils debt levels and financial position. Established finance capacity support arrangement with SCC. 	Leigh Clarke	Ongoing	3: Possible	4: High	12	NO
2	Corporate Resources	Supplier, Contractor, Partnership Risk - High Appetite (up to 12)	<p>Risk that WBC Group Company(s) do not deliver to their approved business plans.</p> <p>The Council has made significant long term investments in a number of Group Companies. The Council's medium term budget is more heavily dependent on the performance of the Group Companies given the scale of recent investment. Should any of the Companies fail for whatever reason, the ability to repay loans to the Council may be compromised, as will any projected income that the Council might have received.</p>	<ul style="list-style-type: none"> Failure to repay loans to WBC and meet liabilities. Extra stress on Council revenue. Impact on capital investment. Significant impact on service delivery. Extra capacity and resources required to manage the situation. Detracts capacity and resource from other key areas. Reputational. 	<ul style="list-style-type: none"> Group Companies are subject to robust governance and are open and transparent. Staff capacity has been increased to underpin business. Companies are subject to robust financial reporting processes. Greater control of projects and business risks. Annual review of the Group Companies business plan has been undertaken. 	4: Probable	4: High	16	Treat	<ul style="list-style-type: none"> Continue to monitor performance. Support increased business activities. Monitor/Deliver on identified FFF savings and develop corporate FFF programme. Progress work to consolidate company structure. Undertake a formal group company governance review. 	<ul style="list-style-type: none"> Thamesway Business Plan will be presented to the December Council. Company Governance arrangements reviewed and agreed by July Council to adopt national best practice principles. Additional resources approved to strengthen client side stakeholder advisory capacity and capability. VSWL performance report to the November Executive. Developed a scope for additional support and review from SCC. 	Kevin Foster	Ongoing	3: Possible	4: High	12	Yes
3	Corporate Resources	Service Delivery Risk - Moderate Appetite (up to 9)	<p>Risk that workforce resilience will be negatively impacted if recruitment, retention, and succession planning is not actively managed.</p> <p>As with any organisation, the Council is reliant on a workforce that can demonstrate a range of particular skills and/or an understanding of key processes, systems and projects. The Council has big ambition, and a dependable/stable workforce is key to future success. Given current national challenges outside of the Council's control (inflation, cost of living, recruitment, upward pressures on costs etc.), there is a risk that workforce resilience will be impacted if recruitment, retention, and succession planning is not actively managed. This might have specific impact on staff in lower paid roles who might seek career change for higher wages.</p>	<ul style="list-style-type: none"> Loss of corporate memory. Disrupts ability to operate. Further reliance on key people. Abdication / deferring of responsibility. 	<ul style="list-style-type: none"> Regular team meetings and briefings to share information. Systems such as SharePoint and Contract Management in place to aid collection of information. Leadership Academy for senior managers has upskilled officers.. SharePoint project is now complete. 	4: Probable	3: Moderate	12	Treat	<ul style="list-style-type: none"> Develop a Learning and Development Strategy. Continue to implement SharePoint and other information management initiatives to ensure that all information is recorded and is easily accessible. Develop resilience and knowledge between teams. Development of a People Strategy. Engagement with staff in February 2022. 	<ul style="list-style-type: none"> Appointment of Strategic Director for Corporate Resources. Pay Award agreed for 2022/23. Investors in People reaccreditation commenced. Need to progress a recruitment and retention strategy as local and national pay awards are more likely to reduce our offer as an employer of choice - this risk is moving outside of our risk appetite if further progress is not made. Targeting a recruitment and retention strategy for February 2023. 	Kevin Foster	Ongoing	3: Possible	3: Moderate	9	Yes
4	Corporate Resources	Business Continuity / Resilience Risk - Moderate Appetite (up to 9)	<p>Risk that the capability and capacity of the Council is not sufficient to deliver the ambitions of the Woking for All Strategy.</p> <p>The Council has adopted an ambitious Corporate Strategy called 'Woking For All'. The strategy runs from 2022 to 2027, and sets a clear vision of what we want to achieve over the next five years. Woking for All sets a number of clear objectives for every part of the Council, but there is a risk that these will not be achieved if the necessary capability and capacity is not in place to deliver it.</p>	<ul style="list-style-type: none"> The objectives listed in the strategy will not be delivered. The outcomes and benefits for the community will not be realised. Reputational damage as the strategy is a public statement of intent. 	<ul style="list-style-type: none"> The introduction of the Corporate Programme Board has provided a forum to which progress can be monitored and senior managers can escalate capability/capacity issues. 	3: Possible	4: High	12	Treat	<ul style="list-style-type: none"> Develop robust monitoring arrangements to regularly review the progress of all objectives. Ensure that senior managers have a forum to escalate capability/capacity issues. Introduction of a new CLT structure to streamline / strengthen capacity across the Council. 	<ul style="list-style-type: none"> Woking for All supplementary priorities developed in response to a change in administration. A monitoring regime for the Woking For All Strategy has been developed and work is now underway to report to CLT and Executive. Something about enhanced focus on partnership working i.e. County Deal, voluntary sector - Partnership report going to the November Executive. New high level partnership governance structure and partnership working being reported to November Executive – incorporating initial response to SCC County Deal proposal. 	Kevin Foster	Ongoing	3: Possible	3: Moderate	9	Yes

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5	Place	Business Continuity / Resilience Risk - Moderate Appetite (up to 9)	Risk that a sustained emergency or business continuity situation occurs and the Council fails to respond effectively. The Council has adopted an Emergency Plan and a Business Continuity Plan. Despite procedures in place, there is always a risk that appropriate resources cannot be mobilised within a sufficient timeframe to deal with a sustained emergency or business continuity situation. Emergency situations, as highlighted by flooding and issues resulting from climate change, are likely to become more frequent. From a business continuity perspective, there is a risk that possible energy blackouts throughout winter may impact on the delivery of critical Council functions.	<ul style="list-style-type: none"> Confusion. Mixed messages internally and externally. Impact on key services. Service failure. Impact on vulnerable people. Potential health and safety issues. Possible corporate manslaughter. Drop in standards. Possible breach of contract. 	<ul style="list-style-type: none"> Emergency plan procedures are in place. Regular training and exercises are provided to staff. Enhanced forecasting of weather emergencies. Mutual aid agreements with other organisations are in place. Emergency 4x4 vehicles are available. Minimum 12 Incident Liaison Officers have been trained. All caretakers at WBC Centres have keys to access all premises. Business Continuity procedures in place with annual updates/monitoring. 	3: Possible	3: Moderate	9	Treat	<ul style="list-style-type: none"> Continue to develop partnerships. Maintain existing controls. Continue to explore collaboration opportunities with SCC to increase resilience. 	<ul style="list-style-type: none"> SCC Emergency Planning resource has been seconded to support the Council. Additional staff have been identified/trained to support emergency planning response. Annual Business Impact Analysis (BIA) has been undertaken to identify critical Council functions. Business Continuity Action Cards, including response to possible blackouts, have been developed for all critical functions. 	Giorgio Framaliccio	Ongoing	2: Unlikely	3: Moderate	6	Yes
6	Corporate Resources	Cyber Risk - Low Appetite (up to 4)	Risk that the Council's ICT is significantly compromised due to cyber-attack resulting in material business disruption. For the Council to operate effectively, the stable and consistent access to ICT is essential. ICT underpins everything the Council does and the network, telephony, infrastructure and application data is required at all times if the Council is to function. Despite best efforts, there is always a risk that ICT might suffer significant compromise due to a cyber-attack that would result in material business disruption.	<ul style="list-style-type: none"> Systems not available. Loss of data. Inability to process data accurately and in a timely way. Possible inability to make correct payments, recover monies, provide advice and (self) service on time and in accordance with customer expectations. Loss of income. Loss of reputation. Key business areas throughout the Council may not be able to work which could have a knock on effect for customers, residents and partners. Possibility of financial cost in terms of purchasing new IT equipment. 	<ul style="list-style-type: none"> Anti-virus software installed on servers, PCs and laptops. Intruder protection software in place on the network. Mobile devices protected with device management software. Firewalls in place to protect access to the network. Access to PC's and network is password controlled and permissions managed by Active Directory. Restrictions and policies in place on removable devices. Emails and web traffic scanned for malicious sites / content. Data is backed up overnight. Back up data retained off site which would enable data & key systems to be restored. Remote access to network requires 2 factor authentication. Servers are virtualised and replicated at second data centre. Maintain ICT security policies to ensure secure systems are implemented. 	3: Possible	4: High	12	Treat	<ul style="list-style-type: none"> Comprehensive review of ICT Policies. Establish a departmental risk register. A new cyber security module will be rolled out to all staff in January 2023 with mandatory training. All laptops on M365 build by February 2023. Update all cyber security policies by 31 December 2022. Appoint a cyber security specialist by May 2023. Actions from the LGA Cyber Security Stocktake are to be reviewed and updated in line with current best practice to mitigate areas of risk. 	<ul style="list-style-type: none"> Mazars have completed a Cyber security review. Four of the nine recommendations have already been delivered. These include: <ul style="list-style-type: none"> A Cyber Security Working Group has been established. This reports to an Information Governance Group of senior officers. Domain admin accounts adjusted. Access management reviewed. Schedule weekly scans moved to mid week. Leavers process revised, accounts locked after 30 days of non use. Digital Strategy action plan is complete. 	Adam Walther	ongoing	2: Unlikely	3: Moderate	6	No
7	All	Service Delivery Risk - Moderate Appetite (up to 9)	Risk that Government policy will impact on the long to medium term strategic planning of the Council. The Government is introducing (or considering to introduce) a number of key initiatives and making changes to existing policy/legislation. These changes will have a significant impact on Local Government across a range of functions such as: housing, business rates, MRP (Minimum Revenue Provision), planning etc. but the specifics are not yet know. There is a risk that Government change will impact on the long to medium term strategic planning of the Council.	<ul style="list-style-type: none"> Lack of clarity regarding direction of travel. Financial uncertainty resulting from policy change, devolution etc. Not able to plan with any certainty for long term strategic vision. 	<ul style="list-style-type: none"> Engaged in conversation with politicians to try to influence change. Working with existing Council and Local Government networks. 	3: Possible	4: High	12	Tolerate	<ul style="list-style-type: none"> Strengthen policy resources within the Council to enable proactive 'horizon scanning' of Government initiatives. It is recommended that the Council remains flexible to deal with issues as and when they arise. Continue to engage in Delivery Board (Leaders and Chief Execs) on regular basis to pursue joint activities. 	<ul style="list-style-type: none"> Appointment of Corporate Resources Strategic Director to enhance capacity in this area. 	Julie Fisher	Ongoing	3: Possible	4: High	12	NO
8	Place	Financial Risk - Moderate Appetite (up to 9)	Risk that the economic vitality of Woking is not sustained. Woking Town Centre is of key strategic importance to the economic viability of the Borough. Economic development is a priority of the Council and significant investment has been made in the town centre, with enhancements to Wolsey Place, the public realm in general and flagship projects such as the Victoria Square development. These developments are designed to attract businesses and customers into the town and increase income via business rates, car parking etc. Given the current economic climate and external pressures, there is an ongoing risk that the economic viability of the town is not sustained.	<ul style="list-style-type: none"> Uncertainty in the local economy. Businesses move away from the town and business rates decrease. Vacant premises in town centre. Negative impact on Woking pride of place. Loss of income. Loss of reputation. Council priority of economic development will not be met. 	<ul style="list-style-type: none"> Development of the town centre to enhance the surroundings and make area attractive to business/customers. Economic development strategy written and adopted and action plan agreed (autumn 2021) Consulting with businesses to develop partnerships i.e. McLaren, WWF. Digital Strategy has been written and adopted. 	3: Possible	4: High	12	Treat	<ul style="list-style-type: none"> Continue to apply existing controls. Deliver the Economic development action plan. Continue to invest to enhance the quality of the town centre. Work is underway to diversify the town centre economy i.e. exploring other/new uses that are complimentary to town centre activities that will encourage visitors to the town. 	<ul style="list-style-type: none"> Commencement of the Town Centre Master Plan. Economic development strategy written and adopted and action plan agreed. Transport improvements in the town centre nearly complete (WITP project). Victoria Place opened to the public in March 2022. Victoria Place progress report will go to November Executive. Saturday parking tariff has been trialled from September to attract footfall. Develop a Destination Woking brand. Digital Strategy has been written and adopted. 	Giorgio Framaliccio	Ongoing	3: Possible	3: Moderate	9	Yes

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9	Corporate Resources	Reputational Risk - Low Appetite (up to 4)	<p>Risk that renewed commitment to community engagement does not improve public perception of the Council.</p> <p>High profile initiatives in the borough have received a mix of negative publicity and/or representation from residents and wider stakeholders. Feedback, both formal and anecdotal, suggests that a proportion of Woking residents have a reduced confidence in the Council's commitment to be representative and act in the best interests of the community. There is a risk that the renewed commitment to community engagement does not improve public perception of the Council.</p>	<ul style="list-style-type: none"> Distrust of Council officers, councillors. Planning application being overturned. Reputational damage. Stakeholder disengagement. 	<ul style="list-style-type: none"> Resident Panel has been re-established to see the views of the local community. Community Engagement work underway - roadshows across the borough. Development of a long term Corporate Plan. Implementation of transparent governance arrangements. 	3: Possible	3: Moderate	9	Treat	<ul style="list-style-type: none"> Continue to maintain/implement recent controls that have been put in place. 	<ul style="list-style-type: none"> Community engagement strategy drafted and prospectus being developed. Woking community forum further established as the key focal point for all key community engagement activity. Developed an enhanced consultation strategy for the Town Centre Masterplan. 	Kevin Foster	Ongoing	2: Unlikely	3: Moderate	6	No
10	Communities	Service Delivery Risk - Moderate Appetite (up to 9)	<p>Risk that cost of living pressures for Woking residents will lead to increased demand on Council service that cannot be met within existing resources.</p> <p>The national cost of living crisis (resulting from high inflation, high energy and food costs, global uncertainty etc.) will have a direct impact on the residents and communities of Woking. As more residents are impacted many will look to the Council for additional support. There is a risk that this increased demand on Council services will not be able to be met from within existing resources.</p>	<ul style="list-style-type: none"> Residents unable to pay rent, potentially leading to homelessness. Households falling into fuel poverty. Households seeking additional assistance from the voluntary, community and faith sectors which are also facing challenging times. Council might need to rationalise/prioritise services to focus on the needs of residents. 	<ul style="list-style-type: none"> Partnership working with the VCFS sector is well established. the Woking for All Strategy has set clear priorities for the Council with the focus on supporting residents. Efficient processes are in place for the distribution of Government relief funds. 	4: Probable	4: High	16	Treat	<ul style="list-style-type: none"> Develop a clear Medium Term Financial Strategy to ensure the Council is financially ready and able to assist where able. Implement the cost of living action plan resulting from the Cost of Living Summit with key partners. Clearly sign-post available support and Council services to residents online and in the Woking Magazine. Maintain an up-to-date cost of living website. 	<ul style="list-style-type: none"> Cost of Living summit with partners held in September 2022. Dedicated cost of living webpage in place. Autumn 2022 Woking Magazine focussed on Cost of Living feature. Action plan developed and progress reported regularly to the Executive. Voluntary sector offer promoted to the public through the "Working Together for Woking" Voluntary Sector Fair held in November 2022. 	Louise Strongitharm	Ongoing	4: Probable	3: Moderate	12	NO

Balanced Budget and Local Government Finance Act 1988 Section 114

- 1.1 A sustainable balanced budget demonstrates that income equals spend over the short and medium term. It is a financial plan based on sound assumptions which will take into account deliverable cost savings and income growth strategies as well as usable reserves.
- 1.2 If the Finance Director (S151 Officer) considers that the Council is unable to set or maintain a balanced budget, after all routes have been explored, then a Section 114 report must be made. The 114 process requires that all non-essential spending is legally suspended while the Council considers the implications.
- 1.3 Within the Local Government Finance Act 1988, Section 114 (3) states that: “The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.
- 1.4 This means that for Local Government, it is the Chief Finance Officer or Section 151 officer who has the role under law of being the most senior financial advisor to the wider Council’s leadership on its financial plans. Uniquely across the public sector however, the CFO also has the power and responsibility to legally suspend spending for a period of time if they judge the Council does not have a balanced budget or the imminent prospect of one.
- 1.5 It means that no new expenditure is permitted, with the exception of that funding statutory services, including safeguarding vulnerable people, however existing commitments and contracts will continue to be honoured.
- 1.6 Council officers must therefore carry out their duties in line with contractual obligations and to acceptable standards, while being aware of the financial situation. Any spending that is not essential or which can be postponed should not take place and essential spend will be monitored.
- 1.7 The only allowable expenditure permitted under an emergency protocol would include the following categories:
 - existing staff payroll and pension costs
 - expenditure on goods and services which have already been received
 - expenditure required to deliver the council’s provision of statutory services at a minimum possible level
 - urgent expenditure required to safeguard vulnerable citizens
 - expenditure required through existing legal agreements and contracts
 - expenditure funded through ring-fenced grants
 - expenditure necessary to achieve value for money and / or mitigate additional in year costs
- 1.8 Councillors have 21 days from the issue of a Section 114 notice to discuss the implications at a Full Council meeting.

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

Surrey County Council and Woking Borough Council

September 2022

Borrowing and Investment Portfolio

1. Background

- 1.1. Surrey County Council (SCC) and Woking Borough Council (WBC) met on 5th October 2022 to discuss a finance partnership engagement. This was at the request of WBC who need to identify additional expertise and resource to support them to deliver their Medium - Term Financial Strategy and Fit for The Future change programme.
- 1.2. WBC are looking for this support to be targeted at addressing its high levels of borrowing and investment into town centre and housing regeneration programmes and companies that are being used to deliver this regeneration.
- 1.3. Further to the initial meeting on 5th October 2022, WBC have received a letter from the Minister of State in the Department of Levelling Up, Housing and Communities (DLUHC) expressing concerns about WBC's high levels of debt and the ongoing requirement from the Council to provide loan funding to its key regeneration companies over the next 5 years.
- 1.4. Furthermore, WBC has accepted a non-statutory Rapid Review from DLUHC to be delivered in collaboration with WBC and alongside the actions that WBC has and is getting in place to deliver its MTFS. The sector support work from SCC has been specifically referenced and welcomed by DLUHC.
- 1.5. SCC is fully committed to supporting and working in partnership with WBC and the DLUHC review. It was agreed that an initial discovery phase of work would commence with immediate effect, with the aim of working collaboratively towards the production of a more formal action plan for WBC. This engagement will continue to run alongside the planned reviews and support between DLUHC and WBC, with SCC supporting the production of a transformation plan and approach to accompany the Medium-Term Financial Strategy in February 2023.
- 1.6. The engagement will use initial learning from other non-statutory reviews that have taken place through DLUHC (and the Ministry for Housing, Communities and Local Government (MHCLG) before this and the the evolving situation and working arrangements currently in place between Thurrock Council and Essex County Council arising from the statutory review that DLUHC established. The initial discovery phase of work will focus on commercial investments and borrowing, whilst also validating and testing financial assumptions and projections in the Medium-Term Financial Strategy, with the view to jointly agreeing significant areas of highest priority and next steps. This is likely to include areas that require specialist external support, areas that are and can be managed and led by WBC, as well as areas where SCC can support with targeted improvement work.

2. Initial Discovery Phase of work and priority areas

2.1. SCC is currently working with WBC on a discovery phase of work to support WBC in the planning and production of a wider transformation plan for early next year. This discovery phase of work is intended to prioritise reviewing the current commercial arrangements and risks, and stress testing assumptions following recent economic volatility. This work will also cover a review of revenue and capital positions and the medium-long term financial sustainability of WBC. The discovery phase of work commenced in October 2022 with joint reviews taking place in the following areas:

- Levels of debt and the reliance on companies for debt repayments
- Business Plans specifically linked to borrowing and investments
- Going concern assessment of companies
- Operational and Financial Management of subsidiaries (both WBC (as the shareholder) and subsidiary companies)
- Forecasting and underlying assumptions linked to commercial arrangements
- Governance and Risk Management

2.2. Work will continue in those areas throughout November and December with further work planned in:

- Shareholder arrangement review and governance
- Medium Term Financial Strategy assessment incl benchmarking and index
- Detailed Revenue and Balance Sheet reviews
- Budget Monitoring and reporting

2.3. The review will cover both the current financial position, as well as assumptions and projections over the medium to long term as part of the organisations Medium Term Financial Strategy.

2.4. A number of these areas will also be subject to review and support from DLUHC, however, SCC will continue to review and work in partnership with WBC in parallel as part of the collective response. In a number of cases, these are areas which have already been subject to external review such as the company structure review by Ernst and Young (EY) so work will include reviewing the response and actions taken and/or planned.

2.5. As well as technical areas of work, it is suggested that a review of financial governance and management within WBC is considered. The aim being to ensure there is not only suitable scrutiny of decision making, but that the organisation has the right capacity, capability and processes to provide high quality information of the financial implications to members and senior officers.

3. Tandridge District Council partnership

3.1. Surrey County Council has previously worked in partnership with Tandridge District Council (TDC) to provide a comprehensive finance function comprising s151 role and

leadership and management of a full range of financial functions, and support TDC through the Tandridge Finance Transformation Plan.

- 3.2. This agreement saw formal blended structures between SCC and TDC in order to provide management oversight, support and guidance with contributions from TDC to compensate SCC for officer time.
- 3.3. This experience of partnership working and financial transformation places SCC in a good position to support WBC in determining a programme of transformation required to improve financial functions within the Council. At this stage the partnership work does not extend beyond the discovery phase work and the expectations are that delivery of a transformation programme will be led by WBC officers (supported by DLUHC, SCC and other specialist support as required).

4. Next steps

- 4.1. We are still uncertain on the timing and remit of the support and review of WBC from DLUHC. In the most recent letter from DLUHC it was made clear that WBC and SCC should continue to work closely despite their planned work.
- 4.2. SCC will therefore continue to work in partnership with WBC over the coming months on the discovery phase of works outlined in section 2 of this briefing. An initial assessment will be provided, including views on the priority areas of work, key concerns, potential mitigations and some of the potential avenues that require further work. This will help to shape the future transformation plans for the Council.
- 4.3. SCC will support WBC with the production of a transformation plan to accompany the final budget report in February 2023. The role of SCC in supporting any areas beyond this initial discovery phase of work is still to be agreed. For more technical areas such as the company structure and loan finance, it may be the case that external advice is required to be sought by WBC over and above any requirements of the DLUHC review.

DIRECTORATE SAVINGS APPROACH – DECEMBER – JANUARY 2023**1.0 Background**

- 1.1 Two rounds of saving initiatives have now been undertaken across the Council. The first round commenced in 2021 and is currently in the process of being audited by finance colleagues to determine if projected targets have been realised. Additional savings as part of round two have been identified with items now moving into the implementation phase. Both rounds asked senior managers to aim for a 10% reduction (20% overall) in their service/staffing budgets.
- 1.2 It is clear at this stage that forecasted net savings targets have not been fully achieved. This is due to a number of reasons which include external pressures such as inflation, energy costs, and economic downturn, as well as some savings proposals realising less than had been planned for.
- 1.3 Senior managers have been proactive in identifying savings options in their respective areas and have strived to manage within the reduced budgets. Focus has been on areas where the impact on service delivery is minimised and can be mitigated. General areas of efficiency have been offered and taken. A more systematic approach to service review is required. A corporately managed approach will provide consistency and also facilitate constructive independent challenge.

2.0 Suggested Process

- 2.1 It is important that each service review is delivered in a structured, transparent, and consistent manner and that the output of the work is of a standard to accurately inform the Corporate Leadership Team (CLT) as to what options are available. To this end it is recommended that the following approach is taken:
 - Each senior manager will be invited to attend a 2-hour workshop. At each session a range of questions, fact-finding, and friendly challenge will be initiated. A full list of questions and areas of investigation will be prepared in advance of the meetings and signed-off by the MTFs working group. In broad terms however, it is anticipated that the following areas will be explored:
 - Obtain a detailed understanding of whether the service is statutory. Many services in their current form will be comprised of a mix of statutory and non-statutory functions, so an understanding of which component parts make up a service and where these fall will be required. This area of investigation will provide a clear picture of what the Council must deliver as part of its statutory obligations.
 - Non-statutory / discretionary services will then be mapped. Areas of consideration at this stage would include: is there scope to reduce/rationalise such functions, what/who would be impacted should the service be removed, are there any SLA's or contractual commitments that would impact any decision?
 - Staffing will be mapped for both statutory and discretionary services. If a service has been deemed to be statutory, what is the minimum staffing required to sufficiently discharge the Council's responsibilities? How do the suggested minimum numbers of staff compare to other authorities of a similar size? If we have higher numbers what is the justification?
 - Budget analysis – are current service budgets projected to be overspent? If so, obtain a better understanding of the pressures facing the service and whether CLT intervention can help to focus service delivery and remove unnecessary spend.

- Each session will be formally written up and any insight/recommendations made to the respective Strategic Director in the first instance. A weekly report/presentation will be given to CLT to provide an update on progress.

2.2 The output of this work will be twofold (1) it will provide a clear picture of what services the Council *must* deliver and the minimum staffing that is required to deliver it and (2) identify what functions and associated costs could be removed.

2.3 Budgets will be projected for option 1 (statutory obligations only) to see what the leanest approach across the Council would look like – this would be the baseline. The budget for each non-statutory service would also be mapped to provide CLT and members with the necessary information to understand the respective costs of each function. Depending on how the baseline compares to the savings required, CLT and members can then make an informed decision as to where service cuts should be prioritised.

3.0 Communication

3.1 Effective communication will be essential in ensuring that this process is seen as a collaborative and worthwhile initiative.

4.0 Schedule and resourcing

4.1 The MTFS will be reported to Council on 23 February 2023. An update on progress however will be reported to a meeting on the Executive on 19th January 2023. These budget specific meetings will allow for greater focus and discussion to be had around the challenges facing the Council, as well as the recommendations from officers as to what steps need to be taken to address the budget deficit.

4.2 To inform the budget setting process, the review of each service will need to be completed, analysed, and signed-off by the end of January at the latest. Given the number of meetings to be held and the preparation required, it is estimated that work will need to commence by 12th December and be completed by 2nd February 2023. An overview of emerging themes will be pulled through for 9th January 2023.

4.3 A total of 33 senior managers will need to be met over a 7 week period (not accounting for additional Christmas leave and associated disruption). When considering preparation before each meeting and the writing up of each session, it is estimated that an average of 2 meetings can be held each day.

4.4 In terms of resourcing, it is recommended that the Head of Digital and Transformation with the corporate project office team will take the lead to facilitate and drive each session supported by the finance team.

REPORT ENDS