

## MEDIUM TERM FINANCIAL STRATEGY

### Executive Summary

This report provides a forecast of the financial position of the Council for the 4 years to 31 March 2025 with the 2021/22 budget approved by the Council in February as a base.

The outlook over this period is very difficult to assess as the country emerges from the National Lockdown and looks forward to the easing of social restrictions. Whilst the government has published a roadmap it remains uncertain how personal and business practices will have changed permanently and the impact they will have on the local economy. The financial position of the Council is dependent on the recovery of income from car parking and commercial rents which have been lost in 2020/21. It is assumed that this income will recover over time, but it may take some time before pre-Covid levels are achieved.

The 2021/22 budget assumes the use of £9.5m of revenue reserves to support the provision of services. This requirement to use reserves in year is mostly due to the forecast reduction in income as the economy is expected to slowly recover from the pandemic. It is proposed to set a £1m savings target for the year to reduce this use of reserves. A decrease in the provision considered necessary for commercial rents, other forecast changes for the year, together with the savings could reduce this use of reserves to £6m.

Through the period of the Medium Term Financial Strategy (MTFS) it is assumed that a combination of budget savings, and recovery of income will be required to manage to a sustainable use of reserves while a new base level of income is restored. In total £3m of ongoing savings or additional income are assumed during this period. Based on the assumptions in this report all available revenue reserves would be used by the end of 2024/25 and there would remain a £3m budget deficit to be met. This suggests that if there is no improvement to the forecast, the Council will need to make a more significant level of budget savings as income does not return quickly enough.

Given the uncertainty over this period it is important that plans are made should further reductions be necessary. Services will be protected wherever possible especially if it is expected that budget deficits are a temporary result of the pandemic and the position can be recovered. However, it will be necessary to monitor the recovery closely and take action should forecasts change.

The Council has applied to the government for Exceptional Support for 2020/21 and 2021/22. This would enable losses resulting from Covid to be spread over a longer period, protecting revenue reserves and allowing more time for income generation to be restored.

The MTFS will continue to be reviewed and updated during 2021/22 and an update provided to the Executive should the position change or further actions be required. Monitoring of the 2021/22 budget will be reported monthly in the Green Book.

**Recommendations**

The Executive is requested to:

**RECOMMEND TO COUNCIL That**

- (i) the Medium Term Financial Strategy (MTFS) report be approved;
- (ii) the Council accepts the £3.148m Decarbonisation Grant from the Department for Business, Energy and Industrial Strategy (BEIS), to connect Export House and Midas House to the Poole Road Energy Centre, and approves the Council contribution of £1.479m in the Investment Programme to be funded temporarily by borrowing and recovered through service charges; and
- (iii) an allowance of up to £600k from the Economic Regeneration budget be allocated for a programme of works to the Council's assets to facilitate letting of vacant space, to be approved by the Director of Finance.

**Reasons for Decision**

Reason: The decision is sought to agree the framework for Officers to develop further proposals for consideration, in due course, by the Council to ensure the medium term financial stability of the Council

The item(s) above will need to be dealt with by way of a recommendation to Council.

**Background Papers:** None.

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### 1.0 Introduction

- 1.1 On 11 February this year the Council approved the budget and Council Tax for 2021/22, the Investment Programme, Housing Revenue Account budgets and Treasury Management, Investment and Capital Strategies including Prudential Indicators.
- 1.2 This report updates the Medium Term Financial Strategy (MTFS) to further consider the 3 years to 2024/25. At this uncertain time due to the Covid-19 pandemic it is particularly difficult to forecast the financial position. However it is necessary to consider a 'base case' from which to monitor the economic recovery and assess whether management actions are sufficient to move towards a sustainable medium term budget.
- 1.3 Given the local, national and global financial uncertainties the MTFS focusses on the most significant areas of income and expenditure, sets out the base assumptions and considers the potential positive and negative variations from this scenario.
- 1.4 The budget for 2021/22 included a provision for the assumed lost or irrecoverable income from commercial rents, car parking and leisure facilities. These are the most critical areas of income to consider over the period. The most significant and uneven area of expenditure is the impact of the Council's Investment Programme.
- 1.5 The Council has applied to the government for 'exceptional support' to fund Covid related income losses in 2020/22 and 2021/22 through use of borrowing or capital resources in order to protect revenue reserves. This would enable the recovery of income to be managed over a longer period, reducing the risk that service reductions will be necessary.
- 1.6 Government funding beyond 2021/22 is unclear so, for medium term planning purposes, assumptions have been made throughout the forecast period. Section 3 sets out the latest funding position, expected changes and timings.
- 1.7 Sections 4, 5 and 9-10 summarise the key budget areas and set out the assumptions made.
- 1.8 Sections 6-8 consider the impact of the Council's Investment Programme proposals.
- 1.9 Sections 11-14 set out the overall cost pressures and available reserves, and recommends a strategic approach to managing the financial position over the 4 years.

### 2.0 Covid-19 impact on the MTFS

- 2.1 This update provides a new base MTFS position using the approved budget for 2021/22 as a starting point. The MTFS will continue to be updated during the year as the impact of the recovery from the pandemic becomes clearer. It is important that the Council has an up to date view on future pressures to understand the short, medium and long term impact of variations and policy decisions. The MTFS will be formally considered again if there are substantial changes, or as part of the 2022/23 budget process.
- 2.2 The impact of the pandemic on the Council's finances has been substantial. Income from services such as car parking and rents from commercial properties, acquired to improve the Borough, contribute towards the provision of services. These income streams have enabled the Council to increase services, and the support to those most vulnerable in the community, through a period of austerity during which government grants have been reducing.
- 2.3 Whilst the Country now has a provisional 'roadmap' to opening, the rate of recovery and the degree of permanent changes in consumer preferences are difficult to predict. The medium term impact on business following a year of lockdowns and restrictions is also not clear.

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- 2.4 The costs incurred in responding to the pandemic are expected to gradually reduce during 2021 as the economy opens up. The biggest areas of spend have been responding to housing needs and supporting the Council's leisure provider while the facilities have been closed.
- 2.5 No allowance has been made for any Covid related costs in 2021/22. Any costs will be reported in the Green Book and it is assumed that government funding will be provided to mitigate the impact on the Council's budgets.
- 2.6 The government have announced 2021/22 funding for Woking of £450,000 towards general Covid pressures with an additional £125,000 towards the expected impact of increased levels of Local Council Tax Support.

### Economic Development – Town Centre Strategy

- 2.1 In recent years the Council has invested substantially in Woking town centre. This has included property acquisitions to influence future uses and development, works on the public realm, and improvements to attract new tenants, services and investors to the Borough. There have also been improvements to the infrastructure to enable growth of the town centre for residential properties and business.
- 2.2 The Council approach to meeting housing requirements, whilst protecting the green belt, results in higher intensity in the town centre. This also provides businesses with local customers creating a sustainable town with a greater offer which benefits all residents.
- 2.3 It has been necessary to invest in the town ahead of the income generating development, to create the infrastructure and modern town centre that will be attractive to live in and in which businesses will choose to base themselves.
- 2.4 Covid has come at a particularly difficult time for the Council, with many costs incurred but the work on attracting the businesses and providing the customer base, still ongoing. The retail and hospitality businesses attracted to the town are in those sectors which have been particularly badly affected over the last year.
- 2.5 It has also significantly impacted the Council's key town centre regeneration project, Victoria Square. An update on Victoria Square was provided to the Council in February. The construction has been delayed by the impact of restrictions, and as a result the costs have increased. This increases the time taken for the project to generate operating profits and to pay off the funds invested. It also means that the residential properties, hotel and retail assets will now launch in an economically uncertain environment. The financial model has been updated to recognise increased void periods for the commercial assets and more conservative rental assumptions.
- 2.6 Whilst the residential, hotel and retail assets remain the property of Victoria Square Woking Ltd (VSWL), the car parks are acquired by the Council. This transaction is planned for 1 April 2022 and following acquisition the Council will incur financing costs for the asset. The MTFS has long forecast that it will take some time for the demand for parking to generate the income required to meet these financing costs. However, the pandemic has resulted in existing parking income at just 30% of budgeted levels during 2020/21, a reduction of over £5.5m. Whilst increases are expected during 2021/22 it is unknown whether activity will return to previous levels and how long this might take. It is likely that the additional capacity will not be utilised for longer than previously forecast whilst financing and operating costs will be incurred from 2022/23.
- 2.7 The other impact on the town centre strategy has been the delay in residential development in the town. A number of substantial planning applications have been unsuccessful. These would have provided economic activity and employment while under construction and resident and visitor users of the Council's car parks and local businesses on completion. This will

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ultimately affect the value of the Council's town centre assets where they are valued based on income. Of more immediate impact is the effect on growth for local businesses and less income generated for the Council from turnover rents.

- 2.8 The town centre strategy is an integrated approach with the investment in infrastructure and public spaces being funded by income through development. Without the development the strategy is unbalanced and budget reductions will be necessary to replace lost income.
- 2.9 As Victoria Square nears completion the improvements around Victoria Arch will continue with the improvements to the arch and highway due to complete in early 2024. For a further 3 years the town centre will therefore continue to experience disruption and there is a risk that this may slow the recovery of income until after these works are complete.
- 2.10 The Housing Infrastructure Fund (HIF) funded infrastructure works at Victoria Arch have only been possible as a result of the £95m grant. This was awarded by Homes England on the basis that it unlocked development sites in the town centre. If these sites are not successfully developed there is a risk that the Council may have to seek to develop the sites itself or to return the grant.
- 2.11 There also remains a £10m Council contribution to the HIF project budget which was expected to be met through developer contributions. If there are no developers contributions it will need to be met by the Council funded by borrowing. The Investment Programme currently assumes £9.2m of temporary borrowing for this scheme at an annual cost of over £400k by the end of the MTFs. This will be reduced if developer contributions are secured.

### 3.0 Government funding and Council Tax

- 3.1 In February 2016, government funding was set for a 4 year funding period from 2016/17 to 2019/20. Since then local government has been awarded just annual settlements in February 2020 (for 2020/21 due to the timing of the General Election and Brexit uncertainty) and February 2021 (due to the pandemic uncertainty). Funding through redistributed Business Rates has been held at 2019/20 levels while the Council has experienced a reduction of £900k in New Homes Bonus.
- 3.2 Without any indication on funding from government in future years it is very difficult to forecast what income the Council may receive beyond 2021/22. Throughout the previous 4 year period, the MTFs assumed that from 2020/21 funding would reduce by £1m to reflect the government forecast impact of the Fair Funding review as indicated by the 'Negative RSG' initially shown in 2019/20.
- 3.3 With local government under significant financial pressure as a result of the pandemic, it is considered less likely that such a reduction in support would be introduced without some transition. A steady reduction in grant is therefore now assumed across the period of the MTFs as shown in the table below. This is considered a reasonable approach and reflects a reduction in support of £1.6m in the period to 31 March 2025. Once the pandemic is over it is likely that the government will seek public sector cost savings and as local government is not a protected sector reductions in funding remain a risk.

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### Future Government Funding

	Actual			Estimated		
	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Business Rates	2,100	2,135	2,135	2,199	2,265	2,333
New Homes Bonus	1,181	676	281	14	0	
Lower Tier Services Grant			91			
Assumed adjustment post BR retention/FF review		0		-500	-1,000	-1,500
<b>Total Funding</b>	<b>3,281</b>	<b>2,811</b>	<b>2,507</b>	<b>1,713</b>	<b>1,265</b>	<b>833</b>
Reductions in funding	-158	-470	-304	-794	-448	-432

### Future developments

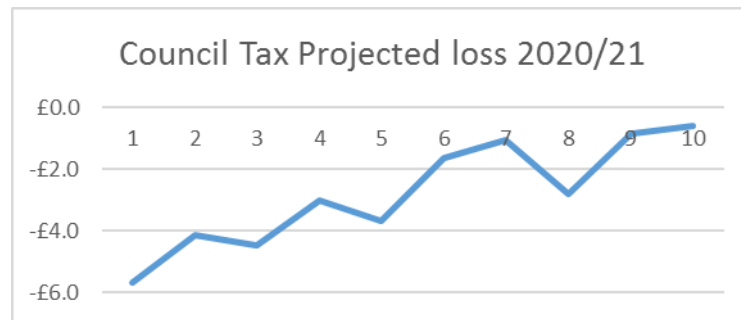
- 3.4 For several years the government has deferred plans to introduce changes to the system of local government funding – the mechanics of the system, the methodology for assessing ‘need’ and allocating resources, and the baseline for business rates collected, have all been under review. There are currently no firm plans when any changes will be confirmed or implemented, however it is possible that this will not be until 2023/24 especially if the changes are more substantial.
- 3.5 The first element of the funding system which is being updated is the New Homes Bonus (NHB). A consultation on future changes was published in February 2021 with a closing date of 7 April 2021. Changes are expected to be made for NHB allocations from 2022/23 onwards. The main proposals consider options for:
- the split of award between District/County (currently 80:20)
  - the level of the growth below which no NHB is received (currently 0.4%)
  - distribution of some funding based on Modern Methods of Construction (MMC)
  - a local plan being in place being a requirement to receive funding
- 3.6 The Council has reduced reliance on New Homes Bonus to support day to day services in recent years and the 2021/22 budget assumes just £200,000 for this purpose. The MTFS removes all reliance on NHB effectively seeking savings to meet the reduction in funding.
- 3.7 The consultation states that the government wishes to see a threshold significantly higher than the current 0.4% baseline. This would reward only substantial increases in housing numbers and is likely to mean a less reliable source of income as such increases would not be achieved every year. There is expected growth in housing numbers through town centre developments, including Victoria Square, and the regeneration of Sheerwater, however there is not sufficient information in the consultation to be clear what level of funding these would be generated.

### Council Tax income

- 3.8 The Government calculates future spending power figures which demonstrate resources available to each authority. In these calculations it is assumed that authorities generate the maximum Council Tax income available to them. The Government also assumes increases to the taxbase based on previous taxbase trends.
- 3.9 The 2021/22 taxbase has been reduced to reflect a forecast increase in irrecoverable debt due to the pandemic causing financial difficulties for some residents. In fact the reduction in collection rates seen during 2020/21 are now falling. This may be due to the offer of deferred payment plans in the initial lockdown affecting the timing of payments and bills have just been paid slightly later this year. This is a positive sign and suggests that the amounts of Council Tax assumed in 2021/22 may be exceeded if collection rates are maintained. The graph below

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shows the projected loss (£m) each month during the 2020/21 based on collection rates for the year to date.



- 3.10 For the forecast it is assumed that the Council will, in each year, implement the maximum increase in Council Tax without needing a Referendum, and that the government limits remain at current rates. This ensures that income does not fall behind assumed levels. The taxbase is forecast to recover with no additional allowance for irrecoverable debt from 2022/23 and an increase by 0.75% is assumed across the MTFs, equivalent to approximately 300 Band D properties per annum, broadly in line with the Local Plan.

<b>Council Tax Income</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2024/26</b>
Taxbase	41,580	40,343	41,580	41,892	42,206	42,523
Increase (Band D equivalents)	257 -	1,237	1,237	312	314	317
Council Tax (2% or £5)	£245.46	£250.46	£255.47	260.58	265.79	271.11
<b>Total Council Tax income (£'000)</b>	<b>10,206</b>	<b>10,104</b>	<b>10,622</b>	<b>10,916</b>	<b>11,218</b>	<b>11,528</b>

### 4.0 2021/22 budget

- 4.1 The detailed budget for 2021/22 was approved by Council on 11 February 2021. The table below shows how the budget compares to the previous year. It also shows the increase in reserves assumed to support services while the economy gradually reopens and recovers from the pandemic during 2021/22.

<b>Budget variation 2020/21 to 2021/22</b>	<b>£'000</b>
Investment Programme	1,458
Income from new properties	-1,229
Increase in service spend - Covid Provision	6,614
Increase in service spend - Other (mostly commercial rents)	1,908
Lower Tier Grand Funding	-91
Change in New Homes Bonus assumed in base budget	200
Council Tax Deficit (including 1/3 of 2020/21 forecast deficit)	54
Decrease in taxbase	304
Increase in Council Tax/decrease in Collection fund surplus	-202
<b>Additional use of reserves required in 2021/22</b>	<b>9,016</b>
Being:	
Use of Reserves for Covid Provision	6,614
Use of Reserves for base budget pressures	2,402

4.2 The Covid Provision enables the base budget to reflect the underlying base level of income, with the provision being the forecast variation against that budget due to the pandemic. This forecast will continue to be reviewed as the restrictions are lifted and Officers work with commercial tenants. The government have extended the Sales, Fees and Charges (SFC) compensation scheme to 30 June 2021. This scheme provides compensation at 75% for service income losses (excluding commercial rents) in excess of an initial 5% variation to budget.

<u>Covid Specific Provision</u>	£'000
Reduction in Car Park income	3,217
Allowance for irrecoverable Commercial Rents	3,810
Loss of Freedom Management Fee and other leisure income (half year)	402
SFC Compensation - Car Parks Q1	-529
SFC Compensation - Leisure Q1	-287
	<b>6,614</b>

4.3 The Roadmap for easing the national lockdown restrictions was announced by the Prime Minister on 22 February 2021. The key dates and elements of the roadmap most relevant to the assumptions in this MTFs are set out below for reference.

8 March 2021	Schools open 2 people can meet outside to socialise Care home residents are allowed one regular visitor
29 March 2021	Meeting outside with one other household or 'rule of six' Stay at home advice changes to 'Stay Local' Outdoor sports facilities open and formally organised sports can restart
No earlier than 12 April	All shops can open Restaurants and pubs can service customers outdoors Gyms and spas can open Hairdressers and beauty salons can open Self-contained accommodation can open for UK domestic holidays Zoos and theme parks, libraries and community centres can open
No earlier than 17 May	People can meet in groups of up to 30 outdoors, 6 people or 2 households allowed to meet indoors Restaurants and pubs can seat customers indoors Adult indoor group sports and exercise class can restart Museums, theatres, cinemas and childrens play areas can reopen. (Performances and large events subject to limits – half capacity or 1,000 people indoors) Hotels, hostels and B&Bs can open International leisure travel can resume
No earlier than 21 June	All legal limits on social contact will be removed Nightclubs can open



- 4.4 During the first quarter of 2021/22 (1 April – 30 June) the restrictions will continue to directly impact the economy. However, if restrictions are lifted at the earliest possible dates, by quarter 2 (1 July – 30 September) the economy will have fully reopened. It remains to be seen what guidance remains in place beyond 21 June and how habits, and personal preferences for remote working and online shopping, have permanently affected demand for an in person experience. Whilst there may continue to be some reduction in activity through new ways of working and shopping, it is equally possible that there will be increased demand for much missed social activities.

### 5.0 Specific Service Pressures

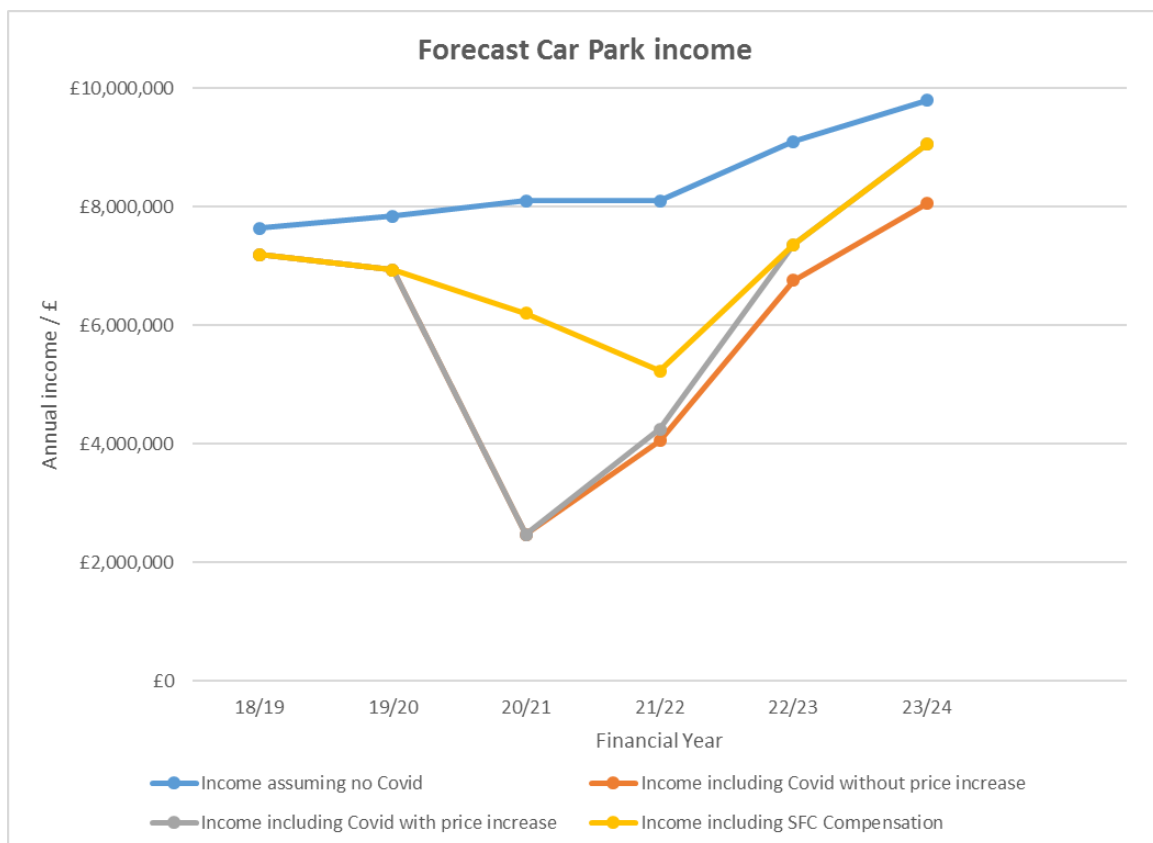
#### Car Parks and additional Car Parking capacity

- 5.1 The base budget for 2021/22 assumed activity at 60% of 2020/21 budgeted levels on average during 2021/22. This resulted in the £3.2m reduction in forecast income provided for through the Covid provision.
- 5.2 A review has been completed based on the current roadmap and the forecast has been refined as follows:
- |                                     |                                    |
|-------------------------------------|------------------------------------|
| Quarter 1 (1 April – 30 June)       | 30% of pre-Covid budgeted activity |
| Quarter 2 (1 July – 30 September)   | 50% of pre-Covid budgeted activity |
| Quarter 3 (1 October – 31 December) | 60% of pre-Covid budgeted activity |
| Quarter 4 (January – March 2022)    | 70% of pre-Covid budgeted activity |
| 2022/23                             | 80% of pre-Covid budgeted activity |
| 2023/24                             | 90% of pre-Covid budgeted activity |
- 5.3 The forecast income generated has also been adjusted to remove £250k from the 2020/21 budget reflecting the assumed cost of the change in evening charging hours to be effective from 6pm.
- 5.4 It is assumed that the Sales, Fees and Charges compensation scheme will provide funding towards the lost income only in quarter one.
- 5.5 Additional income is assumed from Q3 2020/21 on launch of the new car park in Victoria Square. It is difficult to estimate the additional car parking activity on the opening of Victoria Square, and it is likely that it will take some time for activity to increase to a new 'base' level. Given the level of uncertainty, no further increases in activity are assumed beyond 2024/25 at which point the activity is broadly back at 2020/21 budgeted levels.
- 5.6 The Council last increased car parking charges in October 2019. It had previously been assumed that there will be an increase in the hourly charge of at least 10p following the completion of Victoria Square and the new car parks. The MTFS assumes a 10p increase in the hourly charge each October from 2021-2023.
- 5.7 The overall impact of the above assumptions included in the MTFS is shown in the table below. The forecast for 2021/22 is in line with the approved budget (including the Covid provision). In future years the combination of activity and price increases increase the forecast income to £9.256m. The base parking income remains less than the pre-Covid levels, but is replaced by new income from the town centre regeneration and new car park. The overall increase is being driven by assumed price increases.

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	2021/22	2022/23	2023/24	2024/25	Total
	£'000	£'000	£'000	£'000	£'000
Parking Income Budget	7,903				
Covid Provision	<b>-2,689</b>				
	<u>5,215</u>				
Updated forecast	4,250	7,362	9,056	9,256	
SFC compensation	977				
	<u>5,227</u>	<u>7,362</u>	<u>9,056</u>	<u>9,256</u>	
Increase in income	13	2,135	1,694	200	<b>4,042</b>
<u>Shown as:</u>					
Covid Recovery	<b>-318</b>	1,225	764	0	<b>1,672</b>
F&C Increase	200	400	400	200	<b>1,200</b>
New Car Park	130	510	530	0	<b>1,170</b>
	13	2,135	1,694	200	<b>4,042</b>

5.8 The graph below shows how the forecast parking income compares to a base case without the impact of the Covid pandemic. It also shows a scenario with no price increases where income is forecast to be just over £8m, making no contribution towards the increased costs of the new car park over this period.



### Commercial Rents

5.9 As set out above, the Covid provision in the 2021/22 budget includes an allowance for irrecoverable rents. This reflects the current position where many tenants, particularly in the hospitality and retail sectors have struggled to maintain payments during the year of social

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restrictions. The MTFS assumes that the provision for irrecoverable debts is not needed from 2022/23 and lease payments and service charges will be paid where due.

- 5.10 It is assumed that over 2022/23 and 2023/24 there is £535k recovery in the income from underlying vacant units which whilst not currently let could generate a further £2.5m rent. These vacancies cost a further £1.8m in Service Charges and Business Rates which must be met by the Council as landlord. The assumed recovery of commercial rent cost/income leaves an underlying 10% of rents assumed as vacant during the MTFS period reflecting a likely difficult economic environment.

### Leisure Facilities

- 5.11 As the restrictions are lifted the Council's leisure facilities are expected to reopen over the coming months. The support which has been provided towards unavoidable operational costs whilst the services have been closed, or operating at lower capacity, is expected to no longer be required from the autumn of 2021.
- 5.12 The experience of opening between lockdowns in 2020 was positive with users returning to the facilities albeit at reduced capacity. It is hoped that as the year progresses Freedom should again be in a position to pay the Council a management fee from January 2022.
- 5.13 The budget assumed no management fee income for 6 months with 3 months covered by the SFC compensation scheme. It is assumed that any further costs in excess of this are met by government general support or through the Leisure Recovery Fund.
- 5.14 Any net costs of operating the new Sheerwater leisure facilities will be met by Thamesway Developments Ltd (TDL) during the MTFS period throughout which the regeneration construction works will be continuing.

### HG Wells

- 5.15 The lease for HG Wells was due to end in September 2020. This was extended to continue to operate the housing pods installed during the pandemic. For 2021/22 the HG Wells budgets have been removed. Any further use of the centre will be a budget overspend during 2021/22 attributed to the Covid response.
- 5.16 No allowance is made in the MTFS for Council use of alternative conference facilities or provision of a subsidy to community groups for alternative premises.

## **6.0 Investment Programme**

- 6.1 The cost of Investment Programme projects, where funded through borrowing, consists of interest charges and an allowance for repayment of debt which is called the 'Minimum Revenue Provision' (MRP).
- 6.2 As a result of the financial uncertainty due to the Covid Pandemic, Investment Programme projects were reviewed and any which were not committed, but which were funded by revenue, reserves or borrowing at the Council's expense, were suspended.
- 6.3 This has reduced the pressure from the Investment Programme over the MTFS as projects such as the flood schemes which had no offsetting income are no longer provided for. These projects will only be reconsidered when the financial position is clearer and the recovery more certain.

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- 6.4 Of the remaining pressure from the Investment Programme in the MTFS, £617k relates to interest no longer capitalised on the land acquisitions at Egley Road and in Byfleet. Should these sites become active projects then interest could continue to be capitalised, allocated as a project cost and would not need to be funded from revenue budgets. As set out earlier in the report, the MTFS also includes over £400k being the cost of temporary borrowing relating to the HIF project at Victoria Arch.

### Decarbonisation Grant

- 6.5 The Council has been awarded a £3.1m grant from the Department for Business, Energy and Industrial Strategy (BEIS) towards the costs of connecting Midas House and Export House to the Poole Road Energy Centre. The total cost of these works is £4.6m leaving £1.5m to be funded locally.

Project Budget Estimate:	£4,627,689
Grant Value:	<u>£3,148,559</u>
WBC Contribution:	£1,479,130

- 6.6 The grant is calculated based on the carbon reduction of the works completed with the project replacing old energy equipment at both sites. If the Council were not to accept the grant, the equipment would need to be replaced in the near future as it is nearing or past its economic life. Replacement is estimated to cost at least £1.5m, but would be on a like-for-like basis, without the environmental benefits of connecting to the energy centre.
- 6.7 Both offices are key town centre assets, have significant levels of vacant space and are critical to the Council recovering its income base over the MTFS. These works may assist in re-letting the space and completing the work now will be less disruptive with fewer tenants in place as well as contributing towards carbon reduction targets.
- 6.8 It is the Export House connection which requires the Council contribution towards costs and it is envisaged that a £250k sinking fund could be applied to this project. It is also proposed that the Surrey County Council (SCC) Empty Homes funds, amounting to £145k, which had been allocated to climate change initiatives, be applied to the scheme. SCC have indicated that they would be supportive of this use of funds. It may also be possible to secure a contribution towards the costs from Victoria Square Woking Ltd (VSWL) towards these costs.
- 6.9 Any remaining balance after value engineering and identification of contributions, could be recovered through the service charges for Export House over 7-10 years. This would require the Council to incur borrowing on a temporary basis to be recovered over time. It is acknowledged that the Council would currently need to meet these costs for any vacant space, however over time, and once Victoria Square is completed, it is hoped that occupancy will increase.
- 6.10 Due to the tight timescales for the grant, the funds have been provisionally accepted pending a formal Executive approval. The project will be managed through Thameswey Energy Ltd (TEL) and the works need to be completed by September 2021.

## **7.0 Group Companies**

- 7.1 The Council's Group companies provide a net revenue benefit in the base budget. It is assumed that the approved investments in the Thameswey Group are advanced as set out in the Investment Programme.

Interest Rates

- 7.2 Loans to Thameswey Housing are advanced on the basis of 25 years interest only followed by a 25 year annuity. The rate advanced is determined by the underlying 50 year PWLB rate. Historically the Council predominantly borrowed 50 year maturity funds and loans have been matched to the PWLB maturity rate. More recently most of the Council’s borrowing has been annuity loans which repay the principal over the life of the loan rather than leaving the full amount to be repaid at the end.
- 7.3 A 50 year annuity rate is similar to the 25 year maturity rate, reflecting the write down of the loan over that period. For some time this has been approximately 0.2% more than the 50 year maturity. Rates for loans advanced are therefore being reviewed with a view to instead matching to the annuity rates to ensure that the Council is protected when advancing funds to Thameswey.

**8.0 Treasury Management**

- 8.1 Interest rates have increased since the budget was set and the Council’s advisors, Link, have updated their interest rate forecasts which are shown below. The MTFs reflects these new forecast rates which are currently 0.4% higher than the forecast rates in February, and are projected to increase more quickly than previously forecast.

Link Group Interest Rate View		8.3.21											
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

- 8.2 Since the suspension of projects from the Investment Programme, there are fewer which are funded from borrowing which will be affected by the increasing rates. The impact will be felt by Thameswey Ltd and Victoria Square Woking Ltd, however rates remain lower and since November 2020 have reflected the removal of the additional 1% margin added by the government in 2019.

**9.0 General Service Pressures**

Employee costs

- 9.1 A £400,000 annual allowance is made for the salary control total increases across the period. This is equivalent to an increase in salary budget of 2.5% (2022/23) which needs to cover all staffing cost pressures. There is a vacancy management target incorporated in the 2021/22 budgets at 2.4% which is assumed to remain as a savings target throughout the MTFs. An annual increase in the contribution towards the pension deficit is included at £50k a year.

Contractual Inflation

- 9.2 As in previous versions of the MTFs, an allowance for inflation of £275k has been included for the Council’s highest value contracts. This includes Waste and Recycling, Environmental Maintenance, Asset and Facilities Management as well as Energy and Business rates budgets.

- 9.3 The HM Treasury February 2021 publication of independent inflation forecasts is shown below. Contract increases are assumed to be in line with RPI.

### Medium Term Forecasts February 2021 (HM Treasury)

Inflation	2021	2022	2023	2024	2025
CPI (%)	1.5	1.9	1.8	1.8	1.9
RPI (%)	2.4	2.8	2.9	2.8	2.8

### Other inflation

- 9.4 No specific allowance is made for inflation on the remaining service expenditure. It is assumed that expenditure will be managed within available cash budgets. Any further cost pressures will need to be offset by increases in income budgets which, with the exception of parking, have not been assumed in the forecast.

### Service Pressures

- 9.5 Given the current financially uncertain position, and the requirement to secure substantial savings, efficiencies or increased income over the next 4 years, no service enhancement is included in the MTFS.
- 9.6 There are a number of services and projects which would previously have been allocated funding from the Council's reserves or had budgets increased in line with the Council's priorities. At this stage, it is difficult to fund service growth until some of the immediate uncertainty subsides and progress has been made on reducing the budget gap. It is, however, acknowledged that some service pressures will be unavoidable just to maintain services. Where there are not associated efficiency savings, any increased costs will need to be managed alongside the savings programme.
- 9.7 Identified service pressures during this period, for which there is currently no budget allowance include:
- Serco contract procurement
  - Planet Woking
  - Great Crested New Project
  - Digital Strategy
  - Lexcel Accreditation
  - Scrutiny Officer

## **10.0 Service Plans**

- 10.1 As responding to the Covid-19 pandemic has been the primary focus during 2020/21, operational Service Plans were not updated as part of the annual budget process.
- 10.2 Service Plans translate the Council's strategic vision, objectives and priorities into operational plans that drive improvement. Each Service Plan identifies what needs to happen for each area of Council activity to achieve success, what resources will be required, the outputs and outcomes that are anticipated and any risks that might impact delivery.
- 10.3 Given the uncertain path to recovery from both the health and economic crisis, currently the plans remain as set for 2020/21 and will continue to apply during 2021/22. These plans and priorities will be revisited as the lockdown restrictions are lifted and the future direction and

available resources become clearer. Revised plans will also reflect the results of community consultation and the Corporate Plan.

### **11.0 Summary Forecast**

- 11.1 The table below sets out the impact on future years of the assumptions outline in the report.
- 11.2 A savings target of £3m is included across the 4 year period to be met through productivity and efficiency savings, increased income generation or through review of service provision. The target is £1m in each of 2021/22 and 2022/23 reflecting the need to achieve up front savings to ensure that sufficient progress is made in case actual income recovery is less than forecast or there are further unavoidable costs.

## Medium Term Financial Strategy

### MEDIUM TERM FINANCIAL STRATEGY - MARCH 2021

	2021/22	2022/23	2023/24	2024/25	TOTAL
	£'000	£'000	£'000	£'000	£'000
<u>In year Pressures</u>					
Remove use of Reserves 2021/22		9,562			9,562
Remove Business Rates pooling/Collection fund surplus/deficit		244		-68	176
General Service Pressures		725	725	725	2,175
Potential SCC Funding reductions			153		153
Land Charges transfer to Land Registry		80			80
<u>Funding and Council Tax</u>					
Reduce reliance on New Homes Bonus to zero		200			200
Government Funding reductions		794	448	432	1,674
<u>Investment Programme pressures:</u>					
Investment Programme projects		885	747	562	2,194
Town Centre Car Parks financing costs	-631	1,359	386		1,114
Increase in interest rate	117				117
Woking Gateway - loss of rents			350		350
York Road Project			160		160
Reduction in TEL/TCMK annuity interest		53	75	75	203
	-514	13,902	3,044	1,726	18,158
<b>Funded by:</b>					
<u>Economic Recovery</u>					
Car Parking	318	-1,225	-764		-1,671
Commercial Rents - removing provision for irrecoverable debts	-1,871	-1,939			-3,810
Commercial Rents - recovery of some vacant units			-250	-285	-535
Leisure income		-116			-116
	-1,553	-3,280	-1,014	-285	-6,132
<u>Other Contributions</u>					
Increase in Taxbase		-310	-80	-82	-471
Council Tax increase		-208	-214	-220	-642
Fees and Charges - Car Park income 10p a year from Oct 21	-200	-400	-400	-200	-1,200
Fees and Charges - New Car Park income	-130	-510	-530	0	-1,170
Less: car park operational costs (TBC)					
Investment in Housing		-687	-749	-749	-2,185
Productivity and Procurement Saving Target	-1,000	-1,000	-500	-500	-3,000
	-1,330	-3,115	-2,473	-1,751	-8,669
<b>In year cost pressure/saving</b>	<b>-3,397</b>	<b>7,507</b>	<b>-442</b>	<b>-310</b>	<b>3,358</b>
<b>Annual Use of Reserves</b>	<b>-3,397</b>	<b>4,110</b>	<b>3,668</b>	<b>3,358</b>	

## 12.0 Reserves

12.1 The MTFs set out above reduces the use of reserves over the period to 2024/25 through a combination of savings targets, increased income generation, and restrictions to the Investment Programme. These meet in year additional costs and make a contribution towards reducing the underlying use of reserves. However, based on these assumptions there remains the following call on reserves throughout the period:



## Medium Term Financial Strategy

	£'000
Use of Reserves forecast for 2020/21 (January 21 Green Book)	7,646
Use of Reserves in 2021/22 Base Budget	9,562
Forecast variation in 2021/22 (including savings)	<u>-3,397</u>
Revised Use of Reserves in 2021/22	6,165
Use of Reserves in 2022/23	4,110
Use of Reserves in 2023/24	3,668
Use of Reserves in 2024/24	<u>3,358</u>
	<u>24,946</u>

12.2 This would utilise all available revenue reserves by 31 March, together with the General Fund balance. A reserves forecast, as presented in the budget papers, but updated for this ongoing use of reserves, is shown in Appendix 1. It temporarily utilises funds from reserves which are set aside for specific purposes (e.g. PFI/specific grant reserves) which would have to be replaced. There also remains £3.3m use of reserves to be removed from the budget in 2025/26 as well as any further pressures identified for that year as there would be no further reserves which could be used.

12.3 Whilst this shows that, with the assumptions set out in this report, the Council can meet budget pressures for the next 4 years, it is not possible to leave the Council with no revenue reserves at the end of this period. As set out in the various sections in this report it is also possible that experience is less favourable than the assumptions and the financial position is worse than currently forecast.

### Exceptional support

12.4 As part of setting the 2021/22 budget in February 2021, the Council approved submitting an application to the government for Exceptional Support. This recognised the timing of the Covid pandemic on the Council during the regeneration of the town centre. The Council has also been particularly affected by the pandemic due to the town centre strategy for provision of residential properties, the medium term nature of improvement and infrastructure plans and the assumed income in the strategy.

12.5 The potential Exceptional Support, based on current forecasts, and assuming that flexibility will be provided to enable Covid related losses to be met from capital resources is set out in the table below:

<u>Exceptional Support</u>	£'000	
2020/21	7,646	January Green Book
2021/22	<u>4,743</u>	Covid Provision adjusted for improvement in Rents
	<u>12,389</u>	

12.6 If it is possible for the above losses to be funded from borrowing, the cost of this support is shown in the table below, assumed to be at 3.5% (1% over the assumed cost of borrowing). This is consistent with other capitalisation directions which have been granted by the government.

	2021/22	2022/23	2023/24	2024/25	TOTAL
	£'000	£'000	£'000	£'000	
2020/21 Exceptional Support funded over 20 years (3.5%)	650	650	650	650	
2021/22 Exceptional Support funded over 20 years (3.5%)		403	403	403	
	<u>650</u>	<u>1,053</u>	<u>1,053</u>	<u>1,053</u>	3,809

## Medium Term Financial Strategy

12.7 Over the MTFFS period, the revenue reserves retained would be approximately £8.5m. This would provide the Council with more flexibility and allow longer for income to recover, or for more significant management decisions to be made. It would reduce the risk that a reduction in services is necessary to manage the, potentially temporary, lower income generated over this period.

### 13.0 Assessment of MTFFS during 2021/22

13.1 Given the significant uncertainty around substantial elements of the plan, it can be considered a base position to be monitored against closely while assessing whether the further management action is necessary. Should the reduction in government support be less, or the economic recovery stronger, there would be more time for the Council to manage the reduction in use of reserves.

13.2 In particular over the coming 6 months it will be necessary to consider:

Commercial Rents	Once restrictions are released is there an improved level of income recovery? Have there been further business closures and lease terminations? What are the prospects for letting vacant units?
Parking Income	How has activity been affected post-lockdown?
Savings Target	How can the £1m savings target be achieved in 2021/22? What decisions will need to be made to achieve targets in future years?
Government Funding	Will the Comprehensive Spending Review reduce support as currently assumed? Will changes in New Homes Bonus result in any reliable on-going source of funding?

13.3 These issues will need to be continually reviewed to ensure that actions and decisions are taken in good time to ensure that the Council is not left in an unsustainable position.

13.4 In the event that Exceptional Support is not granted the savings which need to be secured will increase as the Council may not have the reserves available to sustain the forecast budget support until income recovers. Given the scale of savings required this is more likely to have implications for Service Provision.

### 14.0 Town Centre Strategy

14.1 In June 2020 the Executive agreed an approach to managing commercial tenants. An update to this strategy is included as a confidential item on this agenda. The strategy seeks to recover the maximum possible levels of rent due to protect the Council's income position.

14.2 The Investment Programme approved in February 2021 included an allowance of £1.175m for Economic Regeneration in 2020/21. This budget was to allow funds to complete capital works on the Council's assets where there is vacant space in order to attract new tenants. It is proposed that an initial allocation of £600,000 is made available for this purpose. A programme of works will be prepared prioritising those spaces which are considered most attractive for new businesses, and assessing the benefits of the new business secured, together with the potential income generated by the investment. Each individual project will be considered by CMG and approved by the Director of Finance. Works will be funded by borrowing where the expenditure meets the criteria set out by the government for access to the PWLB, and otherwise by revenue.

- 14.3 It is considered that there will also need to be a wider strategy for town centre recovery including bringing other vacant spaces back into use and attracting footfall to the town. The actions which can be taken to support this will be developed and brought back to a future Executive meeting for further consideration. As set out throughout this report the financial position of the Council is dependent on the success of the commercial elements of the town.

### We are Woking

- 14.4 There is currently no further budget allowance for the We are Woking campaign. This has promoted the town to visitors during the disruption caused by the construction of Victoria Square.
- 14.5 Options for further promotion are being worked up and costed considering the current constraint on resources. The Council will work with Victoria Square Woking Ltd over the summer to ensure a co-ordinated approach to the promotion of the town, new retailers, hotel and residential units.

## **15.0 Conclusions**

- 15.1 Of the pressures in the MTFS, an ongoing £1.9m relates to assumed withdrawal of government funding. There is a further £750k due to a lower forecast income from parking charges, even assuming an additional increase in charges in October 2022. This is 8% less than would have been expected in the pre-Covid scenario. Without price increases over this period income would be £1.7m, or 18%, less than a pre-Covid scenario. Finally commercial rental vacancies continue to be assumed at a cost of over £3.75m compared to full occupancy.
- 15.2 The assumptions are considered fair, however there is considerable scope for variation. It is therefore recommended that whilst plans can be made on the basis of this MTFS, the Council is aware that further actions may need to be taken if income is less or costs exceed those assumed.
- 15.3 A savings review was recommended in the General Fund budget for 2021/22. This should identify where fees and charges can be introduced, or increased to cover discretionary services, as well as alternative ways that services can be delivered. It should consider immediate as well as longer term savings options as it is likely that reductions in costs will be required throughout the period to 2024/25. The savings targets in this plan are challenging and will likely require some difficult decisions and choices.
- 15.4 Until recovery of income is clearer, Investment Programme and new discretionary spend needs to be avoided.
- 15.5 Should the recovery of income be stronger than currently assumed, it will be possible to consider which projects can be reinstated in the Programme.

## **16.0 Implications**

### Financial

- 16.1 The financial implications are detailed within the report.

### Human Resource/Training and Development

- 16.2 No specific Human Resource or Training and Development implications.

### Community Safety

- 16.3 No specific Community Safety implications.

### Risk Management

16.4 There are a number of specific risks to the figures included in the forecast as set out in the report. There is also an ongoing medium term risk of changes in government policy which could affect the Council.

### Sustainability

16.5 There are no sustainability implications.

### Equalities

16.6 There are no equalities implications.

### Safeguarding

16.7 There are no safeguarding implications.

## **17.0 Consultations**

17.1 There have been no formal consultations on this paper.

REPORT ENDS

## Appendix 1

<b>RESERVES FORECAST AT 31 MARCH</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>REVENUE RESERVES</b>						
Investment Strategy Reserve	2,511	2,401	2,577	2,787	2,997	3,207
Forecast use of reserves due to COVID		-7,646	-13,811	17,921	21,589	24,947
Housing Investment Programme Reserve	4,835	3,956	2,698	1,430	610	-
Medium Term Financial Strategy Reserve	4,999	4,710	4,710	4,710	4,710	4,710
Provision for Flexibility Reserve	130	130	130	130	130	130
Leased Car Relief Vehicle Reserve	-	-	-	-	-	-
Freda Ebel Bequest	5	5	5	5	5	5
Community Fund	421	421	421	421	421	421
Insurance Fund	186	186	186	186	186	186
Parking Reserve	-	-	-	-	-	-
Environmental (CO2) Reserve	35	35	35	35	35	35
Wolsey Place Reserve	3,198	1,104	227	-676	-1,579	-2,782
New Homes Bonus Reserve	1,113	1,114	907	632	357	82
Group Company Reserve	750	750	750	750	750	750
Woking Palace Reserve	35	35	35	35	35	35
Equipment Reserve	430	451	431	481	531	531
Peer grant Reserve	38	38	38	38	38	38
Business Rates Equalisation Reserve	4,025	4,025	4,025	4,025	4,025	4,025
Local Council Tax Support Scheme Hardship Fund	48	48	48	48	48	48
Westfield Common Reserve	82	82	82	82	82	82
PFI Reserve	2,739	2,739	2,739	2,739	2,739	2,739
Town Centre Management Agreement Reserve	470	412	354	296	238	88
Victoria Square Reserve	1,985	3,632	4,470	4,470	4,470	4,470
Sheerwater Reserve	71	-314	-700	-1,085	-1,470	-1,470
Off Street Parking Reserve	2,000	2,000	2,000	2,000	2,000	2,000
Syrian Refugee Reserve	535	535	535	535	535	535
Homelessness Support Reserve	264	264	264	264	264	264
Dukes Court Reserve	3,273	3,273	3,273	3,273	3,273	3,273
	<b>34,178</b>	<b>24,386</b>	<b>16,429</b>	<b>9,690</b>	<b>3,841</b>	<b>-1,545</b>
<b>CAPITAL RESERVES &amp; OTHER RESOURCES</b>						
Usable Capital Receipts	5,249	1,862	2,859	1,051	-2,304	0
Set Aside Capital Receipts	52,697	54,567	56,646	58,747	60,972	63,197
Major Repairs Reserve	0	8	8	8	8	8
Development Contribution Reserve	11,415	1,427	377	377	377	377
	<b>69,361</b>	<b>57,864</b>	<b>59,890</b>	<b>60,183</b>	<b>59,053</b>	<b>63,582</b>
<b>WORKING BALANCES</b>						
GF Working Balance	1,500	1,500	1,500	1,500	1,500	1,500
HRA Working Balance	500	500	500	500	500	500
	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>
<b>TOTAL RESERVES</b>	<b>105,539</b>	<b>84,250</b>	<b>78,320</b>	<b>71,873</b>	<b>64,894</b>	<b>64,037</b>