EXECUTIVE - 22 MARCH 2018

MEDIUM TERM FINANCIAL STRATEGY

Executive Summary

The current Medium Term Financial Strategy (MTFS) was approved by Council in April 2017. It outlined a strategy to militate against identified cost pressures over the period to 2021/22. Following the Council approval of the 2018/19 budget in February, this report provides an update on the outlook, considering future changes and actions taken over the last 12 months.

The MTFS has not been extended to cover an additional year at this review due to the funding uncertainties beyond 2019/20. It is unlikely that the position for 2020/21 and beyond will be clear until late in 2019. This will not allow much time should the results be significantly different from those assumed. Should the position become clearer during the year an update will be provided based on the new information.

Good progress has been made in securing income to offset the pressures on costs and lost sources of funding, however further savings are required. The MTFS suggests £3.5m of ongoing savings or income is required by 31 March 2022.

It is proposed that the Council continues the strategy of seeking strategic commercial opportunities, whilst encouraging the government to deliver a fair and sustainable medium term funding settlement.

Reasons for Decision

The decision is sought to set the framework for Officers to develop detailed proposals for consideration, in due course, by the Council to ensure the medium term financial stability of the Council in the context of its objective to support growth and to maintain services for local people.

Recommendations

The Executive is requested to:

RECOMMEND to Council That

the Medium Term Financial Strategy report be approved and the Executive authorised to prepare an Investment Strategy for consideration as part of the Budget process for 2019/20 which would generate sufficient income to avoid reduction in services for local people.

This item will need to be dealt with by way of a recommendation to Council.

Background Papers:

DCLG Consultation – Fair funding review: a review of relative needs and resources, December 2017

Sustainability Impact Assessment
Equalities Impact Assessment

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1.0 Introduction

1.1 On 8 February this year the Council approved the budget and Council Tax for 2018/19, the Investment Programme, Housing Revenue Account budgets and Treasury Management Strategy including Prudential Indicators.

1.2 This report considers in more detail the financial forecasts for the years from 2019/20 to 2021/22. It updates the position and approach previously approved by Council in the April 2017 Medium Term Financial Strategy (MTFS).

1.3 The position has been updated to take into consideration decisions which have been made over the last year and the work completed to set the budget for 2018/19. It has been necessary to make assumptions to generate many of these figures due to continued uncertainties. It is not possible to calculate the impact of known changes exactly and it is even more difficult to predict changes which are yet to be determined by government or other entities. As such, the figures are indicative and detail is provided on the assumptions which can be updated over time as further information becomes available.

1.4 The forecast has not been updated to include an additional year due to the uncertainties in government funding from 2020/21 onwards. Current assumed reductions in support may or may not materialise beyond 2019/20, and may not continue. In 2021/22 it is assumed that there is £236,000 of Business Rates and £600,000 of New Homes Bonus remaining.

1.5 Sections 3-7 summarise the key budget areas and set out the assumptions made.

1.6 Sections 8-11 consider the impact of the Council's Investment Programme proposals.

1.7 Section 12 sets out the overall cost pressures and Section 13 sets out the recommended approach, based on maintaining the Council's strategy of not reducing services in the Borough.

2.0 Update since last MTFS

2.1 The MTFS was last approved by the Council in April 2017, and set out a strategy to secure financial stability over the period to 2020/21. Since then the Council has made progress on a series of strategic projects, some directly related to the MTFS. A partial update was provided as part of budget setting in February 2018.

2.2 The Thameswey group published updated business plans in the autumn of 2017 which were considered by the Executive (November) and approved by Council (December). The plans included additional investment in Thameswey Housing Ltd and reflected the new Energy Centre at Poole Road approved by the Council in July 2017. The Council's investment programme approved in February 2018 incorporates the revised funding for the group and the MTFS includes income from interest margins on lending to the group.

2.3 Construction work is underway on both the Town Centre Integrated Transport project, and the Victoria Square Regeneration. The Victoria Square financial modelling was updated in November 2017 and further funding was approved for improved fire safety measures, additional residential properties and car parking. The Investment Programme reflects these higher costs. The additional car parking increases the cost for the Council to acquire the asset at the end of the construction phase. The impact of this is assessed in paragraph 8.9.

2.4 In November 2017 the Council acquired the Dukes Court office block, through the acquisition of its holding company. This had the benefits of protecting employment space in the town centre, enabling regeneration of the surrounding area, and providing commercial rent income for the Council. The net income from the asset has been included in the 2018/19 base budget. In pursuing economic regeneration and sustainability plans the Council has acquired a number of strategic properties. These are all within the Borough and have a strategic purpose to the Council as well as generating income.

2.5 The February 2018 Investment Programme includes a £8.7m budget for further investment in Strategic Properties. This is the balance remaining from the previously approved budget allocation for this objective.

2.6 The Council approved advances to Thameswey Housing Ltd (THL) and Thameswey Developments Ltd (TDL) for the purchase of houses within the proposed Sheerwater development area, and to work up further detail on the scheme. An update on the project was provided to the Council in February with a further paper due for the April 2018 meeting. The costs incurred to date are being reported in the monthly 'Green Book' performance and financial monitoring information. The project is being delivered through the Council's group companies with loan finance being provided during the construction phase at no margin. Provisional costs of operating the leisure facilities which will be completed in the first phase of development are included in this MTFS.

3.0 Government support

3.1 The 2018 final settlement figures are shown in the table below. These are consistent with those provided when the Council accepted the multi-year settlement. Estimated figures are included for 2020/21 and 2021/22.

<u>Government Funding</u>

	4 year settlement - Updated Feb 2018			Estimated	
	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Business Rates	1,993	2,053	2,099	2,162	2,227
RSG					
Transition Grant	112				
Tariff adjustment			- 991	- 1,491	- 1,991
Total Funding	**2,105**	**2,053**	**1,108**	**671**	**236**
Reductions in funding	- 1,304	- 52	- 945	- 437	- 435

3.2 From 2020/21 it has been assumed that the tariff adjustment will increase by £500,000 pa and be offset by inflation of 3% in the Business Rates retained. In reality the introduction of the new Business Rates system will combine these two figures. The section below sets out further detail on the new arrangements.

3.3 If funding reductions continue beyond 2021/22 the Council could be in a position where it no longer receives any central funding. It is possible that from 2022/23 onwards the Council becomes a net contributor to the national system.

<u>Business Rates</u>

3.4 The Government plans to introduce a new system for the allocation of Business Rates from 2020/21. The new system will require baseline income and needs to be assessed. These levels will be used to determine the redistributive model within the scheme. This is a significant risk as it will ultimately determine the financial impact of the transition to the new system (see table in 3.16).

3.5 Changes to Business Rates in recent years including Small Business Rates Relief, other discount schemes following the revaluation, and the change to from RPI inflation to CPI have been funded by the government at no cost to individual Councils.

3.6 The local authorities in Surrey have been accepted as a pilot for 100% Business Rates retention in 2018/19. This means that a greater proportion of Business Rates growth will be retained locally. At this stage the pilot is only for one year, although it may be extended to 2019/20.

3.7 Only £200k of benefit above baseline levels has been built into base budgets. However, actual income collected has been above the baseline level generating surpluses which have enabled the MTFS and Business Rates equalisation reserves to be established. It is not prudent to include a greater benefit in baseline budgets given the uncertainty of this funding in future years. Any reliance would increase the potential difficulty at the reset of the system in 2020/21.

3.8 In recent months there have been a series of valuation adjustments from the Valuation Office to properties in Woking, in particular in the town centre, due to the current redevelopment and infrastructure works. Currently Business Rates income remains at positive levels compared to budget however this will continue to be monitored over the coming months and years until the works are completed.

<u>New Homes Bonus</u>

3.9 2018/19 is the second year since the New Homes Bonus scheme was revised to reduce the number of years the bonus is paid for (from 6 to 4) and to include a baseline growth which is required before any grant is received.

3.10 Once through the transitional period it is assumed that Woking would qualify for approximately £600k of grant annually. This would be the position from 2021/22 onwards by which time the baseline will affect all 4 years for which the grant is being received.

3.11 Actual receipts could vary significantly from this level depending on the annual growth in new homes. The baseline growth requirement may also be set at a different level each year depending on the funding made available by the government and national levels of growth.

3.12 The Council has £1m of New Homes Bonus income in its base budget for 2018/19. The forecast assumes this is reduced by £200,000 in 2019/20 and 2020/21 until just £600k remains in the base budget.

<u>Council Tax income</u>

3.13 The Local Government Settlement for 2018/19 set the referendum limit for borough and district councils to increase Council Tax at the higher of £5 or 3%. The 3% was an increase of 1% compared to the previous years and was also included indicatively for 2019/20. In the future spending power figures the Government assumes that councils take advantage of this flexibility to generate the maximum Council Tax income.

3.14 The Government also assumes increases to the taxbase based on previous taxbase trends.

3.15 For the forecast it is assumed that the Council will implement the maximum increase in Council Tax it may do so without needing a Referendum, and that the taxbase will increase by 0.75%, equivalent to approximately 300 Band D properties per annum, broadly in line with the Local Plan.

Council Tax Income	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Taxbase	40,825	41,131	41,440	41,750
Increase (Band D equivalents)	304	306	308	311
Council Tax	£233.46	£240.46	£247.68	£255.11
Total Council Tax income (£'000)	9,531	9,891	10,264	10,651

Future developments

3.16 Alongside the settlement for 2018/19 the Minister said that the issue of 'negative RSG' will be looked at during the coming year to try to find a fair and affordable resolution. It is hoped that this could provide some support during 2019/20 when the Council is due to contribute £991k to the government.

3.17 Going forward there are 3 significant workstreams which will affect the system of government funding from 2020/21 onwards. In addition a Business Rates revaluation is expected together with transitional arrangements. Neither the detail of these nor the potential impact is available at this stage.

Review	**Purpose**	**Latest Update**
Fair Funding Review (FFR) Due to be implemented 2020/21	Determines which authorities have the greatest 'need' for government funding	Latest consultation ended 12 March 2018. This covered the high level principles of how to determine 'need' for resources. There have been suggestions that local sources of income e.g. car parking could be considered. Further consultations will be required.
'Redesign of Business Rates retention system' Due to be implemented 2020/21	Sets the mechanics for how Business Rate income collected is distributed - to meet the need determined in FFR and incentivise growth	Surrey awarded 100% pilot for 2018/19, which may be extended to 2019/20. Within the 2018/19 settlement the latest proposal is a system of 75% retention by Local Government. Could absorb additional funding sources e.g. New Homes Bonus. Further consultations awaited.

Review	Purpose	Latest Update
Business Rates Baseline Reset Due to be implemented 2020/21	Determines the expected Business Rates income collected by each authority. Amounts above this level are considered 'growth' and the amount of this growth retained is funding above baseline level.	Further details awaited. A previous consultation (2016/17) considered options for setting the baseline – the most recent years Business Rates collected, or an average of several earlier years? How frequently the Baseline should be reset, and how much growth should be retained on reset.
Business Rates Revaluation 2020/21	Determines actual amounts paid by Business Rate payers.	The Chancellor's Spring Statement announced plans for the next Business Rates revaluation to be in 2021 and every 3 years thereafter.
Transition arrangements	'Soften' the impact of significant changes in funding through implementation over a period of time.	Details and approach awaited.

3.18 Until some of the elements of the system are settled, it is not possible to assess the funding expected in future years with any certainty. It is also very difficult to assess the maximum potential impact, although it would seem difficult for funding to drop below zero.

4.0 2018/19 Budget setting and 2017/18 outturn

4.1 The Council approved the 2018/19 General Fund budget, Investment Programme, Prudential Indicators and Council Tax on 8 February 2018. The 2018/19 approved budget now becomes the starting point for the MTFS. The budget includes a £309,000 use of reserves.

4.2 The table below shows a summary of the final approved budget compared to the MTFS forecast in April 2017.

Comparison of April 2017 Forecast to Final base budget 2018/19

	Forecast Apr-17 £'000	Actual Feb-18 £'000	Variance £'000
Pressures			
Pay, contractual inflation and allocation of overheads	538	1,205	667
Collection fund income and Use of Reserves	960	315	-645
Government Settlement/New Homes Bonus	248	248	0
Service variations	280	939	659
Investment Programme	836	1,051	215
Income			
Increase in Fees and Charges (including Planning)	-250	-497	-247
Additional income from Council Tax	-273	-392	-119
MTFS Strategies			
Investment in Housing	-1,022	-789	233
New Acquisitions - Orion Gate/Dukes Court	-149	-2,080	-1,931
Savings to be identified	1,168	0	-1,168

4.3 The basis of allocation of overheads between the General Fund and HRA was fully reviewed as part of the detailed budget preparation. This resulted in an increase in the proportion allocated to the General Fund and an increased pressure in the 2018/19 budget.

4.4 Other contractual inflation and general increases are offset by the increase in Fees and Charges over forecast level.

4.5 Additional service costs were included in the budget in excess of those identified at the time of preparing the forecast. These included additional costs of Woking Sports Box, re-instating the elections budget which had been removed for 2017/18, and adjustment to commercial rents. A full list of budget variations can be found in Appendix 1. These are ‘one-off’ in nature and do not need to be included in the MTFS approach going forward.

4.6 The 2018/19 Investment Programme impact is higher than forecast reflecting changes in project timing, and debt repayment. The forecast assumed a £100,000 saving from the Investment Programme. In recent years there has been a saving achieved in-year due to prudent treasury management assumptions.

4.7 The in-year savings target has not been achieved in 2017/18, however the £100,000 target remains in the budget for 2018/19. In setting the budget the £100,000 saving achieved on the joint waste contract has been recorded against the MTFS target. It is important to keep a savings target and to continue to seek efficiencies across budgets as part of service management.

4.8 Overall the Green Book for 2017/18 at February 2018 suggests an underspend of £181,000.

5.0 General Service Pressures

Employee costs

5.1 The budget report for 2018/19 outlined the pressures on staffing costs, and set a salary control total of £13.575 million. This was an increase in the control total of £575k covering tax changes, the new selective licensing team and a base uplift of £300,000.

5.2 The budget continues to allocate £395,000 of employee costs to the Investment Programme to be funded annually alongside the projects to which these posts relate. An initial review of the outturn position for 2017/18 suggests that it will be possible to fund most of these costs as proposed, however it will be important to continue to assess this as project work may not continue at the same rate.

5.3 There is a 5% vacancy management savings target within the 2018/19 salaries budgets. The total annual cost of a full staff structure has been scaled back by this amount to the control total. A vacancy target at this level is acceptable but higher than in previous years and will require close management in year.

5.4 Going forward it is necessary to assume that all pay progression is funded in future years if services are to be maintained at the existing levels, and that some contribution is made to reduce the vacancy management target.

5.5 Allowance is made for the control total to increase by £400,000 in 2019/20 and 2020/21 with an assumed cost increase of £350,000 per annum across the period. This is equivalent to an increase in salary budget of between 2.45% (2019/20) and 2.35% (2021/22) and enables a reduction in the vacancy management target of £100,000 so that it represents 4% of the total costs by 2021/22. It may be necessary to review this in future if it is not possible to manage this level of in-year savings.

Contractual Inflation

5.6 As in the previous MTFS, inflation 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.

5.7 For the purposes of this report inflation is based on the HM Treasury February publication of independent inflation forecasts. Contract increases are assumed to be in line with RPI. Between £250,000 and £275,000 is allowed in each year of the forecast.

Medium Term Forecasts February 2018 (HM Treasury)

Inflation	2018	2019	2020	2021	2022
RPI (%)	3.5	3.0	3.0	3.1	3.1
CPI (%)	2.6	2.1	2.1	2.0	2.1

Other inflation

5.8 No specific allowance is made for inflation on the remaining £11 million of service expenditure. It is assumed that any further cost pressures will be offset by increases in income budgets which total £25 million excluding parking which is covered separately in section 7. A significant proportion of this income (£16m) relates to rents and it is recognised that these will be subject to rent reviews and may not increase in the same way as contract inflation.

6.0 Specific Service Pressures

Reduction in Surrey County Council support

A number of the Council's service areas currently benefit from financial support from Surrey County Council (SCC). SCC has been very open about their financial funding issues as a result of reductions in government funding and increased demand (particularly for social services and services for people with learning difficulties). Where reductions in support are known, these have been built into the base budget. There remains £950k in direct support at risk. For the purposes of the MTFS it is assumed that Woking will lose this over 2019/20 and 2020/21 with the exception of £345k waste funding which has been agreed under new funding mechanisms.

New Leisure Facilities

Additional operational costs have been built into the 2018/19 budget for the Woking Sports Box, which will open during the year. These costs will be reviewed during the year and amended in the 2019/20 budget if necessary. An assumed £825,000 for operating the new Sheerwater facilities has been included in the MTFS.

HG Wells

6.1 The lease for HG Wells is due to end in 2021. There is a net £65k operational budget for the centre (2017/18). The impact of any revised arrangements will be evaluated and included in a future update of the MTFS.

Housing

6.2 The Homelessness Reduction Act places new responsibilities on the Council. In 2018/19 funding has been received to assist in the implementation of these new requirements. In future years there is a risk that there will be additional ongoing costs that have not been recognised in the MTFS. Currently properties in Sheerwater are being used as temporary housing, saving the cost of Bed and Breakfast accommodation. As the Sheerwater scheme progresses the Council will need to identify alternative housing for these tenants.

Land Charges

6.3 The Land Registry will take on the future provision of Land Charges information. The timing and exact proposal of what elements of the service will transfer have not yet been confirmed, however there is a risk that there are residual costs which will no longer be covered by income from charges. No new information is available since the last MTFS. The £80,000 pressure remains for any costs which cannot be recovered, although for planning purposes moved to 2020/21.

7.0 Fees and Charges

7.1 Of the total £11.3m income from discretionary fees and charges, £7.5 million is derived from car parking charges.

7.2 As in the 2017 MTFS, it is assumed that there will be an annual increase in income generated and that this trend will continue at some £250,000 per annum over the forecast period.

7.3 Planning fees were increased in January 2018 in line with government guidance. The government have suggested a further 20% increase would be available in the future with details to be announced. This has not been built into the forecast since it is assumed there will need to be an equivalent increase in expenditure within the planning service.

7.4 The Investment Programme approved in February 2018 includes an allowance to increase capacity at Heathside car park. Income is assumed to offset the cost of investment so this forecast excludes any additional parking income and the costs of servicing the capital.

8.0 Investment Programme

8.1 The cost of Investment Programme projects, where project funding is through borrowing, consists of interest charges and an allowance for repayment of debt which is called the 'Minimum Revenue Provision' (MRP). The forecast is based on the Investment Programme approved by the Council in February 2018. This only provides estimates to 2020/21, with considerably less activity in the outer years. Experience suggests that projects in these years will be developed and be included nearer the time. The forecast therefore includes an allowance of £500,000 for other new projects in 2020/21 and 2021/22, financed by borrowing and repaid over 20 years. These years also include budgets for the Asset Management Plan (£1 million) and IT (£750,000), and Brookwood Cemetery (£1,000,000).

8.2 There remains a budget for strategic investment opportunities as well as the opportunity purchase budget within the Investment Plan. The MTFS assumes that the Strategic Investment budget achieves a 2% margin on the costs of acquisition.

<u>Flood Schemes</u>

8.3 In March 2016 the Executive approved the first stage investment in the Hoe Valley flood alleviation and enhancement scheme. It is recognised whist we remain hopeful that grant funding will be available, it is probable that it will not completely fund the project. An estimated cost of borrowing of £4 million has been assumed for each scheme.

8.4 It is likely that further investment will be required in future years for the Rive Ditch, but at this stage these works have not yet been quantified.

<u>Woking Sportsbox</u>

8.5 The community facility element of the Egley Road scheme is funded by development contributions, with interim borrowing applied until the contributions are secured. These financing costs, assumed at £625,000 pa, have previously been assumed in the forecast, and are now in the 2018/19 budget as the facilities will open during the year. The athletics track is a replacement for the track in Sheerwater which is required for the regeneration scheme. It is assumed that the Sheerwater project will make a contribution of £8m for this during 2019/20.

<u>Brookwood Cemetery</u>

8.6 The Investment Programme includes capital and revenue grants to Brookwood Cemetery to fund backlog maintenance as well as capital improvements. Going forward future investment will be assessed and agreed annually and would be an additional cost to the base budget. It is expected that continued investment will be required so a revenue allowance of £300k and an annual £1m capital grant is assumed in the Investment Programme.

Gateway

8.7 The Woking Gateway project is a private development scheme, which includes some of the Council's property assets. Once construction is underway, there will be a loss of £350,000 commercial rents during the development. It will be important to the Council that these are reprovided and that this income stream is not permanently lost. The MTFS recognises this loss of income assumed in 2021/22.

Car Parks Extensions

8.8 The Investment Programme allows £10m in 2018/19 for the expansion of Heathside Car Park which was approved by the Executive in September 2017. It is assumed that additional car parking income will offset the financing costs of the increased capacity, approximately £370k based on a 50 year annuity at 2.75%. If occupation levels were to be consistent with the Council's other car parks then there would be a surplus of over £250,000. At this stage any positive benefit is not assumed in the MTFS as it requires an overall increase in the level of activity in the town while significant construction work remains ongoing.

8.9 The Victoria Square project also provides for additional car parking which will be acquired by the Council on completion of construction. The total cost of these additional spaces is £58m which will require approximately £2.1m from car parking charges to finance. It will take time for the new asset to be able to generate this level of income so funds will need to be set aside to offset the financing costs until activity increases. For the purposes of the MTFS no additional costs have been included to finance the car parking assets.

Technical accounting changes

8.10 Both the government and CIPFA have recently issued updated guidance on investment and treasury management practices which will apply in future years. In particular there are new suggested periods for the repayment of borrowing (MRP) applied to specific assets. Whilst this remains guidance and not a statutory requirement, in the future it may be more difficult in to justify an approach which is significantly different to the recommended calculations.

8.11 For share capital the suggested Minimum Revenue Provision (MRP) is over 20 years as the government wishes to discourage the use of share capital. It is recommended that in light of this consideration is given to restructuring future project financing to reduce the risk of this becoming an issue where share capital is supporting long term business plans.

9.0 Group Companies

9.1 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.

9.2 Beyond the Investment Programme years, it is assumed that there will be a continued investment in the Thameswey Group as outlined in the Thameswey Business Plans but not yet approved by the Council in its Investment Programme. The additional income generated is offset in part by the reduction in interest on older annuity loans as the principal is repaid by Thameswey group companies.

10.0 Treasury Management

10.1 The base treasury management position in the 2018/19 budget reflects the borrowing necessary to meet the requirements of the approved Investment Programme. It is based on a long term borrowing rate of 2.95%. As at 1 March 2018, 50 year PWLB rates are 2.40% (maturity), 2.68% (annuity).

10.2 For future years long term borrowing rates have been based on the Capita forecast maturity rates (13 February 2018). As below:

Link Asset Services Interest Rate View	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.50%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.50%
3 Month LIBID	0.40%	0.70%	0.70%	0.90%	0.90%	0.90%	0.90%	1.20%	1.20%	1.20%	1.40%	1.40%	1.40%
6 Month LIBID	0.50%	0.80%	0.80%	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.50%	1.50%	1.50%
12 Month LIBID	0.80%	1.10%	1.10%	1.20%	1.20%	1.20%	1.30%	1.40%	1.40%	1.50%	1.70%	1.70%	1.70%
5yr PWLB Rate	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

10.3 If rates rise above assumed levels for projects which require financing over a period of time, it is likely that a consolidated rate, mixing long and shorter term borrowing, could be achieved.

10.4 For the Victoria Square project financing was assumed at a base rate of 2.5%, with modelling of 2.75%. To date £110m of 50 year annuity borrowing has been secured for the project at a weighted average interest rate of 2.57%. There remains a risk on the timing of loan advances and interest rates which could have an effect on future plans.

10.5 Most of the Council's historic debt has been maturity loans which are repaid at the end of the term. With the levels of investment planned over the MTFS period it is likely that more annuity loans are taken for new debt which requires the principal to be repaid gradually over the term of the loan. During 2017/18 annuity loans have been taken to cover strategic property acquisitions and Victoria Square financing.

11.0 Reserves

11.1 The Council's main usable revenue reserve is the Investment Strategy Reserve which has been managed with an intention of maintaining approximately £3 million of available funds. The budget papers showed the balance on this reserve is projected to be £2.7 million at 31 March 2021. It is important to review the use of reserves alongside forecast budget plans to maintain adequate resources in reserve.

11.2 The Wolsey Place reserve is used to mitigate variations in rental income and one-off revenue costs in Wolsey Place and Export House. At 31 March 2021 the balance is forecast to be £3.1 million, and based on similar levels of use is reducing at approximately £685,000 a year. At this rate of use, the funds in this reserve will last until 2025/26

11.3 A new Car Park reserve will be established as part of closing of the final accounts for 2017/18. Any surplus in excess of those already forecast and allocated, will be transferred to this new reserve to begin to accrue a balance for when the financing costs discussed in paragraph 8.9 become a cost to the Council.

11.4 The Council has a number of other revenue reserves holding funds which are set aside for specific purposes or to address particular identified risks. These include the MTFS reserve and Business Rates Equalisation Reserve which are available to provide a buffer should income levels take time to grow or further costs/lost income be incurred while the major construction projects in the town centre continue.

Reserves available to manage the transition period to 2021 and beyond

	31-Mar-18 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-21 £'000
Forecast reserve balances				
Medium Term Financial Strategy Reserve	2,056	1,747	1,747	1,747
Wolsey Place Reserve	5,402	4,564	3,824	3,056
Business Rates Equalisation Reserve	1,349	1,349	1,349	1,349
Victoria Square Reserve	1,609	2,699	3,799	3,799

11.5 The Council's overall reserves position is considered to be sound and able to provide support in managing any transitional arrangements provided medium and long term action is set to align underlying revenue expenditure with underlying revenue income; a balanced budget.

12.0 Summary Forecast

12.1 The table below sets out the impact on future years of the assumptions outlined in sections 3-10 of the report, and the previously agreed mitigation strategies.

<u>**In year pressures**</u>	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**TOTAL £'000**
Remove use of reserves	309			**309**
Remove Business Rates pooling/CF surplus	337			**337**
Reduce reliance on NHB	200	200		**400**
General Service Pressures	653	660	608	**1,921**
Specific Service Variances	216	476	0	**692**
Investment Programme projects	979	572	373	**1,924**
Sportsbox funding from Sheerwater project	-370			**-370**
Sheerwater Leisure facilities - operational cost	125	700		**825**
Woking Gateway - loss of rents			350	**350**
TEL/TCMK interest	-62	-10	75	**3**
Government Funding reductions	945	437	435	**1,817**
	3,332	3,035	1,841	8,209
Funded by:				
Fees and Charges - Car park income	-250	-250	-250	**-750**
Council Tax income	-361	-375	-389	**-1,125**
In year savings required	2,721	2,410	1,202	6,333
MTFS Strategies				
Investment in Housing	-737	-663	-688	**-2,087**
Investment in MTFS Investments (@2%)	-175			**-175**
Limiting Investment Programme revenue cost	-100	-100	-100	**-300**
Productivity and Procurement	-100	-100	-100	**-300**
Surplus/deficit after agreed strategy	**1,608**	**1,548**	**315**	**3,471**

12.2 The forecast figures show that in total £3.5m of ongoing savings are required by 31 March 2022. This is £440k more than in the summary MTFS presented in the February budget papers. However, the figures now include allowance for the Sheerwater leisure facilities and lost rents due to the Gateway project.

12.3 Progress in achieving offsetting income has been good, and decisions already made will continue to contribute towards the pressures identified. However, additional income generated in 2018/19 was partly offset by increased allocation of overhead costs and additional service costs in the detailed budget.

12.4 The Council is in a transitional period with construction now underway in the town centre. There is a risk to commercial rents, car parking and business rates during this period. Once the works are complete it will take time for the assets to be fully occupied, which will potentially coincide with the Gateway development. There is also national uncertainty with the agreed date for leaving the European Union, and the proposed transition period all within the MTFS timescales.

12.5 As referred to in section 11, sufficient reserves are required to ensure any downside movements in the assumed MTFS figures, as a result of the local or national economic environment, can be managed.

12.6 There are a number of items in the MTFS which have potential to improve when preparing the detailed budget for 2019/20:

- Collection Fund surplus (Council Tax and Business Rates) could be retained in the base budget - £337k
- The government may provide additional funding to reduce some of the £991k negative RSG in 2019/20
- Opportunity purchase assets could generate a surplus (currently assumed neutral)
- Loans to external organisations will secure an interest margin which has not been assumed in the base figures
- The MTFS reserve could continue to be used to supplement the budget in the short term (£309k 2018/19)

12.7 And into the future years:

- The government review of funding may secure at least a cash neutral settlement for the Council saving the £872k assumed reductions in 2020/21 and 2021/22.
- Parking activity could increase following the extension of Heathside and generate a surplus for the investment
- The town centre could start to see a general increase in rentals as the impact of the improvements are established
- With the level of development underway the Council taxbase could increase at a greater rate than assumed and generate additional Council Tax income

12.8 There also remains some flexibility within the Investment Programme where projects could be deferred until resources can be identified. The schemes in the table below are funded by borrowing with no offsetting income from either loan margins or rental/other income.

	2018/19	**2019/20**	**2020/21**	**2021/22**
	£'000	£'000	£'000	(assumed)
Asset Management Plan	1,250	1,250	1,000	1,000
IT Programme	1,395	250		750
Civic Office works	1,450	30		
CCTV upgrade	1,782	265		
Flood Preventions schemes	4,000	4,000	4,000	
Brookwood Cemetery	1,000	1,000	1,000	1,000
Woking Gym club	3,000	3,000		
Other (less than £1m)	2,354	704	904	500
	16,231	**10,499**	**6,904**	**3,250**

13.0 Proposed Financial Strategy

13.1 The figures outlined in this report, and summarised in section 12, illustrate the challenge facing the Council and the likely level of cost reductions or additional income to be achieved.

13.2 The Council's policy has been to seek to achieve a balanced budget with no reductions to services; this strategy envisages that this policy objective will remain central to the Council approach to its future.

13.3 The MTFS has previously acknowledged that it will not be possible to meet the identified financial pressures through cost savings or efficiencies alone. Officers will continue to seek savings and those achieved will be reported during 2018/19 in the Green Book against the £100,000 in-year savings target.

<u>Key Actions 2018/19</u>

13.4 The strategy of investing in strategic commercial properties has been successful and has made an essential contribution towards the Council's saving requirement. Further strategic investment opportunities should be sought which would continue this approach whilst providing the Council with influence over key sites in the Borough.

13.5 It will also be important to complete further modelling of car park capacity, activity and income. A financial model has been prepared by EY to enable the Council to assess the impact of the various scenarios with flexibility over activity and charges. This should be updated with the revised plans.

13.6 The Council should continue to urge the government to maintain a minimum level of funding. A set level of business rates should be retained to support economic regeneration and sustainability. It is critical that funding levels do not continue to reduce following the funding review. If the current trend of reductions were to continue funding would fall below zero in 2022/23 and local council taxpayers would be contributing directly to the national funding system.

<u>2019/20 Budget Preparation</u>

13.7 The 2018/19 budget was prepared in accordance with the guidelines below. It is proposed that these principles will continue to apply as key components of the medium Term Financial Strategy throughout the period of this forecast.

- inflationary increases limited to those elements which carry a contractual/unavoidable obligation to adjust by inflation;
- the revenue impact of new investments be limited to a sustainable increase in accordance with the provisions of the Prudential Code;
- no increase in net revenue expenditure, unless unavoidably necessary, is likely to be approved;
- review of the Investment Programme to continue;
- the programme to identify further efficiency savings to continue; and
- to propose fees and charges to optimise the income yield.

<u>Conclusions</u>

13.8 Over the period to 2021/22 it is forecast that ongoing savings of £3.4m need to be secured to establish a sustainable budget going forward. £2.2m relates to government funding reductions (Business Rates retained funding/New Homes Bonus) of which £870k is subject to fundamental reviews of the funding mechanisms.

13.9 There continues to be considerable uncertainty around the levels of government funding beyond 2019/20, as further information is available the MTFS will be updated and the impact evaluated.

13.10 Officers should continue with existing strategies of seeking further investment income and encouraging the government to deliver a fair and sustainable settlement which provides certainty for medium term planning.

14.0 Implications

Financial

14.1 The financial implications are detailed within the report.

Human Resource/Training and Development

14.2 No specific Human Resource or Training and Development implications.

Community Safety

14.3 No specific Community Safety implications.

Risk Management

14.4 There are a number of specific risks to the figures included in the forecast as set out in the report. There is an ongoing risk in the medium term of changes in government policy which could affect the General Fund as well as the Housing Revenue Account and Thameswey Group.

Sustainability

14.5 There are no sustainability implications.

Equalities

14.6 There are no equalities implications.

15.0 Consultations

15.1 There have been no formal consultations on this paper.

REPORT ENDS

EXE18-011

APPENDIX 1

Detailed Comparison of April 17 Forecast to February 2018 Budget

	2018/19 Forecast £'000	2018/19 Actual £'000	Difference £'000
General Pressures			
Additional increase to salary control total	300	415	115
Reallocation of overheads from HRA		469	469
Contractual/Service Inflation	238	321	83
Less:			
Increase in Fees and Charges	-250	-497	-247
Additional income from Council Tax	-273	-392	-119
Collection fund income and Use of Reserves	960	315	-645
Reduction in NHB	200	200	0
Government Settlement	48	48	0
Service Variations			
Women's Support Centre		31	31
The Junction		32	32
Woking Sportsbox	100	341	241
Community Meals extra vehicle		10	10
Additional Handyman resource		22	22
Increase in Commercial Rents		150	150
SCC funding	200	206	6
Market costs		45	45
HG Wells		30	30
Elections		117	117
Credit card surcharge		18	18
Statutory adverts		22	22
Reduction in Housing Subsidy admin grant		14	14
Peace Garden Commemorative Service		10	10
Land Charges lost income	80		-80
Savings identified	-100	-109	-9
Investment Programme			
Net cost of Investment Programme	936	1,051	115
Saving on Investment Programme	-100		100
Investment in Housing	-1,022	-789	234
New Acquisitions - Wolsey/Orion Gate/Dukes Court	-149	-2,080	-1,931
Savings to be identified - April 17 Forecast	1,168	0	-1,168

Equality Impact Assessment

The purpose of this assessment is to improve the work of the Council by making sure that it does not discriminate against any individual or group and that, where possible, it promotes equality. The Council has a legal duty to comply with equalities legislation and this template enables you to consider the impact (positive or negative) a strategy, policy, project or service may have upon the protected groups.

		Positive impact?			**Negative impact?**	**No specific impact**	**What will the impact be? If the impact is negative how can it be mitigated? (action)** **THIS SECTION NEEDS TO BE COMPLETED AS EVIDENCE OF WHAT THE POSITIVE IMPACT IS OR WHAT ACTIONS ARE BEING TAKEN TO MITIGATE ANY NEGATIVE IMPACTS**
		Eliminate discrimination	**Advance equality**	**Good relations**			
Gender	Men					X	
	Women					X	
Gender Reassignment						X	
Race	White					X	
	Mixed/Multiple ethnic groups					X	
	Asian/Asian British					X	
	Black/African/Caribbean/ Black British					X	
	Gypsies / travellers					X	
	Other ethnic group					X	
Disability	Physical					X	
	Sensory					X	
	Learning Difficulties					X	

	Mental Health					X	
Sexual Orientation	Lesbian, gay men, bisexual					X	
Age	Older people (50+)					X	
	Younger people (16 - 25)					X	
Religion or Belief	Faith Groups					X	
Pregnancy & maternity						X	
Marriage & Civil Partnership						X	
Socio-economic Background						X	
Carers						X	

The purpose of the Equality Impact Assessment is to improve the work of the Council by making sure it does not discriminate against any individual or group and that, where possible, it promotes equality. The assessment is quick and straightforward to undertake but it is an important step to make sure that individuals and teams think carefully about the likely impact of their work on people in Woking and take action to improve strategies, policies, services and projects, where appropriate. Further details and guidance on completing the form are available.
important step to make sure that individuals and teams think carefully about the likely impact of their work on people in Woking and take action to improve strategies, policies, services and projects, where appropriate. Further details and guidance on completing the form are available.

Sustainability Impact Assessment

Officers preparing a committee report are required to complete a Sustainability Impact Assessment. Sustainability is one of the Council's 'cross-cutting themes' and the Council has made a corporate commitment to address the social, economic and environmental effects of activities across Business Units. The purpose of this Impact Assessment is to record any positive or negative impacts this decision, project or programme is likely to have on each of the Council's Sustainability Themes. For assistance with completing the Impact Assessment, please refer to the instructions below. Further details and guidance on completing the form are available.

Theme (Potential impacts of the project)	Positive Impact	Negative Impact	No specific impact	What will the impact be? If the impact is negative, how can it be mitigated? (action)
Use of energy, water, minerals and materials			X	
Waste generation / sustainable waste management			X	
Pollution to air, land and water			X	
Factors that contribute to Climate Change			X	
Protection of and access to the natural environment			X	
Travel choices that do not rely on the car			X	
A strong, diverse and sustainable local economy			X	
Meet local needs locally			X	
Opportunities for education and information			X	
Provision of appropriate and sustainable housing			X	
Personal safety and reduced fear of crime			X	
Equality in health and good health			X	
Access to cultural and leisure facilities			X	
Social inclusion / engage and consult communities			X	
Equal opportunities for the whole community			X	
Contribute to Woking's pride of place			X	