

**DRAFT MEDIUM TERM FINANCIAL STRATEGY (MTFS) AND GENERAL FUND BUDGET
2022-23**

Executive Summary

This report presents the Draft Medium Term Financial Strategy (MTFS) for 2022-23 to 2024/25 and draft General Fund budget for 2022/23. It incorporates an update on the financial position of the Council for this period, following the earlier reports to the Executive at their meetings on 15th July 2021 and 7th October 2021 and in advance of the final budget proposals which will be reported to the Executive at its meeting on 3rd February 2022 and Council on 10th February 2022.

The outlook over this period remains very difficult to assess as the country emerges from the impact of the Covid pandemic and ending of Covid restrictions, alongside understanding the impact on the economy and speed of economic recovery.

The financial position of the Council is significantly reliant on income from car parking and commercial rents contributing some £8m and £22m towards the Council's total income. This income has been used to fund a wide range of services for the communities of Woking that would not be possible to fund if this income was not generated. There has been a significant loss of this income in 2020/21 and the first two quarters of 2021/22. Whilst recovery of performance is being experienced in September 2021, this remains broadly in line with the forecasts we had made for 2021/22 and it is too early to make any material revisions to the forecasts for 2022/23 – 2024/25 at this stage. The financial forecasting will remain under review and any revisions will be incorporated into the final budget proposal for the 3rd February meeting of the Executive. Whilst it can be assumed that this income will recover, it may take some time before pre-Covid income levels are achieved. A full recovery is still assumed to extend beyond the 3 years of this Medium Term Financial Strategy (MTFS). On this basis a prudent approach is required which secures savings in the short and medium term in order to reduce and remove the use of reserves.

The report incorporates known service variations for 2022/23 and indicates budget risks and pressures both for 2022/23 and over the period of the Medium Term Financial Strategy (MTFS).

The 2021/22 budget and forecasts to 2024/25 set out in the March 2021 MTFS assumed the use of almost £25m of revenue reserves to support the provision of services and recovery from Covid-19. The report to the 7th October meeting of the Executive forecasted a reduction in the use of reserves in the region of £10m resulting from work over the earlier part of 2021/22 on the Fit for the Future programme and MTFS. The requirement to use reserves is still significant due to the forecast reduction in income and returns from investments in the Borough's economy. Whilst the general economy is expected to slowly recover from the pandemic the performance of specific sectors will continue to be monitored in order to inform our forecasts for returns from our current assets and opportunities for our future Investment Programme.

Options have been developed over the last 4 months that would deliver £4.9m of recurrent annual savings by 2024/25. These are detailed in Appendix 3 of this report as areas where the Council's net budget provision for the service will be targeted for reduction. Where the proposals are delivered by a review of fees and charges in 2022/23, these are contained in a further report on the agenda of this Executive which seeks Executive agreement to the review. For all other proposals they are highlighted for information. Decisions on proposals and budget changes will be brought forward in the reports to Executive on 3rd February 2022 and Council on 10th February 2022. The impact of these proposals is to reduce the use of reserves to support the general fund by approximately £12m over the 3 year period.

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At this point it is not possible to propose a balanced MTFS position over the period without the use of reserves. There are some encouraging signs for local government coming out of the Chancellor of the Exchequers Autumn Budget Statement and Spending Review that was announced in the House of Commons on 27th October 2021 and the signalling from Government of a 3 year settlement 2022/23 – 2024/25. Many details from Government however will be provided in the provisional financial settlement which is expected any time from early December.

There is also an improving reserves position for the Council, the forecast strategic use of reserves at this stage is therefore appropriate and prudent.

The approach taken supports the development of a sustainable approach to delivering service changes over the medium term and enables investment into the Fit for the Future programme of organisational change.

The Council has established a significant performance reset over the last 7 months through the emerging Fit for the Future programme in order to establish a framework to oversee the delivery of efficiencies while continuing to place communities at the core of decision making through our extensive community engagement plans. In addition, the programme seeks to deliver a modern council way of working that is in tune with the priorities for and opportunities that the Borough offers. Details of the Fit for the Future programme were reported in the MTFS report to the Executive on 7th October 2022.

Now is the time to drive out the benefits enabled from the investments the Council has made into establishing the Borough as a place that has vitality and prosperity in order to maximise it's potential.

The Council's application to the government for Exceptional Support for 2020/21 and 2021/22 was not successful as the assessment from MHCLG was that the Council's overall position did not meet the criteria for support, the Council is not facing an immediate unmanageable cost pressure and there are a range of actions that the Council could take to help manage its financial position in the coming years. The Council was prudent in assuming that this support would not be available and it does not therefore impact on our financial planning assumptions.

There was an additional resolve of the Executive at its meeting on 15th July 2021, supported by a motion that was agreed by Council at its meeting on 29th July 2021, which has led to the commission of a full, independent and comprehensive review of all the assets and liabilities of the Council and all companies of which it has an interest. This contract has been awarded and the review will produce a report by the end of December 2021 which will be incorporated into the Medium Term Financial Strategy and reported in the Budget report to Executive on 3rd February 2022, following consideration by the Overview and Scrutiny Committee at its meeting on 24th January 2022. Council will be required to approve the final budget and Council Tax at their meeting on 10th February 2022.

Monitoring of the 2021/22 budget will be reported monthly in the Performance and Financial Monitoring Report.

Recommendations

The Executive is requested to:

RESOLVE That

- (i) the draft General Fund Budget for 2022/23 be received;
- (ii) Managers, Corporate Leadership Team and Portfolio Holders continue detailed budget preparation to secure savings for consideration by the Executive in February 2022; and

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- (iii) the savings and efficiency proposals at Appendix 3 to the report be noted.

Reasons for Decision

Reason: Consideration of these proposals will enable the preparation of the Council's budgets for 2022/23 to proceed.

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

Background Papers: None.

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1.0 Introduction

- 1.1 This progress report on the Council's Medium Term Financial Strategy is part of the Council's integrated service and financial planning cycle. The report provides an overview of the latest position, following work over the summer and in the context of the Fit for the Future programme that has been planned and implemented over the last 7 months.
- 1.2 It follows the Medium Term Financial Strategy reports presented to the Executive at its meetings on 15th July 2021 and 7th October 2021 and in advance of the final budget proposals which will be reported to the Executive at its meeting on 3rd February 2022 and Council on 10th February 2022.
- 1.3 The report sets out our performance and achievements over the last year, more notably the last 7 months, and acknowledges the challenges in the years ahead at both a local and national level as we assess the impact that the coronavirus pandemic has had on the Council's income, demand for services provided by the Council and the shape of the economic recovery.
- 1.4 The Council spends circa £130m gross and £15m net revenue each year on the general fund and has an ambitious £1,003m capital Investment Programme. It is vital that these resources, in partnership with others, are deployed in the most effective way.
- 1.5 The Corporate Plan, adopted at Council 8 April 2021, sets the core priorities for the Council and informs where our spending is directed in order to ensure that we target our finite resources towards the areas of highest priority and need.
- 1.6 The Council budgets for circa £35m per annum from commercial and income generating activities plus margins from loans to Group Companies and other partners which have supported the Council's ability to provide a comprehensive set of services that are valued by the communities of the Borough. The Corporate Plan and integrated service and financial planning within this Medium Term Financial Strategy provides the policy and priority context for developing proposals that sustain our financial resilience whilst ensuring we remain focussed on the priorities for our communities.
- 1.7 In developing our medium and longer term plans we will need to have regard to the broader context in which we will be working. There are significant areas of change that currently are not fully understood and cannot be fully quantified but will have potentially significant financial impact. The Chancellor delivered his Budget and Spending Review 2021, including the Office for Budget Responsibility (OBR) forecasts on 27th October 2021. The main points from the Chancellor's Budget Statement that are relevant to local government are as follows:
 - New grant funding for local government has been announced over the next three years, worth £4.8bn. The details of how this funding will be distributed and which services it will be allocated to were not included in the speech. There was also no announcement on funding reform, and no confirmation that the reset would be delayed beyond 1 April 2022.
 - The Spending Review document confirmed that the Council Tax referendum limit is expected to remain at 2% per annum for the Spending Review Period, with an additional 1% per annum flexibility for social care authorities to increase the Social Care Precept.
 - The Business Rates multiplier will, again, be frozen, rather than rising by inflation, as in 2021/22. It is expected that this will be funded by government through a further increase to the multiplier cap compensation grant.

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- Retail, Hospitality and Leisure relief will be extended at 50% for 2022/23, subject to a £110,000 cash cap. The government estimates the relief will be worth £1.7bn to business. Again, it is expected that this will continue to be fully funded for local government.
- £560m will be provided for youth services as part of the levelling up agenda. There will also be new funding for community football pitches (£200m+), to support museums and libraries (£800m), and for 100 new 'pocket parks' on small areas of derelict land.
- The public sector pay freeze will not continue, and the intention is to return to the usual system of independent pay commission recommendations for 'fair and affordable' pay rises over the whole Spending Review period. The minimum wage will be increased to £9.50 per hour, accepting the Low Pay Commission's recommendation.
- Total departmental spending will increase over this Parliament by £150bn, or 3.8% per annum in real terms. There will be a real terms rise in spending for every single department.
- The OBR forecasts predict continued higher inflation, with CPI expected to average 4% over the coming year. The government consider that this high inflation relates to demand exceeding supply (as demand has recovered more quickly than suppliers can re-mobilise, as economies reopen) and also to the surge in demand for energy, despite continuing disruptions to supply.
- Economic recovery is now expected to be quicker, with a return to pre-COVID levels expected at the turn of the year (earlier than was expected in March). The estimates of the impact from COVID have been reduced from 3% to 2%, and the peak unemployment is now expected to be 5.2% (down from the 12% predicted in March).
- The government will publish a new Charter for Budget Responsibility (which will be subject to a vote in Parliament). The Charter will include two rules, which must be met by the third year of a fiscal period: that underlying Public Sector Net Debt (excluding the Bank of England) must be falling as a percentage of GDP, and, in normal times, the state should only borrow to invest (with everyday spending being paid through taxation).

1.7 The draft revenue budget has been prepared as part of an integrated service and financial planning approach which was initiated in the MTFS report to the Executive at its meeting on 15th July 2021. At this stage the budget in 2022/23 provides specifically for:

- A medium term strategic financial and service planning horizon;
- Latest funding and economic position advised by government;
- 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;
- Provision for pressures where they are unavoidable and align with corporate priorities;
- To propose fees and charges to optimise the income yield;
- Review of the Investment Programme to continue; and
- The programme to identify further efficiency savings to continue.

1.8 This report considers the following:

- General Economic Environment
- Government funding and policy
- Budget approach
- Management and Administration 2022/23
- Fees and Charges 2022/23
- Contractual Inflation
- Service Plans
- Pension Costs
- Service issues, budget pressures and risks
- Investment Programme and Treasury Management
- Approach to developing the MTFS

2.0 General Economic Environment

2.1 Woking Borough Council plays a key role in the quality of life of the residents, communities and businesses of Woking through services and employment we provide, purchasing from local suppliers and how we work in partnership with others. Against a background of ever diminishing resources and increasing demand, the Council has been investing in the local economy in order to reduce the reliance on government funding sources and therefore become more financially sustainable through activity that is more within the Council's control.

2.2 The benefits from the Council's entrepreneurial and commercial practice over that last decade has enabled it to continue to invest in new community facilities, and provide and fund a comprehensive range of services for the residents and communities of the Borough that has been beyond the reach of many comparable District and Borough authorities.

2.3 We have and continue to work to ensure:

- What we do represents good value for money;
- We invest in and for the future vision for the Borough as a vibrant place to live, visit, work and invest;
- Our activities are transparent and we can be held to account;
- We operate as One Council and focus on key areas for the Borough;
- We prioritise the investment available for front line service delivery by maximising the resources available to us through income generation, treasury management and working in partnership with other organisations;
- We remain true to our purpose and carry out all we do professionally and competently; and
- We remain ambitious, optimistic and realistic about what can be achieved.

2.4 Local Government has to date borne the brunt of austerity and savings it has been required to make are higher than in most areas of government expenditure. All Councils are facing real challenges and the impact of the Coronavirus pandemic has hit authorities with a high dependency on parking and commercial and retail estate returns particularly hard.

2.5 The Chartered Institute of Public Finance Accountants produce an index of Financial Resilience to support Local Authority good financial management. Of particular note and relevance for Woking Borough Council are comparably high levels of debt and interest payments to support our investment and regeneration programmes of activity alongside a strong financial position in respect of the level and sustainability of reserves and the ratio of fees and charges to service expenditure which has provided the ability to cover the debt interest payments and contribute to maintaining the funding of a comprehensive range of services to the communities of the Borough. It is this reliance on alternative income sources,

seen by the index as a strength, which has increased the financial pressure during the pandemic as income has been universally affected.

- 2.6 The benefits of the Council's approach and Investment Programme have put us in a relatively strong position from which to face the challenges ahead. This can be evidenced by some areas of national research that have been previously reported to the Executive and as evidenced in the Lambert Smith Hampton UK 2021 Vitality Index and Legatum Institute prosperity index 2021.
- 2.7 The outlook over this period remains very difficult to assess as the country emerges from the impact of the Covid pandemic and ending of Covid restrictions, alongside understanding the impact on the economy and speed of economic recovery.
- 2.8 The Bank of England's Monetary Policy Committee met on 2nd November 2021 and kept the Bank Rate unchanged at 0.1%. The key headlines from the November 2021 Monetary Policy Report were:
 - The size of the UK economy is getting close to where it was before the pandemic.
 - Expect inflation to rise to around 5% in the spring next year and fall back from the middle of next year and to be close to the Government's 2% target in two years' time.

3.0 Government Funding and policy

Baseline Core Government Funding

- 3.1 In his Autumn Statement in October, the Chancellor, set out the results of the Comprehensive Spending Review (CSR) and provided government departments with budgets for 3 years from 2022/23 to 2024/25.
- 3.2 Whilst the headlines for local government were positive, Core Spending Power which is set to increase, reflects both government funding and locally generated Council Tax increases. It cannot be assumed that any headline increases in resources available for the sector will translate into increased government grant funding. In addition any changes in the distribution of grant funding between local authorities is likely to be influenced by the Levelling Up agenda and pressures within social care, and is unlikely to favour Woking.
- 3.3 It is expected that the Provisional Local Government Settlement will be announced in early December. If, as envisaged, a 3 year settlement is provided this will remove a significant uncertainty within the MTFS and will enable the Council to plan in the knowledge of the funding which will be received over this period.
- 3.4 At this stage it is not clear which reforms to Local Government funding will be taken forward as part of this Settlement or future plans.

Business Rates

- 3.5 During 2020/21 the government awarded Business Rates relief to businesses in the direct Retail, Leisure and Hospitality (RSL) sectors as well as extended relief for small businesses and nurseries. This support continued into 2021/22 and the Autumn Statement has confirmed further support during 2022/23. The Council is funded through section 31 grants for the relief granted to businesses. This means the business rates being collected has been less than in previous years, but the funding fully covers the business rates due therefore mitigating the risk of non-payment.
- 3.6 The Council has been allocated a place in the Surrey Business Rates Pool for 2022/23. This means that the Council operates with other members of the pool, retaining locally a greater

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proportion of income collected in excess of baseline levels, but also protected as a group from losses.

- 3.7 Initial indications, and past experience, are that membership of the pool could benefit the Council by over £250,000 in the year. This benefit, and any general increase in Business Rates growth over baseline levels is assumed to be transferred to reserve and not included as an ongoing base budget increase in resources.
- 3.8 As well as Business Rates collected, the Council also pays Business Rates on its own properties. The Council's draft budgets have been adjusted for assumed inflation and changes in the Council's assets, including where the charge becomes payable by the Council as landlord due to vacant properties. Overall there is currently a £5,000 pressure to these budgets for 2022/23. This will be reviewed again ahead of setting the final budget to ensure any changes within the Council's asset base are incorporated.

New Homes Bonus (NHB)

- 3.1 The New Homes Bonus (NHB) scheme match funds the additional Council tax for each new home and property in the Borough, above a baseline level, for four years after that home is built or brought back into use.
- 3.2 The government has been phasing out New Homes Bonus. There has been no indication of future funding through a replacement scheme so the MTFS continues to assume reductions to remove this income completely. This is a considerable reduction in funding from a total of over £2m in 2016/17. It is hoped that the Provisional Settlement will provide details of a replacement scheme. New Homes Bonus has been used to repay the funds loaned by Enterprise M3 towards the Sheerwater Access Road project and supported investment in Brookwood Cemetery.

Council Tax

- 3.3 It is assumed that the referendum limit for Council Tax increases in 2022/23 will remain unchanged for District Councils at the higher of 2% or £5.
- 3.4 The draft budget assumes an increase in Council Tax of £5, which for Woking equates to 2%. In calculating settlement allocations the government include the resources available to each Council assuming that this increase is taken irrespective of the actual Council Tax decision. It is therefore critical that the Council continues to maintain its Council Tax base income.

Taxbase

- 3.5 The Taxbase is the number of equivalent Band D properties which will generate Council Tax income for the Council in the year. It is calculated based on current Council Tax data adjusted for relevant discounts, expected changes in property numbers, and bad debt assumptions.
- 3.6 The draft Tax Base for 2022/23 in the draft budget is 41,519 which is a 2.9% increase. This incorporates a 0.5% increase in irrecoverable tax expected compared to pre-Covid assumptions (a 2% increase in irrecoverable tax was assumed in 2021/22).

Local Council Tax Support Scheme

- 3.7 The Local Council Tax Support (LCTS) scheme was introduced in 2013/14. The scheme is aimed at not causing severe financial hardship on Council Tax charge payers on low incomes and to not cause an adverse effect on the Council's income from unpaid charges.
- 3.8 LCTS reduces the Council's taxbase so increases in claims will result in a reduction in Council Tax income. The table below shows the increase in working age claimants since pre-Covid.

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Local Council Tax Support

| | |
|--------------------------------|-------|
| Working-Age Cases March 2020 | 2,358 |
| Working-Age Cases October 2020 | 2,624 |
| Working-Age Cases October 2021 | 2,663 |

Long term Empty Properties

- 3.9 To encourage the return of empty homes into use, the Council has increased the premium rate for long term empty properties in line with flexibility introduced by legislation in 2018/19.
- 3.10 Surrey County Council (SCC) have allowed Districts and Boroughs to apply for the additional SCC element of the Council Tax to be used to fund agreed priorities. The Council applied for this funding towards the Decarbonisation project at Export and Midas House.

4.0 Approach to preparing the draft 2022/23 budget

Monitoring 2021/22 Budget

- 4.1 In setting the 2021/22 budget a provision of £6.6m was include to cover forecast income losses from Car Parking, Leisure and Commercial Rents as a result of the Covid pandemic. Since the base budget was set a more positive outlook is forecast resulting in a reduced use of this provision of £1.6m. Service income and expenditure directly related to the pandemic is expected to be contained within budgets. Non Covid related variations can currently be maintained within the budget contingency. The financial position is reported monthly in the 'Green Book' and will continue to be monitored closely.
- 4.2 Permanent variations to budgets identified through in year monitoring are incorporated in the draft budget where appropriate. The position will continue to be reviewed over the next 2 months and the 2022/23 budget adjusted as appropriate.

Fit for the Future

- 4.3 Over the summer, in response to the Council's MTFS reported in July, a review was completed to identify savings, efficiencies and income generating opportunities across the Council's services.
- 4.4 The MTFS update to the Executive in October set out the headline levels of savings currently identified. Appendix 3 to this report sets out in more detail the current budget areas where savings or increased income will be targeted, together will the breakdown and forecast timescales for these to be realised.

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- 4.5 There continues to be uncertainty around the economic recovery following the Covid pandemic lockdowns. It is assumed that the impact of any future return to restrictions would be fully compensated through government funding. The budget considers separately direct impacts on the Council's income generation, through adjustment in the Covid provision funded from reserves, no ongoing Covid related costs are assumed in the base 2022/23 budget.
- 4.6 For most service expenditure, the draft revenue budget for 2022/23 is based on the 2021/22 approved budget adjusted as set out in the following sections.

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- 4.7 The summary 2022/23 Budget position is shown in Appendix 1, with an analysis of the service budget changes compared to the 2021/22 budget provided in Appendix 2. Savings, efficiencies and income generation identified through the Fit for the Future programme for 2022/23 are incorporated as a single line in Appendix 2. Details of the budget areas where these reductions are sought are listed in Appendix 3.
- 4.8 The table below summarises the changes compared to the 2021/22 budget and shows a required increase in use of reserves of £423,000 to balance to an acceptable increase in Council Tax.

| Budget variation 2021/22 to 2022/23 | £'000 |
|--|--------------|
| Investment Programme/Treasury Management | 1,645 |
| Service Pressures | 1,355 |
| Increase in Fees and Charges | -786 |
| Fit for the Future savings and efficiencies | -1,922 |
| Reduction in Government Grants | 643 |
| Increase in Council Tax/taxbase | -512 |
| Additional use of reserves required in 2022/23 | 423 |
| Reduction in use of reserves for Covid Provision 2022/23 | -4,304 |

- 4.9 The total forecast use of reserves, excluding the Covid provision, is £3.37m in 2022/23. This has increased compared to the £2m forecast in the October MTFS paper primarily due to the reduction in interest income secured from Thamesway Housing as a result of rephrasing investment in housing delivery through approved loan facilities.
- 4.10 Further commentary on the key budget approach and assumptions is provided in following sections.

5.0 Management and Administration

- 5.1 Staffing is currently controlled through two measures – the number of Full Time Equivalent (FTE) staff employed and the cost including overheads of employing them. The levels were set for 2021/22 at 340 FTE and £15,590,000.
- 5.2 During the summer of 2021/22 Senior Managers and Corporate Leadership Team have reviewed staffing levels and agreed a number of areas where additional resources are required to support the Council's activities. There were also some posts which were identified as savings through the Fit for the Future programme. These variations are now reflected in the 2022/23 base salary budget.
- 5.3 Other variations are as set out in the table below which reflects known pressures and significant changes in the staffing budgets. This includes the insource of the Housing Service currently contracted to New Vision Homes, from 1 April 2022.
- 5.4 The Medium Term Financial Strategy assumes an annual £400,000 increase in the staffing costs. This represents approximately 2.5% of the salary budgets. This allowance is shown in the table below, however no decisions have yet been made regarding the value or structure of any pay increases for 2022/23.

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| Pressures on staffing budgets | |
|---|--------------|
| | £'000 |
| Cost of turnover, pay progression and allowances 2021/22 | 191 |
| National Insurance Health & Social Care Levy 2022-23 1.25% | 151 |
| New posts and structure changes 2021/22 | 869 |
| Pressure on Staffing Budgets | <u>1,211</u> |
| Fit for Future savings | -375 |
| Removal of vacant posts | -265 |
| Savings | <u>-640</u> |
| Reduction in investment programme funding | 68 |
| Add new posts externally funded | 238 |
| Changes in funding | -302 |
| 2021-22 savings target built into base budget | 428 |
| 2022-23 savings target – assumed | <u>-450</u> |
| Other | -18 |
| Hale End Court | 131 |
| Housing Insource | <u>1,297</u> |
| | <u>1,427</u> |
| Assumed increase for pay progression and allowances 2022/23 | 400 |
| Pressure on staffing control total | <u>2,380</u> |

- 5.5 The 2021/22 budget included a £428,000 'vacancy target'. For 2022/23 it is proposed that the vacancy target be increased to £450,000 reflecting the increase in staffing numbers following the insource of the Housing Service. As with other budgets it will be necessary to further review staffing budgets to identify options to reduce the control total for 2022/23.
- 5.6 The budget tracks those posts which are funded by Council Tax and the Housing Revenue Account. It is net of any posts which are funded externally or by Investment Programme projects. The table below shows the trend in the total staffing budget.

| Year | Budget (in cash terms) £m | Average Number of FTE Staff |
|-----------------------------|---------------------------------|-----------------------------------|
| 2014/15 | 12.400 | 345 |
| 2015/16 | 12.500 | 345 |
| 2016/17 | 12.600 | 335 |
| 2017/18 | 13.000 | 335 |
| 2018/19 | 13.575 | 340 |
| 2019/20 | 14.360 | 350 |
| 2020/21 | 15.690 | 365 |
| 2020/21 (in-year variation) | 15.041 | 358 |
| 2021/22 | 15.590 | 340 |
| 2022/23 | 17.970 | 385 |

- 5.7 Accounting rules require that these costs are allocated out to individual services to show the full cost of the service. Allocations will be reviewed where there have been changes in the team structures and where activity covers both HRA and General Fund functions. This may

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affect the proportion of costs covered by Council Tax/rents for 2022/23. Currently the increase is forecast to be allocated as follows:

| | |
|--|-------|
| Assumed General Fund budget pressure 2022/23 | 866 |
| Assumed HRA budget pressure 2022/23 | 1,514 |

5.8 Those posts which are capitalised or funded from Investment Programme budgets are categorised as externally funded. Only posts directly working on projects are allocated, this position will continue to be reviewed including the opportunity to fund wider staffing costs from project budgets.

5.9 No allowance has yet been made for increases to Members Allowances for 2022/23.

6.0 Fees and Charges 2022/23

6.1 Elsewhere on this agenda is a report on the proposed Fees and Charges for 2022/23. The General Fund base budget for 2022/23 in Appendix 1 incorporates the forecast changes in charges and activity in this report.

6.2 The Fit for the Future programme identified a number of areas where charges had not been increased in line with comparable providers, or where income was not covering the full cost of the service which was therefore being subsidised. These charges have been addressed through the 2022/23 review where possible. In some cases increases may be phased over time if this is considered necessary. The income generated from Fees and Charges is shown as excluded from the Fit for the Future savings total in Appendix 2 as it is included within the income from Fees and Charges separately identified on the schedule.

6.2 As planned in the MTFS, an increase in parking charges is proposed which will be effective 31 January 2021. Whilst the long term impact of the pandemic on changing working practices and consumer habits, is not clear, it is important that income is secured as intended to cover the costs of investment in the Council's car park assets. A provision continues to be allowed for the recovery of parking activity during 2022/23.

6.3 Fees and Charges are expected to contribute an increase in income of £785,000 to the 2022/23 budget. Not all the income from Fees and Charges has a direct impact on the General Fund budget. Changes to the income from Controlled Parking Zones for example would be credited to the Parking Account. In addition increases in some service income will result in associated increases in costs e.g. Community Meals.

7.0 Contractual Inflation

7.1 Negotiations are undertaken with suppliers to minimise the impact of inflation on the Council's costs wherever possible. Provision has been included in the draft budget allowing for instances where it is impossible to avoid an increase.

7.2 There are significant pressures on prices, and inflation rates are expected to continue to increase into the new year in line with the Bank of England's Monetary Policy Committee expectations on inflation referenced at 3.8 of this report. Where contracts are based on future inflation indices, it will be necessary to review the latest forecasts before budgets are finalised in February.

7.3 An allowance has been made for increases in energy costs. Movements in the energy market will also need to be monitored to ensure this best reflects the forecast costs for the year.

8.0 Service Plans

- 8.1 Following significant engagement activity during 2021/22 the Council will set a five year Corporate Strategy in February 2022. Once this is agreed, it is proposed that Directorate Plans setting out priorities for each area of the Council will be prepared for the Executive in March.
- 8.2 Performance management and financial monitoring information continues to be reported in the Green Book on a monthly basis. A review of the information published within the Green Book is proposed for 2022/23, to align with priorities set in the Corporate Strategy.

9.0 Pension Costs

- 9.1 The triennial actuarial review of the pension fund was completed for the position of the fund at 31 March 2019 and set the employer's on going pension costs, and annual lump sum payment towards the pension fund deficit, for 2020/21 to 2022/23. A £60,000 increase in the lump sum funding is included for 2022/23 as part of the agreed approach.

10.0 Service issues, Budget Pressures and Risks

Commercial Income

- 10.1 Over recent years the Council has acquired a number of strategic properties within the Borough across a variety of property types and sectors. In many cases the properties have been enhanced or developed to attract employers or services to the Borough.
- 10.2 The Covid crisis affected almost all businesses. The National lockdowns required businesses to close to the public, and staff to work at home. Even as restrictions were relaxed, social distancing requirements meant that business has been very different.
- 10.3 The Council's commercial income was affected by non-payment of rents during 2020/21, and whilst the economy has now reopened, there continue to be discussions with some tenants regarding payment of amounts due. The base budget assumes that 2021/22 is the last year impacted by Covid specific recovery issues for commercial rents. No ongoing allowance is included for 2022/23.
- 10.4 Currently commercial leases in place are £100,000 more than the base rental budget. This increase has not been included in the base budget at this stage and forecast changes for 2022/23 will be reviewed in more detail before making any changes in the final budget. Socio-economic benchmarking is underway as part of the review of the Council's finances that has been commissioned from the consultants EY. This insight will inform and changes to forecasts that we need to reflect in our MTFS.

Additional Restrictions Grant (ARG)

- 10.5 During 2020/21 the government allocated the Council Additional Restrictions Grant to be allocated as direct grants to businesses, particularly where they had missed out on other government schemes, and for wider business support.
- 10.6 Having advanced the necessary funds by 31 July 2021, the Council has been awarded an additional allocation of ARG. It is proposed that a proportion of this additional funding is used to support the establishment of a Digital Centre of Excellence in the Borough centred on an incubator/accelerator unit supporting start-up businesses, as recommended by the Economic Development Action Plan.

Leisure

- 10.7 The Council's leisure provider, Freedom Leisure, has been severely impacted by the restrictions during the pandemic as all facilities were required to close and only opened gradually with restrictions.
- 10.8 Forecasts provided by Freedom show positive growth in leisure numbers and reduction in the support required from the Council during 2021/22. For the 2022/23 budget it is assumed that the management fee will be received as would previously have been expected pre-Covid.

Risk Contingency

- 10.9 The risk contingency has been retained at £250,000 in the draft Budget. This will be reviewed before the final budget is presented in the light of the risks associated with the budget, any savings target, the level of general and specific reserves and in the context of the Council's planned business.

11.0 Investment Programme and Treasury Management

- 11.1 To preserve the Council's resources during the Covid pandemic, in November 2020 it was necessary to temporarily suspend uncommitted projects within the Investment Programme.
- 11.2 Projects which were suspended were those either directly funded by the Council's revenue reserves or which are funded by borrowing with the associated financing costs. The need to manage the Council's MTFS to a sustainable position post Covid, required revenue reserves to be protected to be able to fund these pressures primarily through lost income until a sustainable budget position could be established.
- 11.3 These projects remain suspended in the draft Investment Programme also on this agenda. Once the level of government support over the MTFS period is clearer, and savings identified through the Fit for the Future further progressed, it may be possible to introduce some of these projects into the funded Programme. Suspended projects will also be reviewed to consider if any are no longer relevant or do not fit the priorities set by the Corporate Strategy.
- 11.4 The interest, repayment costs and investment income in the General Fund Summary (Appendix 1) relate to the draft Investment Programme excluding suspended projects.
- 11.5 Lending to group companies generates income to support the Council's budget. The group companies will continue to work to existing Business Plans with a full review to align with the Council's Corporate Strategy during 2022. The updated Investment Programme reduces the rate of investment in Thamesway Housing Ltd for housing acquisition and development. This reduces the net interest income forecast through these advances. The treasury estimates will continue to be updated to reflect any changes in timing or additional funding approved for Thamesway.
- 11.6 The interest estimates will be further reviewed in the period to preparing the final 2022/23 budget:
- To incorporate any further changes to the Investment Programme including project timing and any further impacts of major regeneration schemes
 - To reflect any changes in the interest rate forecasts provided by the Link Asset Services, the Council's treasury management consultants.
 - To further review the Minimum Revenue Provision (MRP) assumptions.

12.0 Approach to developing the MTFS

- 12.1 The financial position of the Council is significantly reliant on income from car parking and commercial rents contributing some £8m and £22m towards the Council's total income. This income has been used to fund a wide range of services for the communities of Woking that would not be possible to fund if this income was not generated.
- 12.2 There has been a significant loss of this income in 2020/21 and the first two quarters of 2021/22. Whilst recovery of performance is being experienced in September 2021, this remains broadly in line with the forecasts we had made for 2021/22 and it is too early to make any material revisions to the forecasts for 2022/23 – 2024/25 at this stage. The financial forecasting will remain under review and any revisions will be incorporated into the final budget proposal for the 3rd February meeting of the Executive.
- 12.3 Whilst it can be assumed that this income will recover, it may take some time before pre-Covid income levels are achieved. A full recovery is still assumed to extend beyond the 3 years of this Medium Term Financial Strategy (MTFS). On this basis a prudent approach is required which secures savings in the short and medium term in order to reduce and remove the use of reserves.
- 12.4 The 2021/22 budget and forecasts to 2024/25 set out in the March 2021 MTFS assumed the use of almost £25m of revenue reserves to support the provision of services and recovery from Covid-19. The report to the 7th October meeting of the Executive forecasted a reduction in the use of reserves in the region of £10m resulting from work over the earlier part of 2021/22 on the Fit for the Future programme and MTFS. The requirement to use reserves is still significant due to the forecast reduction in income and returns from investments in the Borough's economy. Whilst the general economy is expected to slowly recover from the pandemic the performance of specific sectors will continue to be monitored in order to inform our forecasts for returns from our current assets and opportunities for our future Investment Programme.
- 12.5 In revising down the forecast investment by Thamesway Housing over the MTFS period, as set out in the draft Investment Programme, there is an impact on assumed income from loan margins. Over the MTFS this revised rate of investment will reduce income by £1.8m. The implications on the savings target will depend on the timing of further opportunities for investment in Housing. This will be considered together with the impact on use of reserves for the budget papers in February. Other assumptions in the base MTFS have been reviewed and remain appropriate. Detailed budget workings for 2022/23 have been consistent with the headline projections previously reported in October.
- 12.6 Options have been developed over the last 4 months that would deliver £4.9m of recurrent annual savings by 2024/25. These are detailed in Appendix 3 of this report as areas where the Council's net budget provision for the service will be targeted for reduction. Where the proposals are delivered by a review of fees and charges, these are contained in a further report on the agenda of this Executive which seeks Executive agreement to the review. For all other proposals they are highlighted for information. Decisions on proposals and budget changes will be brought forward in the reports to Executive on 3rd February 2022 and Council on 10th February 2022. The impact of these proposals is to reduce the use of reserves to support the general fund by approximately £12m over the 3 year period.
- 12.7 At this point it is not possible to propose a balanced MTFS position over the period without the use of reserves. There are some encouraging signs for local government coming out of the Chancellor of the Exchequer's Autumn Budget Statement and Spending Review that was announced in the House of Commons on 27th October 2021 and the signalling from Government of a 3 year settlement 2022/23 – 2024/25. Many details from Government however will be provided in the provisional financial settlement which is expected any time from early December.

Draft Medium Term Financial Strategy (MTFS) and General Fund Budget 2022-23

- 12.8 There is also an improving reserves position for the Council, this forecast strategic use of reserves at this stage is appropriate and prudent. The approach taken supports the development of a sustainable approach to delivering service changes over the medium term and enables investment into the Fit for the Future programme of organisational change.
- 12.9 The Council has established a significant performance reset over the last 7 months through the emerging Fit for the Future programme in order to establish a framework to oversee the delivery of efficiencies while continuing to place communities at the core of decision making through our extensive community engagement plans. In addition, the programme seeks to deliver a modern council way of working that is in tune with the priorities for and opportunities that the Borough offers. Details of the Fit for the Future programme were reported in the MTFS report to the Executive on 7th October 2022.
- 12.10 Now is the time to drive out the benefits enabled from the investments the Council has made into establishing the Borough as a place that has vitality and prosperity in order to maximise its potential.

13.0 Corporate Plan

- 13.1 The Council faces significant financial challenges and it also has an ambitious development and growth agenda. It is critical that the views of residents, businesses, partners and staff are sought in setting out a clear vision for the future and clear priorities that will guide the development of our five year Corporate Plan for 2022-27.
- 13.2 The Council has adopted an integrated service and financial planning approach to align resourcing decisions with the priorities of the Council.
- 13.3 The proposals for savings and efficiencies highlighted in this reporting for noting have been prioritised to align with the Corporate Plan 2021/22.
- 13.4 The new Corporate Plan 2022/23 – 2026/27 is being produced alongside of the MTFS and is being presented to the same 3rd February 2022 Executive and 10th February 2022 Council meetings.

14.0 Implications

Finance and Risk

- 14.1 The financial implications are explicit in this report.
- 14.2 Risks to budgets are identified through ongoing monitoring throughout the year with variances reported monthly in the Green Book. Budgets are adjusted as appropriate in the following year. One-off or short term variances are met from the contingency at the end of the financial year.
- 14.3 Where specific risks have been identified they have been set out in this report and steps will be taken to mitigate against them.

Equalities and Human Resources

- 14.4 No new human resource or training and development implications arise from this report.
- 14.5 There are no specific equalities implications.

Legal

- 14.6 Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'. The Local Government Act 2003 places a duty on the Council's Chief Finance Officer to advise on the robustness of the proposed budget and the adequacy of reserves. The Medium Term Financial Strategy is a policy framework document that is required by law to be adopted by Council.
- 14.7 The Council is required by statute to set a balanced budget. The function of the Executive is to prepare and propose the relevant strategy to the Council. This document provides a comprehensive update on the Council's current position.

15.0 Engagement and Consultation

- 17.1 The Council has a bold vision to be in constant communication with residents and to have an embedded culture of consultation in how it operates and makes decisions that are in the best interests of the communities of Woking.
- 17.2 Significant progress has been made on establishing the components of a system and culture of democratic engagement and embedding this into decision making processes.
- 17.3 The Council faces significant financial challenges and it also has an ambitious development and growth agenda. It is critical that the views of residents , businesses, partners and staff are sought in setting out a clear vision for the future and clear priorities that will guide the development of our five year Corporate Plan for 2022-27.
- 17.4 A series of community roadshows are currently taking place in order to gain community contribution to the Corporate Plan priorities. This is supported by an engagement questionnaire which has been distributed to 3,000 households; the c700 Resident Panel members and is hosted on our community engagement platform Woking Community Forum.
- 17.5 A budget simulation tool has been created which enables residents to feedback on their priorities for funding whilst having to set their priorities within a balanced budget.
- 17.6 The MTFS being reported to the 3rd February Executive will incorporate the above significant engagement and consultation activity.

REPORT ENDS