EXECUTIVE – 24 MARCH 2022

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

Executive Summary

This report presents the Medium Term Financial Strategy (MTFS) for 2022-23 to 2025/26. It incorporates an update on the financial forecast for the Council for this period, following approval of the 2022/23 budget on 10 February 2022.

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

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.

Whilst some recovery of income is being experienced, it is too early for the post pandemic environment to be clear. The financial forecasting will remain under review and any revisions will be incorporated into updates to the MTFS in July 2022 and throughout the year. A full recovery is still assumed to extend beyond the 3 years of this Medium Term Financial Strategy (MTFS).

During 2021/22 the Council identified £4.8m of savings over 2022/23 to 2024/25. Offsetting these savings forecast pressures have increased due to higher inflation and staffing costs, reduction in income from Thameswey Housing Ltd reflecting a reprofile of investment, a slower economic recovery than previously assumed and a further year of cost pressures included in the forecast. The savings requirement over the 4 years to 31 March 2026 is currently forecast to be £5.5m, of which £3m relates to assumed withdrawal of government support.

A prudent approach is required which secures savings in the short and medium term in order to reduce and remove the use of reserves, stabilising the Council's financial position.

Forecasts and a proposed approach to addressing this budget gap will be further worked up for the July MTFS update.

Effective financial management is built on planning for the long-term. The challenge for the Council is increasingly about the resilience to deliver annual savings and manage significant financial risks while still pursuing our ambitious regeneration goals for the benefit of the Borough's communities.

Financial resilience for the Council describes our ability to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

An initial framework for the Council's financial resilience strategy has been developed using insights from the support commissioned from EY and the CIPFA Resilience Index. This will be developed further over the coming three months in order to provide a framework for the MTFS that will be reported to the meeting of the Executive on 14 July 2022.

Recommendations

The Executive is requested to:

RESOLVE That

(i) a 12 year annuity loan facility of £4.6m be made available to Thameswey Energy Ltd (TEL) at 1% over the PWLB interest rate, as the Council contribution towards the Heating Network Investment Programme (HNIP) government loan funded project for Network Extension and Decarbonisation works at Poole Road Energy Centre, and the Council acts as guarantor for the BEIS loan to TEL;

(ii) the Byfleet Flood Scheme be moved from the suspended Investment Programme into the approved Investment Programme and an 'In Principle' agreement to a contribution of £5m be provided to the Environment Agency so that the project can progress to Outline Business Case;

(iii) Additional Restrictions Grant of £400k be allocated to the delivery of a Digital Centre of Excellence incorporating a business support incubator and accelerator service. A proposal for capital improvements to facilitate this service to be considered at a future meeting of the Executive;

(iv) the Old Woking Community Centre project be included in the Investment Programme at a total project cost of £2m of which £1.4m to be funded by the Council through S106 developer contributions;

(v) the assets of Kingfield Community Sports Centre Ltd (KCSC) be transferred to the Council and the company dissolved; and

RECOMMEND TO COUNCIL That

(vi) the Medium Term Financial Strategy (MTFS) report be approved.

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

The Executive has authority to determine recommendations (i) to (v) above, (vi) will need to be dealt with by way of a recommendation to Council.

Background Papers:	None.
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Date Published:	18 March 2022

1.0 Introduction

1.1 On 10 February this year the Council approved the budget and Council Tax for 2022/23, the Investment Programme, Housing Revenue Account budgets and Treasury Management, Investment and Capital Strategies including Prudential Indicators.

1.2 This report updates the Medium-Term Financial Strategy (MTFS) to further consider the three years to 2025/26. It remains challenging to forecast the financial position due largely to the pace of economic recovery and the single year financial settlement from government. It is however necessary to consider a 'base case' from which to monitor the Council's financial resilience and assess whether management actions are sufficient to move towards a sustainable medium term budget.

1.3 Alongside this MTFS report, the Executive is considering the Woking for All Corporate Strategy 2022-27 and Directorate plans for 2022/23. This maintains the golden thread of taking corporate priorities through to operational actions. The Woking for All Strategy sets the priorities for the Council and the MTFS establishes the financial strategies that best support the delivery of the corporate priorities.

1.4 The budget for 2022/23 included savings proposals of £2.427m in 2022/23 and outline proposals of a further £2.4m over the following 2 years whilst also recognising that the budget was not balanced over the medium term and further savings are required.

1.5 The budget for 2022/23 also included a report of the independent review of the Council's financial matters that was undertaken by the professional services firm EY. This report produced a Comprehensive Statement on the Council's short-term (1 year) finances and actions have been agreed to progress the key observations from within this statement.

1.6 This MTFS report further progresses the outcomes from the Comprehensive Statement and incorporates financial insights that have been developed jointly with EY to consider the medium-term financial matters (2-5 years). Work on the longer-term financial outlook will be reported at a future meeting.

1.7 The further financial insights developed with EY are attached at Appendices 1, 2 and 3 as follows:

Appendix 1 Council Policy and Strategic Context

Appendix 2 Assessment of Medium-Term Financial Position

Appendix 3 Protective Financial Resilience Recommendations

These insights are attached for reference with the key recommendations informing the overall approach to the MTFS.

2.0 Local Government Policy and Funding

<u>Local Government Funding</u>

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

2.2 This was perhaps not surprising given the lack of time between the CSR and the need to provide local authorities with certainty of funding to enable budgets and Council Tax to be set.

However, it is disappointing again to be in a position with no indication of funding levels beyond the next year.

2.3 There has been further delay in the proposed reforms to Local Government funding. This includes the review of Fair Funding (where resources should be allocated) and a review of the Business Rates system (the mechanics of how income is distributed and to what extent any growth is retained). It also includes the future of the New Homes Bonus scheme or any alternative replacement incentive scheme.

2.4 Further business rates retention now appears unlikely. Michael Gove, the Secretary of State for Levelling Up, Housing and Communities, has indicated that progressing with greater business rates retention would be ‘against the broader principle of Levelling Up’ as it would benefit areas that already have greater and more secure income from business rates.

2.5 Through the Levelling Up White Paper, the Government repeats the commitment they have made to base funding allocations for councils on an up-to-date assessment of their needs and resources. Over the coming months in 2022/23, the Government have stated they will work closely with the sector to look at the challenges and opportunities facing the local government sector, before consulting on any potential changes. As part of this the Government will look at options to support local authorities through transitional protection.

2.6 Given the time elapsed since the original consideration of potential funding reform, as well as the political changes, it is difficult to predict the direction of any reform. However, the Levelling Up agenda is not expected to benefit authorities in the South East, and funding for Social Care remains a significant challenge on resources for which District Councils will be competing.

2.7 It therefore remains likely that the government funding will reduce as envisaged in previous versions of the MTFS. It is not clear what view will be taken on the balance between incentive schemes such as New Homes Bonus or funding through a formulaic approach. With the significant scope of work and consultation required it is possible that any changes may not be implemented until 2023/24.

Levelling Up White Paper

2.8 On 2 February 2022 the Government published its long-awaited levelling policy paper **Levelling Up the United Kingdom.** This included details of a new devolution framework, the establishment of a new independent data body and a new Levelling Up Advisory Council.

2.9 The White Paper also provides details of 12 new missions across 4 broad areas:

Broad Areas:

- Boosting productivity and living standards by growing the private sector
- Spreading opportunities and improving public services
- Restoring a sense of community, local pride and belonging, and
- Empowering local leaders and communities

Missions by 2030 (Extracts from the mission statements within the White Paper):

1. Pay, employment and productivity will have risen in every area in the UK, with each containing a globally competitive city
2. Domestic public investment in Research and Development outside the Greater South East will increase by at least 40 per cent
3. Local public transport connectivity across the country will be significantly closer to the standards of London
4. The UK will have a nationwide gigabit-capable broadband and 4G coverage, with 5G coverage for the majority of the population
5. The number of primary school children achieving the expected standard in reading, writing and maths will have significantly increased.
6. The number of people successfully completing high-quality skills training will have significantly increased in every area of the UK
7. The gap in Healthy Life Expectancy (HLE) between local areas where it is highest and lowest will have narrowed
8. Well-being will have improved in every area of the UK
9. Pride in place, such as people's satisfaction with their town centre and engagement in local culture and community, will have risen in every area of the UK
10. Renters will have a secure path to ownership with the number of first-time buyers increasing in all areas – government's ambition is for the number of non-decent rented homes to have fallen by 50%
11. Homicide, serious violence, and neighbourhood crime will have fallen
12. Every part of England that wants one will have a devolution deal

2.7 There is strong alignment between the Council's regeneration investments and strategic priorities contained within the Woking for All Corporate Strategy 2022-27, with the broad areas of focus within the Levelling Up White Paper. It is however by its nature focussing on levelling up performance and opportunities across regions and may therefore provide limited opportunities for the South East to access funding.

<u>UK Shared Prosperity Fund</u>

2.8 In conjunction with the Levelling Up White Paper, the Government also published UK Shared Prosperity Fund: pre-launch. The full prospectus for the fund is expected later in the spring.

2.9 The fund is a central pillar of the Government's levelling up agenda. It provides £2.6billion of funding for local investment by March 2025, with all areas of the UK receiving an allocation from the Fund via a funding-formulae rather than a competition.

2.10 The fund targets investment supporting levelling up missions and references specifically building pride in place, supporting high quality skills training and supporting pay, employment and productivity growth. The Fund however is set to be worth significantly less than the European Union Structural Funds that it replaces.

2.11 All places across the UK will receive a conditional allocation from the Fund. To access the allocation each place will need to set out measurable outcomes they are looking to deliver, and what interventions they are choosing to prioritise in an investment plan. These will be submitted in summer 2022 for Government approval.

2.12 The Investment priorities for the fund are:

- Communities and place
  Example interventions may include, but are not limited to, visual improvements to town centres and high streets, cultural/visitor economy interventions, litter, waste and graffiti reduction, projects to fight anti-social behaviour and capital funding to improve neighbourhoods or community projects and initiatives.

- Local businesses
  Example interventions may include, support to increase town centre footfall, outdoor markets, the development of cultural, visitor and heritage assets, targeted business growth and innovation support.

- People and skills
  Example interventions may include, technical and vocational qualifications in areas where there are skills shortages locally, addressing barriers to employment, skills, supported employment.

<u>Net Zero Strategy – Build Back Greener</u>

2.13 In October, the Government announced its national Net Zero Strategy: 'Build Back Greener', ahead of the COP26 climate summit which took place in November.

2.14 Building on the 10 Point Plan for a Green Industrial Revolution published in 2020, the strategy sets out key actions the Government intends to take to progress against its commitment to reduce UK carbon emissions to net zero by 2050 encompassing:

- decarbonisation pathways to net zero by 2050, including illustrative scenarios;
- policies and proposals to reduce emissions for each sector; and
- cross-cutting action to support the transition.

2.15 The strategy includes a section on local action, including the establishment of a Local Net Zero Forum through which Government intends to work with local government to discuss policy and delivery options on net zero and continuation of the Local Net Zero Programme to support all local areas with their capability and capacity to meet net zero.

2.16 In November, the Government published its Heat and Buildings Strategy which set out the need for virtually all heat in buildings to be decarbonised to meet net zero. It includes a range of measures to reduce dependence on oil, Liquified Petroleum Gas (LPG) and gas heating including banning the sale of new gas boilers by 2035, accelerating the use of heat pumps, large scale trials of hydrogen for heating and potential adjustments to environmental levies to make electric heating more cost effective.

2.17 Both the Net Zero Strategy and the Heat and Buildings Strategy set out a large number of commitments. Detail about how delivery will take place in many areas is yet to be defined and there are concerns that the national funding committed to date will not be enough to meet the commitments made.

2.18 Combined Heat and Power (CHP) Networks are one of the solutions supported by the government in its drive to reduce carbon emissions due to their greater efficiency. Thameswey Energy Limited (TEL) has been awarded funding through the government Heat Networks

Investment Project (HNIP), administered through the Department for Business, Energy and Industrial Strategy, for investment in infrastructure to extend the network of the Poole Road Energy Centre. Further details are provided later in this report at section 7.

2.19 Looking ahead, the Government's main priorities for the next year are expected to be led by the further development of the domestic 'Levelling Up' policy and strategies in relation to economic growth and skills, the ongoing response to and recovery from COVID-19 and the related economic and health consequences.

Planning Reform

2.18 The planning reforms were first announced in the "Planning for the Future" White Paper in the summer of 2020. They have been delayed for over 18 months, however, it is expected that the government will announce an update to its proposed planning reforms this spring.

2.19 The update is expected to provide further detail on how measures will be taken forward to create a modernised and effective planning system that empowers communities to support, and local authorities to deliver, environmentally friendly development.

2.20 The planning Bill is due to go before parliament this year and is likely to comprise several key strands aimed at creating a more streamlined process. These could include:

- *A digital planning system* that is designed to improve the speed and efficiency of application decisions, and allow residents to be more engaged in the development of their local area. According to government, only 3% of local people engage with consultations on planning at the moment.

- *Scrapping Section 106.* A locally set new infrastructure levy has been proposed.

- *Street referendums on developments* to give local people the power to set their own development rules in suburban areas.

- *Brownfield site investment.* Investment in urban regeneration to put new homes on "neglected" brownfield sites.

Surrey's 2050 Place Ambition

2.21 The Surrey 2050 Place Ambition is a narrative about and framework for what Surrey's strategic partners want to achieve over the next 30 years in terms of "good growth". The purpose of the ambition is to:

- Outline a vision and special priorities for growth
- Provide a framework to shape the future of communities and places across Surrey
- Emphasise the need for an integrated, systemic approach to delivering good growth

2.22 There are four priorities within the Ambition:

Priority 1 Improve connectivity both within Surrey and between strategically important hubs

Priority 2 Enhance the place offer of Surrey's towns

Priority 3 Maximise the potential of our Strategic Opportunity Areas

Priority 4 Invest in natural capital and deliver nature recovery

First Homes

2.23 Planning policy changes in relation to First Homes, including revisions to Planning Practice Guidance (PPG) were introduced in spring 2021. First Homes are a form of discounted market housing for first-time buyers to be delivered by developer contributions and through ‘exception sites’.

2.25 Changes to planning policy require a minimum of 25% of all affordable homes secured through developer contributions to be First Homes. Local authorities should then prioritise securing their policy requirements for social rented properties once they have secured the First Homes requirement. Other tenure types should be secured in the relative proportions set out in the development plan.

2.26 The requirement does also not apply to sites with full or outline planning permission in place or where a right of appeal against non-determination has arisen, before 28th December 2021, or 28th March 2022 if there has been significant pre-application engagement. Local authorities should allow developers to add First Homes to the tenure mix if they wish to.

2.10 The introduction of a First Homes policy reflects the Government’s commitment to ensure that there is an adequate supply and variety of options to help people onto the housing ladder.

2.11 There is an expectation from Government that local authorities will process applications for First Homes and conduct eligibility checks and as yet, no funding has been provided to compensate councils for the additional administrative burden.

3.0 Economy

UK Economy

3.1 The Office for National Statistics issued its latest roundup of the latest data and analysis on the UK economy on 11 March 2022. Some key headlines from this are highlighted below:

- Gross domestic product (GDP) grew by 0.8% in January 2022 and is now 0.8% above its pre-coronavirus (COVID-19) pandemic level (February 2020).
- All sectors contributed positively to GDP growth in January 2022. Services were the main driver contributing 0.6 percentage points, with production and construction both contributing 0.1 percentage points.
- Services output grew by 0.8% in January 2022 and is 1.3% above its pre-coronavirus level (February 2020). This followed a 0.5% fall in December 2021.
- Wholesale and retail trade grew by 2.5% in January 2022 and was the main contributor to January’s growth in services. The main driver of this growth was wholesale trade, which grew by 3.8%. This partly reflects a bounce back following weakness in December because of the impact of the Omicron variant of coronavirus.

- In services, 6 of the 14 sub-sectors were above their pre-coronavirus levels in January 2022, with the largest contribution from human health and social work activities (growing 15.1% from February 2020).
- Production output increased by 0.7% in January 2022, primarily driven by 0.8% growth in manufacturing. This follows a growth of 0.3% in December 2021.
- Construction output increased 1.1% in January 2022 following an increase of 2.0% in December 2021. This is the third consecutive monthly growth greater than 1.0%.
- Services were the main contributor to GDP's 0.8% rise in January 2022

Financial Review and Insight

3.2 The professional services firm EY have acted as independent advisors to Woking Borough Council (WBC) to conduct a financial review of our current financial standing that can inform our Medium-Term Financial Plan and accompanying financial strategies going forward.

3.3 Attached at Appendix 1 is insights from EY on the Council's ambitions and strategies and socio-economic factors relevant to the Borough. These insights add a further dimension to our analysis of the national economic conditions and the local economic recovery plans developed through the Economic Development Action Plan.

3.4 The Insights from EY recognise the Council has adopted an ambitious investment strategy placing significant importance on investing in the future of Woking through placemaking regeneration strategies that maximise resources and partnerships with the commercial sector.

3.5 The Council's activities play a key role in supporting the quality of life of its residents, communities and businesses. Against a background of ever diminishing resources and increasing demand, the Council has invested in the local economy to help regenerate the town centre and at the same time have become financially more self-sustaining through the generation of commercial rents from these assets.

3.6 The Commercial Income and reserve position of the Council has facilitated continued investment in new community facilities and protected services in a period of austerity beyond the capabilities of many comparable district authorities in England.

Woking Economic Development Action Plan

3.7 Soon after the beginning of the pandemic, a Framework for Recovery was published by the Council (July 2020) to assist businesses through the Covid crisis and into a period of recovery.

3.8 The publication of the Council's Economic Development Action Plan (EDAP) in September 2021 recognised that businesses were now in a position of post-pandemic recovery. The Action Plan is an interim measure to take us to the end of 2023, when an updated Economic Development Strategy will be adopted.

3.9 The action plan complements several of the Council's key strategies already in place, including the Core Strategy, the Economic Development Strategy for Woking 2017-2022, and the 2021-2022 Corporate Plan.

3.10 The action plan addresses key issues arising from the pandemic, and informs the forthcoming Woking Town Centre Masterplan, Five-Year Corporate Plan, and the Digital Strategy.

EDAP list of Priorities

Priority 1	Focus on business
Priority 2	Build on our business advantages and skilled people
Priority 3	Future proofing the town and village centres
Priority 4	Making our place the place to be
Priority 5	Destination Woking

3.11 The 2021/22 Annual Report on the EDAP, providing details of progress and next steps, is being considered by the Economic Development Task Group at its meeting on 23rd March.

Town Centre Master Plan

3.12 The Executive, at its meeting on 15 July 2021, committed to prepare the Town Centre Masterplan to help guide future sustainable development within the Town centre.

3.13 Community engagement on the master plan commenced with seven Residents' Panel sessions chaired by the Portfolio Holder for Planning in order to seek an understanding of what local residents expect their town centre to be. A series of stakeholder meetings were also undertaken, including Ward Councillors, Political Group Leaders of the Council, local business groups, Surrey County Council, statutory consultees, Network Rail, McLaren and others.

3.14 The range of issues presented informed officers' proposals for the type of Masterplan that should be prepared. Based on analysis of comments received, officers took the approach for an integrated Town Centre Masterplan which will:

- bring uses and buildings together with clearly mapped out connectivity of people to jobs, key services and facilities
- set a clear limit on height of tall buildings and their impacts on the wider area
- provide clear principles and standards of what would make development acceptable
- respond to the post pandemic local economic, social and environmental conditions, and
- provide a clear framework for decision making on development proposals.

3.15 The masterplan will be a planning document with a statutory status as Supplementary Planning Document.

3.16 The outline timetable is for a Draft of the Masterplan to be considered by the Local Development Framework Working Group by end of May/early June and the Executive at its meeting on 16 June 2022. The decision sought from this meeting of the Executive is for authority to begin a further series of community and stakeholder engagements and consultations.

3.17 The Neighbourhood Forums, local residents, Residents Associations, neighbouring authorities, local businesses and statutory consultees will all be positively and actively engaged. The Council is keen to make sure that the Masterplan is 'our plan', one that all key stakeholders have a stake in its preparation and delivery of its outcomes. The outcome of the consultation will inform a final version of the Masterplan. It is anticipated that the Masterplan will be completed in September 2022.

4.0 Corporate Strategy

4.1 In order to provide a clear sense of direction for Council staff, residents, businesses and partner organisations, the Council has set out its strategic objectives in a five-year Corporate Strategy for 2022-2027. This strategy is being presented elsewhere on the agenda of this meeting of the Executive

4.2 The **Woking for All** Corporate Strategy follows on from the Corporate Plan 2021/22 which was a plan for one year only. This was to enable a more extensive review to be undertaken of council strategic objectives, finances over the medium term and the framework of planning and performance management. This approach provides a comprehensive and integrated approach to service and financial planning.

4.3 The Woking for All Strategy has been developed following the community engagement roadshows and consultation. It provides an overview of the Council's strategic outcomes for the next five years and incorporates the actions for 2022/23 to support the delivery of these outcomes.

4.4 The Directorate Service Plans have replaced service plans and establishes the link that takes the strategic outcomes from the Woking for All Strategy into Directorate priorities and service actions.

4.5 The Medium-Term Financial Strategy (MTFS) to 2025/26 provides the financial strategy that supports and underpins the resourcing and delivery of the Woking for All Strategy and aligns resourcing and funding decisions with the strategic outcomes the Council is working towards delivering.

4.6 The Woking for All Strategy 2022-27 sets the strategic objectives for the Council against four overarching community facing themes:

- Healthier Communities
- Engaged Communities
- Greener Communities
- Prospering Communities

4.7 Running through the delivery of these outward facing themes is an inward facing theme of being a *High Performing Council*. This is the gateway priority through which any activity and accompanying resources must pass to ensure the Council delivers the best outcomes from with its funds and assets.

4.8 Within the four overarching community themes there are twelve strategic outcomes; thirty-three objectives; eighty priority actions for 2022/23 and thirty-six measures of performance.

4.9 The measures of performance within the strategy are an initial draft set to establish the principle of adopting measures that can support how we assess how well we are performing on delivering the strategic outcomes.

4.10 The Overview and Scrutiny Committee are reviewing the Performance and Financial Monitoring Information Green Book and the outcomes from this review will inform the suite of performance measures we will use and develop for the strategy going forward.

4.11 The Woking for All Strategy will be reviewed annually to ensure the strategic outcomes remain relevant and annual priority actions to deliver the outcomes are set.

5.0 Summary Financial Outlook

5.1 The financial forecast has been updated to reflect the base budget for 2022/23 approved by Council on 10 February 2022. A summary of the position is shown in the table below, with supporting detail and impact on the Council's budgets shown in Appendix 4.

In year pressures	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	TOTAL £'000
Service Pressures		1,013	848	862	2,723
Reduced Reliance on Government Funding		1,925	366	432	2,723
Investment Programme Projects (net of income)		2,043	12	170	2,225
Funded by:					
Economic Recovery		-764	-200	0	-964
Fees and Charges		-1,040	-730	-200	-1,970
Council Tax		-305	-296	-303	-904
Fit for the Future savings		-1,976	-440	0	-2,416
Increase/Decrease (-) in use of reserves		895	-439	960	1,416
Projected Annual Use of Reserves	4,034	4,929	4,490	5,450	

5.2 During 2021/22 the Fit for the Future programme was projected to reduce the underlying budget gap in the MTFS to circa £2m for the period to 2024/25. It was not possible to balance the MTFS position over the period without the use of reserves and it was hoped that there would be a 3 year funding settlement which would provide certainty around the reduction in government support through this period. It was also recognised that slower draw down of funding by Thameswey Housing Ltd would reduce income to the Council generated through loan margins and impact the savings requirement.

5.3 The current forecast has increased the use of reserves to £4.5m for 2024/25 and £5.5m by 2025/26. Of this almost £1m relates to remaining recovery of income post Covid and the pressure is significantly impacted by assumptions around the reduction of government support, £3m, over this period.

5.4 A summary of the updated forecast use of reserves is shown below:

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Covid Provision	1.8	1.1	0.9	0.9	4.6
Underlying Use of Reserves	2.2	3.9	3.6	4.6	14.3
	4.0	4.9	4.5	5.5	18.9

5.5 The increased pressure in the revised base MTFS forecast is driven by the following factors:

- Increased inflationary pressures and staffing costs incorporated into the 2022/23 budget offsetting some of the identified savings
- A further year of cost pressures (2025/26) included in the forecast and increased inflation rates included in the forecast reflecting current economic conditions and inflation forecasts
- Reduction in margins from THL reflecting the timescales for investment in the Investment Programme February 2022

- A slower post pandemic recovery of commercial income and parking income

5.6 The reserves forecast presented as part of the budget papers in February assumed a £17m use of reserves over the 4 years from 2022/23 to 2025/26. Since these figures were prepared the 2021/22 forecast use of reserves has improved by £950k. Taking this into consideration the revised forecast shown in 5.4 above is an increased use of £1m over this period.

5.7 The use of reserves over the MTFS continues to be substantial with an underlying requirement to the end of the forecast. The 2021/22 Fit for the Future savings have mitigated some pressures but further work is required to establish a sustainable financial position without the ongoing use of reserves.

Fit for the Future – Phase 1 and Phase 2

5.8 During 2021/22 £4.8m of savings were identified through the Fit for the Future programme to be delivered by 31 March 2025. £2.4m were incorporated into the 2022/23 budget with the remaining £2.4m to be secured over the next 2 years.

5.9 These identified savings will be monitored with updates provided through future reporting of the MTFS and project reporting where appropriate. It will be important to ensure that these savings are realised as they are included in the financial forecasts.

5.10 A further programme, Phase 2, will be established during 2022/23 to develop business plans for those proposals which were not sufficiently advanced to include in the 2021/22 programme. Many of these initiatives have the potential to contribute to the Council's savings requirement but needed time to work with partners, establish a corporate approach or explore alternative delivery options. Given the uncertain financial impact they were not progressed in the first phase.

Fit for the Future – Transformation fund

5.11 In July 2021 a transformation budget was established to support the project costs of the Council's Fit for the Future programme.

5.12 This budget has been used to fund the Comprehensive Financial Review and Financial Insights work which has been completed by EY. It has also funded work on the future governance and review of strategic approach to Victoria Square also undertaken by EY. The budget has also been used to finance the costs of additional financial resource to support the Fit for the Future programme and EY reviews.

5.13 An increase in ongoing staffing resources was incorporated into the budget from 2022/23, to strengthen the Council's corporate arrangements, however further resource will be required to deliver the improvements identified and support work programmes set out in this report. It is also likely that additional project support resources will need to be allocated during 2023/24 to continue to enhance the Council's governance arrangements, including the reviews of company business plans, and to secure further ongoing savings through service and corporate reviews and efficiency programmes. Any further requests for resource will be brought forward as part of future MTFS updates.

Car Parks

5.14 The Council's town centre car parks provide significant income which is included within the base 2022/23 budget at pre-pandemic levels (circa £8m) with a Covid provision recognising that activity will take time to recover.

5.15 It is still too early to establish how the removal of Covid restrictions, and the potential return to the office following the Omicron wave will impact parking numbers. Over the coming months the trends will be monitored and an updated view on recovery will be incorporated into future versions of the MTFS. It is likely that from 2023/24 onwards the Covid provision will be removed setting a new baseline level for parking income. This will incorporate the impact of the new car park and activity generated by Victoria Square.

5.16 The Investment Programme approved in February 2022 included the cost to the Council of acquiring the car park element of the Victoria Square development for £58m. This is a significant element of the Investment Programme pressure within the MTFS. This acquisition will not have been completed on opening the centre. A management agreement, reflecting the underlying financing cost, will be in place until this is completed. As the development moves from construction to operational, an assessment of the future management and governance arrangements is underway and will incorporate the timing of the transfer. The net impact of the management agreement cost together with any operational costs will be included in future updates of the MTFS.

Commercial Estate

5.17 In respect of the commercial property estate there continues to be enquires, albeit interest has not returned to the level they were pre-pandemic in relation to office accommodation. Enquires are largely driven by lease events with tenants seeking the opportunity to reduce the amount of office space, and/or reduce their rental costs. It would appear that office tenants in particular are looking to reduce their overall office space following Covid and the move towards hybrid working.

5.18 It is important that the Council's office accommodation is marketed well and that the buildings are offered with a good energy certificate rating. The impact of the war in Ukraine on energy costs may also become a further driver for companies to reduce costs, both direct costs - in heating and lighting and indirectly through increased service charge costs – also as a result of a hike in energy prices. In this regard, significant energy efficiency improvements are being made following external grant funding to both Export House and Midas House. These investments will support carbon reductions and the green agenda. The opening of a new reception area for Export House onto Victoria Place will also support the marketing efforts being taken. A possible incubator / digital centre of excellence on one of the floors at Export House would also create a new attraction and it is hoped, business expansions into other floors as successful start-ups thrive.

5.19 The industrial sector is still quite strong and although the WBC estate has limited opportunities at this time for satisfying the requirements that are active in the market, given the lack of available stock/vacant industrial units when units do become available, they are leased quicky under favourable terms.

5.20 In relation to the retail assets, the position remains strong with interest in the estate and near full occupation in Wolsey Walk with significant new openings such as Tesco on Commercial Way. Further food and beverage (for example, itsu) are due to open and from the 23 March the new M&S store and wider Victoria Place development will bring an increased footfall which will boost further interest. This needs to be seen against wider changes related retail habits and the sector with recent announcements related to the closure of the HSBC bank.

Government Funding

5.21 The financial forecast includes a continued assumption of reduced government funding. As covered in section 2 the timing and cost to the Council remains unknown but it is prudent to recognise the current reliance on general government funding and Business Rates retention surpluses which are at risk over this period. The base 2022/23 budget recognises the current benefit to the Council of Business Rates growth beyond baseline levels assumed by the government. This increases the value of funding at risk on transition to future funding arrangements.

Contractual inflation

5.22 Inflation rates are currently higher than they have been for many years which impacts individuals through increased cost of living, and the Council through increased cost of goods and services. The Council will be subject to increased contract costs where rates are inflation linked, as well as increased energy costs as global energy prices soar. Increases for inflation were included in the 2022/23 budget, however these may not be sufficient depending on how the economy and prices react during the year.

Serco Contract extension

5.23 Since 1 April 2003 the provision of grounds maintenance, arboriculture and street cleaning services has been provided by Serco Limited who have served the borough well to date. The contract term was initially for a period of 10 years with the option to extend for an additional 10 years. This option was exercised and the current contract expires on 31 March 2023. Contract terms are lengthy because they are linked to the life expectancy of the vehicle fleet employed on the contract, larger vehicles lasting 10 years and other equipment replaced every 5 years.

5.24 Tendering for such high value and complex services is a lengthy process, typically an 18 month timeframe is necessary to scope out the services, run a tender and then mobilise the new arrangement. However, the Covid-19 pandemic and Brexit have been unprecedented and unforeseeable events over the current contract term. These events are having a significant impact on the supply of goods and service to the public sector, arising from broken supply chains, skills shortages and price volatility as demand far exceeds supply restrictions - all delays that affect a contractors ability to implement contracts.

5.25 These events have required the Council to take emergency steps to protect critical services and operations, with such disruptions also affecting the way Council's conduct their procurements and manage their ongoing contracts. Whilst procurement works for this retender commenced on time, there are significant operational and economic issues. Disrupted supply chains require an extended mobilisation period, meaning the next Contractor will be unable to fully commence services from 1 April 2023 and economically, short to medium-term inflationary pressures would result in a comparably more expensive outcome.

5.26 Upon re-assessing the situation it is prudent to adjust the procurement timetable to address the new challenges of the crisis. In these exceptional times, contracting authorities can extend and/or modify existing contracts without a new procurement procedure. By agreeing an 18 month contract extension with Serco Limited the Council legitimately secures the ongoing provision of services across the borough until 30 September 2024. At the same time as delivering the contract extension the Council will continue its preparations to run a procurement exercise to secure a new arrangement to run from 1 October 2024.

5.27 Operationally, the Council maintain highway grass verges and trees on behalf of Surrey County Council under Agency Agreements. That agreement is due to expire on 31 March 2023. Officers will work closely with Surrey County Council to facilitate the return of that work to Surrey County Council. The 18 month extension with Serco Limited will therefore exclude that work.

5.28 The 18 month contract extension and termination of Highways Agency Agreements will contribute / deliver the savings of £300,000 per annum from April 2023 as identified in the Council's medium term financially strategy.

6.0 Investment Strategy

6.1 The Council aim to transform Woking into a 21st century global economic hub situated between London and Heathrow. We have adopted an ambitious investment strategy placing significant importance on investing in the future of Woking through placemaking regeneration strategies that maximise resources and partnerships with the commercial sector. The investment strategy requires both long-term business cases and long-term financing strategies, which help provide the Council with long-term financial sustainability.

6.2 The Council's activities play a key role in supporting the quality of life of its residents, communities and businesses. Against a background of ever diminishing resources and increasing demand, the Council have invested in the local economy to help regenerate the town centre and at the same time have become financially more self-sustaining through the generation of commercial rents from these assets.

6.3 The Commercial Income and reserve position of the Council has facilitated continued investment in new community facilities and protected services in a period of austerity beyond the capabilities of many comparable district authorities in England.

6.4 It is recognised, however, that this long-term financial investment strategy can cause conflict with the short-termism prevalent within the current local government funding environment, which is characteristically uncertain and driven by single-year government funding settlements. A Financial Resilience strategy is therefore being adopted and is highlighted later in this report at section 8.

6.5 It is also recognised that this placemaking regeneration taken by the Council dominates the Council's financial strategy, primarily through long-term investments funded through borrowing to drive transformation of the local area. Our investment strategy demands robust long-term business cases, delivery in line with those plans and close monitoring of any subsequent service or market volatility.

6.6 The delivery of the Council's Investment Strategy has largely been through group companies and in strategic property acquisitions

Overview of Contribution to Revenue Budgets

6.7 Investment through the Council's Group companies and in Strategic Commercial Property provides income through rents and interest margins which has funded the Councils investment in non-revenue generating infrastructure as well as contributing towards service provision.

General Fund Interest and Investment Summary 2022/23

	£'000
PWLB Interest Costs	54,505
Minimum Revenue Provision (see section X)	7,348
Less: Capitalised interest (Assets Under Construction)	-850
Less: Interest allocated to Housing Revenue Account	-5,464
Total interest costs	55,540
Investment Income from loans to Group Companies/JVs	-38,503
Net Interest/Investment costs	17,036
Net Commercial Income	-19,884
Net contribution towards service provision	-2,848

6.8 Interest income from loans to the Group Companies, and rental income from commercial properties, cover the Council's interest costs due to the PWLB for borrowing which has been used for:

- Investment in Group Companies
- Investment in Strategic Property
- Investment in Community, Operational Assets and Infrastructure (where there is no associated income)

And also covers the Minimum Revenue Provision (MRP) for Council held assets.

Overview of current and future borrowing

6.9 Since 2017 the Council has predominantly secured PWLB borrowing as 50 year annuity loans. These have constant overall payments for interest and capital repayment over time. In total at 28 February 2022 the Council has £1,326m in long term PWLB annuity loans and £418m in long term PWLB maturity loans (interest only with capital repayment at the end).

6.10 The Investment Programme for 2021/22 to 2025/26 was approved by Council on 10 February 2022. A summary of the borrowing within the programme is shown below. The majority of future borrowing is associated with the Victoria Square and Sheerwater regeneration schemes and investment in new housing through Thameswey Housing Ltd (THL).

	BORROWING			
	GENERAL FUND £'000	HRA £'000	TO FUND EXTERNAL LOANS £'000	TOTAL £'000
2021/2022	27,153	6,731	293,848	327,732
2022/2023	69,592	2,756	101,197	173,545
2023/2024	17,560	2,429	104,514	124,503
2024/2025	5,808	1,500	57,297	64,605
2025/2026	5,093	1,500	75,676	82,269
TOTAL	125,205	14,915	632,533	772,654

6.11 Current Council investment through group companies is on the terms as set out in the table below:

Planned Council Investment in Group Companies and Joint Ventures - February 2022 Investment Programme

Company	Strategic Purpose	Loan Structure	Margin
Thameswey Housing Ltd (THL)	Provision of Affordable Housing	25 year interest only, then 25 year annuity	1.50%
Thameswey Housing Ltd - Sheerwater Regeneration	Regeneration of Sheerwater, additional housing and community improvements	50 year annuity and revolving loan facility	None
Thameswey Energy Ltd (TEL)	Poole Road Energy Centre - sustainable energy supply for Woking town centre	50 year annuity	1%
Thameswey Central Milton Keynes (TCMK)	Support as business grows to full energy centre capacity	25 year annuity	2%
Victoria Square Woking Ltd (VSWL)	Regeneration of the town centre, provision of housing, commercial and hotel assets and public realm	50 year annuity and revolving loan facility	None

6.12 Loan balances with Group Companies and Joint Ventures are reported in the Green Book each month. The position at 28 February 2022, together with the Interest and Principal repayments due on those loans during 2022/23, is shown below. Some of these financing payments will be funded through further planned advances of working capital into the companies as the plans are in their initial years where operating cashflows do not fully cover the full costs of the investment. This is on the basis of robust business plans demonstrating the investment can be repaid over the long term. Further detail on how relationship between the Council and Group companies can be found in Appendix 5.

Company	Loan balance 28 Feb2022 £m	Interest due 2022/23 £m	Principal Due 2022/23 £m
Thameswey Housing Ltd (THL)	315.9	13.6	1.7
Thameswey Housing Ltd - Sheerwater Regeneration	86.7	1.8	11.7
Thameswey Energy Ltd (TEL)	49.5	1.8	0.9
Thameswey Developments Ltd (TDL)	13.8	0.2	3.2
Thameswey Central Milton Keynes (TCMK)	35.3	1.9	1.4
Victoria Square Woking Ltd (VSWL)	636.0	15.4	0.0
Rutland (Woking) Ltd	1.7	0.1	0.0
Kingfield Community Sports Centre Ltd	1.5	0.0	0.0

6.13 Whilst these investments meet service objectives there is also a net benefit to the Council through loan margins which are funded from surpluses over the life of the business plans. There are no margins for the Victoria Square and Sheerwater regeneration schemes due to the cost of the community enhancements incorporated into the projects.

Company	Interest due to WBC 2022/23 £m	Underlying cost of PWLB debt £m	Margin/benefit to WBC £m
Thameswey Housing Ltd (THL)	13.64	8.26	5.38
Thameswey Housing Ltd - Sheerwater Regeneration	1.76	2.12	- 0.36
Thameswey Energy Ltd (TEL)	1.77	1.28	0.49
Thameswey Developments Ltd (TDL)	0.20	0.32	- 0.12
Thameswey Central Milton Keynes (TCMK)	1.91	0.91	1.01
Victoria Square Woking Ltd (VSWL)	15.36	15.36	-
Rutland (Woking) Ltd	0.07	0.04	0.02
Kingfield Community Sports Centre Limited	-	0.04	- 0.04

6.14 The interest due to WBC figures are the actual cash income due to be received from the companies in 2022/23 based on their borrowing at 28 February 2022. The underlying cost of the PWLB debt is calculated using the weighted average of all PWLB debt the Council has taken (PWLB loans are not taken for specific investments with the exception of VSWL).

6.15 The Council has commenced a comprehensive review of the company business and financial plans which will ensure alignment with Corporate Strategy objectives. It will also provide further analysis and challenge around the underlying assumptions for the plans enabling greater understanding of the key variables and risks and strengthening the oversight and reporting. Progress on these reviews will be reported during 2022/23 and will inform business plans from 2023 which will be presented to the Council for approval in the autumn.

Investment in Strategic Property

6.16 Since 2016 the Council has invested in strategic properties within the Borough. Each asset is of strategic importance to the Council, providing opportunity for future redevelopment, to influence the property use or the opportunity to facilitate business relocation or investment in the Borough.

6.17 As a portfolio these properties also provide net income which supports the Council service provision. The Green book reports the headline performance of each property which varies with changes in the commercial leases and as properties are managed to meet the Council's place making objectives.

6.18 At 31 March 2021 the Council held Investment Property valued at £330m. The valuation depends on the leases (income due to the landlord) in place at the date of the valuation as well as the prevailing market conditions (how much an investor is willing to pay for the income due).

Investment Property - 31 March 2021

	Value of Investment Property at 31/3/21 £m
Historic property interests	120
Acquired since 2016	210
Total Investment Property	330

6.19 Historic property holdings include the Council's interests in Wolsey Place, including Export House, and the freehold of the Peacocks shopping centre. Properties acquired since 2016 have all been funded by borrowing through long term fixed rate annuity loans which provide constant financing (interest plus repayment) costs over time and which are funded from rental income.

6.20 Commercial Property income to the value of £20m, after management and void costs, is included in the 2022/23 budget as summarised in the table below.

Commercial Property net income 2022/23

	£'000
Commercial Property rental income	22,484
Management and void costs	-2,083
Covid provision for irrecoverable rent	-517
Net Investment Property income	19,884

Assets

6.21 The Council's assets are valued each year in preparing the Statement of Accounts. All material assets are valued including operational assets for example the Civic Offices, Car Parks, and Council Dwellings. A small number of immaterial assets are valued on a five year rolling programme, these include the Council's pavilions and public conveniences.

6.22 Assets are valued, as far as practicable, on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings and the following approaches are applied:

- Land, operational properties and other operational assets are included in the balance sheet at existing use value where there is an active market for the asset. Where there is no active market, or the valuation is for a specialised asset, Depreciated Replacement Cost is used.

- Non-operational assets, including investment properties and assets that are surplus to requirements, are included in the balance sheet at Fair Value. In arriving at the fair value of the asset, the highest and best use of the property is deemed to be its current use. Investment property is property held solely to earn rentals or for capital appreciation, or both.

- Infrastructure assets and community assets are included in the balance sheet at historical cost.

6.23 It is likely that some investment property valuations will increase at 31 March 2022, reflecting new tenancy arrangements and a more positive outlook compared to 31 March 2021. Other properties will have reduced in value due to the lease arrangements at the year end. There is an expectation that the valuation of the Council's car parks will have fallen as the income on which the valuation is based has been less than pre-pandemic levels.

7.0 Investment Programme

7.1 In February 2022, as part of the budget papers the Council approved the Investment Programme. The Investment Programme shows the Council's project plans and proposed financing. The financial impact of those projects in the funded General Fund and Housing Investment Programmes are incorporated into the annual revenue budgets and reflected in the Medium Term Financial Strategy. Any projects in the Pipeline schedules are not currently included in budget projections.

	PLANNED EXPENDITURE				
	21/22	22/23	23/24	24/25	25/26
	£'000	£'000	£'000	£'000	£'000
General Fund	263,313	119,800	35,037	9,793	8,640
Housing Investment Programme	105,290	110,724	114,341	62,655	81,034
Total Investment Programme	368,603	230,524	149,378	72,449	89,674

7.2 The following sections provide an update on Investment Programme projects where there are amendments to previous proposals or additional commitments recommended.

Heat Networks Investment Project (HNIP)

7.3 Thameswey Energy Ltd (TEL) has been awarded funding through the Government's Heat Networks Investment Project (HNIP) for investment in infrastructure to extend and decarbonise the network of the Poole Road Energy Centre.

7.4 The extension of the pipe network enables new customers to be connected to the Energy Centre. The Government funding also supports decarbonisation works which includes costs associated with the retrofitting of existing customers' buildings to operate on a lower temperature / lower carbon basis and the installation of industrial heat pumps at the Poole Road energy centre. Combined Heat and Power (CHP) networks are one of the solutions supported by the Government in its drive to reduce carbon emissions due to their greater efficiency compared to equipment serving individual properties.

7.5 The proposed investment supports the Council's climate change ambitions and move to net zero while also contributing to the success of the Poole Road Energy Centre by assisting with the costs of future connections including to new developments south of the railway line.

7.6 The proposed Government support is through loans with minimal interest costs. Negotiations on the terms of repayment of the loans have now concluded with the Department for Business Energy and Industrial Strategy (BEIS) and the TEL Board have approved accepting the BEIS loan subject to the Council making available an additional loan facility to support the additional infrastructure.

7.7 The total cost of investment covered by the funding proposal is £20.9m based on a long term (10 year) investment strategy. Of this BEIS will provide £9.4m funding, developers are assumed to fund £6.9m and the Council is asked to contribute loan finance of £4.6m. It is proposed that this loan facility would be at a 1% margin over PWLB, the same terms as for the construction of the Energy Centre.

7.8 The application to HNIP was based on a long-term investment strategy for Woking's energy infrastructure based on the objectives of supporting growth in development; transitioning to lower carbon/ non-fossil gas dependent energy systems; and improving energy security and resilience in the town centre. There are risks and uncertainties associated with a strategy for this period of time as it is dependent on an assumed rate and volume of new development coming forward, the timing, size and location of which is not certain. This risk is mitigated by the Conditions Precedent (CP) in the agreement between Thameswey and BEIS which define the obligations to be met prior to the drawdown of funds and/or prior to spend of the loan on each construction phase. CPs prior to committing phased expenditure will be discharged over the ten-year period through appraisal of individual network connections as development proposals come forward and techno-environmental assessment of lower carbon generating equipment to be installed.

7.9 A number of financial scenarios have been planned based on fewer developer connections being made and the network being limited to the town centre area only. These different scenarios would remain viable for TEL, in that positive accumulated profit is delivered before the business plan ends in 2068.

7.10 Further details of the investment covered by this scheme, and the business case for investment are provided in Appendix 6.

7.11 Under the HNIP arrangements, BEIS require the loan finance to be drawn by TEL by 31 March 2022. Whilst TEL will have received the funding allocated, the application to individual elements of the scheme will be subject to BEIS approval based on a detailed case for the investment. The Council loan facility is not expected to be required until 2026 and the loan would be repaid by 2038.

7.12 The Executive is asked to resolve to approve the loan facility and to provide a parent guarantee to BEIS for the loan to TEL.

<u>Byfleet Flood Scheme</u>

7.13 The Environment Agency is seeking an "In Principle" agreement from the Council to make a partnership contribution to the construction and maintenance of the Sanway-Byfleet Flood Alleviation Scheme to the value of £5m. The 2021/22 Investment Programme had suspended funding on the project given the uncertainty over the programme. A significant investment had been made by the Council in 2018 to purchase land for safeguarding for future development and to support the implementation of the flood defence proposals.

7.14 The Environment Agency have now secured the funds to enable them to continue with and finalise the Options Appraisal and Outline Business Case. These funds are made up of contributions from other partners and funding sources, including approval by Surrey County Council for £180,000 additional funds towards the development of the Outline Business Case. The "In Principle" agreement would support the progression of the project beyond the completion of the Options Appraisal and Outline Business Case (February 2023) towards a Full Business Case (May 2024).

7.15 The Council's partnership contribution is towards the construction and future maintenance of the scheme following the options and business case approvals.

7.16 Further scheme costs have been provided by the Environment Agency. The Council's contribution will be made up of:

- the flood scheme land that is already in the council's possession following investment programme funding for land management in Byfleet back in November 2018
- contributions in kind
- general fund land maintenance costs (costed over 100 years)

7.17 The Council will continue to work with the Environment Agency and partners to support the scheme to come forward and deliver on the flood protection and wider environmental enhancements envisaged from the project. The council's financial contribution to the scheme will need to provide the best leverage for contributions of funding from other partners and sources into the Byfleet community.

7.18 The Executive is requested to approve moving the scheme from the suspended schemes into the approved schemes to reflect the recent developments highlighted above. Specific reference is drawn to the funding that has now been secured by the Environment Agency to take the scheme forward and the importance of the Council's "in Principle" agreement to allow the relevant options and outline business cases to be progressed.

7.19 This "In Principle" approval can be given at this stage within the existing funding approved for the investment programme and taking into account the value of assets held for land management in Byfleet secured in 2018.

7.20 The Council will need to consider its final approval for the contribution following the further stages of options appraisal, outline business case and detailed design at which point further due diligence and value assessments will be provided to support consideration of the final approval.

<u>Old Woking Community Centre</u>

7.21 In March 2021 the Executive approved a proposal to develop the Old Woking Community Centre for use by Woking College. The extension of the college is considered a key benefit for the community. The works were to be funded partly by the College and were subject to developers contributions being identified as available to apply to this project.

7.22 The scheme has been worked up in detail with Woking College and the College have identified some additional funds which can be allocated to the scheme. Whilst S106 developers contributions specifically to support education provision have been identified, it is currently not possible to allocate CIL funds to this scheme due to the competing pressures on these funds which support all infrastructure in the Borough. The project budget has therefore been amended to a total of £2m (£2.9m previously) funded £600k (£400k previously) by the College and £1.4m by the Council through s106 developers contributions for education. It is proposed that the project be included in the Council's Investment Programme reflecting this amended funding. Any further funding secured by the College would be available to increase the project budget.

<u>Digital Centre of Excellence - Incubator Support Service</u>

7.23 The Council has had an ambition to see the delivery of a Digital Centre of Excellence incorporating a business support incubator and accelerator service. This ambition is set out in the adopted Economic Development Action Plan and Digital Strategy.

7.24 The objective is to support and develop new entrepreneurs, start-up and established businesses to contribute to the economic and social development of the Borough. This would include organisations that are developing technologies in the net zero carbon/ reusable and clean/ sustainable energy sectors as well as technology that is environmentally friendly based on its production and supply chains. Many highly successful and well-known companies began as start-ups that used incubators. Incubators are growing in popularity in recent years due to the many benefits that they provide to start-ups and businesses with a growth mindset.

7.25 It is proposed that £400,000 from the Council's Additional Restrictions Grant (ARG), available for wider business support, be allocated to this objective. An estimated additional £400,000 is required to fund the fit out of the proposed space, likely to be a floor at Export House which will have a new reception area accessed from Victoria Place. The fit out will consist of a reception area, a refreshment area, a mixture of offices and open plan co-working space, meeting rooms and break-out spaces. The Council would partner with a provider to provide the wrap around support service.

7.26 Council officers continue to work with a delivery partner to develop the detail. Subject to the Executive's approval to allocate the ARG funds, the outline business case will be developed further to identify the full analysis of the benefits and operating costs.

7.27 While funding for the revenue costs would be supported by the use of ARG the capital costs to set up the centre would need to be met by the Council. It is proposed that these could be funded in part by using funds reserved within the Economic Support Budget. This fund supports additional income (for example fitting out of shop units prior to rental) and while the proposal would have no immediate income benefits arising it is hoped that the centre's success would allow new businesses to expand in Export House or other council owned premises in the future. It is likely, however, that the full cost of fit out would require additional council or external funding to be secured.

7.28 Once further details of the capital costs have been worked up a full analysis of the benefits and operating costs, together with necessary investment will be brought to a future meeting of the Executive for approval.

7.29 Appendix 7 sets out a summary of the initial proposal.

8.0 Financial Resilience Strategy

Financial Resilience Overview

8.1 Effective financial management in the public sector has always been built on planning for the long-term. The challenge for Woking Borough Council now is increasingly about ensuring the council has the resilience to deliver annual savings and manage significant financial risks while still pursuing our ambitious regeneration goals for the benefit of the borough's communities.

8.2 It is in this context that financial resilience for the council describes our ability to remain viable, stable and effective in the medium to long term in the face of pressures from growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

8.3 Against a background of ever diminishing resources and increasing demand, the council has invested in the local economy to help regenerate the town centre and at the same time has become financially more self-sustaining through the generation of commercial rents from these assets.

8.4 The Commercial Income and reserve position of the Council has facilitated continued investment in new community facilities and protected services in a period of austerity beyond the capabilities of many comparable district authorities in England. Earlier in this report in section 6 we provide a simplified trading statement from the councils borrowing, investments and return on investments.

8.5 However the Council's resilience has been challenged and impacted by the Covid-19 pandemic, in particular reducing Commercial income and Council Tax collection. The Council's reserve position has offered protection during this turbulent period, however it is forecast that revenue reserves will reduce by 80% over the MTFS period. The Council's reserves need to be stabilised in order to ensure they can support our financial resilience strategy.

8.6 The following sections of this report provide a framework for our financial resilience strategy; an assessment the Council has undertaken with support from EY and specific areas of service pressure coming out of our financial management and monitoring.

8.7 The support form EY was commissioned to provide three outputs:

- **Short Term outlook**: This was in the form of the "Comprehensive Statement" that was reported through the Overview and Scrutiny Committee to the meeting of the Executive on 3rd February 2022 as part of the Medium Term Financial Strategy (MTFS), General Fund, Service Plans, Budgets and Prudential Indicators 2022-23 report.

- **Medium Term Outlook** This is incorporated within this report as part of our MTFS and Financial Resilience Strategy and included in Appendices 2 and 3.

- **Long Term Outlook** This outlook is underway and will be completed and reported in the MTFS report for the 14th July Executive.

Financial Resilience Framework

8.8 The Council's financial resilience strategy will be developed over the coming three months in order to provide a framework for the MTFS that will be reported to the 14th July 2022 meeting of the Executive. The strategy is being developed around the four key pillars of:

- Financial Strategy and Planning
- Financial Governance
- Financial Control
- Governance of Commercial Ventures and Investments

8.9 Attached at Appendix 8 is a framework of key indicators of good performance that we will use to manage our approach to ensuring we have the right components of the MTFS in place to deliver annual savings and manage significant financial risks while still pursuing our ambitious regeneration goals for the benefit of the borough's communities.

8.10 The pillars provide the defined areas that will be used to focus attention on to ensure we have the standards and approach to assessing, establishing and delivering financial resilience.

Financial Resilience Assessment

8.11 The Council has based its core assessment and approach to developing strong financial resilience on 2 independent sources of insight:

- **CIPFA Financial Resilience Index**
- **EY Medium Term Financial Resilience Assessment and Recommendations**

8.12 These independent sources of financial resilience analysis are explained further below.

CIPFA Financial Resilience Index

8.13 CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position. The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA, public consultation and technical stakeholder engagement.

8.14 The Woking Resilience Index results are shown in Appendix 9. These can be accessed directly from the CIPFA website at Financial Resilience Index | CIPFA.

8.15 As can be seen, the analysis indicates areas of lower risk around level and sustainability of reserves and income generated through fees and charges alongside some areas of higher risk around changes in reserves; the level of debt and level of interest payments.

8.16 Whilst these indicators are not highlighting anything that we are not already aware of, and they are not statements of fact – they are indicators that require further examination and exploration. It is also useful to note that the tool allows us to benchmark Woking against nearest neighbours (as per the appendix) and also upper tier councils.

EY Medium Term Financial Resilience Assessment and Recommendations

8.17 Whilst the CIPFA Financial Resilience Index provides a useful high level and generic set of indicators, the council wanted a more thorough, in-depth and localised set of insights and we therefore commissioned and worked with the professional services firm EY to produce short, medium and long term outlooks.

8.18 Attached at Appendices 2 and 3 is the medium-term assessment and recommendations. The short-term outlook has already been reported to the Executive and the long term outlook is underway and will be completed and reported in the MTFS report for the 14th July Executive.

8.19 The medium-term assessment is largely a development from the short term outlooks, the strategic actions from which have already been reported to the Executive at its meeting in February 2022. The key strategic actions were:

- *Adopting a stronger strategic approach to the management of assets*
- *Development of its commercial and strategic finance capacity and expertise in order to drive out the returns from our investments.*
- *Completing the review of Governance of Companies, the strategic alignment between the Council and Thameswey group (through our established business and financial planning framework) and the intelligent client capability*

retained within the Council. This review should address the specific risks highlighted for Thameswey Energy Limited (TEL) and Thameswey Milton Keynes Limited (TCMK)

- *Strengthening the oversight of Town Centre management, including the strategic management of the assets*
- *Continuing to develop and strengthen the Medium and Long-Term Financial Strategy and the strategic management of reserves within this*

Governance of Companies

8.20 One of the key strategic actions in 8.19 above relates to the completing a review of Governance of Companies.

8.21 Over the years, there has been an increase in both the number of Council owned companies and the complexity of the Council's governance arrangements of the same. This in turn brings risks that the Council will not be able to demonstrate that it is clearly and consistently managing its differing responsibilities.

8.22 The Council has adopted an ambitious investment strategy placing significant importance on investing in the future of Woking through placemaking regeneration strategies that maximise resources and partnerships with the commercial sector. The investment strategy requires both long-term business cases and long-term financing strategies, which help provide the Council with long-term financial sustainability.

8.23 It is also recognised that this placemaking regeneration taken by the Council dominates the Council's financial strategy, primarily through long-term investments funded through borrowing to drive transformation of the local area. Our investment strategy demands robust long-term business cases, delivery in line with those plans and close monitoring of any subsequent service or market volatility.

8.24 The delivery of the Council's Investment Strategy has largely been through group companies and greater consistency of the governance of these bodies needs to provide reassurance that:-

- the Council is acting in an open and transparent manner in respect of its trading activities;
- the objectives of the companies are being delivered;
- that performance and risk are being managed;
- that the extent of any delegation of responsibilities to Shareholders and Directors is clear;
- that there is transparency and scrutiny around key Council decisions.

8.25 The Council needs to adopt council and company governance arrangements that are amongst the best that exists in local government, reflecting our significant investment in regeneration undertaken through companies.

8.26 As reported at Full Council on 10 February 2022, a review into the current governance arrangements and protocols in place has therefore been initiated.

8.27 Members will receive a full briefing on the proposed governance arrangements prior to them being reported to Full Council for adoption on 21 July 2022. Furthermore, a pre-scrutiny report will be considered at the Overview and Scrutiny Committee.

8.28 The Thameswey Board would adopt the proposed structure at its Board meeting on 12 July 2022 (subject to Council ratification the week thereafter).

8.29 The review shall link the Council's emerging Corporate Strategy and the Group Business Plans for 2023. The Group Business Plans would be endorsed by Council at its meeting of 1 December 2022 for implementation on the 1 January 2023.

8.30 The Council and Thameswey continue to review the need to maintain separate companies with an objective of simplifying the group structure where possible.

8.31 The Council acquired Kingfield Community Sports Centre Ltd during 2019/20. The company holds the Woking Football Club site which was subject to development proposals. The intention on acquisition was to transfer the asset to direct Council ownership, subject to any considerations relating to the project. As these proposals are no longer proceeding it is recommended that the asset be transferred to the Council and the company dissolved. There will be a small financial saving related to the administration costs of operating the company.

Resilience Assessment

8.32 Attached at Appendix 10 are the recommendations from within the EY assessment mapped to the Council's financial resilience framework.

8.33 Work to develop comprehensive responses to the recommendations has commenced and will be reported through to the MTFS for 14th July Executive. The immediate focus has been on the three areas of highest risk as follows:

Key Finding: The MRP Consultation could have material financial consequences for the Council from 24/25

Response: On 30 November 2021 the Department for Levelling Up, Housing and Communities (DLUHC) published a 'Consultation on changes to the capital framework: Minimum Revenue Provision'. The consultation closed on 8 February 2022.

The Minimum Revenue Provision (MRP) is the amount set aside each year from the Council's revenue account for the repayment of debt. Local Authorities have flexibility in how they calculate MRP, providing they have regard to statutory guidance and that the charge is 'prudent'. Authorities must have regard to the CIPFA Prudential Code to ensure that capital plans are prudent, affordable and sustainable.

The government has been concerned that some Authorities have not made a prudent revenue provision for the repayment of debt in particular in relation to commercial investments. Studies by the National Audit Office and Public Accounts Committee during 2020 have also raised this issue.

Underprovision of MRP can result in an authority being unable to repay a proportion of its debt, passing the liability into the future, which will need to be met by capital receipts or accelerated MRP payments.

The Consultation seeks to address two issues:

- Local authorities not charging MRP on debt related to certain assets
- Local authorities using sales from assets (capital receipts) in place of a charge to revenue.

The Proposals will amend the regulations such that no debt can be excluded from MRP and that capital receipts (which include loan repayments) cannot be used for MRP.

Capital loans to the Council's group companies would be impacted by this proposed change in regulation. In effect it would require a revenue charge to the budget in addition to the loan repayment and would duplicate the funds set aside. Given the Council's levels of investment, and the amounts invested through capital loans in the group structure, the impact of this change would be substantial. The loan structures adopted for investment through group companies is set out in section 6.

With the exception of loans to Thameswey Housing Ltd (THL) for residential properties, loans are on an annuity basis which means that repayments are received from the start of the loan. The government proposed changes would therefore mean duplicated set aside immediately on implementation of the changes. The table below shows the additional revenue set aside, together with the current MRP on areas not affected.

Impact of proposed changes to MRP

Key Area	Borrowing Description	Value	Current MRP	Additional MRP Year 1	Additional MRP Year 5	Additional MRP 50 Year Average
Borrowing not affected by the consultation						
1	Property assets acquired for operational, regeneration and strategic purposes – held by the Council directly	£509.5m	£6.2m	-	-	-
2	Housing Revenue Account (HRA) assets	£146.4m	£0	-	-	-
Sub Total		**£656m**	**£6.2m**	**-**	**-**	**-**
Borrowing affected by the consultation						
3	Capital loans to wholly owned subsidiaries for the development of sustainable energy assets	£85m	£0	£0.9m	£1.0m	1.7m
4	Capital loans to wholly owned subsidiaries/joint ventures for major regeneration schemes	£735.5m	£0	£7.5m	£8.3m	£14.7m
5	Capital loans to wholly owned subsidiaries for the provision of housing	£327.4m	£0	£3.3m	£3.7m	£6.5m
6	Capital loans to local organisations supporting council priorities	£21.3m	£0	£0.2m	£0.2m	£0.4m
Sub Total		**£1.169bn**	**£0**	**£11.9m**	**£13.2m**	**£23.4m**
TOTAL		**£1.825bn**	**£6.2m**	**£11.9m**	**£13.2m**	**£23.4m**

In summary an additional £11.9m would need to be secured from revenue budgets, increasing over time and resulting in an average £23.4m additional charge over the life of the assets. These additional charges are not considered necessary so long as the underlying business cases for the group companies demonstrate that the loans can be repaid. Further detail on the approach to reviewing the Council's interests in group companies is covered earlier in section 8 of this report.

The Council debt affected is regeneration, housing and sustainable energy derived, not investment for commercial purposes. There are not excess yields from these investments from which to set aside further funds in the short term.

The flexibility provided by the current framework has enabled the Council to further policy objectives enabling the transformation of the town centre, and the provision of vital affordable housing. The proposals risk undermining the business plans for the investment in the Borough, requiring unnecessary double-counting of amounts to be set aside, and inconsistent approach to housing assets where for Housing Revenue Account debt no MRP is required.

The Council has engaged in meetings with DLUHC to express concern at the proposals and explain the issues and how they impact the Council. A 'round table' event has been attended and a full response to the consultation response submitted. The government has not commented since the consultation closed.

It is anticipated that the government will make an announcement on their response to the consultation around the end of March / early April 2022 and then seek to introduce the statutory instrument in the summer of 2022.

Given the scale of the impact of the potential changes, and the uncertainty as to whether the government will progress with the proposals in this, or an amended format, the impact is not included in the financial forecasts. This will be reviewed through our MTFS as the government position develops.

Key Finding **Significant use of Revenue Reserves is required to balance the budget over the MTFS period**

Response: As part of the work on the MTFS in 2021/22 the council established a risk-based reserves strategy and savings plan that would ensure the council had the level of reserves that as a minimum were appropriate to manage risk and provided some capacity for funding business and transformational change investments

In developing the MTFS during 2021/22 the Fit for the Future programme was projected to reduce the underlying budget gap to circa £2m for the period to 2024/25. It was not possible to balance the MTFS position over the period without the use of reserves and it was hoped that there would be a 3-year funding settlement which would provide certainty around the reduction in government support through this period. It was also recognised that slower draw down of funding by Thameswey Housing Ltd would reduce income to the Council generated through loan margins.

The current forecast has increased this use of reserves to £4.5m for 2024/25 and £5.5m by 2025/26. Of this almost £1m relates to remaining recovery of income post Covid and is significantly impacted by assumptions around the reduction of government support, £3m, over this period.

The use of reserves over the MTFS continues to be substantial with an underlying requirement to the end of the MTFS forecast. The 2021/22 Fit for the Future savings have mitigated some pressures but further work is required to establish a sustainable financial position without the ongoing use of reserves. A focussed approach will need to be taken to deliver identified savings as well as working up future opportunities to address the budget requirement. Updates will be provided through the MTFS to the July meeting of the Executive and through the year as this base MTFS is developed during 2022/23.

Further details on the reserves position are reported in the Financial Outlook at section 5 of this report

Key Finding **Pace and scale of development within Milton Keynes – Thameswey Central Milton Keynes Limited**

Response: Running in parallel with the review of the governance of companies highlighted earlier in section 8 of this report, a review of the Thameswey group of companies financial performance and business development and growth forecasts has been initiated and is being led by the Chief Executive. This review includes stress testing of sales forecasts and margins and scenario planning changes in markets.

Priority is being given to the review of Thameswey Central Milton Keynes as this is commensurate to the outline exposure to risk for the company and the council.

An initial evaluation of developments in the Milton Keynes area that will lead to new business opportunities and discussions on potential partnership opportunities has been initiated and scenario modelling is underway.

Members will receive a full briefing on the review of business plans alongside the proposed governance arrangements prior to the governance arrangements being reported to Full Council for adoption on 21 July 2022.

The review shall link the Council's emerging Corporate Strategy and the Group Business Plans for 2023. The Group Business Plans would be endorsed by Council at its meeting of 1 December 2022 for implementation on the 1 January 2023.

Other Technical Updates

8.34 In October 2019 CIPFA published a Financial Management Code (FM Code). This provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively. It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance.

8.35 CIPFA published revised Treasury Management and Prudential Codes on 20th December 2021. CIPFA stated that formal adoption of the Treasury Management Code is not required until the 2023/24 financial year and the new reporting requirements of the Prudential Code can be deferred to 2023/24. The revised codes will have implications regarding;

- Additional benchmark treasury indicators.

- Clarifying what CIPFA expects a local authority to borrow for and what they do not view as appropriate (including setting a proportionate approach to commercial and service capital investment). The Prudential code confirms that an authority must not borrow to invest primarily for financial return.

- Implementation of a policy to review commercial property, with a view to divest where appropriate.
- Other changes regarding investment practices to manage risks associated with non-treasury investment, business models to support long term treasury investments, and all investments and investment income must be attributed to the purpose of either Treasury Management, Service Delivery, or Commercial Return.

8.36 Members will be updated on how all these changes will impact the current approach and any changes required will be formally adopted within the 2023/24 Treasury reports.

Provisions, Contingent Liabilities and Risks

8.37 The Council identifies risks through its established risk management processes. These are regularly reviewed by Corporate Leadership Team (CLT) and Senior Managers. Where a risk becomes a probable outcome with a reliable financial impact, the Council follows accounting standards to recognise the forecast liability in its accounts.

8.38 A contingent liability is a potential loss that may occur at some point in the future, once various uncertainties have been resolved. The liability is not yet an actual, confirmed obligation. The exact status of a contingent liability is important when determining which liabilities to present in the balance sheet or in the attached disclosures.

Provision	a liability of uncertain timing or amount.	Recognised in accounts at best estimate
Contingent Liability	a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable or the amount cannot be measured reliably	Disclose details unless the possibility of an outflow of economic resources is remote
Risk	a future event of uncertain probability	Monitor, take action to mitigate and report as appropriate as likelihood is established

Risk Based Reserves Strategy

8.39 During 2021/22 a risk based reserves strategy was established as part of the MTFS. It was determined that a balance of £10m should be retained to meet the budget robustness assessment and provide some provision for risks and an ability to invest into future priority investment programmes.

8.40 This provision, highlighted below, will continue to be reviewed as part of the ongoing MTFS process, including the implications of any further identified risks.

General Fund Balance (set at 4% of Gross budget)	£4.8m
Priority Outcomes and Transformation	£3.2m
Finance and Service Risk	£2.0m

8.41 The reserves forecast presented with the February 2022 budget showed a reduction in earmarked revenue reserves to £6m at 31 March 2026, together with a General Fund working balance of £1.5m. As set out in section 5, the updated forecast increases use of reserves by £1m over the period. This level of reserves is below the identified minimum level and an updated strategy to address the use of reserves will be included in the July MTFS update. The timing of required savings is determined by the use of reserves balances. The strength of the Council's reserves has enabled time to be taken to move to an improved budgetary position and for the recovery of income to be monitored. However, the continued use of reserves places pressure on underlying resources available and it is important that reserves are not exhausted if income is slow to recover.

8.42 As part of the annual budget setting process the Chief Finance Officer (S151) is required to confirm that the budgets are robust and that the reserves and provisions are adequate. This statement was provided in February 2022 in relation to the 2022/23 budget and the Council continues to have an adequate level of reserves. The financial forecast, however, identifies a risk at the end of the MTFS period which should be managed through ongoing financial monitoring, planning and transformation programmes to ensure the continued financial sustainability of the Council beyond the current MTFS forecast.

Equalities and Human Resources

8.43 No specific Human Resource or Training and Development implications.

8.44 There are no equalities implications.

Legal

8.45 Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'. The Local Government Act 2003 places a duty on the Council's Chief Finance Officer to advise on the robustness of the proposed budget and the adequacy of reserves.

8.46 The MTFS is a fundamental element of the Council's strategic financial management arrangements. The MTFS is a policy framework document that is required by law to be adopted by Council.

8.47 The Council is required by statute to set a balanced budget. Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality and level of services which they consider should be provided against the costs of providing such services.

8.48 The MTFS ought to be consistent with the Council's work plans and strategies, particularly the Corporate Plan.

8.49 The Council is required to obtain approval by Full Council of its MTFS.

9.0 Engagement and Consultation

9.1 The Council has undertaken a significant programme of engagement during 2021/22 in preparing for the adoption of the Corporate Strategy also on this agenda. The feedback from this engagement has identified priority areas for the Council in allocation of resources over this MTFS.

REPORT ENDS

APPENDICES

Appendix 1 Council Policy and Strategic Context

Appendix 2 Assessment of Medium Term Financial Position

Appendix 3 Protective Financial Resilience Recommendations

Appendix 4 Medium Term Financial Forecast

Appendix 5 Investment through Group Companies and Joint Ventures

Appendix 6 Heat Networks Investment Project (HNIP)

Appendix 7 Digital Centre of Excellence – Incubator Support Service

Appendix 8 Financial Resilience Framework

Appendix 9 CIPFA Resilience Index

Appendix 10 EY Assessment mapped to Financial Resilience Framework