EXECUTIVE – 14 JULY 2022

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

Executive Summary

This report provides an update to the Medium-Term Financial Strategy (MTFS) for 2022-23 to 2025/26 and outlines the approach to aligning the budgets of the Council with the priority outcomes defined within the *Woking for All strategy* and more recently the *“Supplementary and amended priorities 2022-23 from the new administration”*

The approach of the new administration is to use the Woking for All strategy as the corporate framework for the Council’s plans and to make sure the priority actions within it reflect the needs of the borough and our communities. The MTFS will support the approach through focussing on responsible and decisive change, targeted at the areas of highest priority, so that the actions make a difference.

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 remains 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 has been updated for this report and will remain under review with any further revisions incorporated into updates to the MTFS throughout the year. A full recovery is still assumed to extend beyond the 3 years of this Medium-Term Financial Strategy (MTFS) and this assumption will need to be comprehensively assessed as part of the Financial Resilience Framework that has now been established as an integral part to the MTFS.

During 2021/22 the Council identified £4.8m of savings over 2022/23 to 2024/25. There are however a number of pressures that are being forecast to increase which offset these savings. These pressures relate to an increase in the pay award for staff to recognise the cost of living and underlying increases to sector pay, higher inflation, 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 options that need to be proposed and modelled to cover the 4 years to 31 March 2026 is circa £11m. There are a number of unknowns and assumptions within the forecasting, however, as part of the Council’s Financial Resilience Strategy it is essential that the Council has plans that enable it to respond to the financial risks that are contained within planning and forecasting assumptions. It is therefore prudent and responsible to understand the options and implications for savings of circa £11m and to continue to review forecasts and develop stronger evidence behind these to bring greater certainty to the forecasts.

This is a significantly greater challenge than reflected in the March 2022 MTFS, recognising increased inflationary pressures and risk to the level of Council’s forecast income.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	TOTAL £'000
Projected Annual Use of Reserves - March 2022	**4,134**	**4,929**	**4,490**	**5,450**	
Changes since March MTFS					
Council Tax surplus		-304	304		
inflation (energy, contracts, pay award)	1,280	872	1,019		**3,171**
Retain government funding		-910	-434	-432	**-1,776**
Business Rates growth assume retained		-467			**-467**
Total	1,280	-809	889	-432	928
Cumulative additional pressure	**1,280**	**471**	**1,360**	**928**	
Income risk	2,000	3,474	4,085	4,803	
Projected Annual Use of Reserves - July 2022	**7,414**	**8,874**	**9,935**	**11,181**	

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

Forecasts and a proposed approach to addressing this budget gap will be further worked through the MTFS process and reported in the October and November reports to the Executive. There are however a number of key areas that are being assessed to provide a scale of opportunity that would enable the Council to deliver major change at pace. These opportunities cover:

- Reviewing Council owned company governance and financing models
- Establishing stronger commercial operating principles
- Using the Council's Assets to lever greater inward investment to the Borough
- Working in partnership to reduce costs and increase opportunities
- Identifying the full range of financing and treasury management flexibilities
- Reviewing all income generation opportunities
- Developing procurement category management plans for key areas of spend
- Ensuring statutory services continue to be delivered and prioritising service expenditure against services that make the greatest contribution to delivering the priorities within the Woking for All strategy

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 approach to embedding affordable, responsible, and sustainable principles into how the Council shapes its MTFS for the next 3 years in the face of pressures from economic inflation, growing demand, tightening funding and an increasingly complex and unpredictable financial environment.

A separate report on company governance is being presented to this meeting of the Executive. This report seeks to ensure that the Council's governance arrangements are amongst the best in local government and as such, proposes that its arrangements are updated and kept under continuous review. The guiding principles of affordable, responsible, and sustainable that the Council has adopted are equally being used to oversee these governance arrangements.

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 Thameswey business plans being submitted to the meeting of the Executive on 17 November 2022.

The MTFS will continue to be reviewed and updated over the summer to bring forward areas of search for efficiencies and savings which enable the Council to manage its resources over the short and medium-term and align these to the priority outcomes identified within the Woking for All strategy.

Monitoring of the 2022/23 budget will be reported in the Green Book Performance and Financial Monitoring report.

Recommendations

The Executive is requested to:

RESOLVE That

(i) the evidence base on demographics (Appendix 1 to the report) be noted;

(ii) the target for areas of search to identify further efficiency and savings proposals (Section 6) be noted;

(iii) agree for the Strategic Director – Place, in consultation with the relevant Portfolio Holder, to submit the UK Shared Prosperity Fund Investment programme (referenced in Section 2 of the report) to the DLUHC by 1st August 2022;

(iv) agree to the continuance of Opportunity purchases within the Investment Programme with delegation to the Chief Executive in consultation with the Leader and relevant Portfolio Holder;

(v) agree the car park pilot in the Victoria Place Car Park for the Saturdays within the pilot period;

(vi) the priority outcomes, in the Corporate Plan which form the basis of the Council's business and financial planning set out in Section 4, be reviewed through the process highlighted within the report;

(vii) the development of a four-year Medium Term Financial Strategy drawing from the Corporate Plan priority outcomes be agreed;

(viii) agree to continue to develop activity and financial plans through the Fit for the Future programme using the guiding principles of affordable, responsible, and sustainable to develop options for operating within the resources available;

(ix) reports be received on more detailed plans for the next four years in November 2022;

(x) as detailed in paragraphs 6.19-6.20 of the report, parent company guarantees be provided to the new gas and electricity providers, as required by Thameswey Energy Ltd and Thameswey Central Milton Keynes Ltd, with the detail to be agreed by the Director of Legal and Democratic Services in consultation with the Leader; and

RECOMMEND TO COUNCIL That

(xi) the Medium-Term Financial Strategy as updated 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 (x) above, (xi) will need to be dealt with by way of a recommendation to Council.

Background Papers: None.

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Date Published: 7 July 2022

1.0 Introduction

1.1 This Woking Medium Term Financial Strategy report is part of the Council's integrated service and financial planning cycle. The report sets out the context and provides an overview of the latest position in preparation for more detailed planning for 2023/24 and beyond.

1.2 It follows the Medium-Term Financial Strategy report presented to the Executive at its meeting on 24th March 2022 and Council on 31st March 2022.

1.3 It builds on our performance and achievements over the last year and acknowledges the challenges in the years ahead at both a local and national level as we assess the impact that the economic downturn has had on the Council's income, demand for services provided by the Council and what the prospects and forecasts for economic recovery are.

1.4 The Council spends circa £130m gross and £18m net revenue each year on the general fund and has an ambitious £540m capital Investment Programme. It is vital that these resources, in partnership with others, are deployed in the most effective way.

1.5 The Woking for All strategy sets the core priorities for the Council and informs where our spending is directed to ensure that we target our finite resources towards the areas of highest priority and need.

1.6 The Council budgets for circa £35m per annum from commercial and income generating activities as well as margins from loans to Group Companies and other partners which have supported the Council's ability to provide a comprehensive set of services that are valued by the communities of the Borough. A report on the "Investment Strategy – Investment in Group Companies and Joint Ventures" was presented to the 24th March 2022 meeting of the Executive and should be referenced for further background and contextual information on the relationship between the Council and the companies in which it has an interest and has provided loan funding.

1.7 The Woking for All strategy and integrated service and financial planning within this Medium-Term Financial Strategy will provide the policy and priority context for developing proposals that sustain our financial resilience and are affordable, responsible, and sustainable, whilst ensuring we remain focussed on the priorities for our communities.

1.8 In developing our medium and longer term plans we will need to have regard to the broader context in which we will be working. There are significant areas of change that currently are not fully understood and cannot be fully quantified but will have potentially significant financial impact. This includes:

- The impact of operating in an economy that is coming out of recession. The Government is considering the overall level of Public Sector borrowing and how it starts to rebalance the country's finances. This consideration will include overall levels of spending through Government Departments and levels of taxation.

- The lasting impact the pandemic will have on communities and the implications on the demand for services.

- The conclusions the Government might draw from the pandemic in terms of the nature and organisation of public services and the relationship between national and local government and communities.

- Changes to the system of local government funding that have been deferred by Government and confirmation of funding for the sector beyond the current annual settlements. The level of Government funding that Woking Borough Council (WBC) will receive from 2023/24 onwards is not confirmed. Whilst spending review 2021 was for three years, Local Authorities were only given a single year settlement. However, the Secretary of State for Levelling Up, Housing and Communities, Michael Gove, announced at the Local Government Association's annual conference on 29th June 2022, that Councils in England will receive two-year funding settlements from 2023/24.

- The outcomes from the "Consultation on changes to the capital framework: Minimum Revenue Provision" and implementation of the Levelling Up and Regeneration Bill.

1.9 Sections 2 and 3 of this report provide this broader context for the MTFS that is referenced in point 1.7 above. It is important that we understand the wider economic, political, and funding environment that we are operating in and so that we can ensure our MTFS is positioned to respond to these.

1.10 Furthermore, within the Council's Financial Resilience Strategy framework we have identified a requirement to have a strategic approach to financial planning in the short-medium- and long-term horizons. The Local Government Policy and Funding (Section 2) and Economy (Section 3) are key components of this and form part of the assessment of our financial resilience and resilience activity.

1.11 **The savings options that need to be proposed and modelled to cover the 4 years to 31 March 2026 is circa £11m as referenced in Section 6 of this MTFS report.**

1.12 **There are a number of unknowns and assumptions within the forecasting, however, as part of the Council's Financial Resilience Strategy it is essential that the Council has plans that enable it to respond to the financial risks that are contained within planning and forecasting assumptions. It is therefore prudent and responsible to understand the options and implications for savings of circa £11m and to continue to review forecasts and develop stronger evidence behind these to bring greater certainty to the forecasts.**

MTFS Reset - July 2022

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Baseline MTFS -use of reserves	5,414	5,400	5,850	6,378
Additional Income Risk	2,000	3,474	4,085	4,803
Revised Budget pressure	**7,414**	**8,874**	**9,935**	**11,181**

2.0 Local Government Policy and Funding

Local Government Funding

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 The Secretary of State for Levelling Up, Housing and Communities, Michael Gove, announced at the Local Government Association's annual conference on 29th June 2022, that Councils in England will receive two-year funding settlements from 2023/24 to help them plan with a greater degree of confidence and is set to launch a consultation on the spending plans shortly.

2.3 The Secretary of State also announced the creation of a new oversight body, the Office for Local Government, to "shine a light on how local authorities are performing and delivering". The body will at first analyse and publish existing data on council service performance, but the Secretary of State said it will look at issues such as climate change and the integration of health and social care "in time". It will also produce a yearly local government performance report, assessing whether councils are meeting their duty to provide value for money and sharing best practice.

2.4 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.

2.5 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.

2.6 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.

2.7 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 Southeast, and funding for Social Care remains a significant challenge on resources for which District Councils will be competing.

2.8 Taking in to account the current levels of inflation in the economy and the implications this will have for the general supply of goods and services, it is now prudent to assume that the funding from government will recognise this and seek to ensure purchasing power is maintained. Government funding is assumed to be maintained at the 2022/23 level which will offset the excessive levels of inflation that is being experienced.

<u>Levelling Up White Paper</u>

2.9 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.

2.10 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 Southeast 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

2.11 There is strong alignment between the Council's regeneration investments and strategic priorities contained within the Woking for All 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 Southeast to access funding.

2.12 The Council is preparing a bid to the Levelling Up Fund (Round 2), seeking funding towards the development of the new health and community campus in Sheerwater. The new facility, within the next "Yellow" phase of the project, presents an exciting opportunity to co-locate health and wellbeing services together. The GP Surgery will be located in the building, along with Maternity, Health Visitors, Mental Health, Chiropody, Family Services and Early Years provision (non-exhaustive list). The heart of this facility will include a public café, soft play area with open access to the new green space with the park, cycle tracks and multi-use games area. It will serve the whole community and enable services to be locally accessible and connected. If successful, the grant would provide approximately £4 million of capital funding towards the new health and community campus and support the financial model for the whole regeneration scheme.

Levelling Up and Regeneration Bill

2.13 Further to the Levelling Up White Paper, a Levelling up and Regeneration Bill was announced in the Queen's Speech in May 2022 and makes provision for the legislative changes required to deliver on some aspects of the levelling up programme set out in the White Paper. Of particular note are reform to the planning system to give residents more involvement in local development; introducing measures and reforms to deliver plans for devolution and adopting what the Government describes as a responsible approach to the public finances, reducing debt while reforming and cutting taxes.

2.14 Of particular relevance to the Council, the Bill will make amendments to the Local Government Act 2003 Section 12 (power to invest) through adding:

- Risk mitigation directions
- Risk thresholds
- Restriction of power to give risk mitigation directions
- Duty to cooperate

2.15 The Department for Levelling Up, Housing and Communities (DLUHC) have advised the Council that it is likely to be in scope of the Bill's powers due to its high level of debt.

2.16 Officers from the Council and DLUHC are working collaboratively to assist the Department in understanding the Council's local borrowing and investment practices into regeneration of the Borough in advance of them establishing new measures that will support the implementation of the Bill.

2.17 The Council's MTFS will be updated as DLUHC provide further details in response to the information we have provided. At this stage it is anticipated that the focus of the analysis will be on:

- The proportionality of the Council's debt

- The reliance the Council has on commercial income to pay the debt interest and fund services the Council delivers for the borough's communities

- The provisions the Council makes to account for and repay the debt

Minimum Revenue Provision

Consultation

2.18 Local authorities have wide freedoms to borrow and invest without the need to seek the government's consent, provided that borrowing is affordable. There is a Prudential Framework in place which intends to make sure that local decisions are prudent, affordable, and sustainable.

2.19 Where authorities borrow to finance capital spend, they are required under regulations to set aside money each year from their revenue account. This is referred to as Minimum Revenue Provision (MRP) and is to make sure they can afford to repay the principal of their debt.

2.20 The government is aware that some authorities employ practices that are not fully compliant with the duty to make a prudent revenue provision, resulting in underpayment of MRP. This was reported in the National Audit Office's report Local authority investment in commercial property (February 2020) and the subsequent report by the Public Accounts Committee in July 2020, which recommended the government take steps to address the issue.

2.21 The government set out in its policy paper Local authority capital finance framework: planned improvements, published on 28 July 2021, that it would look to strengthen the MRP duty. It has worked with the sector, Chartered Institute of Public Finance and Accounting (CIPFA) and other stakeholders to identify the problematic practices and is now proposing changes to regulations to make sure that Local authority practices are consistent and fully compliant with the intent of the Prudential Framework.

2.22 The government is proposing to make changes to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (the 2003 Regulations) to address the issue that some authorities are not adequately complying with the duty to make Minimum Revenue Provision.

2.23 The behaviours the government is seeking to address are:

1. Local authorities using sales from assets (capital receipts) in place of a charge to revenue. Authorities may use capital receipts to reduce overall debt and thereby reduce MRP through the calculation. Capital receipts may not, however, be used in lieu of a prudent charge to revenue.

2. Local authorities are not charging MRP on debt related to certain assets. The evidence is that while some authorities are making MRP for commercial investments funded by borrowing, some are not paying MRP in relation to borrowing associated with investment assets or capital loans. The statutory guidance is clear that financing for investment assets and capital loans requires provision to be made.

2.24 The government has sought views on the proposed changes to the 2003 Regulations to:

1. Make sure that the proposed changes are clear and will appropriately meet the government's objectives.
2. Identify potential unintended consequences that could negatively impact the delivery of services or local and national priorities.
3. Understand the financial impact to the sector.
4. Determine the appropriate timing for the changes to be implemented.

2.25 On 17th June 2022, the government subsequently proposed some amendments to its proposals and has invited participants in the consultation to give views on these amended proposals. The deadline for providing views was 1st July 2022.

2.26 At the time of producing this MTFS report, the outcomes from this consultation are not known and will be incorporated into future updates.

Woking Borough Council position

2.27 The Council has fully engaged with the initial consultation and has provided views on the amended proposals.

2.28 Woking is an ambitious and forward-thinking Council and has invested significantly to further its housing, regeneration, sustainable energy, and economic development objectives.

2.29 The Council understands and supports, in principle, the efforts that the Department of Levelling Up Housing and Communities are taking in response to National Audit Office's report *Local authority investment in commercial property (February 2020)* and the subsequent *report by the Public Accounts Committee in July 2020*, which recommended the government take steps to address the issue.

2.30 The Council also welcomes the consultation being used to Identify potential unintended consequences that could negatively impact the delivery of services or local and national priorities and is seeking to understand the financial impact to the sector. Officers of the Council have had meetings with the Capital financing Team in DLUHC to assist the government in its understanding of both current practices and the potential unintentional impact of changes.

2.31 The Council maintains that it has been applying the MRP duty correctly and therefore welcomes the statement in the consultation that Authorities that have been applying the MRP duty correctly will be unaffected.

2.32 The Council also maintains that:

- Its capital practices are prudent
- It does not apply capital receipts in lieu of making provision for the repayment of debt
- It has not borrowed for the purpose of acquiring assets for investment return

2.33 Any implications of changes to the capital framework will be incorporated into the financial scenario modelling once the details are finalised.

<u>Queen's Speech</u>

2.34 The May 2022 Queen's Speech set out the Government's legislative programme for the new Parliamentary session, announcing that its top priorities are to grow and strengthen the economy to ease the increasing cost of living for families; reduce crime and improve community safety; and fund the NHS to address coronavirus backlogs.

2.35 Key pieces of legislation the Government announced in the speech include the Levelling Up and Regeneration Bill (see above) and the Schools Bill which makes provision for the legislative changes required to implement plans in the Education White Paper.

2.36 Other legislation of relevance to local government included:

- Non-Domestic Rating Bill – covering previously announced changes to the business rates system, specifically enabling more frequent revaluations and reliefs for decarbonisation and property improvements (all reliefs to be reimbursed in the usual way).

- Data Reform Bill – reforming the General Data Protection Regulation (GDPR) and Data Protection Act post-Brexit.

- Draft Audit Reform Bill – which establishes the Audit, Reporting and Governance Authority (ARGA), a proposed audit regulator intended to replace the Financial Reporting Council. The Bill also makes provisions intended to increase resilience and choice in the statutory audit market.

- Procurement Bill – previously announced in the 2021 Queen's Speech, this Bill will aim to reform the current procurement regime, which currently reflects EU law, and make public procurement more accessible for new entrants.

- Transport Bill – which establishes a new body, Great British Railways, to 'act as the single national leader of the railways and supports the installation of more electric vehicle charge points throughout the UK.

- Energy Security Bill – which will support the transition to a more secure, affordable, and cleaner domestic energy system through measures such as supporting industry to invest in the growing consumer market for electric heat pumps, extending the energy price cap beyond 2023 and enabling the first large-scale hydrogen heating trial.

- Product Security and Telecommunications Infrastructure Bill – previously announced in the 2021 Queen's Speech, this Bill will accelerate and improve the roll out of mobile and broadband networks through measures such as reforming the Electronic Communications Code to support faster and fairer negotiations for the use of private and public land to enable deployment of telecommunications networks.

- Draft Mental Health Act Reform Bill.

<u>UK Shared Prosperity Fund</u>

2.37 In conjunction with the Levelling Up White Paper, the Government also published UK Shared Prosperity Fund: pre-launch. The full prospectus for the fund was launched in April 2022.

2.38 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.

2.39 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.

2.40 All places across the UK have received 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.

2.41 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.

2.42 Woking Borough Council has received a £1m share of the fund spread across 2022/23 – 2024/25 3-year period as highlighted in the table below. Within the allocation there is a minimum spend on activity that is of a capital nature of 10% in year 1; 13% in year 2 and 20% in year 3.

Table 1

	22/23	23/24	24/25	Total
Total Allocation	£44,839	£89,678	£865,483	**£1,000,000**
Min Capital split (10%/13%/20%)	£4,484	£11,658	£173,097	**£189,239**
Max Revenue split	£40,355	£78,020	£692,386	**£810,761**
4% administration allowance*	£1,794	£3,587	£34,619	**£40,000**

* To be deduced from the total allocation
* in 2022/23 an additional £20,000 is available for development of the Investment Plan

2.43 All Surrey Districts received the same allocation of £1m which is below the average of £1.9m for lower tier authorities.

2.44 In order for a council to be awarded funding they need to submit an Investment Plan to the Department of Levelling Up, Housing & Communities (DLUHC) by 1 August 2022. It is anticipated that the award confirmation is to be expected in September 2022.

2.45 It is proposed that the Investment Plan will highlight a series of projects that align to the 41 published interventions. DLUHC recognises that Councils might have different priorities by year 3 and therefore are comfortable for Councils to amend their investment plans with replacement projects as long as the criteria is still met.

2.46 Officers have considered the interventions and have recommended the projects in the table below be included in the investment plan.

2.47 Including these projects in the plan does not commit the Council to the projects at this stage. They can be reviewed following further work on developing the details of projects to ensure they are deliverable, provide a good return on investment and realise benefits for the Council.

Funding breakdown

SPF Project	2022/23	2023/24	2024/25	Total
Option A:				
Innovation Hub	£ 44,839	£ 11,658	£ 544,503	£ 601,000
Green Infrastructure	£ -	£ 78,020	£ 270,980	£ 349,000
SCC Loan Scheme	£ -	£ -	£ 50,000	£ 50,000
				£ 1,000,000

2.48 At the 24th of March 2022 Meeting of the Executive it resolved that Additional Restrictions Grant of £400k be allocated to the delivery of the Innovation Hub and a proposal for capital improvements to facilitate this service to be considered at a future meeting of the Executive. This proposal to use the Council's allocation from the Shared Prosperity Fund to finance the capital improvements supports an existing priority of the Council and meets the criteria of the fund.

2.49 Equally investing in delivering a carbon neutral council and the green infrastructure of the Borough is a key priority and supports the Greener Communities Strategic Outcome priority in the Woking for All strategy.

2.50 The Council has been approached by Surrey County Council regarding their proposed Surrey SME Decarbonisation Loan Scheme. The scheme intends to create a fund of between £3m and £6m to support loan funding to micro/SME businesses across the county to develop their businesses encompassing, utilising, or developing green/net zero practices and/or innovations. Surrey is seeking between £35k to £50k from each authority, potentially sourced from their Shared Prosperity Fund allocation.

2.51 Approval at this stage is required to include the above projects in the Council's Shared Prosperity Fund submission. Further approvals will be sought from the Executive, following the anticipated award confirmation from DLUHC, prior to committing to project spend.

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

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

2.53 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.

2.54 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.

2.55 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.

2.56 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.

2.57 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.

2.58 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

2.59 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.

2.60 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.

2.61 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

2.62 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

2.63 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

2.64 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'.

2.65 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.

2.66 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.

2.67 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.

2.68 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 UK Economy

3.1 The UK has experienced a steep increase in inflation in the first half of this calendar year. The cost of goods and services has increased in recent months and Consumer Price Index (CPI) inflation rose to 9% in April, its highest level for more than 40 years. This increase is being driven by a number of factors including the global rise in energy and fuel prices and global restrictions on supply chains due to disruption from the war in Ukraine and the coronavirus pandemic.

3.2 Rising inflation, along with the increasing cost of fuel, energy and food, tax increases and interest rate rises are all contributing to a significant increase in the cost of living for households, which is outpacing average growth in earnings. In March, the Office for Budget Responsibility (OBR) projected that real household disposable incomes per person would fall by 2.2% in 2022/23, the largest fall in a single financial year since Office for National Statistics records began in 1956/57.

3.3 The impact of the increased cost of living will, however, have a greater impact on those on lower incomes or already in financial hardship; and the Institute for Fiscal Studies has suggested that the real CPI inflation rate experienced by those on the lowest incomes in April was closer to 11% due to those households spending a greater proportion of their total budget on energy.

3.4 On 26 May, the Government announced a £15bn package of measures to support households with the rising cost of living. Measures include:

- A one-off £650 payment to low-income households on Universal Credit, Tax Credits, Pension Credit, and legacy benefits, with separate one-off payments of £300 to pensioner households who receive Winter Fuel Payments and £150 to individuals receiving disability benefits. Payments will be made directly by the Government to households.

- An increase to £400 in the previously announced universal discount on energy bills planned for October. Households will also no longer be required to repay this over 5 years. This support is in addition to the £150 Council Tax rebate for households in England in bands A-D and the £144m Discretionary Fund for billing authorities to support households in need but not eligible for the Council Tax Rebate, both announced in February.

- An extra £500m Household Support Funding, extending the fund from October 2022 to March 2023. This is in addition to £500m Household Support Funding announced at the Spring Statement. Government will issue guidance to councils to ensure support is targeted towards those most in need of support, including those not eligible for the cost-of-living payments above.

3.5 While the OBR revised their projections for Gross Domestic Product (GDP) growth this year down from 6% to 3.8% in March, there have since been predictions that the UK economy may go into recession later this year as inflation damages consumer spending and business investment. This may result in further fiscal and/or policy interventions by the Government to provide support to households and businesses.

3.6 The impact of the increases in the cost of living on residents, particularly those already experiencing financial hardship, can be expected to result in an increase in need for public services and voluntary sector support locally

3.7 Appendix 1 to this report provides some insight into the Borough in respect of the health of the communities and the vitality of the environment and the economy. These insights help inform the priorities in the Woking for All strategy.

4.0 Woking Economy and Vitality

Financial Review and Insight

4.1 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.

4.2 The insights from EY on the Council's ambitions and strategies and socio-economic factors relevant to the Borough have been reported to the 31st of March 2022 meeting of Council as part of the MTFS report. 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.

4.3 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.

4.4 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.

4.5 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.

Economic Development Action Plan

4.6 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.

4.7 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.

4.8 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.

4.9 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

<u>Town Centre Master Plan</u>

4.10 The Executive at its meeting on 15 July 2021 asked Officers to prepare the Town Centre Masterplan with the purpose of providing an overarching framework to help guide development and investment decisions in the Town Centre. The Executive specifically requested that public engagement should be central to the Masterplan preparation process.

4.11 The Draft Masterplan has been completed accordingly and is included on the same agenda of the meeting of this Executive. The Draft Masterplan includes:

- An accompanying Site Analysis of each allocated and Housing Infrastructure Fund sites.
- An Executive Summary of the Draft Masterplan.
- A Consultation Plan setting out how the community will be consulted and engaged during the consultation period. The contents of the Masterplan reflect views expressed by the Residents' Panel and key stakeholders during an initial community engagement.

4.12 Through the Draft Masterplan report, the Executive are being requested to approve it for public consultation between 25 July 2022 and 16 October 2022.

Town Centre Vitality

4.13 The social and economic vibrancy of the Town Centre as a hub for the Borough is critical for the Council's budgets, economic prosperity of the Borough and offer to our residents.

4.14 The Council's budget includes approximately £30m income per annum form its investments in off-street car park provision and retail and office space.

4.15 Equally the vibrancy of the town centre adds to the wider economy of the borough through creating employment and income opportunities for residents and businesses.

4.16 The Council has a role to ensure the flow of economic benefits from the town centre both come back to the Council to enable it to finance the investments it has made and go out into the wider economy, so the communities of Woking equally benefit.

4.17 The balance of flow of benefits is a critical part of the Council's approach to integrated service and financial planning. This is established through the agreed strategic priority outcomes within the Woking for All strategy, underpinned by the MTFS which supports a responsible, affordable, and sustainable approach to delivering these priorities.

4.18 As part of the Council's Economic Development Action Plan and framework for economic recovery, the Council are looking to pilot a review of car park charges that will support the development of a car parking strategy later in this year.

4.19 The relationship that changes in car park charges has on the level of trade in the surrounding retail and leisure offers is complex and has been subject to much consideration across the country. There is little research that exists that evidences a simple and definitive relationship that can be universally applied.

4.20 A pilot for car park charges is being proposed which is outlined below. As part of this pilot, it will be important to understand and monitor both the costs of the proposals; the benefits that are realised and where these benefits flow.

4.21 <u>Parking Pilot</u>

4.21.1 Parking fees are a critical source of income for the Council. It is clear that the level of parking activity is not currently at the levels experienced in 2019 prior to the Covid pandemic. A key piece of work is underway to consider whether there is a better pricing structure for the Council's parking provision and how to best provide a modern parking service to residents and visitors to the Borough. This will also consider how to incentivise the move to hybrid and electric vehicles through review of the season ticket policy.

4.21.2 The MTFS includes increases in parking income generated over the period. The base budget for 2022/23 was set at pre pandemic levels with an assumed transfer from reserves of £1.3m to recognise activity still recovering.

4.21.3 Income was forecast to increase as shown in the table below through a combination of returning and new activity alongside a 10p increase to the hourly parking charge twice over the period.

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Base budget		7,892	7,892	7,892	7,892
Covid Provision		- 1,301			
Economic Recovery/New Activity			103	833	833
Increased Charges			400	600	800
Forecast Income (Actual 2021/22)	4,337	6,591	8,395	9,325	9,525
Year on year increase in income		2,254	1,804	930	200
Year on year increase in income (%)		52%	27%	11%	2%

4.21.4 Whilst activity recovered during 2021/22, as the lockdown measures eased and guidance replaced the legal requirement to isolate, footfall in the town remains below pre pandemic levels. It is likely that much of this is driven by office workers not returning at previous levels and maintaining hybrid working practices.

4.21.5 The MTFS budgeted income targets are substantially higher than current levels of income and this reduction in income presents a significant risk in the MTFS. If income is maintained at current levels, using an average of March – May 2022, the total for the year would be £5.2m, £1.4m (34%) below budget. A slower return in income during 2022/23 would also impact income in future years and the requirement to use reserves for longer to support services.

4.21.6 The opening of Victoria Place on 23rd March 2022, with the leisure offer and Italia Conti dance academy to launch in the coming months, is expected to improve the position. While parking income will continue to be monitored, it is clear that the retail market remains under significant pressure in part by changing shopping habitats and more recently by the cost-of-living crisis creating an even more challenging environment.

4.21.7 While a parking strategy will be commissioned this year, it is proposed that the Council pilot a new pricing structure which aims to encourage increased occupancy and prolonged stays within the town centre focused on Saturdays.

4.21.8 Current activity data shows that 65% of Saturday's car park users stay for up to two hours maximum (35% for up to one hour and 30% for up to two hours) and only 23% of stays are between the three hour to seven hour charge during peak hours. There is a clear and significant drop in the number of car park users staying beyond two hours on the main weekend shopping day as shown in the table below.

	night	**1hr**	**2hrs**	**3hrs**	**4hrs**	**6hrs**	**7hrs**	**7hrs-24hrs**
Saturday	10%	35%	30%	13%	6%	3%	1%	2%

4.21.9 It is therefore proposed a new tariff be piloted, targeted at the retail and leisure users, and limited to Saturdays in Victoria Place Car Park only, which seeks to encourage car park users to extend their stay beyond two hours.

4.21.10 The table below shows the current and proposed tariffs. The proposed tariff maintains hourly charges, reduces the cost per hour from two to five hours and provides three hours of parking for £3.00 which is competitive with other comparable towns in Surrey and Hampshire. There is no change to the night-time charge or for stays above 5 hours.

	Night	1 hr	2hr	3hr	4hr	5hr	6hr	7hr	8-24 hr
Current	£1.50	£1.60	£3.20	£4.80	£6.40	£7.60	£7.60	£12.00	£13.00
Proposed trial	£1.50	£1.60	£3.00	£3.00	£4.50	£6.00	£7.60	£12.00	£13.00

4.21.11 In terms of financial implications, if visitor numbers and duration time stayed the same as present, the cost associated with the tariff change would be £1,145 per week.

4.21.12 The pilot will seek to understand any impact that these changes have on the number of car park users and the volume of trade and activity in the town centre. It would take 13% increase in numbers to secure the same level of income from car park charges secured by current tariff.

4.21.13 The gross costs of running a pilot over a 20- week period is £23,000. Any costs beyond this period and, or any implications of decisions taken from the outcomes of the pilot would be subject of a report to the November 2022 meeting of the Executive and are therefore not part of the financial implications that need to be reflected in this MTFS report.

4.21.14 It is reasonable to anticipate at this stage that there will be some benefits that will offset the gross costs of the pilot. However, the maximum gross cost of £23,000 can be funded from within existing budgets that have been established to deal with promoting vitality of the town centre and commercial income risk provisions.

4.21.15 The Executive is being asked to agree the car park pilot in the Victoria Place Car Park for the Saturdays within the pilot period to commence once the statutory process for varying the charges has been completed.

4.21.16 A statutory traffic regulation order will need to be published in the local press for 21 days to commence and end the changes in car park tariffs within this pilot.

5.0 Corporate Strategy

5.1 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.

5.2 The Woking for All 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.

5.3 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.

5.4 The new administration developed a suite of Supplementary and amended priorities for 2022-23 to the Woking for All strategy. These were agreed at the meeting of the Executive on 16th June 2022 and recommended to Council for its meeting on 21st July 2022.

5.5 The Supplementary and amended priorities build on the Council performance reset established by the Chief Executive and embed **affordable**, **responsible**, and **sustainable** principles into how the Council conducts its business going forward.

5.6 Of particular note for the MTFS is the introduction of a new strategic outcome and additional priority commitments relating to affordability, financial control, and delivery of value for money, extracted below:

Strategic Outcome:	A financially responsible council with sustainable and affordable plans
Additional priority commitments:	> Get the Council's finances under control > Consider new approaches to increase income > Make decisions in an open and transparent way

5.7 The Directorate Service Plans replaced service plans and established the link that takes the strategic outcomes from the Woking for All strategy into Directorate priorities and service actions.

5.8 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.

5.9 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.

5.10 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.

6.0 Summary Financial Outlook

6.1 A key purpose of this MTFS report is to update the financial forecasts produced for the March 2022 MTFS with the latest local and national economic and sector specific performance in order to establish the targets for a responsible, affordable, and sustainable council budget in the medium term.

6.2 This update has been undertaken in 2 stages:

Stage 1 Review of service pressures, inflation and funding assumptions established by the macro economy of the UK.

Stage 2 Review of the local assumptions around the impact of economic recovery on the Woking economy and the Council's commercial income streams.

6.3 Following the Stage 1 review, the March MTFS budget gap has been rebased and is presented in the table below showing the movements between the March and July MTFS reports. This shows an increase in pressures of £3.2m over the 4-year MTFS to cover additional allowances for contractual and energy inflation and increase in the pay award for staff to recognise the cost of living and underlying increases in sector pay. These costs are offset by reductions in the assumed reduction in government funding of £2.2m, which is considered less likely in the current economic environment. Overall, this results in a net increase in pressures of £1m and subsequent increase in the annual use of reserves by 2025/26 if additional savings are not brought forward. Further detail on these assumptions is set out in the sections below.

MEDIUM TERM FINANCIAL STRATEGY - CHANGES SINCE MARCH 2022

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	TOTAL £'000
Projected Annual Use of Reserves - March 2022	**4,134**	**4,929**	**4,490**	**5,450**	
Changes since March MTFS					
Council Tax surplus		-304	304		**0**
inflation (energy, contracts, pay award)	1,280	872	1,019	0	**3,171**
Retain government funding		-910	-434	-432	**-1,776**
Business Rates growth assume retained		-467			**-467**
Total	1,280	-809	889	-432	928
Cumulative additional pressure	1,280	471	1,360	928	
Projected Annual Use of Reserves - July 2022	**5,414**	**5,400**	**5,850**	**6,378**	

6.4 The table below shows revised pressures over the period from 2022/23 to 2025/26.

BASELINE MEDIUM TERM FINANCIAL STRATEGY - JULY 2022

In year pressures	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**TOTAL £'000**
Service Pressures	1,280	1,785	1,867	862	**5,794**
Reduced Reliance on Government Funding		910	434	432	**1,776**
Assume Government Funding retained		-910	-434	-432	**-1,776**
Adjust for non-recurring Collection Fund surplus		244	236		**480**
Investment Programme Projects (net of income)		2,043	12	170	**2,225**
Funded by:					
Fees and Charges		-1,804	-930	-200	**-2,934**
Council Tax		-305	-296	-303	**-904**
Fit for the Future savings		-1,976	-440	0	**-2,416**
Increase/Decrease (-) in use of reserves	**1,280**	**-14**	**450**	**528**	**2,244**
Projected Annual Use of Reserves	**5,414**	**5,400**	**5,850**	**6,378**	

6.5 Further to the update on pressures shown above, the Stage 2 review considered the underlying assumptions around the Council's commercial income generating operations to assess the risk incorporated within the financial forecast.

6.6 The current forecast provides for recovery of parking income and preservation of commercial rents. It also relies on ongoing investment in Thameswey Housing Ltd, at a 1.5% margin, for provision of new homes in addition to the Sheerwater regeneration (shown net in the cost of the Investment Programme).

6.7 These income budgets are significant and future projections remain materially volatile and uncertain. It is not possible to confidently assess whether this income will be fully secured at this stage. The economic climate post pandemic remains increasingly challenging. Whilst over the long term the Council may consider the recovery of income to be achievable, the short-term pressures have increased in each of these key areas, and it is necessary to plan for a slower recovery to previously forecast levels.

6.8 This reset of the forecast income assumptions focuses on the main and most material areas of income as shown in the table below. This table provides an extract of the income budgets for these areas:

Income assumed within MTFS

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Parking (Total)	6,591	8,395	9,325	9,525
Commercial Rent (Total)	22,009	22,141	22,271	22,271
THL Margins (Additional)		474	1,085	1,803

6.9 When these areas have been reviewed it shows that performance is below the March 2022 MTFS forecasts for economic recovery and growth. This underperformance is providing a further £4.8m financial risk within the MTFS, reflecting more conservative income targets than those used for the MTFS reported to the March 2022 Executive. Further detail on these assumptions is set out in the sections below.

Assessed Risk to income within MTFS

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	% of budget
Parking	-	1,000	1,000	1,000	10%
Commercial Rent	2,000	2,000	2,000	2,000	9%
New THL Margins	-	474	1,085	1,803	100%
Total Income Risk	2,000	3,474	4,085	4,803	

6.10 These assumptions have taken a mid-point position in recognising the overall risks and pressures. Incorporating this income risk to the baseline MTFS pressure generates a forecast annual budget gap by 2025/26 of £11.1m when Stage 1 and Stage 2 forecasts are combined (See table below).

MTFS Reset - July 2022

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Baseline MTFS -use of reserves	5,414	5,400	5,850	6,378
Additional Income Risk	2,000	3,474	4,085	4,803
Revised Budget pressure	**7,414**	**8,874**	**9,935**	**11,181**

6.11 This budget gap is almost fully explained by the divergence between the unavoidable inflationary costs that fall on the Council's costs of operations alongside an inability to increase the Council's income to offset the increased costs. The Council is having to manage the impact of in excess of 5% inflation on its gross budgets (£130m) whilst also feeling the impact of economic downturn in excess of 10% through underperformance of its commercial income budgets (£35m).

6.12 As part of the Council's Financial Resilience Strategy, it is essential that the Council has plans that enable it to respond to the financial risks that are contained within planning and forecasting assumptions. It is therefore prudent and responsible to understand the options and implications for savings of circa £11m.

6.13 Whilst this is not meant to represent an absolute savings requirement, the Council should develop plans and options to address the level of pressure that is presented in summary form in the table above.

6.14 Planning for the level of saving required by this reset will be very challenging for the Council and will necessitate consideration of transformational approaches to addressing the financial challenge. However, it is essential that the risks are recognised, and work commences to identify actions to ensure that the future finances can be secured.

6.15 Work has already been commenced by the Corporate Leadership Team, working with Senior Managers to identify the key areas to be explored incorporating:

- Reviewing Council owned company governance and financing models
- Resident services and channel shift review
- ICT infrastructure and corporate systems review
- Establishing stronger commercial operating principles
- Using the Council's Assets to lever greater inward investment to the borough
- Working in partnership to reduce costs and increase opportunities
- Identifying the full range of financing and treasury management flexibilities
- Reviewing all income generation opportunities
- Developing category management plans for key areas of spend

- Prioritising service expenditure against statutory services and services that make the greatest contribution to delivering the priorities within the Woking for All strategy

Stage 1 forecasts in detail

Costs:

6.16 Current levels of inflation will put pressure on the Council's cost base. Most significantly energy costs, major service contracts which are index linked, and increase in the pay award for staff to recognise the cost of living and underlying increases to sector pay. This pressure is difficult to model with certainty over the MTFS, however an additional pressure has been included adding £3.2m to the cost base over the period. Allowance has been made for growth in staffing budgets at double the previously assumed rate.

6.17 The MTFS includes increases in deficit contributions to the pension fund and Business Rates (on Council properties) as previously forecast. The pension fund valuation at 31 March 2022 will establish ongoing pension contributions but there is currently no indication that an increase will be required. It is assumed that the government would not allow Business Rates to increase at headline inflation levels in the current economic climate, so no further allowance has been made. There are many other smaller contracts and budgets which will be under pressure, however it is currently assumed that these are held at cash levels, or any increase covered by increased income through fees and charges or external funding.

6.18 Since last year global wholesale energy prices have put pressure on the energy market. Gas and electricity prices around the world have reached record levels with demand increasing following the easing of Covid restrictions, and supply issues related to the conflict in Ukraine. The main Council energy supply is through Thameswey Energy Ltd (TEL) and is directly influenced by the cost of gas. Gas prices for the first quarter of 2022 were double the budgeted level. Projecting this for the remainder of the year would increase the Council's costs by £1.28m. Whilst gas prices have fallen more recently, the market remains volatile, and it is likely that there will be further pressure over the winter months.

6.19 Thameswey have invited suppliers to re-tender for supply of gas and electricity to Thameswey Energy Ltd and TCMK Ltd. As a result of this exercise, it is proposed that the gas and electricity purchasing be split. Contracts for both have previously been awarded to Total Gas and Power (TGP). The new supply arrangements are being set to commence 1 August.

6.20 As previously required by TGP, and recently updated as part of the February 2022 budget, Parent Company Guarantees (PCGs) will be required for the supply contracts. Given the need for the PCGs to be in place by the start of August it is recommended that the approval of requested documents be delegated to the Director of Legal and Democratic Services in consultation with the Leader.

6.21 The Council is in a fixed price contract with Gazprom Marketing & Trading Retail Limited which runs until 30th September 2023. The c£350k contract relates to supply of housing sites (82%) together with some commercial sites. This company is UK registered but owned by a German company which in turn is a subsidiary of the Russian parent company. The Council has no legal right to exit this contract prematurely and if it were to do so it would be at risk of a damages claim for breach of contract. Given the current highly volatile market price it is estimated that the Council could be looking at a 4/5-fold increase on the current contracted price. The current advice is to remain in the contract unless the company becomes insolvent, or the Council is compelled to exit the contract by central government in which case the Council would instruct the energy bureau to assist in procuring a new supplier. Whilst these costs are rechargeable there is a risk that the Council would not be able to fully recover any increase.

6.22 Contractual, staffing and energy cost pressures are summarised in the table below. The allowance for additional inflation adds £3m to the forecast, which is £5.8m in total over the period.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	**Total £'000**
Base MTFS inflation - contractual		487	448	462	**1,397**
Base MTFS inflation - employees		425	400	400	**1,225**
Inflation in March 2022 MTFS		912	848	862	**2,622**
Further allowance - contractual		447	619		**1,066**
Further allowance - employees		425	400		**825**
Further allowance - energy	1,280				**1,280**
Additional pressure - inflation	1,280	872	1,019	-	**3,171**

Investment Programme:

6.23 The Bank of England increased the Bank Rate for a fifth consecutive meeting in June 2022, taking it to 1.25%, their highest since the financial crisis. It is clear that the dampening of inflationary pressures is the primary objective of central banks despite the risk of slow growth or recession.

6.24 Link Group (the Council's treasury advisors) forecast Bank Rate to rise faster and further than previously was the case. The market is pricing in Bank Rate at 3.5% by April 2023. Link Group forecast Bank Rate to peak at 2.75% but warn there is potential upside risk to this projection. The key factor for this increase is inflation. The CPI measure of inflation is already at 9%, and the Bank of England anticipates it will peak near 11% at the end of the year. With the impact of the cost-of living squeeze, and unemployment likely to be increasing, Link forecast that the Bank will pause increases following its March 2023 meeting. However, markets have been volatile throughout 2022 to date and there are many geopolitical factors that could affect this forecast.

6.25 The Link Group forecast for the Bank and PWLB rates are below.

Link Group Interest Rate View 21.06.22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
BANK RATE	1.75	2.25	2.75	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25
3 month ave earnings	2.00	2.50	2.80	2.80	2.80	2.80	2.60	2.50	2.30	2.30	2.20	2.20
6 month ave earnings	2.50	2.80	3.00	3.00	2.90	2.90	2.80	2.70	2.60	2.50	2.40	2.30
12 month ave earnings	3.10	3.20	3.20	3.20	3.00	2.90	2.80	2.60	2.50	2.40	2.40	2.40
5 yr PWLB	3.20	3.30	3.30	3.30	3.30	3.20	3.10	3.00	3.00	3.00	2.90	2.90
10 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.30	3.20	3.20	3.20	3.10	3.10
25 yr PWLB	3.70	3.70	3.70	3.70	3.70	3.70	3.60	3.50	3.50	3.40	3.40	3.30
50 yr PWLB	3.40	3.40	3.50	3.50	3.40	3.40	3.30	3.20	3.20	3.10	3.10	3.00

6.26 The investment programme costs in the MTFS have been held at the levels included in the March MTFS. Whilst the impact of increasing interest rates on the 2022/23 budget is forecast to be approximately £500k, this can be managed in the year through taking short-term borrowing at a lower rate, and minimising borrowing until essential, using internal funds to delay borrowing. Where investments are through capital loans increased borrowing costs are offset by increased investment income and it is the company which will need to manage the additional cost. In the longer term the Investment Programme will need to be reviewed for affordability.

6.27 The investment programme approved in February 2022 includes an 'Opportunity Purchases' budget of £3m each year which may be used to acquire land or property which becomes available and is of strategic importance to the Council. The budget is financed by borrowing with the interest costs assumed to be covered either through rental income or capitalised as part of a development project. Any acquisitions using this fund are reported in the Green Book during the year. It is important that this budget is only applied to purchase assets with a clear strategic purpose and recognising the potential revenue impact on the Council's budgets. Any future use of the Opportunity Purchases budget will be delegated to the Chief Executive in consultation with the Leader and relevant Portfolio Holder.

Income assumptions:

6.28 The above paragraphs indicate the pressures on Council expenditure budgets in the current inflationary environment. Whilst costs increase it is unlikely that the Council's income budgets will be able to increase at the same rates. It will be a challenge to maintain income relative to the cost of providing services where possible. The table below indicates the scale of 'lost inflation' if income falls behind the rate of increase on costs.

Inflation relative to income budgets	2022/23 £'000
Council Tax base income	10,606
At 2%	212
At 10%	1,061
Fees and Charges base income	12,416
At 2%	248
At 10%	1,242

6.29 As set out in section 3, the impact of the cost-of-living crises will be greater for those on lower incomes and those already in financial hardship. The annual review of fees and charges in November 2022 will consider strategies to maintain income levels whilst recognising the pressures on resident's finances.

6.30 The Woking for All strategy Supplementary and amended priorities for 2022-23 from the new administration includes hosting a Cost-of-Living summit in the autumn to consider actions.

Stage 2 forecasts in detail

Car Parking

6.31 For the MTFS reset, parking income is considered a risk and a £1m reduction is assumed in the forecast recovery from 2023/24. This will increase the use of reserves over the period and increase the savings required by 31 March 2026. The trend in income during the year will be monitored with an update provided in the next MTFS report.

6.32 Further analysis, including proposals for a car park pilot, are included in section 4 of this MTFS report.

Commercial Rents

6.33 The Council's commercial rent income is budgeted at £22m for 2022/23. This base income has been affected by the impact of the Covid pandemic on demand for commercial property. It has been necessary to work with tenants to provide concessions and flexibility of terms in some cases over this period, with some of these arrangements running through to March 2023. Whilst there continues to be interest in property in the town, the commercial climate is challenging with shorter leases and new tenants requiring rent free periods and capital contributions.

6.34 During 2022/23 the budget will be impacted by the cost of agreed flexible rent arrangements. There is also the risk of tenancies nearing the end of the lease, or approaching break clauses, choosing either not to renew or to reduce space. This is particularly the case for offices where the post pandemic requirement may be quite different to previous working models. Over the MTFS there will also be changes in retail rents including the Council's freehold interest in the Peacocks centre.

6.35 Whilst over time, following the investment in the town, there is potential for rising rental levels, and the opportunity to let current vacant assets, it is recognised that the period of the MTFS will continue to be challenging. The MTFS reset reduces the commercial rent income by £2m, 9%, reflecting the ongoing risk to achieving current levels.

Thameswey Housing Limited

6.36 Included within the investment programme is continued investment through Thameswey Housing Ltd (THL) for the provision of new homes in the borough. The MTFS reflects this ambition and incorporates the 1.5% margin on these capital loans. With inflationary pressure on construction costs, the focus on the Sheerwater regeneration (at no margin) and engagement with DLUHC on overall debt levels, there is a risk that the planned programme is not progressed at the rate envisaged. The MTFS reset removes the assumed additional margin from non-Sheerwater future investment through THL. Work will continue with Thameswey through the review of financial plans and business planning cycle to establish future investment levels.

7.0 Financial Resilience Strategy

Financial Resilience Overview

7.1 The MTFS report to the 24th of March 2022 meeting of the Executive introduced the development of a Financial Resilience Strategy as a key component part of the Council's MTFS.

7.2 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.

7.3 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.

7.4 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.

7.5 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.

7.6 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, the level of reserves needs to be stabilised to ensure they can support our financial resilience strategy.

7.7 The following sections of this report provide a framework for our financial resilience strategy and actions taken to strengthen financial resilience against this framework.

Financial Resilience Framework

7.8 Attached at Appendix 2 is a framework of key indicators of good performance that we are using 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.

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

Financial Resilience Assessment

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

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

7.11 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.

7.12 Attached at Appendix 3 are the recommendations from within the EY assessment mapped to the Council's financial resilience framework.

7.13 Work to develop comprehensive responses to the recommendations has commenced and are summarised below:

FINANCIAL STRATEGY AND PLANNING

Risk There is a risk that the Council have to refinance, restructure or reprogramme the Capital and Investment Programme and associated financial strategy

Recommendation 2 **Prepare a response to the Minimum Revenue Provision Consultation**

This has been reported earlier in this report in section 2

Recommendation 4 **Structured Review of Policy and Regulatory Change**

This is an inherent component part of our MTFS approach. Sections 2 and 3 of this report outline the key relevant issues.

Risk There is a risk the Council could not employ revenue reserves to deal with other sustained financial shocks to its revenue position

Recommendation 5 **Review revenue reserves**

Medium Term Financial Strategy (MTFS)

As part of the work on the MTFS in 2021/22 the council established a risk-based reserves strategy and savings plan that with the aim of ensuring 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 £10m for 2024/25 and £11m by 2025/26. This has been significantly impacted by assumptions around income forecasts over this period.

The use of reserves over the MTFS continues to be substantial and is not affordable or sustainable at the current forecast level. 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 is being adopted to deliver identified savings as well as working up future opportunities to address the budget requirement. Updates have been provided through this report on the MTFS and through the year as this base MTFS is developed during 2022/23.

Further details on the reserves position are reported later in this report

FINANCIAL GOVERNANCE

Risk Previous surpluses the Council had against its car parking and commercial rent position has allowed the Council to afford to spend the higher amounts across its core services. This provides the Council the levers to reduce **expenditure from its service expenditure position in the short-term if required**

Recommendation 6 **Challenge high-cost service expenditure**

Initial benchmarking has been undertaken against like Council’s using published benchmark information. This has however provided limited additional value due to the wide variances in data reporting approaches and presentation of service expenditure.

An approach is therefore being developed to undertake more specific analysis and benchmarking with a smaller number of Councils who are equally looking for similar insights.

Progress on this work which is part of the Fit for the Future Programme will be reported through the MTFS programme through 2022/23

Risk There is a risk that the Council faced further financial shocks, it is unable to reduce this budget category making further service efficiencies

Recommendation 8 **Develop a Financial Resilience Strategy**

This section (section 7) of this MTFS report is the evidence of progressing this recommendation

Risk There is a risk that further economic decline will dampen recovery against both Council Tax and Business Rate income. This will reduce funding available to the Council, either requiring further savings or further draw down from reserves

Recommendation 9 **Evaluate the reporting and business intelligence landscape**

The Council has implemented a review of its business intelligence and performance reporting (Green Book). The scope of this review was agreed at the meeting of the Overview and Scrutiny Committee at its meeting on 21st March 2022. A progress report is being taken to the 11th of July meeting of the Overview and Scrutiny, with a final proposal later in the year.

<u>FINANCIAL CONTROL</u>

Risk There is a risk that the Council are not capturing the key risks within the financial position of its Group Companies, which could impact the recoverability of their financial investments

Recommendation 3 **Develop a Shareholder Centre of Excellence that strengthens strategic finance**

A separate report on company governance is being presented to this meeting of the Executive. This report seeks to ensure that the Council's governance arrangements are amongst the best in local government and as such, proposes that its arrangements are updated and kept under continuous review. This report outlines proposed changes to the Council's current governance arrangements in line with best practice, as particularly highlighted by Local Partnerships, CIPFA and Lawyers in Local Government guidance.

As part of these proposed changes there is a Shareholder Liaison Service which directly addresses this Shareholder Centre of Excellence recommendation.

Risk There is a risk where contracts are to be renewed and have renewal prices linked to inflationary indices that the Council will face increased cost

Recommendation 7 **Strengthen the contract register and commitment tracking**

A Chartered Institute of Procurement and Supply (CIPS) certified procurement service has been commissioned to undertake analysis of Council spend and develop proposals for savings and organisational design for how the Council should management procurement activity.

This analysis and review will be reported this year and incorporated into MTFS updates

Risk There is a risk that the Council are not undertaking financial governance reflective of the complexity of the company portfolio

Recommendation 12 **Review the quality of financial capability and capacity**

This recommendation is being addressed through the response to Recommendation 3 above.

<u>COMMERCIAL OVERSIGHT OF INVESTMENT PERFORMANCE</u>

Risk There is a risk that if the pace and scale of future development continues to stall, or does not realise the expected connections for the company, significant losses will continue for the company

Recommendation 1 **Undertake an appropriate level of scrutiny on companies**

See response to Recommendation 3 above.

A separate report on company governance is being presented to this meeting of the Executive. This report seeks to ensure that the Council's governance arrangements are amongst the best in local government and as such, proposes that its arrangements are updated and kept under continuous review. This report outlines proposed changes to the Council's current governance arrangements in line with best practice, as particularly highlighted by Local Partnerships, CIPFA and Lawyers in Local Government guidance.

Running in parallel with the review of the governance of companies highlighted above, 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, using the guiding principles of **affordable, responsible, and sustainable** to develop options

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 Thameswey business plans being submitted to the 17th of November 2022 meeting of the Executive

Risk There is a risk the Council is not maintaining asset conditions, impacting value

Recommendation 10 **Develop an Asset Management Strategy**

A strategic asset management plan is needed for the next 5 years to demonstrate compliance with the Woking for All strategy, addressing important key principles for the Council's estate to ensure it is fit for purpose, efficient, and performing well to support the services – for the good of the Borough and its residents.

The Council are in the process of commissioning for a Strategic Asset Management Plan to be produced and delivered by November 2022

Risk There is a risk continued downward revaluations undermine the Council's regeneration agenda, and weaken the balance sheet

Recommendation 11 **Define Place Making strategic objectives and investment criteria**

Key component parts of the regeneration and Place Making strategy are referenced in the MTFS report, notably the development of a Town Centre Masterplan; Strategic Asset Management plan referenced above and the car parking charging strategy. All of these component parts are part of the Council's response to recovery of the Woking economy and vitality (Section 4)

<u>Risk Based Reserves Strategy</u>

7.14 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.

7.15 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

7.16 The provisional outturn for 2021/22 is consistent with the reserves forecast reported in the March MTFS. Amendments relate to timing of grants and collection fund balances but do not impact the overall level of resources available over the MTFS period.

7.17 As the statement of accounts is finalised in the coming weeks a review will be completed to consolidate reserves which can be used to support the Council's budget through the MTFS, maintaining those for which there is committed expenditure or specific identified risk. This will be presented within the final analysis for 31 March 2022 and reported in October.

7.18 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 in the short term.

7.19 The updated financial outlook, as detailed in section 6 above, recognises a much greater potential risk than previously identified due to slower income growth and increased inflationary cost pressures. This could double the call on reserves and would result in all available resources being used by the end of 2024/25. Further necessary actions are set out in Section 8 below.

7.20 Work is ongoing to update the Victoria Square Woking Ltd (VSWL) financial model to reflect the current position on project construction costs and the operating position as the residential and commercial units are occupied. The car park asset currently remains in the company and as such it will be necessary to amend the loan facility to reflect the full investment value (including the car park) as included in the Investment Programme. An update on the project and financial position is scheduled for the September meeting of the Executive.

7.21 The Council has engaged EY to assist with the review of the Thameswey Group financial plans. This will provide insight for the Council in determining the future direction of the group as well as providing challenge on the underlying modelling assumptions. Any changes to the debt structure would affect the Council's budgets so will need to be carefully considered. The results will be reported as part of the Thameswey business plan cycle and MTFS update in the autumn.

8.0 Summary position and actions

8.1 The financial forecast and pressures as set out in the sections above are substantially worse than in previous updates to the MTFS. This reflects a combination of an ongoing real risk to the Council's historic income, together with costs rising at a rate not seen for 40 years.

8.2 This financial forecast position is aligned to the most recent messaging from the Bank of England this week (5th July 2022), specifically in relation to developments from the forecasts earlier in the year:

- The global economy has worsened materially
- Markets remain volatile
- The outlook for the economy remains very uncertain

8.3 In this context of uncertainty, the savings options that need to be proposed and modelled to cover the 4 years to 31 March 2026 is circa £11m.There are a number of unknowns and assumptions within the forecasting, however, as part of the Council's Financial Resilience Strategy it is essential that the Council has plans that enable it to respond to the financial risks that are contained within planning and forecasting assumptions. It is therefore prudent and responsible to understand the options and implications for savings of circa £11m and to continue to review forecasts and develop stronger evidence behind these to bring greater certainty to the forecasts.

8.4 If no action is taken, together these pressures have the potential to increase the use of reserves at a rate which would lead to all the Council's being exhausted by the end of 2024/25. Over the summer it is therefore critical that the Council establishes a plan to address this use of reserves.

8.5 The annual savings required to keep reserves at an acceptable level are shown in the table below, £10m in total by 31 March 2026. These targets may be met through a combination of cost savings, efficiencies and transformation, mitigation of identified pressures and income generation.

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Forecast Revenue Reserves at 31 March (Feb 22)	21.7	16.2	11.2	6.1
Forecast additional use of reserves (July 22)	- 2.2	- 7.0	- 13.0	- 20.4
Revised Reserves Forecast (July 2022)	19.5	9.2	- 1.8	- 14.3
2022/23 Savings target	2.0	2.0	2.0	2.0
2023/24 Savings target		4.0	4.0	4.0
2024/25 Savings target			2.0	2.0
2025/26 Savings target				2.0
Total Savings Achieved (annual)	2.0	6.0	8.0	10.0
Total Savings Achieved (cumulative)	2.0	8.0	16.0	26.0
Reserves Forecast (July 2022)	21.5	17.2	14.2	11.7

8.6 A proposed approach to addressing this budget gap will be further worked through the MTFS process and reported in the October and November reports to the Executive. There are however a number of key areas that are being assessed to provide a scale of opportunity that would enable the Council to deliver major change at pace. These opportunities cover:

- Reviewing Council owned company governance and financing models
- Establishing stronger commercial operating principles
- Using the Council's Assets to lever greater inward investment to the Borough
- Working in partnership to reduce costs and increase opportunities
- Identifying the full range of financing and treasury management flexibilities
- Reviewing all income generation opportunities
- Developing procurement category management plans for key areas of spend

- Ensuring statutory services continue to be delivered and prioritising service expenditure against services that make the greatest contribution to delivering the priorities within the Woking for All strategy

8.7 Alongside these opportunities that will be explored we need to understand the implications of establishing a general savings target across all services in order for options to be developed and prioritised against the Woking for All strategy priority outcomes.

8.8 This work will be undertaken over the coming months against a savings target of 10%, in order to inform the November 2022 MTFS report. It is however important to note and recognise that this is not a recommendation or decision to take this saving from all services. At this stage the target is being used so that options and implications can be assessed, evaluated, and understood.

8.9 During the year the key income streams and inflationary pressures will be monitored to provide more certainty around the scale and timing of the challenge ahead.

8.10 In April 2022 the government published guidance on the use of capital receipts to fund qualifying revenue expenditure on projects that are designed to:

- generate ongoing revenue savings in the delivery of public services and/or
- transform service delivery to reduce costs and/or
- transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.

8.11 Use of this flexibility requires a Flexible use of Capital Receipts Strategy to be adopted by the Council which should list all projects for which the Council intends to apply capital receipts together with details of the savings/service transformation for each. The Strategy must be published and submitted to DLUHC. It may be updated during the year subject to any updates being submitted to DLUHC. This potential to use capital receipts to support the Council's transformation agenda will be explored in more detail with an update reported through the MTFS in the autumn.

Equalities and Human Resources

8.12 No specific Human Resource or Training and Development implications.

8.13 There are no equalities implications.

Legal

8.14 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.

8.15 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.

8.16 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.

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

8.18 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 Woking for All strategy. The feedback from this engagement has identified priority areas for the Council in allocation of resources over this MTFS.

REPORT ENDS

APPENDICES

Appendix 1	Picture of Woking
Appendix 2	Financial Resilience Framework
Appendix 3	Financial Resilience Actions