EXECUTIVE – 19 JANUARY 2023

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

Executive Summary

This report provides an update on the Medium-Term Financial Strategy and approach to financial resilience work required to set the 2023/24 budget.

Updated financial forecasts were presented to the Executive in November 2022 and a paper outlining the key work streams required before February 2023 was reported to the Executive at its subsequent meeting in December 2022.

The Financial position in November identified continued, and significant, use of reserves to balance budgets through the period from 2019/20 – 2025/26 at a rate which risked the full utilisation of available reserves during 2024/25. Identified savings were not sufficient to address the financial challenge and were offset by additional budgetary pressures.

In December the MTFS update provided detail on the actions necessary to enable the Council to set the 2023/24 budget including the statement of budget robustness required by the Finance Director. The report reflected the need to fundamentally review the Council's budget and rebalance service costs within available resources. It also identified strategies targeted at delivering greater financial resilience through increasing reserves to provide more time to deliver savings and a sustainable budget. The report recognised the risk that the Finance Director would have to produce a report under S114 of the Local Government Finance Act if it appeared that the expenditure incurred, or proposed to be incurred, was likely to exceed resources available to meet that expenditure.

Since December work has progressed well on the identified workstreams. Workshops have started with Senior Managers with the aim of better understanding discretionary budgets and identifying the Minimum Viable Position (MVP) for each Service. This process will be complete by the end of January 2023. The financial resilience actions are being developed and will provide some improvement in the reserves position.

The Provisional Local Government Finance Settlement 2023/24 was announced on 21 December 2022. This confirmed that New Homes Bonus would continue to apply for 2023/24 benefiting the Council by approximately £1m as a result of new residential properties during the year. It also confirmed the increased Council Tax referendum level of 3% for 2023/24 announced in the Autumn Statement, a £110k benefit compared to the base assumption.

The analysis to date indicates that the potential for service savings, combined with confirmed funding and actions to stabilise reserves, should enable a budget to be set for 2023/24. However, in setting the budget the Finance Director will need to set out in detail within the Budget Robustness Statement a comprehensive assessment of the significant financial risks which the Council continues to face.

In particular it will need to address the risks relating to investments the Council has made through subsidiaries and joint ventures. Judgement is required to assess the requirement to set aside funds for the repayment of debt (MRP) and to recognise impairment of any associated loans. These risks are increased due to the investments made in regeneration schemes where the investment is greater than the asset valuation and which take considerable time before income covers costs. With the scale of Council investment through the use of capital loans if the assessment of a prudent provision, or changes in government guidance, require an additional annual charge the impact is likely to be unsustainable within the General Fund budget.

It is also recognised that there continues to be significant uncertainty around in year and future income from Commercial leases and off-street parking income, as well as inflationary cost pressures

and the ability to deliver on planned savings. There are a range of potential outcomes which, on the downside, could substantially impact the ability for the Council to maintain a balanced budgetary position.

The Government (DLUHC) Rapid Review team are due to start work with the Council imminently and discussions through the course of the review will assist in assessing the risks above and informing the Budget Robustness Statement.

Recommendations

The Executive is requested to:

RESOLVE That

(i) the update to the Medium Term Financial Strategy be noted; and

(ii) the approach to operational savings through cost controls, set out in Section 6 of the report, be noted.

Reasons for Decision

Reason: The decision is sought to develop further proposals to ensure the medium-term financial stability of the Council.

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

Background Papers: None.

Reporting Person: Leigh Clarke, Finance Director
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Contact Person: Leigh Clarke, Finance Director
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Portfolio Holder: Councillor Dale Roberts
Email: cllrdale.roberts@woking.gov.uk

Shadow Portfolio Holder: Councillor Kevin Davis
Email: cllrkevin.davis@woking.gov.uk

Date Published: 13 January 2023

1.0 Introduction

1.1 At its meeting In November, the Executive received a report on the Medium-Term Financial Strategy (MTFS) which updated financial planning assumptions and set out the forecast income, expenditure and use of reserves over the 4 years to 2025/26.

1.2 The forecast position described in this report was serious. The use of reserves to balance the budget was forecast to continue at such a rate that reserves fell below the Council's minimum set level by the end of 2023/24 and would be fully utilised during 2024/25.

1.3 It was reported that more far-reaching actions would need to be taken with greater pace and certainty in order to address the forecast budget shortfall.

1.4 The Council's work on financial resilience requires the Council to significantly reduce and eradicate its reliance on reserves to cover in year budget shortfalls and to establish a level of reserves which reflects the commercial and regeneration operations that the Council has established.

1.5 Without a plan to recover the position, it would not be possible for the Finance Director to provide the necessary statement on the robustness of the budget estimates and adequacy of reserves to set a balanced budget for 2023/24.

1.6 An update report was received at the Executive in December which set out the actions required by February 2023 to enable the statement of budget robustness to be provided and the budget for 2023/24 adopted.

1.7 This report provides an update on the actions identified in December, as well as other work streams which together comprise the Medium-Term Financial Strategy work programme.

2.0 Risk and Financial Resilience

2.1 The Council has a Risk Management Strategy that is reviewed annually. Within the strategy the Council has a Strategic Risk Register that is held by the Council's Corporate Leadership Team. The Strategic Risk Register is being reported to this meeting of the Executive and has been reviewed by the Overview and Scrutiny Committee at its meeting in November 2022 on its way through to the Executive.

2.2 As can be seen from the Draft Strategic Risk Register, the risk of not being able to set a balanced budget has been identified as the most significant risk to the Council (risk 1 in the strategic risk register). Despite the mitigations highlighted in the register the level of risk remains outside of the Council's established risk appetite and therefore further mitigating actions have been initiated targeted at bringing the risk towards a level that the Council can tolerate.

2.3 It has been recognised in updates to the MTFS over the last 2 years, from the outset of the Covid pandemic, that the financial position of the Council was in a critical position. The Council had been able to maintain services and provide community infrastructure as a result of its strategy to develop alternative sources of funding through investing in local assets that provide a commercial return for the Council. These returns are then invested in delivering services to the communities of Woking.

2.4 The pandemic resulted in an immediate, and dramatic, fall in activity and footfall severely impacting the Council's car parking revenue and affecting tenants across all of the commercial estate. It has become clear over the last 10 months that, despite the removal of all Covid restrictions, the economic model on which the Council's budget is based has changed.

2.5 The Council made an application to Government in 2021 for exceptional support. This application was due to the impact the Covid 19 pandemic had on its commercial income budgets.

2.6 The basis of the application related to the impact that Covid 19 was having on the economy and specifically the reduction in income to the Council from car parks and its commercial estate. The Council maintained, at the time, that it had the financial strategy to withstand the vagaries of normal economic cycles but Covid impacts far exceeded the scenarios it envisaged and therefore the Council sought support to enable it to capitalise its "losses" so that these could be spread over time.

2.7 The application for Exceptional Support was not approved. It was recognised that although some elements of the financial position in the Council are exceptional, it did not have an immediate and pressing problem in its finances, rather it predicts that it may run out of resources in the medium term.

2.8 Many other Councils are experiencing financial pressures from both the current high levels of inflation and the ongoing impact of the pandemic, Brexit and the war in Ukraine. In recent months increasing numbers within the sector have expressed concerns about the sustainability of budgets and ability to balance finances in the current economic climate. The challenge of inflationary pressures on services being experienced by the Council is one shared across the sector. This Council has, however, some exposures which are more significant than other local authorities:

- The level of dependency on combined income from the Council's off-street car parking and commercial estate which is disproportionate to the Council's financial resilience and ability to respond to such an economic downturn.

- The size of borrowing alongside the policy it has adopted on Minimum Revenue Provision is equally disproportionate to the Council's financial size, resilience and ability to respond to risks on loan impairments caused by an economic downturn.

The costs and lost income experienced over the last 2 years, and the financial climate post pandemic, have resulted in the financial position now becoming an immediate problem.

2.9 The Council has maintained ongoing contact with officers in DLUHC, keeping them updated on the progress of the Council's MTFS. The details of the panel that will be undertaking a Rapid Review of the Council's borrowing and financial resilience are now expected imminently following appropriate due diligence checks. This would still provide the opportunity to provide some integration of this review with the Council's MTFS being taken to the meeting of Council on 23rd February 2023.

2.10 The July MTFS report provided an update on the development of the Council's Financial Resilience Strategy, a key component of the Council's MTFS. An update to the key elements of financial resilience work undertaken between December 2022 and this update report are included at sections 4-6 of this report.

2.11 A full overview on all of the actions taken on the Financial Resilience Framework will be included in the MTFS update report to the 23rd February 2023 meeting of Council. This overview forms an integral part of the S151 Officers view on their statement of budget robustness and sustainability.

2.12 The Council does not have the financial resilience to absorb the impacts of the current economic downturn in the short and medium-term and cannot solely rely on its investment approach to protecting services. The Council needs to develop a more far-reaching strategy of service rationalisation that will enable it to manage within the predicted level of funding available whilst both ensuring it maintains the services it is statutorily required to provide and uses the strategic priorities established within the Woking for All strategy to target funding.

3.0 Strategic Approach to setting 2023/24 budget

3.1 The MTFS update in November showed that the Council's reserves would fall below minimum levels by the end of 2023/24 and would all be utilised during 2024/25 unless further actions were taken. Whilst savings have been identified through two 'Fit for the Future' exercises during 2021/22 and 2022/23, there have also been offsetting inflationary pressures. The savings to date have simply not been sufficient to alter the financial outlook.

3.2 In the absence of a programme of mitigating actions, it would not be possible to set a balanced budget on this basis, nor for the Finance Director to provide the statement on the robustness of the budget estimates and adequacy of reserves to set the 2023/24 budget.

3.3 In December the Executive agreed some immediate actions in order to be able to present a budget for 2023/24 which can be adopted in February. These actions fell into two categories which are further detailed below:

- Analysis to identify cost savings from discretionary services which demonstrate that a sustainable budget can be achieved in the time available, through temporary use of reserves.

- Actions that will have a direct and / or indirect impact on protecting the level of revenue reserves which provide more time to address the annual budget deficit.

3.4 It was important to recognise that both of these areas must be addressed. Protecting reserves through temporary measures simply delays the use reserves without addressing the net cost of services. Identifying further savings at the level required, is unlikely to be possible before reserves are exhausted.

3.5 The sections below provide an update on the actions set out in the December report, together with additional elements of the Medium-Term Financial Strategy work programme, as an interim position prior to presentation of the 2023/24 budget to Council in February.

4.0 Stabilised Reserves 2022/23 onwards

4.1 The following actions have been identified which will have a direct and / or indirect impact on protecting the level of revenue reserves providing more time to address the annual budget deficit. More detail is provided below.

- Transfer Commercial Property to company structure

- Renegotiate Victoria Square Car Park Management Fee

- Consider treatment of Development income

- Review capitalisation of costs

Commercial Property transfer

4.2 It was recommended that the Council explore the transfer of town centre strategic property assets to a wholly owned company structure achieving the following benefits:

- Establishing a regular income from the commercial vehicle minimising annual budget fluctuations
- Achieving efficiency and co-ordination in the management of the Council's commercial property estate
- Assembly of regeneration assets to drive out greater regeneration synergies and attracting inward investment
- Allowing greater flexibility over the profile of amounts set aside for the repayment of the underlying debt

4.3 Initial tax advice has been sought which has determined that the proposed transfer is unlikely to result in VAT or Stamp Duty issues. However, the company structure could result in a Corporation Tax liability due to HMRC rules regarding the level of financing costs which are allowed in calculating the tax due. Using an alternative Limited Liability Partnership (LLP) structure could mitigate this risk as the Council, as a Partner, would be the liable party and is not subject to Corporation Tax.

4.4 The impact and next steps continue to be considered, however it is unlikely that this will be addressed by 31 March 2023 and there is a risk that it may not be possible to take advantage of the flexibility around debt repayment in 2023/24.

Car Park Management Fee

4.5 In March 2022 the new car parks opened as part of the Victoria Place redevelopment. As set out in the Victoria Square update report to the Executive in November, the car parks currently remain an asset of the company, VSWL, with a management arrangement to be put in place with the Council. The Council will retain income generated in parking fees and pay a management fee equivalent to the financing costs on the car park construction.

4.6 Income generated from new visitors to the town has been substantially less than initial projections, given the delay in the completion of Victoria Place and with the hotel not yet open. This is in addition to material, and ongoing, reductions in parking activity following the Covid pandemic. It was recommended that the Council negotiates a delay in the payment of the £1.5m car park management fee until such time as the full development is open and activity has increased.

4.7 The Council has written to VSWL requesting a delay in the payment of the management fee and commenced initial negotiations on the terms of a revised agreement. It is considered that this process will be concluded by 31 March 2023 such that any benefit can be reasonably relied on in setting the 2023/24 budget.

Development income

4.8 The Council holds some development income (s106) monies which have been set aside for investment in affordable housing. There is a good level of confidence that it can be demonstrated that sufficient affordable housing has already been delivered through Thameswey Housing. Subject to providing the evidence supporting this confidence, these funds could be released to revenue, providing a one-off additional to reserves of approximately £6m.

4.9 The Council has requested that Thameswey Housing consider its current provision of affordable housing and identify properties within its portfolio which are not subject to any other planning conditions. This analysis is expected in good time ahead of the Council budget meeting in February.

<u>Capitalisation of costs</u>

4.10 To protect the use of reserves, project costs which have been financed by revenue or reserves will be reviewed to establish if any could have been funded by capital resources.

4.11 This work has commenced and links to work on the allocation of costs between the General Fund and HRA (see paragraph 5.6).

4.12 In addition, a policy setting out the intended flexible use of capital receipts to fund transformation project costs is being prepared and will be included with the budget papers to Council in February. Once approved this will need to be submitted to the government before the beginning of the financial year.

5.0 Discretionary and Statutory Service Analysis

5.1 The following actions have been identified which will identify savings from service expenditure to demonstrate that a sustainable budget can be achieved over time through removing the net cost of discretionary activity. An update on the most significant actions is provided in the section below.

- Review of discretionary expenditure through Senior Manager workshops
- Consider an independent analysis of the Council's budgets
- Review the allocation of overheads to Housing Revenue Account (HRA)
- Review of Fit for the Future 1 savings to establish any at risk of underdelivery or slippage
- Analysis of movement in budget position between 2019 and 2023 to identify key contributing factors to the forecast deficit
- Identify procurement support to achieve savings from 'tail end spend'

<u>Budget workshops</u>

5.2 During December 2022 and early January 2023 a programme of workshops with Senior Managers has been established to capture information regarding the services they deliver. This includes understanding more about the function, assessing if it is statutory, non-statutory or business critical and establishing what is required to deliver a Minimum Viable Position (MVP) to ensure the function is legally compliant or fit for purpose.

5.3 The team have met with 15 of the 26 identified Senior Managers and 6 of the workshops have been fully written up with the potential budget savings mapped. Whilst it is recognised that this is a theoretical process and has not currently been validated by the respective Senior Managers and Strategic Directors, the initial completed workshops suggest the potential for savings up to £850k should services be reduced to the MVP. Retention of some element of these services would reduce the saving to approximately £360k. These savings do not consider the cost of transformation, however wherever possible such costs would be funded through the flexible use of capital receipts referred to in 4.12 above.

5.4 Given the variety of different services, both in the scale and proportion which is discretionary in nature, it is difficult to extrapolate the results of these initial reviews. However, good progress is being made and the process is due to be complete by the end of January. The findings from this high-level review will be available to provide assurance over budget saving opportunities in providing the assessment of budget robustness and sustainability in February 2023.

Independent Budget Analysis

5.5 Alongside the detailed service reviews, support has been received from SCC in analysing the Council's budgets. An initial report of findings has been received which will be reviewed with issues arising addressed in the update to the MTFS and budget for 2023/24.

Housing Revenue Account

5.6 A review of the proportion of staffing and other corporate costs allocated to the Housing Revenue Account has been completed. This has identified approximately £600k of costs currently within the 2023/24 Housing Revenue Account forecasts which should be allocated to the General Fund. This additional pressure will be incorporated into the General Fund budget and will add to the savings requirement within the MTFS. The allocation of overheads will need to continue to be reviewed during 2023/24, particularly as the transformation programmes progress and the appropriate balance of costs between services may change.

6.0 Immediate Actions 2022/23

6.1 The Council has taken the following actions to mitigate cost pressures in 2022/23 and ongoing.

Introduction of Cost Controls

6.2 The Corporate Leadership Team (CLT) has agreed that additional cost controls should be introduced. Senior Managers have been asked to consider where costs are not committed and to defer expenditure and commitments wherever possible. Further detailed processes will be established and implemented over the coming weeks.

6.3 Recruitment to vacant roles is the subject of individual scrutiny and approval by CLT through existing arrangements. The level of challenge applied to this process has been increased providing tighter controls over any commitment to filling vacant posts. In additional any existing recruitment in progress is being reviewed to consider if it is essential.

6.4 A review of the draft Investment Programme is underway with the objective to delay any expenditure and commitments as far as possible. This Review will be reflected in the Investment Programme submitted to 23rd February Council for approval.

Fit for the Future Savings

6.5 Senior Managers identified service savings as part of an exercise in the Autumn 2022. Some of these savings by their nature will be caught by the increased cost controls described above, through the deferral of discretionary spend.

6.6 Where there is a lead time, decisions which will generate savings during 2023/24 are being made, for example through removal of some discretionary activity such as hanging baskets and other planting activity from the Serco contract. Portfolio Holders will be made aware of the implications of this tightening of expenditure commitments on services to residents.

Review of Thameswey Business Plans

6.7 In addition to control over the Council's direct expenditure, there has also been increased scrutiny and challenge of the Thameswey Group business plans for 2023. These plans were due to be approved in December 2022 however, as set out in an update to the December meeting of the Executive, the Council's Shareholder Advisory Group (SAG) has requested further exploration of a number of options that would have the impact of reducing the Council's Capital Finance Requirement; minimising risk associated with loan exposure and improve the controls the Council applies to the release of further loan funding.

6.8 Updated plans have been further reviewed by the SAG, and the Thameswey Board, and will now be brought forward for consideration at the Executive in February.

Review of Forecast Assumptions

6.9 In addition to the actions outlined above the underlying assumptions within the MTFS are being reviewed to provide the most reliable projection of the future financial position. In many cases this will result in a range of potential scenarios for consideration. In particular the following are underway:

- Update of Energy cost projections through Thameswey Energy Ltd, considering current forecast gas prices and government support through the Energy Bills Discount Scheme from 1 April 2023.
- Consideration of inflation assumptions for 2024/25 – the base MTFS assumes additional allowance for cost inflation in both 2023/24 and 2024/25.
- Consideration of approach to pay award for 2023/24.
- Review of forecast commercial rental income including assessment of risk on tenant lease breaks.
- Update of parking income forecasts beyond 2023/24 incorporating activity and charging assumptions.
- Review of performance against 2021/22 Fit for the Future savings.

6.10 The updated assessment will determine the Medium-Term budget shortfall and savings requirement which must be addressed to provide a balanced financial position.

7.0 Provisional Local Government Finance Settlement 2023/24

The government published the Provisional Local Government Finance Settlement for 2023/24 on Monday 21st December 2022.

7.1 Key points within the Settlement were:

- Introduction of a new one-off funding guarantee ensuring that all authorities receive at least a 3% increase in their Core Spending Power before any decisions on organisational efficiencies, use of reserves, or council tax.

- Continuation of the New Homes Bonus, albeit on a one year basis with no ongoing payments.

- Confirmation of increased Council Tax referendum limits to 3%, as set out in the Autumn Statement, generating an additional £110k compared to the November draft budget position.

7.2 The most significant impact for the Council was the continuation of the New Homes Bonus (NHB) scheme in the same format as previous years. Increases in housing numbers, as a result of the Victoria Square and Sheerwater regeneration schemes, generated almost £1m of additional grant compared to November budget assumptions. This additional NHB funding, compared to previous years, meant that the Council did not qualify for the Funding Guarantee grant.

7.3 As reported in the December MTFS update, the increase in the Council Tax referendum limit to 3% will generate an additional £110,000 compared to the November draft budget position.

7.4 The government has provided some detail on the proposed approach to funding for 2024/25:

- Council Tax referendum limit set at 3% as for 2023/24.

- The major grants will continue in the same way as 2023/24.

- Revenue Support Grant will continue and will be uplifted in line with Baseline funding levels.

- Business Rates Pooling will continue.

- The future of New Homes Bonus will be set out ahead of the 2024-25 local government finance settlement.

- The government had previously committed to carry out a Review of Relative Needs and Resources and a reset of accumulated business rates growth. It has been confirmed that these will not be implemented in this Spending Review period, however the government remains committed to improving the local government finance landscape in the next Parliament.

7.5 This detail for 2024/25 is helpful and will improve the certainty within the short-term financial forecasts. The MTFS assumptions in relation to ongoing receipt of government funding will be reviewed in light of the above announcements and any changes reflected in the position presented in February.

8.0 February 2023 Budget Report and Statement of Budget Robustness

8.1 In order for the Council to set a budget for 2023/24 the Finance Director must be able to provide assurance over the adequacy of the budget estimates and the sustainability of reserves.

8.2 The sections above set out details of the work that is required to enable these statements to be made and the budget to be established on a reliable basis.

8.3 Progress in recent weeks indicates that it should be possible to achieve a balanced budget for 2023/24, incorporating identified savings and the use of reserves. This assessment is based on current assumptions with no new risks being identified through the MTFS work programme.

8.4 However, the risk remains that it will be difficult to achieve a balanced position for 2024/25 and beyond. The ongoing work will establish the challenge still remaining and the potential for savings through removal of discretionary service expenditure. Realisation of these savings through a fundamental realignment of the Council's provision to be within current available resources is likely to require financial investment and take some time.

8.5 The budget must be accompanied by a Statement of Budget Robustness from the Council's Finance Director (S151 Officer). This statement will need to set out the risks inherent within the Council's financial position and the budget presented for approval. The table below includes areas of identified risk which will need to be addressed through the statement and understood in approving the budget. Given the level of risk it is necessary for the statement to be comprehensive and provide reference to significant areas of judgement which could fundamentally alter the financial outlook.

<u>Minimum Revenue Provision</u>

8.6 The Council has very high levels of borrowing. The current policy and judgement in assessing the appropriate level of Minimum Revenue Provision (MRP), the amounts set aside for the repayment of that debt, enables a balanced budget to be set. There is a significant and substantial risk that a more prudent assessment of MRP provision should be adopted. At this stage no additional prudent provision has been made and any change in assessment of MRP would result in an unsustainable position.

8.7 There is equally a significant and substantial risk that a more prudent provision for impairment of capital loans should be made. At this stage no additional prudent provision has been made and any change in assessment of MRP would result in an unsustainable position.

8.8 The Council's position on MRP will be subject to further independent assessment and review and the risks will be comprehensively outlined in the Director of Finance's Statement of Budget Robustness as part of the MTFS report to Council at its meeting on 23rd February 2023.

8.9 If it is assessed that there is a risk of impairment of capital loans then it is appropriate to commence charging a MRP on the balance. The review of both Thameswey and Victoria Square investments indicate risks through asset values less than loan balances, reductions in valuations, long term business plans which are sensitive to assumptions and require support for many years, and losses which may be realised and not contained within the Group.

8.10 The government have previously consulted on changes to the guidance for provision of MRP. Given the level of investment the Council has made through capital loans, any changes which affect these loans are likely to cause an additional unsustainable pressure to the General Fund budget.

8.11 As these risks are further analysed, an assessment will be made of an appropriate prudent approach to MRP, consulting and taking independent advice as appropriate. Consideration will then need to be given to any increase in annual charges, which given the level of investment could be substantial.

8.12 Other areas of significant risk within the MTFS are set out in the table below.

Area of MTFS Risk	**Consideration of Budget Robustness**
Commercial income	There is uncertainty around the forecast commercial income particularly the effect of tenant break clauses and underlying rent levels, and car parking activity
Cost inflation	There continues to be high levels of inflation and it may not be possible to maintain expenditure within existing budgets. The impact of contractual inflationary pressure could be more than allowed within forecasts
Realisation of Savings	The analysis of the FFF1 savings has identified some which have been delayed and others which will not be achieved. There is a risk that any forecast will not be fully secured resulting in additional budgetary pressure. This risk will be more significant depending on the level and detail of the savings and the speed of delivery.
Strengthened Company Governance	Additional resource is necessary within the Council's investment vehicles, especially Victoria Square which is now operational, as well as within the Council to fully resource the Shareholder Advisory Group (SAG). There is also a risk that there are further costs associated with these strengthened governance arrangements.
Audit of Accounts – 2019/20, 2020/21, 2021/22	The outstanding audit of accounts results in a risk of unexpected historic adjustments which could affect the level of resources available to the Council. The Chief Executive will be meeting with the Council's auditors, BDO in January to stress the need for progress.
Independent commercial advice	There is a need to establish client side subject matter experts in the markets where the Council has investments. These should provide support to the Council and Shareholder Advisory Group and assurance around estimates, forecasts, risks, opportunities and the commercial approach

9.0 Corporate Strategy

9.1 The Woking for All Corporate Strategy establishes the strategic priorities that the Medium Term Financial Strategy seeks to establish the financing plans to deliver.

9.2 Whilst there has been a change in the Council's administration in 2022, the priorities of the incoming administration have been established through the Woking for All Corporate Strategy. Of particular relevance are the priority commitments and actions, extracted below, relating to being a High Performing and a financially responsible council with sustainable and affordable plans.

A high performing council

A financially responsible council with sustainable and affordable plans

Ensure that affordability, financial control and delivery of value for money are embedded in how the Council conducts its business

Additional priority commitments

- Get the Council's finances under control – this is our first priority
- Consider new approaches to increase income
- Make decisions in an open and transparent way

Actions

- Work constructively with the Department for Levelling Up, Housing and Communities (DLUHC) to deliver plans for a sustainable budget and directly address the concerns the Government has about the Council's levels of debt and exposure to financial risk
- Deliver clearer and more transparent financial performance reporting through to meetings of the Council
- Seek greater leverage of private sector and market investment into Woking to enhance the economic vitality of the borough and maximise the benefit that Woking communities experience from this investment

A high performing council

Develop and strengthen strategic and financial planning and performance and risk management

Additional priority commitments

- Review the financial model used to fund council owned companies
- Get expert opinion to advise on the financial sustainability of the Council's investments into companies

Actions

- Review all council investments and set clear performance targets for the returns these investments need to provide for the Council and the borough

9.3 The additional priority commitments highlighted above equally align with issues subsequently raised by the Minister within the Department for Levelling Up Housing and Communities in his letter to the Leader of the Council on 18th October 2022 which accepts the strategic regeneration ambitions of the Council but raises expectations (concerns) about:

- Needs to be sustainable
- Needs to have proportionality (Debt and funding arrangements)
- Needs to recognise and address financial risk

9.4 The work on the MTFS is making it clear that the Council will not have the level of financial resources to be able to commit to moving forward on all strategic priorities. The Woking for All Strategy will be reviewed through April – June 2023 with 2 key outcomes:

- The 2023/24 budget that will be put before Council for approval on 23 February Council will establish the actions within the Woking for All Strategy that can be taken forward and progressed in 2023/24.
- The strategic priorities within the Woking for All Strategy will be reviewed in the context of the financial challenges over the Medium-Term 2023/24-2026/27 in order to provide the

strategic priority framework that can inform funding decisions, recognising that the availability of funding will be a significant limiting factor.

10.0 Implications

Finance and Risk

10.1 The finance implications are set out within this report, financial reliance and risk considerations are covered in detail in section 2.

10.2 The November Draft Medium Term Financial Strategy (MTFS) and General Fund Budget 2023/24 report set out the updated financial forecast for 2022/23-2025/26. The report showed that there remained a significant budget gap over the period. Whilst savings had been identified towards the £11m savings target recognised in July 2022, there were also additional pressures. Inflation on the Council's service expenditure, contracts, and energy in particular, has added significant costs over the MTFS. There has also been a substantial increase in interest rates in recent months which results in increased pressure in the short term.

10.3 The forecast £11m target in 2025/26 has reduced to £8m, but the short term position had worsened resulting in an increased use of reserves.

10.4 The Council's revenue reserves are currently forecast to fall to £16.7m by 31 March 2023 and £6.5m by 31 March 2024. The forecast shows all revenue reserves utilised with a deficit of £3.5m by 31 March 2025.

10.5 This report sets out an update on the Council's response to this critical financial position.

Equalities and Human Resources

10.6 No specific human resources or training and development implications.

10.7 There are no equalities implications.

Legal

10.8 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.

10.9 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.

10.10 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.

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

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

10.13 If the Finance Director considers that the Council is unable to set or maintain a balanced budget, after all routes have been explored, then she is under a statutory duty to make a Section 114 report.

10.14 Section 114 (3) Local Government Finance Act 1988, states that: "The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure".

11.0 Engagement and Consultation

11.1 The Council undertook 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