COUNCIL – 23 FEBRUARY 2023

MEDIUM TERM FINANCIAL STRATEGY (MTFS), GENERAL FUND, SERVICE PLANS, BUDGETS AND PRUDENTIAL INDICATORS 2023-24

Executive Summary

The General Fund Estimates for 2023/24 are presented for recommendation to Council.

There have been regular updates on the Council's Medium Term Financial Strategy (MTFS) during 2022/23. This report is the latest update incorporating detailed budget proposals for 2023/24.

This MTFS report includes a Section 25 report at Appendix 5. Section 25 of the Local Government Act 2003 requires the Finance Director to report to the Council when setting its council tax on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

The Council is required to have regard to this report in approving the budget and council tax. The Finance Director has reported on the Medium-Term Financial Strategy to the Executive through 2022/23, the last update report was to the 19th January meeting.

It is important to refer to this section 25 report (Appendix 5). At a headline level the Council is able to set a balanced budget for 2023/24 with the use of £8.3m one off reserves and has made arrangements:

- To operate a cost control framework and discipline
- To establish further savings over the MTFS period through developing a minimum viable position for all services
- To comprehensively track savings and establish full financial variance monitoring in a timely way
- For a Fit for the Future programme that has to balance implementing a strong programme discipline for delivery critical savings plans alongside establishing the future state of the Council.
- For reviewing the prudent position on the amounts set aside for debt
- To stabilise reserves
- To review Company business plans and investments

It is not evident at this stage, however, how the Council will establish a balanced budget for 2024/25 and the MTFS period. The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required. This report however may lead to the issuing of a S114 Notice in 2023/24 as work on the 2024/25 budget progresses.

The net budget for the General Fund is £11.4m and the resulting Band D Council Tax figure for 2023/24 is £263.12, an increase of 3% compared to 2022/23. The increase is within the referendum limit flexibilities of 3% or £5 proposed by the Government in February 2023. Given the Council's difficult financial position it is critical that the maximum increase in Council Tax is secured. When assessing the resources available to the Council the government assumes that Council tax is increased by the maximum amount.

The 2023/24 budget does not incorporate any changes to the Minimum Revenue Provision (MRP) which is the amount the Council sets aside for the repayment of debt.

The Council's position on MRP will be subject to further independent assessment and review. An independent review has been commissioned on the Council's MRP policy, and the amount that has been accounted for in its accounts, to be completed by early April 2023. For this MTFS report the MRP policy adopted in 2022 is being rolled forward and any amendments required following the independent review will be brought forward in 2023/24 as part of the MTFS reporting

The Medium Term Financial Strategy (MTFS) will be updated in detail in March including the delivery of savings, approach to the next phase of savings, and review of inflationary pressures and income projections.

Recommendations

The Council is requested to:

RESOLVE That

(i) the Revenue Estimates and Human Resource requirements for 2023/24 be approved;

(ii) a Band D Council Tax for the Borough of Woking for 2023/24 of £263.12 be approved; and

(iii) the Prudential Indicators at Appendix 3 to the report be approved, subject to any changes arising from consideration of the Investment Programme, revenue budgets and Final Government Settlement.

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

Background Papers: None.

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1.0 Introduction

1.1 This paper provides an update on the Medium Term Financial Strategy (MTFS), and sets out the draft General Fund budgets and variances (Appendices 1-2) and Prudential Indicators for 2023/24 (Appendix 3).

1.2 It is the latest in a series of MTFS reports to the Executive during 2022/23 providing updates on the financial position, challenges and the strategies required to achieve a balanced budget.

1.3 The December MTFS report set out the Council's strategic approach to addressing the ongoing budget shortfall, which identified actions across two categories:

- 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

1.4 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, without these measures, was unlikely to be possible before reserves were exhausted.

1.5 In January the MTFS update report provided detail on the work to date. This report provides a further a further update to enable the Council to set a budget and Council Tax for 2023/24.

1.6 This MTFS report includes a Section 25 report at Appendix 5. Section 25 of the Local Government Act 2003 requires the Finance Director to report to the Council when setting its council tax on:

- o the robustness of the estimates included in the budget, and
- o the adequacy of the financial reserves in the budget.

1.7 The Council is required to have regard to this report in approving the budget and council tax. The Finance Director has reported on the Medium-Term Financial Strategy to the Executive through 2022/23, the last update report was to the 19th January meeting.

1.8 It is important to refer to this section 25 report (Appendix 5). At a headline level the Council is able to set a balanced budget for 2023/24 with the use of £8.3m one off reserves and has made arrangements:

- To operate a cost control framework and discipline
- To establish further savings over the MTFS period through developing a minimum viable position for all services
- To comprehensively track savings and establish full financial variance monitoring in a timely way
- For a Fit for the Future programme that has to balance implementing a strong programme discipline for delivery critical savings plans alongside establishing the future state of the Council.
- For reviewing the prudent position on the amounts set aside for debt
- To stabilise reserves
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1.8 It is not evident at this stage, however, how the Council will establish a balanced budget for 2024/25 and the MTFS period. The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required. This report however may lead to the issuing of a S114 Notice in 2023/24 as work on the 2024/25 budget progresses.

1.9 The net budget for the General Fund is £11.4m and the resulting Band D Council Tax figure for 2023/24 is £263.12, an increase of 3% compared to 2022/23. The increase is within the referendum limit flexibilities of 3% or £5 proposed by the Government in February 2023. Given the Council's difficult financial position it is critical that the maximum increase in Council Tax is secured. When assessing the resources available to the Council the government assumes that Council tax is increased by the maximum amount.

2.0 National Developments and Economic Environment

Economic Indicators

2.1 Developed economies have been open for some months post-pandemic. The degree to which inflation has taken root in those economies has demanded central banks tighten monetary policy dramatically compared to the ultra-low interest rates of the past decade. On the 2 February 2023 the Bank of England increased the bank rate to 4.00%. As detailed in the Treasury Management Strategy Report, the Bank Rate is expected to peak at 4.50% in mid 2023/24 then gradually reducing to 2.50% at the end of the forecast period in 2026.

2.2 The HM Treasury comparison of independent forecasts published in November 2022 shows GDP growth of -0.7% or 2023, 1.4% in 2024, 2.0% in 2025 and 1.8% in 2026 as the economy recovers from the impact of Covid and the war in Ukraine.

2.3 Further economic forecasts and commentary can be found in the Capital, Investment and Treasury Management Strategies also on this agenda.

3.0 Government Policy

Levelling Up Bill and Review of the Council's finances

3.1 In the May 2022 Queen's Speech the government announced the Levelling up and Regeneration Bill which makes provision for the legislative changes required to deliver on some aspects of the levelling up programme set out in the White Paper.

3.2 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

3.3 The Department for Levelling Up, Housing and Communities (DLUHC) advised the Council that it would likely to be in scope of the Bill's powers due to its high level of debt. Officers from the Council and DLUHC worked collaboratively to assist the Department in understanding the Council's local borrowing and investment practice

3.4 In October 2022 the Minister of State for Local Government wrote to the Council setting out the intention to complete an external review into Woking's finances, investments, and related governance.

3.5 An independent team was appointed by DLUHC and in January 2023 commenced a non-statutory review into Woking Borough Council's finances, investments and related governance. Council Officers have worked with the review team to share the Council's financial commitments, forecasts and plans as well as work in hand to improve governance and oversight of the Council's investments.

3.6 Once complete the report will provide insight and an independent view of the Council's finances and will be important in determining the future direction of the MTFS. The final report will be made available on the Council and Government websites.

Minimum Revenue Provision

3.7 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.

3.8 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.

3.9 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.

3.10 In November 2021 the government consulted on changes to the guidance for Minimum Revenue Provision (MRP), which is the amount set aside each year from the Council's revenue budget for the repayment of debt. A follow up to this consultation was completed in June 2022 The outcome, determining changes in approach which the Council would need to adopt, has not yet been published.

3.11 The consultations sought to address the issues:

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

3.12 The June 2022 consultation amended the original proposal that all capital loans should be subject to MRP, allowing those where the underlying investment was for service provision to be outside of the requirement for MRP. It would still be necessary to provide MRP if it was determined that there was a risk that the loan was irrecoverable.

3.13 The Council's position on MRP will be subject to further independent assessment and review. An independent review has been commissioned on the Council's MRP policy, and the amount that has been accounted for in its accounts, to be completed by early April 2023. For this MTFS report the MRP policy adopted in 2022 is being rolled forward and any amendments required following the independent review will be brought forward in 2023/24 as part of the MTFS reporting

Local Government Finance Settlement 2023/24

3.14 The Comprehensive Spending Review (CSR) in 2021 set government departmental budgets for the 3 years from 2022/23 – 2024/25, with a one year settlement for 2022/23 confirmed in February 2022. The provisional settlement announced on 21 December 2022 provided detailed funding provisions for 2023/24 and an indication of the approach for 2024/25. The final settlement for 2023/24 was announced on 6 February 2023.

3.15 The government has confirmed the proposed reforms to Local Government funding will not be progressed until after 2024/25 – deferring the impact until after the next election. 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). Proposals for New Homes bonus for 2024/25 will be announced during 2023/24.

3.16 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 in 2025/26 or beyond. However, any change is unlikely to benefit authorities in the South East, and funding for Social Care remains a significant challenge on resources for which District Councils will be competing. It therefore remains likely that the government funding will continue to be at risk.

3.17 For 2023/24 the government has introduced a 'Core Funding Guarantee' which provided a minimum level of funding uplift for all local authorities. Woking did not receive any funding through this mechanism as the Council's funding was already increasing through the award of New Homes Bonus related particularly to the Victoria Place development. This guarantee was introduced for one year only.

3.18 The Council Tax referendum limit for District Councils has been set at 3% for 2023/24 and the government has indicated that the same level will be applicable for 2024/25. For 2023/24 three Councils – Croydon, Thurrock and Slough have been allowed referendum limits above the normal levels as a result of their financial position and engagement with the government.

Business Rates

3.19 The government continues to award relief to businesses in the direct Retail, Hospitality and Leisure (RHL) sectors as well as extended relief for small businesses. The RHL is set at 75% for 2023/24, an increase on the 50% applied in 2022/23. The Council is funded through section 31 grants for the relief granted to businesses. This means the business rates being collected continues to be less than previous years. The effect is that the government has paid the business rates for these businesses.

3.20 The Valuation Office Agency (VOA) has published updated valuations for the purposes of Business Rates from 1 April 2023. They have also permanently removed the revenue neutral transitional arrangements, therefore will not fund upwards transitional relief (upwards caps) by restricting falls in bills to raise revenue (downward caps). For Woking the Business Rates base has increased by 14% as a result of the revaluation. Businesses are able to apply through the 'Check, Challenge, Appeal' process if they do not agree with the rateable value figure. Going forward valuations are due to be completed every 3 years.

4.0 Corporate Update

Fit for the Future Programme

4.1 The Council has established a Fit for the Future Programme which incorporates transformation and service improvement workstreams as well as the detailed strategy to establish a balanced budget.

4.2 An initial savings exercise, Fit for the Future 1, was completed in the Summer 2021, this identified a total of £4.8m of savings over a 3 year period.

4.3 In July 2022, following the lifting of all Covid restrictions and social distancing guidance, the MTFS was comprehensively reviewed. It was recognised that the income the Council had previously relied upon would not be returning in the short to medium term. It was also recognised that the energy crisis and inflation at levels not seen for many years, would result in significant pressure on the Council's budgets. A further exercise to identify savings was launched, Fit for the Future 2, with Senior Managers reviewing opportunities within their budgets. This identified a further £3.7m of potential savings between 2022/23 and 2024/25.

4.4 Savings identified for 2023/24 through both processes have been reviewed and incorporated into the base budget where they continue to remain valid. A summary of the Fit for the Future 2 savings proposals can be found at Appendix 4. The proposals are sufficient to enable the reductions to the cash limit budgets but do not pre-determine how the budget reductions will be delivered. Appropriate consultations and equality impact assessments will be undertaken in order to determine how services will be delivered within the cash limit budgets that are approved.

4.5 The November 2022 draft budget paper incorporated all identified savings but these were offset by forecast pressures, increasing interest rates and further realignment of income budgets. There continued to be a substantial forecast use of reserves with reserves being used at a pace which meant they would be fully utilised during 2024/25.

4.6 In response to this position the December MTFS report set out a series of actions intended to increase reserves and identify savings through establishing the Minimum Viable Position (MVP).

4.7 This important budget analysis was critical to understanding the scale of discretionary service provision and through this the maximum level of saving possible. The aim was to provide insight on the scale of the challenge and opportunity as well as determining how service savings could contribute to the budget gap.

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

4.9 Whilst it is recognised that this has been an initial high level process and requires further validation by the respective Senior Managers and Strategic Directors, the completed workshops identified approximately £5.5m of discretionary spend. The analysis was based on 2022/23 budgets which will increase in 2023/24 through additional energy and contractual costs. There were also some areas where no savings were identified and further analysis is required to understand the position.

4.10 It will not be possible to realise savings from all the discretionary spend on services identified, however, it is considered reasonable to target a further £3m of savings from these budgets over the MTFS. These savings are likely to be more difficult to secure than previous rounds as they will require more fundamental service review. It will be necessary to consider the best approach to securing these budget reductions to ensure they are delivered and that remaining resources are focussed on priority services.

<u>Other Financial Strategy Actions</u>

4.11 The table below updates the progress on the other actions identified in the December and January MTFS reports.

Action	**Update/Treatment in 2023/24 budget**
Transfer Commercial Property to company structure	Not currently being actively progressed for 2023/24
Renegotiate Victoria Square Car Park Management Fee	Discussions have commenced with VSWL, it is assumed that the saving will be achieved, the 2023/24 budget has been amended. The MTFS assumes the fee will be paid in 2025/26
Consider Treatment of Development income	Work continues with Thameswey Housing Ltd (THL) to identify properties which can be allocated to the development income. It is assumed that this will be completed by the end of the year. The reserves forecast in section 11 includes the additional £6m
Review capitalisation of costs	Costs have been capitalised where possible in preparing the 2023/24 budget
Review of discretionary expenditure through Senior Manager workshops	As set out in the section above, an initial review has been completed which will inform further work to identify savings from discretionary services
Review the allocation of overheads to the Housing Revenue Account (HRA)	A review of the allocation of overheads identified some areas where the allocation has been adjusted for 2023/24. These changes have been incorporated into the General Fund and Housing Revenue Account budgets. A further full review of the allocation of overheads to services is planned during 2023/24.
Review of Fit for the Future 1 savings to establish any at risk of underdeliver or slippage	This review is in hand. The budget continues to include those FFF1 savings identified for 2022/23 as well as those scheduled for 2023/24. Any slippage in year will be reported through the variance reporting in the Green Book and an update on progress will be provided in the March MTFS.
Analysis of movement in budget position between 2019 and 2023 to identify key contributing factors to the forecast deficit	This has been completed and identified the key factors to be increasing inflation on contractual and pay costs, and reductions in commercial and parking income. A summary will be included in the March MTFS.
Identify procurement support to achieve savings from 'tail end spend'	Support has been identified through partnership with Orbis. This will provide resource dedicated to Woking and access to specialist procurement expertise when required.

Cost Controls

4.12 There is a need to further strengthen the controls that are in place over spend in order to respond to the projected budget gap in 2022/23 of £8.8m, which will continue to be a gap of £8.3m in 2023/24. The Council must take all arrangements to bring spending back in line with the budgets we have available, in the short and medium term.

4.13 Councils are required by law to have balanced budgets. If a council cannot find a way to finance their budget then a Section 114 (S114) must be issued. The issuing of a S114 notice bans all new spending with the exception of protecting vulnerable people and statutory services and pre-existing commitments.

4.14 The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required The criteria however is being used to help steer the Council's control of spend. A number of steps are being taken to bring planned spend down to within the level of funding available and as part of these measures, the Council has moved to essential spend only. Any spend that is discretionary and can be avoided or deferred should not be made. The criteria for essential spend is:

- Existing staff payroll and pension costs
- Expenditure on goods and services which have already been received
- Expenditure required to deliver the Council's provision of statutory services at a minimum possible level – we call this the minimum viable position
- Expenditure within HRA to meet regulatory standards
- Urgent expenditure to safeguard vulnerable residents
- Urgent expenditure in response to issues of health and safety in council buildings and in areas of public realm
- Expenditure required through existing legal agreements and contracts
- Expenditure required through ring-fenced grants or third party funding
- Expenditure necessary to achieve value for money and/or mitigate additional in year costs
- Expenditure to deliver future savings

4.15 These spend control measures have been formally established and will remain in place until the Chief Executive alongside the Finance Director (S151 officer) determine they can be released. This assessment will be subject to review through the established MTFS.

4.16 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.

4.17 Updated plans have been further reviewed by the SAG, and the Thameswey Board, and are being brought forward for approval to the 23rd February 2023 meeting of Council.

Flexible Use of Capital Receipts

4.18 The Fit for the Future work programme requires project resource and capacity to deliver the identified savings and improvements. The government allows capital receipts to be used to fund the delivery of specified transformation programmes. Any use of this flexibility to apply capital funds requires a submission to be made setting out the projects to be funded along with projected savings.

4.19 A Fit for the Future project team is being established and work is underway to estimate the costs and benefits of the transformation workstreams. The details of the application for Flexible

Use of Capital Receipts will be reported in the March MTFS to be approved by Council ahead of the start of 2023/24.

Woking for All Strategy

4.20 The updated Woking For All Strategy was agreed by Council July 2022 reflecting the priorities of the new administration.

4.21 The work on the MTFS during 2022/23 has made 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 approved 2023/24 budget 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.

4.22 The 2022/23 outturn performance on the Woking for All Strategy will be reported to the June 2023 meeting of the Executive and the priorities for 2023/24 will be reported to the July 2023 meeting of the Executive.

5.0 2023/24 General Fund Budget

5.1 The General Fund Summary at Appendix 1 summarises the proposed budget and Council Tax for 2023/24. Appendix 2 provides a summary of service budget changes.

5.2 The budget requires £8.3m of reserves to support services in 2023/24.

5.3 Council services are funded by government grants, fees and charges and the net income from commercial activities and loans to the Council's group companies. For 2023/24 this is summarised in the table below.

5.4 The Council has historically provided services at a level facilitated by commercial income. As has been reported through updates to the MTFS, the Council's income from both parking and commercial rents has reduced post pandemic. This reflects changing life and workstyles and is considered a permanent amendment to the Council's revenue. It is therefore necessary for service provision to be re-aligned to be affordable within this reduced level of income. This is even more challenging given the additional inflationary pressures on service costs.

Budget Summary 2023/24		
	£'000	£'000
Service Expenditure (excluding benefits and capital charges)		44,013
Service Income - Grants, Fees and Charges (excluding benefits)		- 19,198
Net Service Costs		24,815
Interest Costs	62,036	
Investment Income from loans to (group) companies	- 43,281	
Commercial Rents	- 19,097	
Total Net Investment and Financing Income		- 342
Use of Reserves		- 8,345
Government Funding and Business Rates retained		- 4,680
Council Tax		- 11,448
Total Income and Use of Reserves		- 24,815

5.5 The proposed 2023/24 budget is based on the 2022/23 approved budget updated for contractual inflation, Fit for the Future savings and efficiencies, changes in funding and forecast income, and financing costs driven by the draft investment programme which is also on this agenda.

5.6 The table below sets out a summary of the pressures and the following sections provide further details.

Budget variation 2022/23 to 2023/24 Cost (+)/ Saving (-)	Feb-23 £'000
Investment Programme/Treasury Management	1,738
Service Pressures	3,434
Increase in Fees and Charges (excluding parking)	-280
Increase in Government Funding	-1,136
Increase in Council Tax/taxbase	-829
Increase in use of reserves required in 2023/24	**2,927**

Core Government Funding

5.7 The final Local Government Finance Settlement confirmed funding from redistributed Business Rates and Revenue Support Grant (RSG) for 2023/24. The forecast reduction in funding, ‘negative RSG’, has again been deferred from the funding provided for 2023/24 and the government has confirmed a consistent approach to funding will be adopted for 2024/25.

5.8 Funding through the Lower Tier Services Grant introduced in 2021/22 has been removed in 2023/24. The new ‘Services Grant’ included as a one off in 2022/23 to cover the increased cost of National Insurance contributions has been reduced in value from from £147k to £86k.

New Homes Bonus

5.9 The most significant change in funding for 2023/24 for the Council is the value of New Homes Bonus (NHB) grant awarded. The NHB scheme match funds the additional Council tax for each new home, above a baseline level, after that home is built or brought back into use.

5.10 The government has been phasing out New Homes Bonus and currently the grant is calculated on a one-off annual basis. For 2023/24, the government has awarded the Council £1,221,134 under this scheme. This is significantly greater than the amount received in 2022/23 and includes the completion of new residential properties at Victoria Place.

5.11 The budget assumes that this is used in-year to support services, reducing the use of reserves. The government has indicated that the future of the New Homes Bonus scheme will be confirmed during 2023/24 with changes effective 2024/25.

<u>Business Rates</u>

5.12 Woking has again accepted membership of the Surrey-Sutton Business Rates pool in 2023/24, as one of the better placed Authorities in the County. The continued government support for Retail, Leisure and Hospitality businesses during 2023/24 reduces the risk of irrecoverable income. The benefit of pooling, together with the forecast Business Rates growth is expected to provide approximately £1m in addition to the baseline Business Rates receivable.

5.13 This benefit from growth over the baseline funding level, together with pooling is included in the budget for 2023/24, however it should be noted that this is not a reliable ongoing income stream and may not be secured in future years. The MTFS assumes a return towards baseline funding from 2024/25 and there is a risk that all growth is removed once the system is 'reset' through reform of the funding arrangements.

5.14 As well as Business Rates collected, the Council also pays Business Rates on its own properties. Whilst neutral nationally, after 3.7% inflation, the revaluation effective 1 April 2023 increased business rates payable in Woking by 14%. This revaluation has contributed an additional £320k to the Council's budgetary pressures for 2023/24.

<u>Total Government Funding</u>

5.15 The total Government funding for 2023/24 is shown in the table below.

	2022/23 £'000	2023/24 £'000	Variance £'000
New Homes Bonus	231	1,221	990
Business Rates Baseline funding	2,135	2,215	80
Revenue Support Grant		93	93
Lower Tier Services Grant	96	-	- 96
Service Grant (NEW 2022)	147	86	- 61
	2,609	3,615	1,006

<u>Management and Administration budgets</u>

5.16 The Executive has agreed that for budgeting purposes, the salaries budget will be controlled within two parameters of cost and average number of full time equivalent staff.

5.17 The Fit for the Future savings exercise has identified a number of vacant posts which can be removed from the establishment for 2023/24. Other variations to the 2023/24 budget are shown in the table below.

Pressures on staffing budgets	
	£'000
Cost of turnover, pay progression and allowances 2022/23	231
Reverse National Insurance Health & Social Care Levy 1.25%	-164
New posts and structure changes 2022/23	316
Pressure on Staffing Budgets	**383**
Fit for Future savings 1	-251
Fit for Future savings 2	-476
Removal of vacant posts	-234
Savings	**-961**
Increase in investment programme funding	-124
Add new posts externally funded	202
Changes in funding	-422
Reverse 2022-23 savings target built into base budget	450
Other	**105**
Add posts which are budgeted elsewhere in the accounts	155
Parking Structure removal of SCC on street funding	181
Assumed increase for pay progression and allowances 2023/24	1,325
Pressure on staffing budget (before control total increase)	**1,188**
Vacancy Management savings assumption (4.8%)	-973
Increase in staffing control total	**215**

5.18 The Medium Term Financial Strategy assumed an increase of £850,000 in staffing costs, offset by a £498,000 savings target. Recognising the current cost of living pressures for staff and in order to remain comparable within the employment market, this budget includes an increase in the assumed inflationary costs for 2023/24 to £1.3m (6.5%) with an equal increase in the vacancy management target for the year. If progressed, this means that although the overall pay budget would increase if all posts were filled, it would be matched by an increased number of posts which will need to be held vacant during the year. Whilst this is challenging it is considered achievable through close management.

5.19 The budget tracks those posts which are funded by Council Tax and the Housing Revenue Account. It is net of any posts which are funded externally or by Investment Programme projects. The table below shows the trend in the total staffing budget.

Year	Budget (in cash terms) £m	Average Number of FTE Staff
2014/15	12.400	345
2015/16	12.500	345
2016/17	12.600	335
2017/18	13.000	335
2018/19	13.575	340
2019/20	14.360	350
2020/21	15.690	365
2020/21 (in-year variation)	15.041	358
2021/22	15.590	340
2022/23	18.505	373
2023/24 (proposed)	18.720	360

5.20 Accounting rules require that these costs are allocated out to individual services to show the full cost of the service. The total Management and Administration budget includes salaries, and other overhead costs which need to be allocated across services such as ICT and expenditure relating to the Civic Offices. In total for 2023/24 the full Management and Administration budget is £25.5m, with an increase of £2.7m compared to 2021/22 as shown below.

5.21 The triennial actuarial review of the pension fund has been completed for the position of the fund at 31 March 2022 and sets the employer's on going pension costs, and annual lump sum payment towards the pension fund deficit, for 2023/24 to 2025/26. The valuation has enabled a reduction in the lump sum funding of £87k as part of the agreed approach. This reflects maintaining a constant cash contribution across the lump sum and ongoing employer contributions relative to current employees. It is recognised that whilst it is possible to achieve this position currently in relation to the pension fund, it may not be possible in the long term and there is a risk at subsequent valuations that the lump sum contribution would be required to increase.

Variances in Management and Administration budgets

	£'000
Management and Administration 2022/23	25,513
Staffing	215
Less: Funding allocated directly to services	-167
Superannuation	-86
Energy	278
Indirect staffing costs/savings	6
Other repairs, maintenance & IT costs	138
Total Variations	384
Management and Administration 2023/24	25,897

5.22 This total budget is allocated between the General Fund, Housing Revenue Account and Capital programme as set out in the table below.

	2023/24		2022/23		Difference	
	£'000	%	£'000	%	£'000	%
General Fund	20,844	79.8	20,357	79.8	487	0.0
HRA	4,840	19.5	4,962	19.5	-122	0.0
Other (capital/reserves)	213	0.7	194	0.7	19	0.1
TOTAL	**25,897**	**100.0**	**25,513**	**100.0**	**384**	**0.0**

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

Fees and Charges 2023/24

5.24 Council agreed the Fees and Charges for 2023/24 in December 2022 and the changes to forecast income are incorporated into the budget. The increase in yield included in the Fees and Charges report, excluding Car Parks, was £280,336.

5.25 Increases in income identified as savings through the Fit for the Future programme were incorporated into the Fees and Charges review where appropriate and budgets have been adjusted to reflect these changes.

5.26 Loss of income resulting from Surrey County Council taking back on-street car parking has been built into the budget pressures and this contributes to the budget gap.

5.27 In setting the budget for 2022/23, with the Omicron wave of Covid resulting in ongoing social distancing, the budget for Car Parking income was maintained at the pre-pandemic level with a £1.3m provision allowed for reductions in activity due to Covid. During the year it has become clear that post pandemic activity has stabilised at a level significantly below 2019 levels. Current monitoring shows income 35% less than pre pandemic levels. This will reflect the impact of hybrid working, online shopping and the cost of living crisis on economic activity.

5.28 For 2023/24 the off street parking budget is based on 2022/23 activity, a 35% reduction on pre pandemic activity, applied to the new charging structure. This results in a reduction in the income budget for off street parking from £7.7m to £7.1m. The new parking system will provide improved data which will enable activity to be better monitored and analysed which will inform decisions going forward.

5.29 Management of the on-street parking service, which had been operated by the Council on an agency basis, will return to Surrey County Council (SCC) on 1 April. SCC have determined that the service will be provided on a County wide basis. This has required a restructure of the Council's parking team which has previously managed on and off-street parking on an integrated basis. The reduction in costs, through the return of the on-street element, together with the reduction in income generated, are both removed from the 2023/24 budget.

Commercial Rents 2022/23

5.30 Over recent years the Council has acquired a number of strategic properties within the Borough across a variety of property types and sectors. In many cases the properties have been enhanced or developed to attract new employers or services to the Borough.

5.31 Rental income is shown within service budgets whilst the cost of servicing borrowing, both interest and repayment costs, are shown within interest costs in the General Fund Summary (Appendix 1).

5.32 The commercial rental market continues to be challenging following the economic impact of the pandemic, the energy and cost of living crisis. The office sector is reacting to increased hybrid working, and the retail sector to increased online shopping. This continues to affect the Council's commercial estate and the ability to attract and retain new tenants.

5.33 The 2022/23 budget included a £0.5m provision towards reductions or irrecoverable rents as the economy emerged from the Covid pandemic. During the year an additional £2m risk has been reported against the commercial rent budget in 2022/23 reflecting the loss of some tenancies and the necessary negotiation of rents at lower levels for some properties.

5.34 Updates to the MTFS have incorporated the income reductions experienced in 2022/23 as an ongoing adjustment to yield from the Council's property portfolio. Whilst this is consistent with the current position, there remains further risk to income as tenancies reach break points. A further £185k reduction is incorporated in the budget for 2023/24 to align with the detailed forecast prepared by the Estates team.

5.35 Where there are void properties the Council also incurs additional costs of Business Rates and service charges. Budgets have also been increased to allow for this forecast pressure – Business Rates new properties £511k of which £180k relates to the new car park, Service Charges, £500k.

5.36 Further information on the Council's approach to Strategic Property Investment can be found in the Capital and Investment Strategies, also on this agenda.

6.0 Investment Programme

6.1 The draft Investment Programme was considered by the Executive at its November meeting.

6.2 As part of the Council's financial sustainability work a detailed review of the projects incorporated within the programme has been completed by Corporate Leadership Team (CLT) and senior managers. This is to ensure the programme reflects only essential capital spend with the exception of:

- Projects already committed;
- Projects funded by external contributions, not Council revenue or borrowing; and
- Updated investment in the Thameswey Group and Victoria Square Woking Ltd (updated loan facility approved by Council in December 2022)

6.3 Further details on the assumptions and status of projects can be found within the updated Investment Programme report also on this agenda.

6.4 The revenue impacts of the Investment Programme have been built into the draft General Fund budget. There is an increase in net interest costs of £1.7m compared to 2022/23, reflecting the cost of financing the Council's expenditure, and the increase in interest rates on new borrowing. The cost to the General Fund includes interest and repayment costs for those projects funded by borrowing, as well as contributions from reserves for some revenue projects.

7.0 Thameswey Group

7.1 The Thameswey Group of companies have been used to further the Council's strategic sustainable energy, housing and regeneration objectives. As well as the direct service benefit there is income to the Council from the group from loans and shares which is invested on Council services. Investment in Thameswey Housing Ltd (excluding Sheerwater) is at a margin of 1.5% over the Council's borrowing costs. Investment in Thameswey Energy Ltd for the new Poole Road Energy Centre was at a margin of 1% over the cost of borrowing.

7.2 The Thameswey Group Business Plans are also on the agenda for this meeting. The introduction of new company governance during 2023/24, establishing the Shareholder Advisory Group (SAG), has provided additional challenge to the business planning process for 2023. The SAG review of the Business Plan proposals has also reflected the Council requirement to reduce its exposure to borrowing. Work continues in a number of areas and a 1 year approval of plans and loan advances is recommended in the separate report on this agenda.

7.3 The 2023/24 budget does not include any additional margins from loans not currently advanced. During the year options and sensitivities will continue to be explored with updates provided to the Council through the SAG and incorporated into MTFS reporting where there is an impact on the Council's financial position.

8.0 Robustness of the 2023/24 Budget and Risks

8.1 The following sections set out the most significant risks within the budget for 2023/24.

Minimum Revenue Provision (MRP)

8.2 As set out in Section 3 of this report, the MRP calculation has been prepared adopting the same approach as in previous years. The MRP policy is part of the Treasury Management, Capital and Investment Strategies also on this agenda. The Council has commissioned an independent review of its MRP policy and this may recommend that a more prudent position is taken.

8.3 In addition there is a risk that the review of group company loans will require further amounts to be set aside due to the risk of impairment of the underlying assets, or of the loan through the risk of irrecoverability. As has been reported during the year the size of the Council's loans means that any change in approach would likely have an unsustainable impact on the annual revenue budget.

Interest costs

8.4 Net interest costs during the year are affected by decisions on whether borrowing should be taken long or short term, and when the borrowing should be secured. During 2022/23, in response to increasing inflation and the 'mini budget', interest rates have increased significantly and are now higher than they have been for many years. Short term borrowing, has been taken during the year which will be refinanced as long term loans once the rates have fallen from current levels.

8.5 It is likely that this approach will continue through 2023/24. As shown in the table below, the Council's Treasury Management Advisors, Link, forecast a gradual reduction in rates over the coming 2 years from a peak in 2023/24.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

8.6 The current budget assumes average short term borrowing rates at 4% for 2023/24. There is a risk that this is not achievable and financing costs in the short term are greater than the amounts allowed within the budget.

8.7 There is a possible saving during the year from treasury management budgets where it is assumed that the Council borrows the full amounts required to fund its proposed Investment Programme. Savings are possible if there is slippage of capital projects and through the Council using internal borrowing – using its own cash reserves to delay the need for external PWLB borrowing. However at this stage it is envisaged that interest budgets are appropriate for 2023/24.

Savings Targets and Risk Contingency

8.8 The budget continues to require a significant use of reserves to achieve a balanced position. As noted earlier in the report, and in the MTFS updates during 2022/23 this use of reserves is unsustainable and will result in the Council's reserves falling below the minimum reserves level which has been set, and being fully utilised during 2025/26. The strategic actions taken to reduce the use of reserves (section 4) are one-off or short term in nature and will only temporarily delay the reduction in reserve balances.

8.9 It will be critical that savings plans are formed, based on the exercise to identify discretionary budgets, to reduce the budget gap at pace. The experience of the initial Fit for the Future savings programmes has been that some savings are delayed and some not achieved at all.

8.10 There also remains a risk to the delivery of existing savings plans which will increase with the scale of the transformation and change programme. With the pressure the organisation is facing there is risk that there is insufficient focus on delivery of cashable savings.

8.11 A funded Risk Contingency has been kept in the budget at £250,000, the same level as in previous years. In the context of the significant budgets, uncertainty and judgement required, there is a risk that there are variations which exceed this level during 2023/24. However income budgets have been realigned to current activity for 2023/24 and inflationary pressures have also been incorporated which will reduce this risk.

Service Risks

8.12 The table below sets out the significant risks to service budgets.

Budget	**Cost/Income**	**Description of Risk and any mitigating factors**
Commercial Rents	Income and Cost	There is a significant risk of additional loss of tenants at break clauses and that it will not be possible to attract alternative tenants, or that new tenancies will be at lower rents. Assumptions in the budget take account of this risk, however as the rent budget is high value a significant budget variation could arise. With void properties there are associated service charge and business rates costs. Additional allowance for service charges has been incorporated in 2023//24, and the additional business rates costs following revaluation and for current void properties are included. Consideration will be given to challenging the business rates valuations which are effective April 2023.
Parking	Income	2023/24 budgets are based on 2022/23 activity applied to new charges. There is a risk that the

		increased charges, cost of living crisis or economic downturn result in a further reduction in the activity currently being experienced and less income than expected being generated in 2023/24.
Energy	Cost	Energy costs have experienced significant increases during 2022/23 and the government has introduced some supporting schemes to help households and businesses with these additional costs. There is likely to be less support going forward and there remains a risk that energy prices continue to be volatile during 2023/24. The additional pressure in 2022/23 has been included in the 2023/24 budget. Currently forecast prices would reduce this pressure by c15% however it is proposed that the budget be maintained at this level to allow for some scope for prices increases to return.
Recovery of debt	Income	There is a risk that the cost of living crisis and economic downturn affects recovery of Council Tax, and other income. The 2023/24 taxbase calculation has been adjusted to include an additional allowance for bad debt.

General Risks

8.13 No specific provision has been made in the Budget for abnormal events. The proposed risk contingency at £250,000 is available to mitigate service variations in year. If there were significant other variations to the budget during the year the Council would need to consider the impact on the reserves and appropriate actions.

9.0 Council Tax 2023/24

9.1 The amount to be raised from Council Tax, after taking account the Government Settlement and Collection Fund surplus, is £11,448,211. The recommended Band D Council Tax for 2023/24 for Woking Borough Council is £263.12, an increase of 3%. The referendum level for District Councils in 2023/24 is the higher of 3% or £5. In assessing the Council's core resources the government assumes that the maximum Council Tax increase is applied.

9.2 The Council's medium term financial position requires that the maximum Council Tax increase is applied.

Long Term Empty Properties

9.3 The government passed legislation during 2018/19 to enable councils to charge a long-term empty premium on top of the council tax payable, in respect of domestic properties that have been left empty and substantially unfurnished.

9.4 These changes encourage empty homes to be brought back into use and generate additional income to support the services of the County Council, the Police and Woking Borough Council. In February 2020 the Council approved the premium for empty properties from the applicable dates. The changes are now fully implemented and the premiums applied are set out below.

Premium rate	Properties affected
100%	Properties empty for between two and five years
200%	Properties empty for between five and ten years
300%	Properties empty for over ten years

9.5 Surrey County Council has introduced a scheme where any increased County element of Council Tax generated from changes to empty home policies can be claimed by the District and Borough Council's to support mutually agreed projects. Funds have been used to support the Decarbonisation works at Midas House and Export House.

Collection Fund deficit

9.6 The government required that 2020/21 Collection Fund deficits, both Council Tax and Business Rates, be spread over 3 years. The final third is taken into account in the 2023/24 Council Tax setting. A surplus from previous years Council Tax outturn above estimates offsets this deficit in 2023/24.

10.0 Medium Term Financial Strategy

10.1 The Medium Term Financial Strategy (MTFS) will be updated and reported to the Executive in March and continue to be regularly reported during 2023/24. The latest forecast is shown below. The most significant assumptions underlying this update are:

- Continued assumption that contractual and pay inflation continue at higher levels during 2024/25 (£1m) before reducing in 2025/26;
- Rate of increase in Parking activity – 10% in 2024/25 and then constant for 2025/26;
- Commercial Rent budgets continue at 2023/24 levels;
- Fit for the Future savings built into 2022/23 and 2023/24 budget are secured and those offered in 2024/25 and 2025/26 as part of the detailed exercises to date remain achievable;
- No further savings from the Minimum Viable Provision (MVP) and transformation work (FFF3) have been incorporated as there is insufficient detail at this stage;
- No margins are included from loans yet to be advanced to the group companies and joint ventures;
- No continuation of the government 'Core Funding Guarantee' which would secure the 2023/24 New Homes Bonus funding for another year;
- Gradual reduction in interest rates from 2023/24 onwards as inflation subsides; and
- Additional corporate resources for transformation of the Council's services and governance can be funded through the Flexible Use of Capital Receipts.

MTFS Position - February 2023	2023/24 £'000	2024/25 £'000	2025/26 £'000	TOTAL £'000
Use of reserves - 2023/24	8,345			
Service Pressures (as previous MTFS assumptions)		1,867	862	2,729
Reduction in New Homes Bonus (one-year only)		990		990
Reduction in Business Rates retained		597	0	597
Investment Programme financing		351	-618	-267
Increase in Parking income		-1047	-200	-1,247
Increase in Council Tax		-415	-313	-728
Remove Council Tax surplus		236		236
Fit for the Future savings 1		-440	0	-440
FFF 2		-1,008	-191	-1,199
Car Park Management Fee			1,466	1,466
In year pressure/saving	0	1,131	1,006	2,137
Forecast Use of reserves pre FFF3	**8,345**	**9,476**	**10,482**	

10.2 The forecast above shows an increase in the use of reserves as one-off factors are reversed. In particular additional government funding awarded/retained through New Homes Bonus and Business Rates retention (£1.5m) and the temporary saving from deferral of the Car Park Management Fee (£1.5m).

10.3 It should be noted that the following are now incorporated within base budget for 2023/24:

- £1m increase in energy costs;
- £850k allowance for pay increases in 2023/24;
- Car Park reduction in activity of 35% reflecting current performance which has not recovered to the pre pandemic levels in 2019;
- Commercial Rents reduction in rents and increase in void costs, £3.5m; and
- Fit for the Future 2 Savings as set out in Appendix 4.

10.4 It is clear that from the financial forecast that a reset of service provision is urgently required to ensure it is within the resources available. An update on the progress of this work is included in section 4. As discussed in previous updates of the MTFS, without this reduction in net costs, the Council will be unable to set a balanced budget and the Finance Director would be required to prepare a Section 114 report.

10.5 A full review of the MTFS assumptions, risks and forecasts will be considered as part of the March 2023 report, including actions to realise the necessary savings to close the budget gap.

11.0 Reserves

11.1 The Council has a risk based reserves strategy and policy on general balances. The prudent level established is £10m which reflects 10% of operational expenditure (£5m) plus £5m for business change and budget savings risk. Whilst this level of general reserve is high for a District Council it is representative of the financial risks facing the Council and remains appropriate.

11.2 The Council has historically held a series of earmarked reserves with funds set aside to address specific risks to the Council's financial position. Since 2020/21 significant reserves have been used to support the Council's service provision following reductions in income and increasing costs.

11.3 Operational deficits in 2020/21, 2021/22 and forecast for 2022/23 have substantially reduced the buffer previously provided by reserves which had been accumulated over time to mitigate annual revenue fluctuations, cyclical economic cycles and one off project and transformation costs.

11.4 The ongoing forecast deficits set out in the MTFS section above, result in a continued use of reserves to support the in-year budget position. All funds which can be used, including those previously earmarked in individual reserves and the General Fund balance, are now considered in aggregate as available resources to allow time for costs to be brought in line with income. A summary of the projected reserves position is shown below.

Reserves Forecast - February 2023	**£'000**
Revenue Reserves at 31 March 2022	
General Fund Revenue Reserves	28,640
Less: Ringfenced	(5,142)
General Fund Balance	1,500
Usable Revenue Reserves at 31 March 2022	24,998
Budgeted use of reserves 2022/23	(5,421)
Forecast additional use of reserves	(3,420)
Investment Programme revenue projects	(684)
Development income recognised	6,000
Car Park Management Fee saving	1,466
Forecast usable reserves at 31 March 2023	22,939
Use of reserves 2023/24	(8,345)
Investment Programme revenue projects	(612)
Forecast usable reserves at 31 March 2024	13,982
Use of reserves 2024/25	(9,476)
Forecast usable reserves at 31 March 2025	4,506

11.5 As has been reported in the MTFS during the year, the use of reserves to cover revenue deficits is forecast to reduce balances beneath the minimum level. The actions taken to reduce the use of reserves, see Section 4, have delayed this until 2024/25. However, as the temporary savings/income cannot be relied on there is an increasing challenge which will use all available balances during 2025/26.

11.6 This is not a sustainable position. Actions taken to date have not slowed the draw on reserves or have been offset by new pressures. A fundamental reduction in the net cost of services provided is required immediately before the reserves are fully utilised.

11.7 Some reserves are held for specific purposes and cannot be reallocated. These are shown as 'ringfenced' in the summary above.

12.0 Prudential Indicators

12.1 The Treasury Management, Capital and Investment Strategies elsewhere on this agenda set out the borrowing limits and the policies and practices to be followed in managing the Council's debts, capital spend and investments. The reports incorporate the Prudential Indicators which relate to borrowing and investment.

12.2 Allowance has been made in the borrowing limits for borrowing associated with the Investment Programme including investment through the Council's group companies. The Thameswey Business Plans on this agenda propose formal approval of the investments during 2023/24 with future years subject to a number of actions to review options going forward. For the purposes of the Investment Programme and Prudential Indicators indicative baseline investment projections are included for the years beyond 2023/24, based on earlier proposals. These will be revised once updated forward plans are available.

12.3 Prudential Indicators for approval by the Council are set out in Appendix 3. These Prudential Indicators will be updated if necessary in the light of the Council's consideration of the Investment Programme and revenue budgets.

13.0 Conclusion - Strategic Approach for 2023/24

13.1 This report is the latest in a series of MTFS update reports during 2022/23. Whilst it is possible to set a budget for next year the outlook is critical and it is not clear whether the Council will be able to set a balanced budget in future.

13.2 The following actions are key in establishing the future short, and medium term, financial framework of the Council:

- A fundamental reset of the Council's budget, and service provision, within the resources now available. This will require consideration of priority services towards which limited resources should be focussed;
- As set out in the Section 25 report, a programme of enhanced governance and financial controls is required to provide timely and informed information, track savings and improve oversight of the Council's investments;
- A medium term plan to optimise the Council's strategic property investment portfolio in the best and long term interest of the Borough. The solution should provide financial benefits through revenue income or capital receipts from disposals whilst delivering, where possible, on the place making benefits identified on securing and holding the assets.

14.0 Finance Director – Budget Robustness Statement

14.1 Section 25 of the Local Government Act requires the Finance Director to report to the Council when setting its Council Tax on:

- The robustness of the estimates included in the budget; and
- The adequacy of the financial reserves in the budget

14.2 The Finance Director's report is included as Appendix 5. The Council is required to have regard to this report in approving the budget and Council Tax.

14.3 The Council is able to set a balanced budget for 2023/24 with the use of £8.3m one off reserves and has made arrangements:

- To operate a cost control framework and discipline

- To establish further savings over the MTFS period through developing a minimum viable position for all services
- To comprehensively track savings and establish full financial variance monitoring in a timely way
- For a Fit for the Future programme that has to balance implementing a strong programme discipline for delivery critical savings plans alongside establishing the future state of the Council.
- For reviewing the prudent position on the amounts set aside for debt
- To stabilise reserves
- To review Company business plans and investments

14.4 The report emphasizes the work required to secure the reset of the Council's budget and the necessary improvements in financial analysis and reporting. It draws attention to the Council's dependence on Commercial and Parking income and impact of the disproportionate exposure on the Council's financial resilience.

14.5 The report concludes that whilst it is possible to set a budget for 2023/24 it is not evident, at this stage, how the Council will establish a balanced budget for 2024/25 and the MTFS period. The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required. As the work on the 2024/25 budget progresses this may lead to the issuing of a S114 notice.

15.0 Corporate Strategy

15.1 This report sets out the resources available to support the Woking for All Strategy. The priorities within the Strategy will be reviewed to reflect available resources and an update provided for the Executive in July 2023.

16.0 Implications

<u>Finance and Risk</u>

16.1 The financial implications are explicit in the report.

16.2 The Medium Term Financial Strategy includes an assessment of the likely financial impact and incorporates actions to mitigate these. The MTFS has been reported to the Executive regularly during 2022/23 and will continue to be the subject of regular reports during 2023/24 as the Council seeks to establish a sustainable medium term budget position.

16.3 The Council's underlying revenue budget continues to be challenged by reductions in commercial income due to changes to economic activity following the pandemic, and high levels of energy, contractual and pay inflation increase the cost of services. Whilst in previous years the loss of income has been considered a temporary change, budgets now reflect these changes in income as the new baseline position for the Council.

16.4 The government has indicated stable government funding levels for 2024/25 but future funding beyond the next election is uncertain.

16.5 The risks within the proposed budget and financial forecasts are set out in detail within the report, and in the Section 25 report, Appendix 5.

16.6 As set out in the report the most significant financial risk to the Council's budget relates to the required level of Minimum Revenue Provision (MRP) as a result of the independent review being commissioned and any update of government guidance.

16.7 Equalities and Human Resources

16.8 The Council's Human Resource Requirement reflected in these estimates as detailed in section 5.

16.9 Service planning takes account of the Council's policies in respect of equalities.

Legal

16.10 Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'. The Local Government Act 2003 places a duty on the Council's Chief Finance Officer to advise on the robustness of the proposed budget and the adequacy of reserves. The Medium Term Financial Strategy is a policy framework document that is required by law to be adopted by Council.

16.11 The Council is required by statute to set a balanced budget and related council tax demand. The function of the Executive is to prepare and propose the relevant strategy to the Council. This document provides a comprehensive update on the Council's current position.

16.12 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.

17.0 Engagement and Consultation

17.1 The Council undertook a significant programme of engagement during 2021/22 in preparing for the adoption of a new 5 year Corporate Strategy for 2022/23 onwards. This included community roadshows as well as online questionnaires and a budget simulator tool.

17.2 The 2023/24 budget has been prepared to incorporate the savings and efficiencies identified through the two programmes of budget savings completed during 2021 and 2022. As set out in this report further savings will be required. An update to the Strategy recognising, where appropriate, financial constraints will be prepared for July 2023.

17.3 Where services changes are required to deliver the further savings as set out in this report, the necessary engagement and consultation will be undertaken.

REPORT ENDS