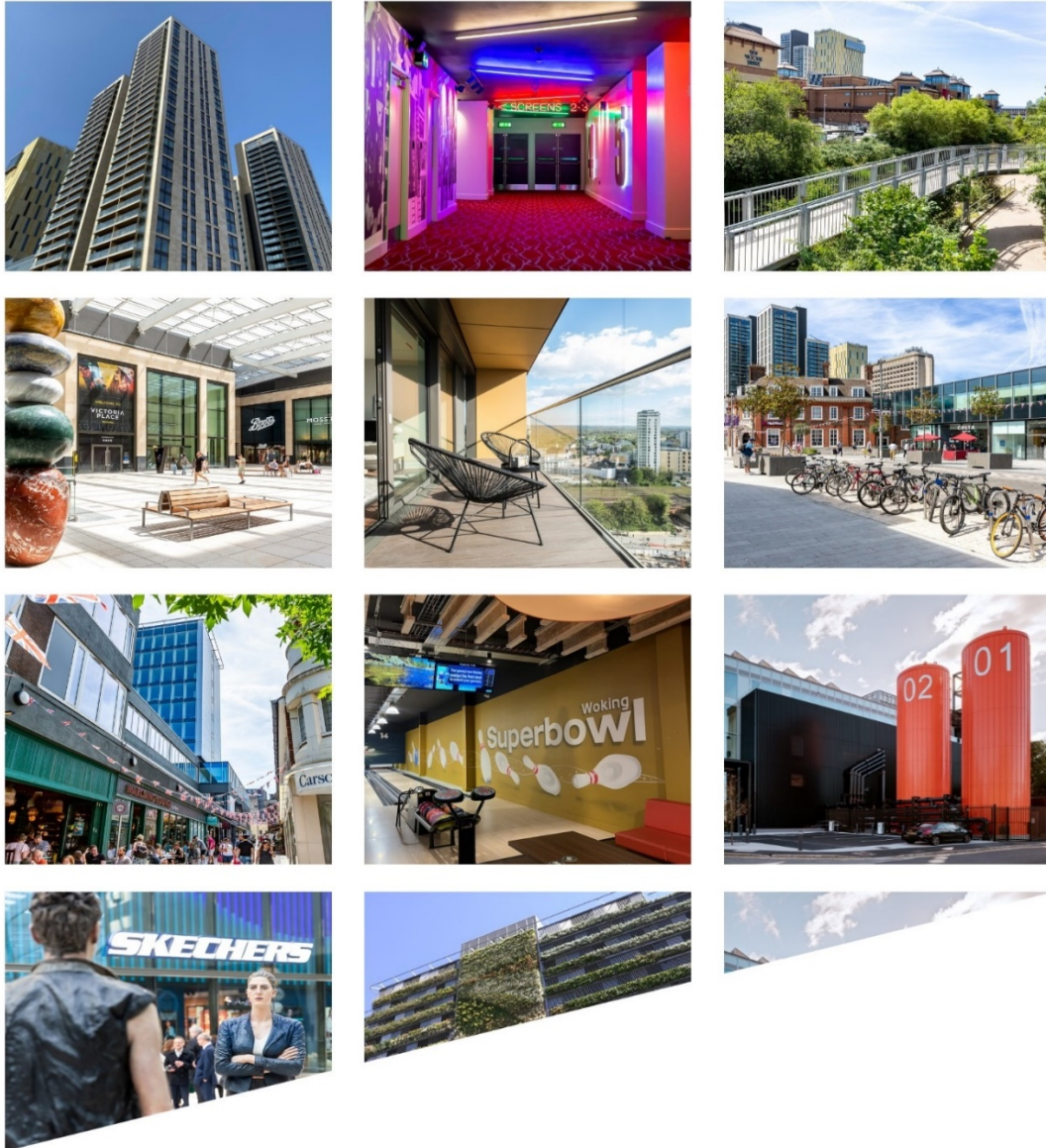


# Medium Term Financial Strategy

2024/25 to 2028/29

Woking Borough Council



**Finance Directorate**

**July 2023**

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## **Introduction**

The Medium-Term Financial Strategy (MTFS) is a key document in the Council's financial planning cycle. This document sets out the strategic financial approach that the Council will adopt in supporting delivery of the Improvement & Recovery Plan, including the Council's response to the Section 114 Notice of 7 June 2023 and the portfolio of other strategies and plans that support delivery of the services in the Borough. The MTFS will explain - when fully developed in the months ahead - how the Council will distribute its resources in this endeavour over the next five years. In order to deliver the Woking Plan the Council will need to operate carefully within specific quantitative financial targets which will extend the delivery period for aspects of the Plan. These targets manifest themselves as budget limits, within which the Council must deliver its services over the period of the MTFS. There will be no room for overspends on the future journey and the Council needs to refresh its approach to operate highly disciplined financial management activities. By doing so, the Council will enhance prospects of attaining the financial stability that the community in Woking is expecting and to which it is rightly entitled as the Council steps forward with confidence from the mistakes of the past.

Brendan Arnold BA MA FCPFA DMS  
Interim Director of Finance & Section 151 Officer

## The MTFFS - Form and Purpose

1. The purpose of the Medium Term Financial Strategy (MTFS) is to set down the approaches that will be used by the Council in (i) assembling, organising and deploying its financial resources to deliver the objectives set down in the emergent Improvement & Recovery Plan (to be reported to Council on 22 August 2023), (ii) the Chief Executive's Response to the S114 Notice and (iii) observance of the financial constraints referred to in the Section 114 Notice issued on 7 June 2023 (See Annex 3) and reported to the Extraordinary Meeting of Full Council on 20 June 2023.
2. The MTFFS contains a Medium Term Financial Plan (MTFP) which sets out the planning assumptions and financial limits formed by the relevant funding constraints presently assumed. These will be updated quarterly moving forward. The MTFP appears at Annex 8.
3. The MTFFS sets out (i) a set of Guiding Principles which are recommended to the Council in seeking to obtain financial balance in the medium term and (ii) the design and operation of specific programmes and other initiatives that will - when fully developed - contribute to savings and cost reductions which are able to be considered in balancing the 2024/25 Budget in the Autumn of 2023 for Full Council on 8 February 2024.
4. This being so, the MTFFS (incorporating the MTFP) provides a framework within which the annual Budget can be considered, and eventually set, by Council. Accordingly, this document is to be seen as a dynamic part of the Council's financial operations and is of critical importance on the Council's recovery journey.

## Background & Context

5. On 7 June 2023 the Section 151 Officer issued a Section 114 Notice to the Council which estimated a General Fund deficit ( 'the Deficit') of £1.200 billion by 31 March 2024. This means that on present estimates the Council requires £1.200 billion of financial support to enable the General Fund to be balanced as required by law at that date. The Section 114 Notice appears at Annex 3 to this report together with the Chief Executive's Response.
6. The Council needs to further develop its understanding and estimate of the Deficit and this work is underway. Complicit with this is a need to approach Government to make the case for financial support on a large scale. The journey towards financial recovery entails that the Council needs to take responsibility at a corporate level for addressing the mistakes of past years and to take clear and effective steps - insofar as it is able as a relatively small borough council - to meet a significant part of the Deficit from its own resources. Accordingly, the Council needs to consider divesting itself of a significant element of its property portfolio - but with the support of Government and Commissioners who were appointed by the Secretary of State on 25 May 2023 - to do so using methods that deliver the best returns for the 'public purse' generally and allow key services to be maintained.

### Strategic Goals

7. The MTFFS has the following strategic goals:
  - a. To provide a framework within which the Council is eventually able to achieve a series of balanced budgets in the medium term to support the delivery of the Improvement & Recovery Plan and against the backdrop of the Section 114 Notice and past events.
  - b. By so doing to reach for and deliver where possible both financial stability and sustainability to do so in the short, medium and long term.
  - c. To enable successive budgets to be balanced using a set of Guiding Principles that are commonly adopted across the Local Government Sector and to apply these rigorously; and
  - d. To provide a budget and risk structure within which the Improvement & Recovery Plan can be delivered successfully.

### Key Points of Briefing

8. The MTFFS and accompanying MTFP is suggesting that if all savings opportunities currently under review were to be adopted that Council would have a remaining shortfall of c £2m for the 'business-as-usual' element of its budget shortfall in 2024/25. As, following consultation and investigation, not all of these opportunities are likely to be accepted or may be captured in years after 2024/25, it is appropriate to apply an adjustment factor of + £2m at the present time.
9. Accordingly, further savings will need to be found and it is suggested that – on the basis of prudence – a savings target of £4m is adopted for further enquiry.
10. A Budget Timetable for the 2024/25 Budget has been prepared and which incorporates a high level of challenge and review by Overview & Scrutiny Committee.
11. Aside from the 'business-as-usual' revenue shortfall of c £11m in 2024/25 the Council also has to deal with the Deficit highlighted in the recent Section 114 Notice (7 June) and needs to commence engagement with the Government Department (DLUHC) to seek agreement of a large package of financial support. This engagement is set to commence shortly led by Commissioners with the Council's statutory officers.
12. The MTFFS (and MTFP) will be further updated for the meeting of Executive and Full Council in September 2023.
13. The Provisional Finance Settlement from Government is expected in late December 2023; however on this occasion the agreement of support arrangements with Government is of overwhelming importance in allowing Council to set a Budget for 2024/25 which is balanced in line with the requirements of legislation.

## The Guiding Principles

14. In undertaking its financial operations over the period of the MTFS the Council is recommended to adopt the following Guiding Principles ('The Principles'). The Principles are based on sound management and professional practice. They are presented as *Guiding* Principles because there may be occasions where – after careful consideration - the exigencies of strategic or operational management may necessitate from time to time a departure from the Principles.

No.	Guiding Principles
1	Fees & Charges will be reviewed annually and adjusted for inflation, comparability, and competitiveness.
2	As a compassionate Council, in setting charges, the impact on vulnerable groups will be considered carefully.
3	Service level spend will be benchmarked regularly with a suitable peer group and proposals to align with the benchmark will be brought forward.
4	The Council will adopt a policy of Digital First in service delivery but as a compassionate Council will be mindful of the risks of <i>digital exclusion</i> in doing so.
5	A rolling programme of Service Reviews launched as part of the <i>Budget Gateway</i> process will continue within the timeframe of the MTFS and will be used to ensure that operating models, organisational design and cost footprints are subject to regular review and adjustment across the Council.
6	Service developments, savings and investment will be brought forward on the basis of business cases that must demonstrate feasibility, deliverability, and appropriate financial pay back and other investment appraisal techniques.
7	The Council will consult with residents and other stakeholders in the Borough in forming budget proposals
8	Where business cases are prepared for decision a proactive approach will operate encompassing review in depth prior to such presentation; this will include rigorous application of investment appraisal techniques, peer review and use of the Scrutiny function to achieve searching review and challenge before business cases are adopted.
9	The Council will welcome approaches from regional and other partners for joint working and joint management initiatives.
10	The Council presently has a <i>negative</i> balance on the General Fund of £1.180 billion (7 June 2023 estimate). The Council will seek to re-balance the General Fund through (a) its own endeavours generally (b) a programme of property rationalisation and (c) with support to be sought from Government. In the long term the Council will seek to reach for Unearmarked Reserves at a level of 5% of Net Expenditure (i.e. £0.8m based on current core funding of £16m).
11	Given the financial position of the Council and the need to maintain key statutory services the Council will seek to maximise receipts from all funding streams including Council Tax and income over the period of the MTFS.
12	Growth in service budgets must be funded from (a) grants or other contributions, (b) realistic estimates of commercial income or fees and charges (c) or revenue savings. No other growth will be adopted into the Budget within the period of the MTFS.

13	Council will develop enhanced means of assessing and managing risks at both strategic and operational levels and these will be used to inform the annual Budget process.
14	The Council will seek to make Value for Money decisions and be mindful of its obligations to obtain best value for the 'public purse' generally.

#### Financial Challenges: Governance & Decision Making

15. A full Budget Timetable appears at Annex 4 to this report. It must be noted that - following the Intervention announced by the Secretary of State on 25 May 2023 - the Commissioners will in support of the Executive - consider and receive the materials referred to below and will guide and advise the Council in fulfilment of their supporting role as part of the overall process.
16. In summary, the following arrangements are envisaged for Budget decision making in the period to the setting of the 2024/25 Budget in February 2024.
- a. That Overview & Scrutiny Committee hold a Budget Enquiry and Review meeting to consider the Revised Budget proposals on 11 September 2023; the results to be forwarded to the Executive meeting on 14 September 2023.
  - b. That Council receive a Revised Budget 2023/24 at the meeting of Full Council on 28 September 2023; this to (i) approve savings for financial year 2024/25 earlier than usual to enable an additional saving to be achieved in financial year 2023/24, (ii) mitigate the likely overspend in that year and (iii) to approve savings which have been consulted upon and adjusted (as needed) at that date to partly balance the forecast budget shortfall in 2024/25.
  - c. That the Medium Term Financial Strategy is further updated for the meeting of Full Council on 28 September; this to enable (i) the capture of further savings through the *Fit for the Future 3A* work programme (ii) updated corporate assumptions to be built into the suite of planning assumptions (iii) further definition of the Deficit and (d) the impact of any financial support (if available) offered by Government at that date.
  - d. Consideration of draft proposals for a balanced budget in 2024/25 to be undertaken by the Executive with Commissioners by 30 November 2023 and – following consultation (and any adjustment needed) adopted for forwarding to the Budget Scrutiny Meeting of the Overview and Scrutiny Committee on 22 January 2024.
  - e. The Executive to receive the recommendations from Overview and Scrutiny Committee at its meeting on 1 February 2024; and
  - f. Full Council to consider the setting of the 2024/25 Budget on 8 February 2024.
17. The Budget timetable will be considered by the Audit and Standards Committee on 7 July 2023 so that (i) it may take assurance on whether the Council has a thorough and appropriate process in mind for preparation and agreement of the Budget and (ii) whether it has any recommendations for officers as to the character and timetable for budget preparation.

### Consultation

18. It will be noted that this Budget timetable envisages two episodes of public engagement (i) in July and August 2023 and (ii) in October and November 2023. These engagement episodes are intended to serve the two meetings of Full Council that will be asked to take decisions on the Budget (i) the Revised Budget 2023/24 on 28 September 2023 and (ii) the meeting on 8 February 2024 when the 2024/25 Budget will be considered. Further explanation appears at Annex 5.
19. The engagement with residents is expected to commence in early July 2023 and formal consultation with staff and trades unions will commence on 24 July 2023. At the date of this report, the scale of the savings proposals is expected to be consistent with a reduction in headcount of up to 60 FTE in the Council overall. As part of this process briefings with staff, trade unions and other stakeholders will be scheduled accordingly. The Council will comply with its obligations under statute in all respects in undertaking these activities.

### The National Financial Background

20. The National economy is being driven by international economic events not least the impact of the war in Ukraine, ongoing issues with international supply chains and the ongoing impact of the Pandemic. One of the key issues that has emerged is the emergence of high levels of inflation in energy, food and other products and commodities which has caused very significant inflationary pressures in wholesale and retail markets across a range of goods and services; naturally these pressures have also related to increases in labour costs. The resulting inflationary pressure has not been seen in the UK economy since the very high levels experienced during the late 1970's and early 1980's.
21. In recent years Local Government has received a much higher proportion of funding from local rather than national sources as has historically been the case. It follows that Government has inherited a position where it no longer has the appropriate levers or – following the support afforded to communities and businesses through and following the Pandemic and energy crisis – the resources to meet the inflationary pressure in the cost of service delivery.
22. The result is that much of the financial pressure has been left for local councils to manage and this has resulted and will continue to entail a need for largescale savings across the Local Government sector. In Woking's case the position has been exacerbated by the decisions made by the Council between 2007 and 2021 which has resulted in the largest financial deficit to date in the history of UK Local Government.

### The Pandemic and ongoing Societal Changes

23. The ongoing impact of the Pandemic has resulted in a number of behavioural changes at a societal level which result in additional costs for local authority budgets. Examples have included but are not confined to higher waste collection costs, pressure of the collection of commercial rents and reduced car parking income. Although some of these effects are estimated to recover towards former levels the evident financial pressures are expected to continue into the medium term. This is the case in Woking as for other councils.



### Financial Planning Assumptions

24. The following paragraphs set out a suite of headline planning assumptions which inform the construction of the MTFP; greater detail is presented in Annex 7. These will be reviewed for the next quarterly update of the MTFP.

### Council Tax

25. As a response to the inflationary pressures in the economy the Government at the last Finance Settlement (2023/24) raised the referendum threshold for Council Tax increases to an overall total of 3% for lower tier councils such as Woking. The level of the council tax cap for 2024/25 is presently unknown but for planning purposes - in expectation that inflationary pressures will continue to be significant in the economy – it is assumed that an annual increase of 3% will apply in future years. Even at this level, the Council's spending power will decrease in real terms if - as seems likely - inflation continues to erode the value of money in the short and early medium term.
26. The increase in Council Tax will be a decision of Council in each year moving forward but to do other than maximise potential increases would imperil the Council's ability to sustain statutory services at a reasonable level. At this update of the MTFP it is unknown whether Government will permit a higher Council Tax for Woking as has been agreed in other councils suffering financial distress; further, at the time of writing local sentiment on such a proposal - were it to emerge - is not presently known.

### National Non-Domestic Rates (NNDR)

27. The Government has for some years been considering reform of the NNDR system amid concerns from the business sector that the Rate imposes an unwarranted burden on the commercial sector. To this point no firm proposals have been brought forward by Government and so the MTFP uses the existing methodology to forecast the yield in the forward period of the Plan. In addition, for Woking, the continued existence of the Surrey NNDR Pool to which the Council presently belongs is assumed at this time.

### The Previous Investment Programme

28. The Deficit that has been estimated in the recent Section 114 Notice and to which the Council adopted the Chief Executive's Response at Council on 20 June 2023, has entailed that on the basis of cost avoidance the Investment Programme as configured to this point has been *suspended*. The suspension is to continue *indefinitely* moving forward. This is because (i) the Programme is unaffordable in the future and (ii) the operation of the Investment Programme within parameters that were unwise, unaffordable and poorly managed has led to the current financial position of the Council. This suspension returns a revenue saving to the Council from 2024/25 onwards. In the future, capital expenditure will be planned and delivered through a new capital programming methodology that is referenced below.

## A Renewed Capital Programming Methodology

29. A new planning methodology will be drawn up when the proposals for balancing the 2024/25 Budget are fully formed and presented - in line with the Budget Timetable - to Council on 8 February 2024. For financial year 2024/25 and within the period of this MTFS the following *Capital Planning Principles* are recommended to form the Capital Programme which will be presented to Council on that date. Proposals that do not fall within these 'Capital Principles' will not be included within the Draft Capital Programme.
- a. Items of programming that relate to essential health and safety works and deliver compliance to the regulations within in the Council's property estate.
  - b. Essential investment in Information & Communications Technology to ensure that the Council has fit for purpose and secure tools and infrastructure to support operations generally where there is a suitable business case to support such investment.
  - c. Items where - following support from Government and from Commissioners - specific resources are provided to the Council by Government to complete or partially complete certain specified schemes that were already in delivery by the various companies owned by the Council when the Section 114 Notice was issued.
  - d. Any schemes that can be shown to be wholly funded from external resources without implying additional cost burdens for the Council.
  - e. Where proposals are estimated to return a measurable revenue saving; for example, leasing of the Council's commercial property portfolio which may require modest upfront capital investment and which then return a beneficial income stream to the revenue budget.
30. For the avoidance of doubt, on grounds of affordability there will be no other new borrowing for capital purposes by the Council in the General Fund during the period of the MTFS. During the period before final approval of the 2024/25 Budget in February 2024 the points set out in the preceding paragraph will be used for considering proposed capital investments.

## Reserves & the General Fund Deficit

31. In previous years the Council has sometimes used significant contributions from Reserves to support service delivery. As a result of the Financial Review undertaken to inform the recent Section 114 Notice (7 June) it can now be seen that the Council has no reserves because the General Fund should likely have been showing a negative balance since at least 2017/18. Accordingly, the Council cannot use such reserves as a funding source in forming the 2024/25 Budget.

### Treasury Management: Improvement

32. The Council holds a debt portfolio of £1.8 billion for which the annual debt service costs exceed £60m per annum. The Council has neither the resources nor the funding to manage the risks associated with this portfolio and – as implied by the Deficit of £1.2 billion described recently in the section 114 Notice – there is a risk that much of this money may not have been well spent. This is because the assets created have recently been revalued downwards (i.e. impaired) compared with the cost of acquisition and construction of many of those assets. It is expected that the VFM Review to be commenced shortly by Grant Thornton LLP will shed light on the extent to which VFM was gained through these activities.
33. A recent management review of Treasury operations in the Council has indicated that significant improvement is needed in the Treasury Management Strategy, the Capital Financing Strategy, the Prudential Indicators and associated documents that are required as part of the Treasury Management and Capital Accounting Codes of Practice (which are ‘proper accounting practices’ under the relevant legislation and with which compliance is mandatory). This work will be set in train and presented to Council on 8 February as part of the suite of papers that form the Budget Report for 2024/25 and its supporting strategies and plans.
34. The same management review has indicated that there is little scope to reschedule the loans portfolio to obtain better Value for Money (VFM) under present operating conditions and so operations are likely to be confined to accurately forecasting the budget estimates for interest payable and interest receivable to inform the budget position for 2024/25. This work will be undertaken during the Autumn of 2023.
35. Reflecting the relationship between the Council and its group companies, the Council has traditionally furnished the companies with cash drawn from the PWLB for capital purposes to create the fixed assets now lying in the companies’ accounts, In addition this has led to the subsidising of the operating expenses of the companies. As this practice is (i) not compliant with the Council’s responsibilities under Section 25.1.b of the Local Authority Capital Financing regulations 2003 and (ii) is clearly unaffordable given the Deficit faced by the Council this practice will now be suspended *indefinitely*. Accordingly, the boards of the relevant companies will need to take advice from advisers appointed for the purpose by the Council with regard to their consideration of and response to this position. This point is made without prejudice to the point made elsewhere in this report whereby business cases which may entail further investment may be put forward to Government for specific support where this supports the optimisation of VFM for the ‘public purse’ generally.
36. On a wider basis the Council will consider the advice of the leadership team, statutory officers and Commissioners with regard to the feasibility of seeking specific support from Government in order to complete certain aspects of the original Investment Strategy where there is a business case for doing so.

### The Finance Settlement 2024/25: Forecast and Key Points

37. The Provisional Local Government Finance Settlement for 2024/25 is likely to be published in late December 2023 and will become Final in late January or early February 2024. Accordingly, at this stage in the planning process an assessment is made of the forecast position with regard to the content of the Finance Settlement at that future date. These assumptions will be improved and revised as information becomes available.
38. The key points of briefing in relation to the Forecast are:
- a. New Homes Bonus – The Government has been considering reform or phasing out of New Homes Bonus and currently the grant is calculated on a one-off annual basis. It is assumed that the Council will receive £231,000 in 2024/25 and future years of the MTFP.
  - b. Controls on use of packaging and waste volumes – the Government is planning to establish a system where the producers of packaging waste are charged a levy related to the waste volumes that result such that the proceeds - net of regulatory costs - are passed on to local Councils. The assumption made in this version of the MTFP is that the incoming monies will need to be reinvested in waste services and that, accordingly, there will not be a net benefit to the Council from this scheme. This assumption will be reviewed for the next update of the MTFP.
  - c. Revenue Support Grant – this is currently assumed to be unchanged from 2023/24 at c. £100,000.
  - d. Collection Fund – the working assumption is that Council Tax is assumed to increase by 3% throughout each year of the MTFP, the maximum permitted under current Government guidance. The Collection Fund is assumed to be in balance for the current review without any surplus or deficit but this will be reviewed in depth for the next update in September 2023.
  - e. NNDR Pool - it is assumed that the Council will continue to be a member of the Surrey-Sutton Business Rates Pool in 2024/25 and future years and it is also assumed that the Government will continue to permit the operation of such pools as a matter of policy.

### Other Planning Assumptions

39. Further planning assumptions made in the Medium Term Financial Plan appear at Annex 7.

### The Fit for the Future Programme (FFP)

40. The Fit for the Future Programme has been operating for the last 12 months with the aim of securing recurring financial savings to support the Council's budget processes on an ongoing basis. The phases which are underway are described in the paragraphs below.

Fit for the Future Phases 1 & 2: Review

41. A review of phases 1 and 2 has taken place to assess whether the targeted savings were actually delivered in 2022/23 and 2023/24 as planned. Should this not be the case, the additional cost this implies is fed into the forward years of the MTFP as a pressure. At the present time the additional pressure for non-delivered savings is estimated as shown in Table 1 .

*Table 1: Fit for the Future 1 & 2 Savings.*

	<b>2023/24</b> <b>£'000</b>	<b>2024/25</b> <b>£'000</b>	<b>2025/26</b> <b>£'000</b>	<b>2026/27</b> <b>£'000</b>
<b>Savings not delivered - carried forward from previous year</b>		22	69	169
<b>FFF 1 &amp; 2 Savings Target</b>	1,752	1,313	235	0
<b>Total Savings Target</b>	1,752	1,335	304	169
<b>Savings Identified for Delivery</b>	1,730	1,266	135	0
<b>Savings not Delivered</b>	22	69	169	169

Fit for the Future Phase 3(A)

42. Phase 3(A) of the FFP has been undertaken to identify new savings for financial year 2024/25. This work has identified a number of savings which are considered to be feasible and which Council is recommended to adopt for consultation; this to commence in July and August 2023. The savings for which consultation is set to commence are shown in Table 2. These proposals – as adjusted for the results of the consultation - will ultimately be brought before Council on 28 September 2023 for approval and early implementation. These are outlined in Table 2.

*Table 2 – Fit for the Future 3 Savings*

<b>Source</b>	<b>£000</b>
<u>Savings for Consultation</u>	
Review of Grants to External Bodies	686
NNDR Discretionary Discounts	260
Organisational Restructure / Service Review	3,178
<u>Other Management Savings</u>	
Reduce cost of civic offices	250
Savings in Debt Management Expenses	TBC
<b>Totals</b>	<b>4,374</b>

### Fit for the Future 3 (B)

43. Phase 3(B) has been undertaken which relates to savings that need further investigation. There is significant confidence that significant savings might be released from this phase of work although not all of these might be available from 2024/25. These are outlined in Table 3 and will be further investigated.

*Table 3 – Fit for the Future 3B Savings; Targets for further Review*

<b>Source</b>	<b>£000</b>
Leisure Services	4,350
Review of Budget Requirements in Services	
Property Services Savings	
Contracted Services: Procurement	

### Flexible Use of Capital Receipts

44. As in 2023/24 the Council will wish to make use of the facility to use capital receipts to fund revenue expenditure used to fund business change and transformation. For this reason, a plan will be produced and included in the Budget Report for Council on 8 February 2024 following which the plan will be shared with the Government Department (DLUHC) as required in the guidance issued by Government.

### Property

45. The management of property assets is a significant business for the Council and work is proceeding in three strands in order to prepare for the September update of the MTFS.
- a. A review of commercial rent yields in the Council's portfolio of commercial property assets. Although this market had sustained a level of reduced activity during the Pandemic property enquiries have in the last few months begun to increase; it is to be hoped that this recovery will be sustained and the financial impact of this will be estimated and fed into the MTFP at the September update.
  - b. As part of the Asset Rationalisation Plan which is being developed alongside specialist advisers the Council has drawn up preliminary plans to release net capital receipts of around £53m in the period to Spring 2025. These assets are those which for various reasons do not meet the Council's needs moving forward. It follows that there is the prospect of reducing borrowing costs, reducing property holding costs and maintenance costs whilst achieving capital receipts that will (i) enable the Council to reduce its debt portfolio and (ii) to provide suitably for the Flexible Use of Capital Receipts as described elsewhere in this report.
  - c. A suite of savings proposals from the Property area is in development and engagement and consultation on these proposals is likely to begin in the period leading up to the meeting of Full Council in September 2023.

#### Re-establishment of General Balances

46. As rehearsed elsewhere in this report the Council presently holds a General Fund with a negative balance estimated at £1.2 billion. In order to signify a break with past practice it will be proposed to Council in the future meetings that a small adjustment from all budgets within the Council be set aside to establish a small General Reserve of £35,000. This will demonstrate a break with the past and will be funded by taking 0.001 % of every budget in the Council. This represents just £100 from every budget of £100,000 in the Council.

#### The Medium Term Financial Plan (MTFP)

47. The Council's MTFP (MTFS Q1 2023/24), 2024/25 to 2028/29 is shown in Table 4. The MTFP is the product of (i) detailed technical analysis (ii) detailed discussion with the Directorates and their respective management teams regarding the pressures identified and (iii) further engagement to assist the Directorates to identify savings to bridge the Budget shortfall identified.

48. In preparing to balance the 2023/24 Budget the Council produced an initial forecast 'business-as-usual' shortfall of £9m for 2024/25 which was revised to £11m following the emergence of additional pressures discussed elsewhere in this document. The full detail of the MTFP is shown in Annex 8 and the movements between the original figures and those now presented are shown in Annex 9.

*Table 4: Medium Term Financial Plan 2024/25 to 2027/28 [outturn Prices]*

Financial Year:	2024/25	2025/26	2026/27	2027/28	2028/209
	£m	£m	£m	£m	£m
Budget Requirement	24.52	24.93	25.35	25.81	29.12
Pressures	1.32	3.59	4.29	4.44	5.14
Revised Budget Requirement	25.84	28.51	29.63	30.25	34.25
Funding	(14.90)	(15.63)	(16.39)	(17.21)	(18.07)
'Business-as-usual' Shortfall (+)/Surplus (-)	10.94	12.89	13.24	13.04	16.18
Savings for Consultation:					
- Grants to External Organisations	(0.69)	(0.69)	(0.69)	(0.69)	(0.69)
- Organisational Restructure / Service Review	(3.18)	(3.18)	(3.18)	(3.18)	(3.18)
- NNDR Discretionary Discounts	(0.26)	(0.26)	(0.26)	(0.26)	(0.26)
Management Savings					
- Civic Offices Savings	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
- Debt Management Expenses	TBC	TBC	TBC	TBC	TBC
Total Savings Proposals for Consultation	(4.37)	(4.37)	(4.37)	(4.37)	(4.37)
Sub-Total: Revised Savings Target	6.57	8.51	8.87	8.67	11.80
Savings requiring Further Review					
- Recharge Companies Financing Cost					
- Leisure Services					
- Forensic Review of Council Budgets	(4.35)	(4.35)	(4.35)	(4.35)	(4.35)
- Property Services Savings					
- Contracted Services: Procurement					
Sub-Total:	(4.35)	(4.35)	(4.35)	(4.35)	(4.35)
Further Savings Required	2.22	4.16	4.52	4.32	7.45



## The Section 114 Deficit

49. The Section 114 Notice of 7 June reported an estimated Deficit of £1.200 billion by 31 March 2024; the Deficit is being reviewed further in order to prepare the final accounts for 2023/24 (and earlier years) but also to enable a balanced Budget for 2024/25 to be set by the Council in line with legislation on 8 February 2024. Should it emerge that balance may not be achievable then a further Section 114 Notice will need to be issued; however at the present time the Council is working on the assumption that this will not be the case. The Deficit with the 'business-as-usual' element removed is shown in Table 5 below.

*Table 5: The Section 114 Deficit: the Negative General Fund net of the 'Business-as-usual' element.*

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		£m	£m	£m	£m	£m	£m	£m	£m
<b>General Fund Balance as originally stated</b>									
Balance at 1 April a	a	(30)	(28)	(31)	(41)	(30)	(30)	(30)	(30)
In year transactions on the General Fund	b	2	(3)	(10)	11	0			
Balance at 31 March c=a+b	c=a+b	(28)	(31)	(41)	(30)	(30)	(30)	(30)	(30)
<b>Restated General Fund balance</b>									
Balance at 1 April	d = n	(30)	73	102	134	199	347	1,181	1,329
Restatement at 1 April 2018 for MRP understated in previous years	e	78							
Revised balance at 1 April 2018	f=d+e	48							
In year transactions on the General Fund	g=b	2	(3)	(10)	11	0	0	0	0
Restatements:									
MRP understated	h	23	32	42	54	67	94	93	73
Revenue loans	i					81	80		
Impairment of loans	j						614		
Understated repair and maintenance budget	k						45	45	45
Budget cost pressures	l							9	10
Other cost pressures	m						1	1	1
<b>Impact on Budget</b>	<b>n=f+g+h+i+j+k+l+m</b>	<b>73</b>	<b>102</b>	<b>134</b>	<b>199</b>	<b>347</b>	<b>1,181</b>	<b>1,329</b>	<b>1,458</b>
Less: Business as usual Pressures adjustment							-1	-10	-11
<b>Total</b>		<b>73</b>	<b>102</b>	<b>134</b>	<b>199</b>	<b>347</b>	<b>1,180</b>	<b>1,319</b>	<b>1,447</b>

50. An updated estimate of the Deficit is expected to be available by early August 2023 and will be used to (i) inform conversations with Government regarding the prospects for and timing of financial support (ii) to design prior period adjustments to the past accounts and (iii) to inform means of setting a balanced Budget for financial year 2024/25 (including Government support if available) at Full Council on 8 February 2024.

### Meeting the Section 114 Deficit

51. In order to achieve a balanced position the Council - unlike others which have found themselves in financial distress in recent years - will not have sufficient funding streams to accept a higher debt burden in dealing with the Deficit described in the Section 114 Notice. In the absence of such a possibility it would appear that the Council must seek a very large package of financial support in 2023/24 in order to achieve balance. This would deal with the additional charges arising from Minimum Revenue Provision, revenue use of capital loans and a write down of loans to the companies which had been secured on asset values now impaired.
52. If such a package is not accessed the Council will attract a further Section 114 Notice. This is because the Council is making and will continue to make valiant efforts to balance the business-as-usual deficit but has no capacity from its own small resources to take further steps with regard to meeting the charges described whilst at the same time continuing to deliver services.
53. That said, the Council fully acknowledges its corporate responsibility to the community and the taxpayer and to Government to take such steps as are available to meet a proportion of the overall deficit from its own resources. Accordingly the Assets Rationalisation Programme discussed in this report will need to be pointed at reducing the debt portfolio and repaying loans from PWLB.

### Companies Owned by the Council

54. The Council owns or part owns 24 companies split into 3 categories. As referred elsewhere in this report the Council will not be able to subsidise these moving forward as it has sought to do in the past. This means that the boards of the companies will need to take advice - sources of which have been put in place by the Council - on their particular circumstances, in seeking to deal with the challenges that this may present.
55. The categories are:
  - a. Thamesway Group, developing and managing housing regeneration and district energy networks.
  - b. Victoria Square Woking Limited (VSWL) – a significant investment in and redevelopment of Woking town centre.
  - c. 7 other companies of much smaller size but complex historic arrangements.
56. As noted above, the Council cannot continue to support the companies the way that it has been doing in the past. The expectation is that, through work undertaken by staff and external advisers, the Council will have identified options by the end of September 2023. The Council has informed the companies of the Council's updated cost control process and the companies report they have aligned their own procedures to those measures.

57. The organisation and structure of the Council's company portfolio appears at Annex 11. There is ongoing work to review the structure of the portfolio. This is likely to include reducing the number of companies in the group, seeking to ensure that where possible any companies that remain are viable business operations and add value to the Council.
58. Thamesway and VSWL investments have been wholly funded by the Council, contributing significantly to its high levels of borrowing. The Section 114 Notice draws out the implications of this funding and the response of the Chief Executive to this Notice provides the details of the future actions required to deliver an Improvement and Recovery Plan which includes these elements of the Council's operations.
59. From July 2023 the Council has agreed and continues to develop a new Company Governance model. The Council is now operating a Shareholder Liaison Service and advice is being drawn from specialist advice procured for the purpose. The process of reviewing the companies is complex and activity is being formed under the Improvement and Recovery Programme. This additional support will:
- a. Lead and set up a team of internal resources and external advisers to create a company restructure programme that assess the options for each company, an implementation plan and then follow through to conclusion in order to maximise public value and minimise loss.
  - b. Engage with Companies to ensure they have business plans that are sufficient for the business they relate to and to provide the Shareholder assurance over their investments.
  - c. Work with the Council and companies to develop and implement data driven performance management and reporting systems
  - d. Work with the Council and companies to provide an integrated and standardised decision making and risk management frameworks.
  - e. Work with and through company solvency arrangements that may arise.
  - f. Engage directly with the senior management of the companies and lead any instructions or negotiations with them.
  - g. Advise on and work with Council officers on the arrangements needed to manage the residual portfolio.
60. The Council has commissioned further consultancy advice on a Commercial Strategy. This seeks strategic options for completing its key regeneration schemes in the Town Centre and Sheerwater Housing estate that:
- a. Reduces Council borrowing.
  - b. Mitigates and minimises financial risks to the Council.
  - c. Protects financial returns to the Council to support its financial resilience and sustain a level of financial independence.
  - d. Introduces alternative equity investment and options for alternative delivery vehicles that can best commercialise investments made in regeneration schemes.
  - e. Introduces high quality market housing, retail, office and leisure investment and delivery expertise.
  - f. Supports a thriving high street and town centre community.
  - g. Delivers high quality mixed tenure homes, including affordable homes

- h. Retains or enhances community infrastructure
- i. Supports a sustainable Housing Revenue Account (HRA) for the Council's remaining housing stock.

61. This advice also encompasses:

- a. Identification of the full range of strategic options for the Council that:
- b. Recognises the strategic priority outcomes the Council is seeking to achieve as outlined in the Working for All Strategy.
- c. Recognises the limitations that the current status of the regeneration plans places on the deliverability of alternative options.
- d. Scopes out each option, clearly setting out the considerations and necessary actions that would be required.
- e. Compares options against the baseline of continuing with the current plans.
- f. Undertakes a cost-benefit analysis and financial appraisal for each option. This includes, but is not limited to, indicative valuations for any disposals; cost estimates for any refurbishment or redevelopment works; high level tax implications; Council borrowing requirement. Each option is to clearly set out what is delivered in terms of the regeneration outputs and delivering against the strategic priority outcomes in the Working for All strategy.
- g. Sets out delivery plans and timescales for delivering the recommended options.

62. The Commercial Strategy is planned to be available for consideration and reporting in September 2023.

#### The MTFS & MTFP: Governance & Reporting

63. The MTFP will continue to be updated on a rolling basis from this point forward and will be reported quarterly to the Executive, Overview & Scrutiny, Full Council, and the Commissioners. This will enable stakeholders to receive regular briefing on observed changes to the forecasts that are from time to time observed.

#### Risk Assessment & Management

64. The Council has a need to develop structured arrangements to manage risk with regard to strategic and operational dimensions of its operations. The principal risks associated with maintenance of the Council's services within the financial constraints identified in the MTFS and associated MTFP are set out in Annex 10.

#### Summary

65. This document has set out the MTFS and the embedded MTFP and the acceptance and application of these documents can be summarised as follows:

- a. The Council has identified a set of Guiding Principles which will assist in shaping responses to future budget shortfalls.

- b. The Council is aware of the challenging financial pressures that bear on the 2024/25 Budget and beyond and has understood the issues that this presents.
- c. The Council has taken effective action to identify a portfolio of savings in order to partly balance the 2024/25 Budget and has prepared a set of further draft proposals for further exploration.
- d. The Council has already taken steps to suspend the Investment Programme indefinitely to contribute to the balancing of the Budget in 2024/25 and thereafter.
- e. It will be key across the years of the MTFS for the Council to maximise funding streams including Council Tax and this should continue – as in previous years – to inform planning assumptions in the MTFS and MTFP.
- f. MTFP Planning assumptions will continue to be refined and reviewed on an ongoing basis; accordingly the figures contained in this report will continue to change, moving forward.

### Recommendations

66. It is recommended that Council:

- a. Note the Budget Timetable.
- b. Approve the Guiding Principles.
- c. Approve the Capital Planning Principles.
- d. Note that the Capital Planning Methodology will be re-designed before Budget Council on 8 February 2024.
- e. Note that the Investment Programme has been suspended indefinitely on grounds of affordability.
- f. Approve the savings for consultation (FFP 3(A)) including those relating to possible reductions in the Council's staffing establishment.
- g. Note that the Treasury Management Strategy, Financing Strategy, and related documents will be re-set for Budget Council in February 2024.
- h. Approve the MTFS and embedded MTFP as an estimate of the Council's current financial position; noting that the figures will change as further updating takes place,
- i. Note the preparation of an Assets Rationalisation Plan.

**Woking For All Strategy 2022/2027**

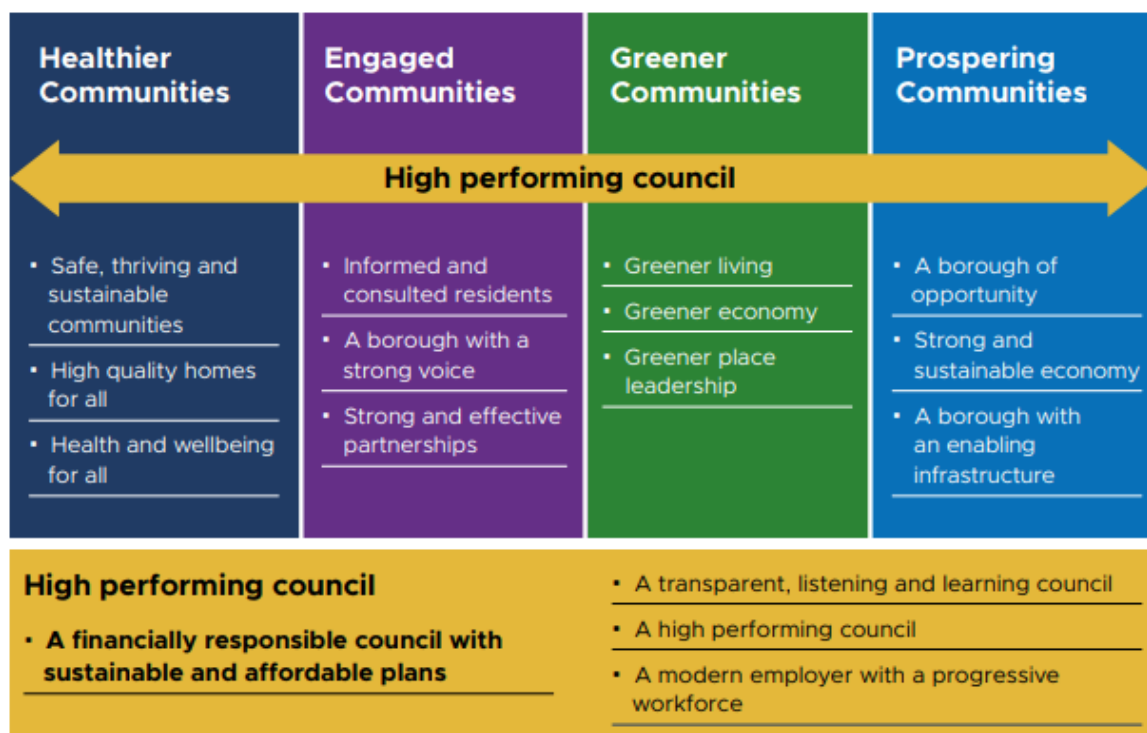
# The priority outcomes

The Council has four community facing priority outcomes: **Healthier communities; Engaged communities; Greener communities; Prospering communities** and one cross cutting, **High performing council**, priority.

These priority outcomes shape our activities and resourcing decisions over the term of this five-year strategy and the priority actions we will deliver in the current year, 2022-2023.

The Liberal Democrat administration has committed to “take on the gradual challenge of major change and take both decisive and targeted actions”. This means we will:

- use the framework of the ‘Woking for all’ strategy to ensure a managed transition to the new administration and leadership of the Council
- make clear and targeted changes to priority actions in 2022-2023 to ensure our policies and priorities are reflected in these actions
- augment the High performing council theme with a new theme setting out the administration’s focus to ensure a financially responsible council
- work in an open and inclusive way to review the priority outcomes going forward from 2023-2024 to ensure there is a legacy of positive change because of our administration.



### The Role of Commissioners

1. On 25 May 2023, the Secretary of State for Levelling Up, Housing and Communities exercised his powers under the Local Government Act 1999 to intervene in Woking Borough Council. The Secretary of State has done this because he considers that Woking Borough Council is failing to meet the 'Best Value Duty' which all councils have, to secure continuous improvement in how they deliver their functions.

2. The intervention is formed of a set of actions which the Authority is directed to take, and the appointment of commissioners who have been given powers over certain functions of the authority. The range of functions which the commissioners will exercise is broad, relating to financial and commercial governance, strategic decision making and the authority's operating model, as well as other functions.

3. The Directions enable the Commissioners to exercise the following functions:

- All functions associated with the financial governance and scrutiny of strategic financial decision making by the Authority;
- The requirement from section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Authority's financial affairs, and all functions associated with the strategic financial management of the Authority, to include:
  - i. providing advice and challenge to the Authority on the preparation and implementation of a detailed action plan to achieve financial sustainability, and to close any short and long-term budget gaps identified by Authority across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan;
  - ii. providing advice and challenge to the Authority in the setting of annual budgets and a robust medium-term financial strategy (MTFS) for the Authority, strictly limiting future borrowing and capital spending;
  - iii. scrutiny of all in-year amendments to annual budgets;
  - iv. the power to propose amendments to budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty; 3
  - v. providing advice and challenge to the Authority on the preparation of sustainable and affordable capital, investment and treasury management strategies; a strict debt.
  - vi. reduction plan; and a revised minimum revenue provision (MRP) policy;
  - vii. providing advice and challenge to the Authority on a suitable scheme of delegations for financial decision making;
  - viii. ensuring compliance with all relevant rules and guidelines relating to the financial management of the Authority.

- All functions associated with commercial decision-making, regeneration, property management, procurement and the management of commercial projects by the Authority.
- All functions associated with the governance, scrutiny and transparency of strategic decision making by the Authority.
- All functions associated with the Authority's operating model and redesign of the Authority's services to achieve value for money and financial sustainability.
- All functions relating to the appointment and dismissal of persons to positions the holders of which are to be designated as senior officers and statutory officers, and the designation of those persons as statutory officers, to include:
  - i. The functions of designating a person as a statutory officer and removing a person from a statutory office.
  - ii. The functions under section 112 of the Local Government Act 1972 of:
    - appointing and determining the terms and conditions of employment of an officer of the Authority, insofar as those functions are exercised for the purpose of appointing a person as an officer of the Authority principally in order for that person to be designated as a statutory officer; and
    - dismissing any person who has been designated as a statutory officer from his or her position as an officer of the Authority.
- All functions to define the officer structure for the senior positions, to determine the recruitment processes and then to recruit the relevant staff to those positions.
- All functions pertaining to the development, oversight and operation of an enhanced performance management framework for officers holding senior positions

4. The Secretary of State envisages that most decisions will be carried out by the Authority, with the oversight of Commissioners: they will uphold proper standards and due process and recommend action to the Authority. The Directions set out, though, that the functions set out in the directions shall be exercised by Commissioners; and the Authority must comply with any instructions of the commissioners relating to them. Further, the Authority is directed, to undertake in any of its functions, actions that the Commissioners may reasonably require in order to avoid giving rise to the risk of further failures to meet the Best Value Duty.

5. The Secretary of State's intention is that the powers he is providing to the Commissioners be used to ensure that the Authority takes the necessary steps to achieve the best possible outcome for Woking residents and the public purse. The exercise of these functions should enable the Commissioners to make sure that the Authority has made sufficient improvement within the next five years to be able to comply with its best value duty on a sustainable basis.



The Section 114 Notice

*Link to Chief Executive's Response to the Section 114 Notice:*

- [Agenda for Council on Tuesday, 20th June, 2023, 7.00 pm \(woking.gov.uk\)](#)

**Report to all Elected Members of Woking Borough Council**

**under**

**Section 114 (3) of the Local Government Finance Act 1988**

**by**

**Brendan Arnold FCPFA**

**Interim Director of Finance (Section 151 Officer), Woking Borough Council**

**Date of report: 7 June 2023**

Purpose of Report

1. Members of the Council are asked to consider this report by the Section 151 Officer (the Chief Finance Officer). The report is made under section 114 (3) of the Local Government Act 1988 because the Section 151 Officer is of the opinion that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure.
2. The Section 114 Notice is issued following statutory consultation with both the Chief Executive (Head of Paid Service) and the Monitoring Officer. At the date of this report that consultation has taken place. Following the issuance of the Section 114 Notice the Council has 21 days to hold a meeting of Full Council to consider the report from the Section 151 Officer and decide how it will respond.
3. The purpose of this Section 114 report is to make it clear to Members of the Council that – following events that have played out over a long period of time and which relate to the Council's Investment Strategy and which has resulted in (a) unaffordable borrowing (b) inadequate steps to repay that borrowing and (c) high values of irrecoverable loans - the Council faces a financial situation of an extremely serious nature. In summary, the Council faces an unprecedented financial shortfall that cannot be funded from resources available to the Council.

## Key Issues

4. Following a searching and continuing review of the Council's financial affairs (the 'Financial Review') the main issues that have come to light are as follows:
  - a. Over a long period of time the Council has been using a business model that incorporated a 50 year payback period and has used assumptions that inevitably entailed that the companies used for asset construction and ownership would return accounting losses over a long period of time. The Council – having insufficient revenue resources to fund these operating losses – has chosen to fund them by advancing monies sourced from loans supplied by the Public Works Loans Board (PWLB). Reflecting the business model used, loans have been advanced to the Council's companies for capital purposes (i.e. the construction of fixed assets or laying out of land under the relevant legislation) *and* revenue purposes (i.e. to meet operating expenses). Where the loans have been used for *revenue* purposes, this practice falls outside Regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended.
  - b. The Council has been setting aside insufficient monies for the repayment of debt. The Council's debt portfolio is £1.8bn at 31 March 2023 and the Minimum Revenue Provision (to repay debt) appears to have been undercalculated since 2007/08. This will result in an additional charges to the Revenue Account (in 2023/24 in the region of £95m) and an average in the region of £75m in each year moving forward.
  - c. In addition, as a result of the under-calculation, the opening balances in the historic suite of final accounts at 1 April 2018 will need to be re-stated by c. £80m and *prior period adjustments* (totalling £220m) made to the financial accounts prepared by the Council for the years from 2018/19 to 2022/23. The under provision for repayment of debt also affects the Council's Medium Term Financial Plan which will face additional charges in each year moving forward. In order to explain the impact, if the additional charges of c. £75m in each year were to be funded by service reductions, this would mean that the Council could no longer afford to provide any services at all and would still see a net budget shortfall.
  - d. The Council has passed the majority of the loans drawn down from the PWLB to various of its companies (£1.3 billion in total) principally Victoria Square Woking Limited (VSWL) and Thameswey Group Limited (TL). Most of these loans were applied for capital purposes (as is correct), but a significant proportion (up to c. £160m) is likely to have been used to fund *revenue* expenses which is not in accordance with Regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended. If loans were advanced for a revenue purpose these should have been treated as revenue expenditure in the Council's accounts rather than funded from borrowing; this raises the prospect of a corrective charge.

- e. The majority of the assets created by the Investment Programme that has been in delivery over a number of years lie within the accounts of the Council's companies (some of which are joint owned with commercial parties). These assets have been re-valued by experts in the field and it is clear that asset values have diminished substantially over time and further valuation work will be required to bring these values up to date.
- f. It follows that the loans advanced by the Council to the various companies need to be adjusted to reflect impairment of the underlying assets in a sum exceeding of £600m. This has an adverse impact on the security available to the Council in terms of the loan advances made.
- g. The *core funding* of the Council in financial year 2023/24 – comprising Council Tax, Business Rates and Government Grants - is just £16m. The size of the debt portfolio acquired by the Council (£1.8bn) is out of step with the funding streams available.
- h. Aside from the above, arising from a deterioration in the performance of its acquired assets against the original commercial targets as a result of economic factors (including general inflation, energy inflation, reduced parking revenues owing to homeworking, moderated high street spending through internet shopping), the Council is already facing a 'business-as-usual' budget shortfall of £9m in financial year 2024/25 and thereafter. This shortfall is likely to increase as additional pressures are identified at the next update of the MTFs. In addition, the repair and maintenance budget is estimated to be insufficient by £45m per annum based on the value of the Council's asset portfolio at 31 March 2021 and industry benchmarks for repair and maintenance budgets. Overall, the balancing of the 2024/25 Budget will result in very significant reductions in both budget and service levels.
- i. The existence of the factors set out in this report, render the forward budget shortfalls unbridgeable; there is no prospect that the Council will balance its budget in 2023/24, 2024/25 or the successive years without external intervention on a very large scale. On this journey, the enriched service suite that the Borough has enjoyed over a number of years will need to be removed or alternative funding sources found. In this regard, work has been underway for some months to bring forward proposals to offset the £9m budget shortfall - as adjusted by additional cost pressures – already identified.

- j. When the overall deficit complicit with the points set out above is calculated, and because calculation of the charge for Minimum Revenue Provision entails a suite of *prior period adjustments* in the financial accounts for years past, the Council presently has an estimated negative General Fund balance of c. £350m at 31 March 2023. The negative value of the General Fund at this date is forecast to more than triple to around £1.20bn by 31 March 2024. In order to resolve this position the Council will need a commensurate injection of cash or removal of liability.
  - k. At the date of this report the Council is working towards definition of the revenue outturn position for 2022/23 against budget. It is considered likely that an overspend will be identified; in this case for the reasons set out above in this report there are in reality no cash backed reserves available to fund this overspend because the General Fund balance is negative.
5. It should be noted that the figures quoted in the above paragraphs will change as the ongoing work of the Financial Review continues in the period ahead. However, the matters defined so far do not allow any doubt as to the scale and breadth of the financial challenge described in this report.

#### Consequences of the Section 114 Notice

6. The issuing of the Section 114 report has the following impact on the work of the Council:
- a. A series of Financial Controls will be imposed until Council has had the opportunity to meet and to consider an accompanying report from the Head of Paid Service on how the Council should proceed.
  - b. Many of these Financial Controls will need to remain after the Council has met to consider the Section 114 report. This is because the Council will lack the resources to maintain spending in all areas moving forward.

#### The Financial Controls

7. The Financial Controls will be exercised by a Financial Control Panel (FCP) and will apply from the date of this report. The FCP will comprise a small team of senior officers selected and chaired by the Section 151 Officer. The controls – which are a statutory requirement when a Section 114 Report is issued – are as follows:

- A. The Council is prevented without the explicit agreement of the Section 151 Officer from entering into any new agreement or commitment for expenditure until Council has met to consider the Section 114 report. These controls may be re-applied after the date of that Council meeting.
- B. Temporary Measures are in force from the date of this report such that all non essential expenditure will stop with immediate effect without the written confirmation of the Section 151 Officer. For the avoidance of doubt noncompliance with this requirement will be considered a disciplinary matter by the Council.
- C. These controls (A) and (B) equally apply where services are being delivered through companies controlled by the Council or where the Council supplies funding to companies that are jointly or partly owned by the Council.
- D. There will be an immediate suspension of the Council's Investment Programme. All expenditures generated by operation of that programme are suspended until the Section 114 Notice has been considered by Council, unless Directorates can evidence that the Council is in contract with suppliers for the delivery of construction works or professional services essential to the continuation of works for which the Council is in contract. That judgement will be exercised by the Section 151 Officer in consultation with Monitoring Officer. On grounds of affordability it is likely that this suspension will continue in the medium term.
- E. The Financial Controls described apply to all Council services, including statutory services, those delivered through Council controlled companies and connected entities. The control framework will be set in place to ensure this happens while ensuring that key services to vulnerable people and those who are homeless are not affected by these controls.
- F. Spending controls will need to remain in place for the foreseeable future i.e. at least for 2023/24 and a progress report on the wider Recovery Plan including progress with the Financial Recovery Plan will be made to Full Council on a quarterly basis moving forward.
- G. Complicit with the position that the Council's loan portfolio is unaffordable the Council's Capital Financing Requirement will be reviewed and re-calculated. In addition, this means that no further loans will be sought from the PWLB unless these are to be applied for capital purposes for which the Council is in contract, for the replacement of existing maturing loans, the maintenance of working capital or other specified matters agreed by the PWLB in conjunction with DLUHC and the Commissioners and the Section 151 Officer.
- H. Insofar as the Financial Controls generally have an adverse impact on the profit and loss accounts of the various companies hitherto in receipt of support - and which is now unaffordable - the boards of those companies may look to the Council to make up for the lost

funding from revenue resources. However, reflecting the financial position, which is the subject of this Section 114 Notice, the Council is unlikely to be in a position to consider provision of such support. Accordingly, there is a responsibility for company boards that find themselves in this position to consider taking professional advice on the options available to them. To provide for this eventuality the Council has taken steps to set in place sources of professional advice to support company boards in these considerations.

- I. If the Financial Controls are not adhered to or for unforeseen reasons do not achieve the required outcomes a further Section 114 report will need to be issued.

#### Support to be Sought from Government

8. Attainment of the actions envisaged in the emergent Recovery Plan will not by themselves resolve the Council's financial exigency. The Council must therefore approach Government to explore the prospect of financial support and to seek views on the provision of such support.
9. It follows that the Council, on the basis of the estimated financial deficit of **£1.20bn** to 31 March 2024 referred to in this report, needs to acquire financial support on a very large scale. For the avoidance of doubt, the Council has no means of funding the financial deficit from resources that are available locally and has a very small funding base (just **£16m** in 2023/24 excluding use of reserves) in relation to the size of the deficit identified.

#### The Legal Framework

10. Section 114 (3) requires 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. The process for issuing a Section 114 report and the effect of it are set out in various sections under the 1988 Act. Subsection 3(A) requires the chief finance officer to consult, so far as reasonably practicable, the Head of Paid service and the Monitoring Officer. Both of these statutory officers have been fully briefed and consulted in the preparation of this report. Further, the Corporate Leadership Team has been fully briefed on the content of this report and have similarly been consulted.
12. Section 115 of the 1988 Act requires Full Council to consider and decide on the report made under Section 114 within 21 days beginning on the day the report is issued. Full Council must consider the report at a meeting where it shall decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it.

13. Section 115 (6) states that pending consideration of the report by Full Council, there is a prohibition period which runs from the date the report is made to the date of the Full Council meeting. During this period, the Council must not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority unless the chief finance officer of the authority authorises it to do so.
14. Subsection (6A) states the chief finance officer may only give authority for the purposes of subsection (6) if he considers that the agreement concerned is likely to:
  - a. prevent the situation that led him to make the report from getting worse,
  - b. improve the situation, or
  - c. prevent the situation from recurring.
15. Subsection (6B) requires that authority for the purposes of subsection (6) shall:
  - a. be in writing,
  - b. identify the ground on which it is given, and
  - c. explain the chief finance officer's reasons for thinking that the ground applies.
16. Subsection (8) states that if subsection (6) is not complied with, the Council shall be taken not to have had power to enter into the agreement (notwithstanding any option to do so under contract or otherwise). Therefore, the Council's actions will be deemed unlawful.
17. Section 116 requires the Council to notify its external auditors of the report and the time, date and place of the full Council meeting. The external auditors also need to be informed of the outcome of the meeting as soon as practicable. The external auditors have been kept informed of the emerging financial position and the planned work. The external auditors will need to consider the implications of this report on their statutory functions and the implications for their opinion on the 2019/20 and subsequent accounts which remain unaudited at the date of this report.
18. CIPFA guidance recommends that informal contact is made with DLUHC, lead members and statutory officers in advance of issuing a Section 114, to undertake a level of scenario testing and to ensure a robust action plan to address the issues raised is able to be prepared. Lead members have been kept up to date on the emerging budget situation, as has the Executive and the key statutory officers and there has been regular liaison with DLUHC officials and professional advisers including *CIPFA Solutions* and others.

19. The Council's legal duties around budget setting are set out in Section 31A of the Local Government Finance Act 1992, which states:

(1) In relation to each financial year a billing authority in England must make the calculations required by this section.

(2) The authority must calculate the aggregate of:

(a) the expenditure which the authority estimates it will incur in the year in performing its functions and will charge to a revenue account, other than a BID Revenue Account, for the year in accordance with proper practices.

(b) such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account for the year in accordance with proper practices.

(c) the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure.

(d) such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.

(e) any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with regulations under section 97(2B) of the 1988 Act,

(f) any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with section 97(4) of the 1988 Act; and

(g) any amounts which it estimates will be transferred from its general fund to its collection fund pursuant to a direction under section 98(5) of the 1988 Act and charged to a revenue account for the year.

20. The findings of the continuing Financial Review are such that the financial parameters described above and which were considered by the then Section 151 Officer when Council met on 27 February 2023 to agree the Budget for 2023/24 now need to be reviewed and considered in the context of a revised Medium Term Financial Plan and Strategy. The intention is to present a revised MTFPS in July 2023. Accordingly, the Council will seek to open discussions with Government to inform this reporting timetable.

21. Following these considerations Council may wish to call for a revised Budget for 2023/24 in order to endorse:



- (a) the financial support arrangements which may then pertain.
- (b) to agree budget savings for 2024/25 in order to reach for savings in advance of the 2024/25 financial year; and
- (c) to receive a report on how the Financial Review has led changes to financial management arrangements on a broad front.

#### The Financial Review - Background

- 22. The Council has been in dialogue with DLUHC – the relevant Government Department - since May 2022. This dialogue focussed on the very large loan portfolio held by the Council and risks around the ability of the Council to manage the scale of operations then in place. As a result of this engagement the Council was offered and welcomed a non-statutory review by DLUHC that commenced in December 2022; the report from this review was published in May 2023.
- 23. In setting the 2023/24 Budget in February 2023 the then Section 151 Officer approved the setting of a balanced budget through use of reserves but did so with the cautionary advice that ‘the Council was in Section 114 territory’. Further information was included in the Section 25 report which formed part of that Budget Report.
- 24. On appointment, having taken note of work already undertaken by the leadership team and having made further observation, the new Section 151 Officer with support from that team (a) presented an updated MTFS to the Executive and Council (from 23 March 2023) and (b) commissioned a suite of work to unpack and define aspects of the Council’s financial affairs. This work, undertaken with support from professional advisers including *CIPFA Solutions* and other specialists comprises the Financial Review referred to in this report. This work is ongoing.

#### Detailed Points Arising from the Review

- 25. The key findings arising from the Review and which have been operating in the Council for some considerable time period (with the exception of (g) prior to 2016) include:
  - (a) A weak financial control environment.
  - (b) Sub-optimal record keeping.
  - (c) Weak management review processes.
  - (d) Weak understanding of accounting guidance.

- (e) Weak understanding of statutory requirements in respect of accounting arrangements.
- (f) Insufficient resources generally to manage successfully the scale and complexity of the company structures, assets and liabilities that had been brought into existence by the Council over many years.
- (g) The absence of external audit opinions on the Councils accounts since 2018/19.

26. The Financial Review commissioned by the current leadership team has brought to light and defined the financial deficit in the Council. The financial challenges with which the Council is faced have been acquired over a long period of time and in particular have accelerated between 2016 and 2021. It is likely that further issues will arise in the coming months as more work is completed and the recovery planning is developed fully to set the Council's financial affairs on an appropriate course. It follows that these matters will take some time to resolve and the estimated timeline until a substantive recovery has been achieved is likely to be two years from the date of this report. That said, the financial recovery is being pursued at pace and a plan for the first 100 days is being prepared as a component of the wider Recovery Plan and action is already being taken as part of this greater whole.

27. It is notable that had the issues now being drawn out been understood in previous years (i.e. before 2021) the Council would have had grave difficulty in setting lawfully balanced budgets in the period since 2018/19. The following points are relevant:

- a. The current estimated negative General Fund balance prior to submission of any request for support from DLUHC is c. £350m to 31 March 2023. The additional in-year deficit for 2023/24 is estimated to be in excess of £800m resulting in an overall deficit of almost **£1,200,000,000** or **£1.2bn** forecast to 31 March 2024. This is further described at paragraph (29) of this report.
- b. It is fair and reasonable - given the circumstances - that the Council take all possible steps to mitigate the level of financial support needed from Government in order to set the Council's affairs on an appropriate financial course. To this end the recommendations prepared by the Chief Executive in the accompanying report on this agenda are of critical importance.
- c. The financial deficit identified in this Council has the highest ratio compared to the resource base of any major Council in recent years. The expected deficit at 31 March 2024 (£1.181bn as defined at paragraph (29)) is estimated to be 107 times greater than the amount raised in Council Tax in each financial year (£11m). This raises an important point; that the resource base in this Council is insufficient to accommodate meeting the overall deficit even if capitalised over a very long period of time.

- d. Further Section 114 Notices may need be issued if means of managing the position are not able to be agreed with partners in Government in the weeks ahead. That said, there is a level of confidence that the position faced by the Council is understood in DLUHC and thanks are extended to officials in the Department who have been both supportive and helpful in wider discussions that have so far taken place.
- e. The Minimum Revenue Provision (MRP) calculation to set aside resources for the repayment of debt has not been undertaken in the manner required for a number of years. The additional charge to be made in 2023/24 is in the region of £95m. Given that the charge has been calculated on a basis that is (a) incorrect and (b) lacking a prudent basis it is clear that the Council has not complied with the relevant guidelines and Codes of Practice that apply.
- f. From the observations made there is a high probability that the Council's various reports which have been produced over a number of years to deal with budget setting, financial monitoring, capital programming, capital financing and treasury management have all contained inaccuracies and misassumptions. Improvements are needed to ensure that these documents meet the needs of decision makers through suitable transparency and clarity as the Council moves through the process to achieve recovery.
- g. The Chief Executive has sought to ensure that the incoming external auditor (Grant Thornton LLP) is aware that the leadership team is keen to see the initiation of suitable enquiries to clarify how the matters described in this report unfolded in the period 2016 to 2021. This initiative is supported by the Section 151 Officer and at the date of this report a meeting has taken place between the statutory officers and the incoming external auditor who had already been in the process of forming proposals to serve this need.
- h. The accounts for the Council for 2019/20 are still awaiting an audit opinion from the previous external auditor and the audits for years following have yet to commence. Over a substantial period the leadership team has sought to bring this matter to a focus with the external auditor and Public Sector Audit Appointments (PSAA) (the agency responsible for appointing external auditors to local government). In addition the Standards & Audit Committee has enquired closely on this issue. The delivery of an effective external audit service is a continuing priority for the Council and work continues to bring this matter to a focus with providers and stakeholders in the near future.
- i. The Council has a number of wholly or partly owned companies. Historically governance and financial management processes in relation to these arrangements have been weak and a number are in need of ongoing financial support which – on grounds of affordability – the Council is unable to provide. This being so it is inevitable that unless additional resources can be made available by

Government some of the boards of these companies will need to seek advice on available options in the period ahead. The Council has set in place sources of such advice where this is needed and - thanks to the efforts of the Council's leadership team - the strengthened arrangements for shareholder liaison are beginning to enable a more structured approach to governance and decision making.

- j. The Finance Directorate – never of adequate size for the commitments it has faced – has sustained in recent weeks the departure of a number of staff experienced and knowledgeable about the arrangements made by the Council. As at the date of this report the majority of the Finance Directorate Management Team is formed of interim contract staff who have been retained by the Council only recently.
- k. Financial processes, reporting and internal controls need in some cases to be strengthened. Budget monitoring processes in particular are weak and poorly designed. These are being redesigned at pace and support for budget managers is being put in place in the period ahead.
- l. The Housing Revenue Account is under severe financial pressure significantly because the Sheerwater housing development scheme has removed a large portfolio of dwellings from the portfolio of HRA rental properties with commensurate loss of rental income. A HRA Financial Recovery Plan is in development to focus on rent collection, the level of recharges from the General Fund and a number of other key opportunities for cost reduction. The Council does not have a 30 year business plan for the HRA at this time.
- m. The Council's company structures are in need of detailed review and simplification and initial steps have already been taken and resources assigned to begin work in this regard. Given the financial position of the Council, it is likely that the case for using companies to develop assets and run services may be significantly weakened and that alternative approaches will need to be explored through conversations with DLUHC and other Government agencies on the forward journey.
- n. The Council's leadership team has been fully briefed on the conclusions of the Financial Review.

#### Other Issues

- 28. The Council has already noted (See the Medium Term Financial Strategy reported to the Executive on 23 March 2023) that in 2024/25 it faces a budget shortfall of £9m. It is expected that additional cost pressures (estimated presently at c. £1m) will need to be added to this total as when the MTFs is next updated. The shortfall is already being targeted through the roll out of the *Fit for the Future Programme* which is designed to bring forward proposals to enable a balanced budget to be formed. The results of this

exercise will be presented as part of the July update of the Medium Term Financial Strategy and will form part of the over-arching Recovery Plan led by Commissioners under the terms of their appointment in pursuit of the Best Value duty held by the Council.

## The Deficit

29. The deficit now faced by the Council from the conclusions of the continuing Financial Review at the present time is as follows:

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		£m	£m	£m	£m	£m	£m	£m	£m
<b>General Fund Balance as originally stated</b>		(30)	(28)	(31)	(41)	(30)	(30)	(30)	(30)
Balance at 1 April a	a								
In year transactions on the General Fund	b	2	(3)	(10)	11	0			
Balance at 31 March c=a+b	c=a+b	(28)	(31)	(41)	(30)	(30)	(30)	(30)	(30)
<b>Restated General Fund balance</b>									
Balance at 1 April	d = n	(30)	73	102	134	199	347	1,181	1,329
Restatement at 1 April 2018 for MRP understated in previous years	e	78							
Revised balance at 1 April 2018	f=d+e	48							
In year transactions on the General Fund	g=b	2	(3)	(10)	11	0	0	0	0
Restatements:									
MRP understated	h	23	32	42	54	67	94	93	73
Revenue loans	i					81	80		
Impairment of loans	j						614		
Understated repair and maintenance budget	k						45	45	45
Budget cost pressures	l							9	10
Other cost pressures	m						1	1	1
<b>Impact on Budget</b>	<b>n=f+g+h+i+j+k+l+m</b>	<b>73</b>	<b>102</b>	<b>134</b>	<b>199</b>	<b>347</b>	<b>1,181</b>	<b>1,329</b>	<b>1,458</b>

### Notes:

- i. All figures are at Outturn prices. The figures for 2018/19 are taken from the audited Statement of Accounts. The figures for 2019/20 to 2021/22 are taken from draft accounts for those years as no audit opinions have yet been provided by the external auditor.
- ii. For 2022/23 the balances have been rolled forward from 2021/22. The outturn has yet to be completed for 2022/23 and will impact the In-year transactions on the General Fund at rows b and g above.
- iii. For 2023/24 onwards the balances are taken from the 2023/24 Budget and MTFs reported to Council on 23 March 2023.
- iv. Rows (a) to (c) show the movement on the General Fund balance as originally reported in the Statements of Account and projected forward to 2025/26.
- v. Rows (d) to (n) show the revised General Fund balance after restating the accounts for understated MRP in the years to 31 March 2018 (row e) and annual adjustments detailed in rows (h) to (m).
- vi. The detail of the restatements is in the following paragraphs:
  1. Rows (e) and (h) (MRP understatement) paras 4(b) to (c);
  2. Rows i and j (revenue loans and loan impairment) paras 4 (d) to (f) :
  3. Rows (k) to (m) (repair and maintenance budget understatement and budget cost pressures) para 4 (h).

30. It is clear from this analysis that the Council cannot meet these very large costs from its own resources. The only way forward is to open discussions with DLUHC on the provision of financial support from Government.

31. Council is asked to note that any support made available by DLUHC is likely to require the Council to dispose of surplus property or otherwise secure value from the assets under ownership, in order to discharge at least part of the ongoing financial liabilities that may be incurred by the public purse generally in the years ahead if a package of support is able to be secured. Accordingly, Council needs to prepare itself for such a course moving forward.
32. Similarly, on the forward journey, Council needs to consider that it might be invited to pass ownership of the relevant assets into the care and management of other agencies as part of a *quid pro quo* for financial support if negotiations with Government are able to be undertaken successfully. At this time and pending the opening of discussions with Government on the matter of support the approach preferred by Government in this matter is not yet known.

#### Next Steps

33. The issuing of a Section 114 report is a serious matter and will impact on how the Council operates. Local Authorities however cannot go into Administration or Liquidation as they are backed by taxation and Government. This means that all creditors are secured, contracts in flight are secure and the Council will continue to pay staff and deliver its statutory services, particularly services to the vulnerable and homeless. That said, the Financial Controls referred to in this report will operate from 7 June 2023.
34. Council is required under legislation to hold a meeting of Full Council scheduled for the purpose of considering this Section 114 report and the Chief Executive's Response to this report so that Council can decide on any action to be taken as a result.

#### Future Intervention

35. I will monitor in line with the responsibilities of my office the Council's response to this Notice on an ongoing basis to ensure that sufficient action is taken at pace to address the issues identified. If I am not able to see satisfactory progress, I will consider the issuing of a further Section 114 report. It is also the case that an inability to agree financial support from Government may inevitably lead to further Section 114 reports being laid before Council.

Brendan Arnold BA MA FCPFA DMS  
Interim Finance Director & Section 151 Officer  
Woking Borough Council  
June 2023

## Annex 4

### The Budget Timetable for 2023/24 (Revised Budget) and 2024/25 Budget

	<u>Revised Budget 2023/24</u>	<b>Date</b>	<b>Month</b>
CLT & C	CLT Meeting with Commissioners	21/08/2023	August
O&S	O&S Agenda Distribution	01/09/2023	September
Exec	Executive Agenda Distribution	06/09/2023	September
O&S	O&S Budget Meeting	11/09/2023	September
Exec	Executive	14/09/2023	September
Council	Council	28/09/2023	September
	<u>Budget 2024/25 Timetable</u>		
CLT & C	CLT Meeting with Commissioners	18/12/2023	December
O&S	O&S Agenda Distribution	12/01/24	January
O&S	O&S Budget Meeting	22/01/2024	January
Exec	Executive Agenda Distribution	24/01/2024	January
Exec	Executive	01/02/2024	February
Council	Council	08/02/2024	February



## The Consultation Plan

### General Approach

The Council will begin to engage from July 2023 to gather feedback from residents as to how the Council should respond to the budget shortfall and Deficit. There is a need to understand that services that are valued most by residents which will inform the decisions that must be made.

For any service where changes are proposed to reduce or cease provision, or to transfer services to a different provider the Council will engage directly with staff, clients and partners those directly affected by the proposals.

This engagement continues through the summer. Results of the consultations will inform decisions on changes to service provision that will be fed into the Revised Budget in September. A second phase of consultation using the same approach will be needed in October and November 2023 to inform further proposals which need to be prepared for the February 2024 meeting of Full Council when decisions are made for the Budget and Council Tax for 2024/25.

### Non-Statutory Services: further information

The future approach will be that the Council will only deliver non-statutory services if the full cost of the provision can be covered. Accordingly, the Council will be engaging partners on options for delivering non-statutory community services. This will include options to increase charges for these services (to cover the full cost of provision), stopping the provision completely or transferring the service to an alternative provider to enable the service to continue.

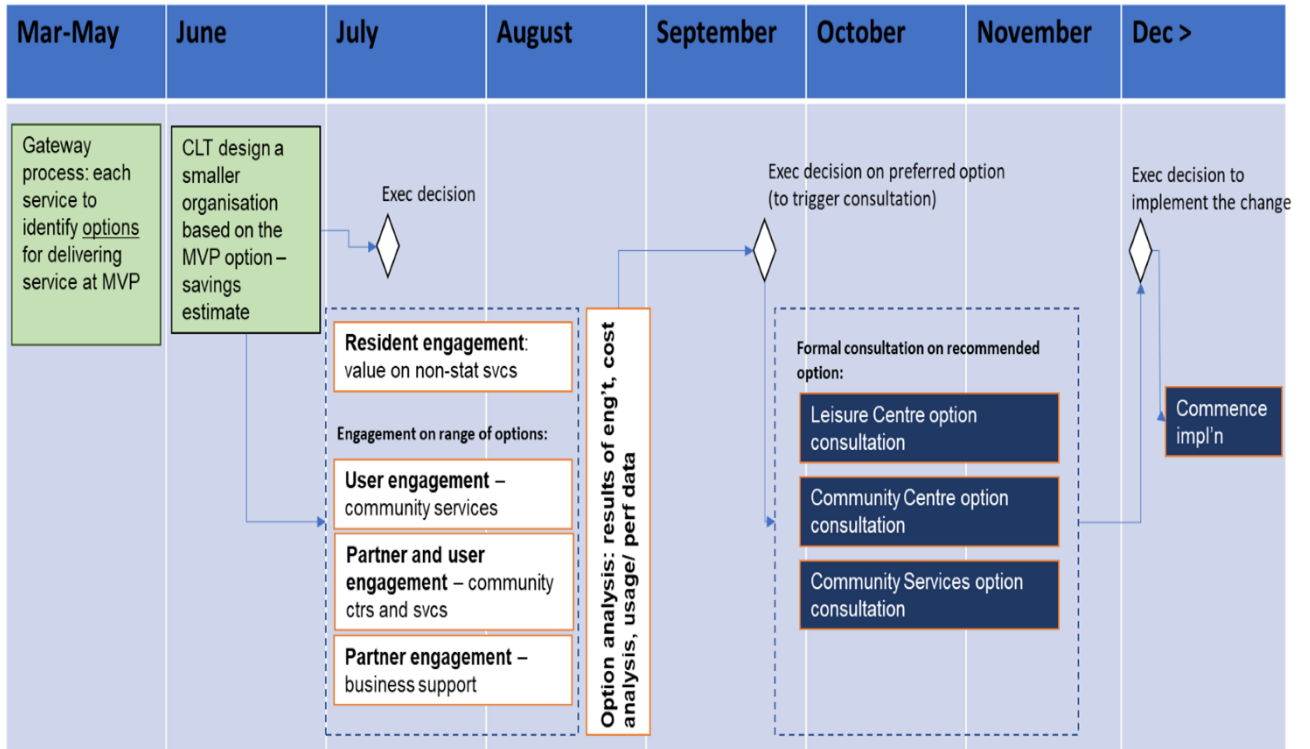
The Revised Budget in September 2023 will contain the results of these engagements undertaken by that date and recommended options for each service will be presented for decision. Services falling within this process will include:

- Leisure services, e.g. Leisure Centres
- Meal Provision in Extra Care Housing Schemes
- Community Centres
- Day care provision
- Meals on wheels
- Playground maintenance and provision

As well as consulting on specific changes to non-statutory services a broader resident engagement will be carried out to seek views from residents across Woking to understand what matters most. Residents will be able to state what non-statutory service is most important and see the options available if the service continues, including increasing charges to cover full costs. This will run from July to end August and the results will help to inform the September Revised Budget.

In forming savings proposals for decision the Council will prepare Equalities Impact Assessments as required by the regulations.

Schematic Showing Engagement & Consultation Timetable



List of Savings**Outline of Savings Proposals for Consultation, Engagement & Further Review**Annex 6

<b>Directorate</b>	<b>Savings Description</b>	<b>Amount £000</b>
<p><b><u>Communities</u></b></p> <p>Community Centres, Woking Translation Service, Volunteer Woking, Refugee Support, Family Services, Leisure Centres &amp; Pavilions, Sports, Arts &amp; Cultural Development, Community Safety, Health &amp; Wellbeing, Housing Solutions, Strategic Housing &amp; Development*).</p>	<ul style="list-style-type: none"> <li>• Income generating discretionary services to move to self-funding by April 2024.</li> <li>• Externally funded discretionary services to move to self-funding by April 2024.</li> <li>• Exploration of greater delivery by partners (where appropriate).</li> <li>• Leisure service to operate at minimum subsidy.</li> <li>• Some reduction in discretionary services.</li> <li>• Review of Grants to External Bodies.</li> </ul>	3,104
<p><b><u>Corporate Resources</u></b></p> <p>Member Services, Marketing Communications, Legal Services / Procurement, Human Resources, Transformation &amp; Digital, Customer Services, Revenues &amp; Benefits, Financial Services).</p>	<ul style="list-style-type: none"> <li>• Service redesign and efficiency savings.</li> <li>• Budget reductions.</li> <li>• Some reduction in discretionary services.</li> <li>• Customer Services re-design.</li> <li>• Review of NNDR Discretionary Discounts.</li> <li>• Reduce cost of Civic Offices and Property Services functions.</li> </ul>	3,174
<p><b><u>Place</u></b></p> <p>Neighbourhood Services, Parking, Development Management, Planning Policy, Building Control, Green Infrastructure, Environmental Health, Housing Standards, Licensing, Business Liaison, Property.</p>	<ul style="list-style-type: none"> <li>• Service redesign and efficiency savings.</li> <li>• Some reduction in discretionary services.</li> <li>• Budget reductions.</li> <li>• Commercial activity to be self-funding.</li> <li>• Review of contracted services.</li> </ul>	2,446
<b>Total:</b>		<b>8,724</b>

\*HRA funded parts of the Housing Service are a separate workstream under the Fit for the Future Programme.

## General Planning Assumptions

The key points of briefing in relation to the Forecast are:

- a. New Homes Bonus – The Government has been considering reform or phasing out of New Homes Bonus and currently the grant is calculated on a one-off annual basis. It is assumed that the Council will receive £231,000 in 2024/25 and future years of the MTFP.
- b. Controls on use of packaging and waste volumes – the Government is planning to establish a system where the producers of packaging waste are charged a levy related to the waste volumes that result such that the proceeds - net of regulatory costs - are passed on to local Councils. The assumption made in this version of the MTFP is that the incoming monies will need to be reinvested in waste services and that, accordingly, there will not be a net benefit to the Council from this scheme. This assumption will be reviewed for the next update of the MTFP.
- c. Revenue Support Grant – this is currently assumed to be unchanged from 2023/24 at c. £100,000.
- d. Collection Fund – the working assumption is that Council Tax is assumed to increase by 3% throughout each year of the MTFP, the maximum permitted under current Government guidance. The Collection Fund is assumed to be in balance for the current review without any surplus or deficit but this will be reviewed in depth for the next update in September 2023.
- e. NNDR Pool - it is assumed that the Council will continue to be a member of the Surrey-Sutton Business Rates Pool in 2024/25 and future years and it is also assumed that the Government will continue to permit the operation of such pools as a matter of policy.

## Inflation

Inflation is held as a contingent sum centrally within the budget structure and will be assigned to services and functions based on need as the financial year progresses. The contingent sum is presently £1m.

## Fees and Charges

For present estimates it is assumed that fees and charges (aside from those set statutorily) rise on an average of 20% for 2024/25 and 10% thereafter throughout the term of the MTFS. The yield from this is estimated at around £1.6m which includes amelioration for loss of volume arising from the proposed adjustments.

A review of fees and charges will be carried out and the resultant charges figure reported at the MTFP refresh in September 2023. A 1% increase equates to around £110,000.

### Parking Income

Parking charges are presently assumed to rise by 20% in 2024/25 and 10% in each year thereafter; these assumptions will be revised following receipt of the recommendations of the Parking Strategy which is expected in Autumn 2023.

### Commercial Rents

The Council holds a considerable number of properties and from this acquires a substantial commercial rental stream is accrued in each financial year. For financial year 2024/25 the yield – as a result of re-pricing rentals because of increases in inflation and re-setting new lease rentals within the new market – is expected to increase and this will be factored in to the MTFP as a direct benefit at the next update.

These rentals are important in maintaining key services to the community and – given that a property rationalisation programme is being set in place – the Council will need to seek retention of those assets with the highest yield in forming this programme in the months ahead.

Most business cases that emerge to deliver a significant revenue benefit to the Council for small or modest capital investment are likely to lie within this area of operations.

### Asset Rationalisation and Capital Receipts

In order to demonstrate that the Council is acting to pursue recovery by exploiting its own value base to deliver reductions in the debt £1.8 billion debt portfolio Council has already been advised (20 June 2023) that a rationalisation programme on some scale would be required. Consultants Avison Young LLP are working up proposals to inform preparation of this programme and the results of this are expected in the late summer.

In the mean time the Council's existing disposal activities are continuing and the Council will consider marking a sea change in the character of its operations by using capital receipts to make a modest contribution to repaying debt in the months ahead.

**Medium Term Financial Plan 2023/24 to 2028/29 - Summary MTFP Q1 2023/24**

Budget	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Notes
Service Expenditure - Gross	45,846	48,173	50,583	53,114	58,562	March MTFP assumptions updated for 4% increase in 2024/25 and 5% thereafter
Other Income	(27,607)	(27,607)	(27,607)	(27,607)	(27,607)	
Fees and Charges	(12,291)	(13,213)	(14,204)	(15,269)	(16,415)	March MTFP assumption uplifted by 20% and 10% thereafter (volume mitigation)
Financing Costs	62,857	62,857	62,857	62,857	62,857	[Cost increases to be input]
Interest and Investment Income	(44,281)	(45,281)	(46,281)	(47,281)	(48,281)	
	24,524	24,929	25,348	25,814	29,117	
Add: Pressures						
Car Park Management Fee	0	1,466	1,466	1,466	1,466	Charge from companies
2023/24 Cost Pressures (FFF 1&2)	69	169	169	169	169	Savings not met
Pay inflation	700	1,400	2,100	2,800	3,500	Pay inflation
Local Plan	550	550	550	0	0	Unavoidable cost pressure
<b>Total Pressures</b>	<b>1,319</b>	<b>3,585</b>	<b>4,285</b>	<b>4,435</b>	<b>5,135</b>	
<b>Total Expenditure</b>	<b>25,843</b>	<b>28,514</b>	<b>29,633</b>	<b>30,249</b>	<b>34,252</b>	
Funded by:						
Baseline Funding (NNDR)	(467)	(467)	(467)	(467)	(467)	
Surrey Pool NNDR	(2,215)	(2,215)	(2,215)	(2,215)	(2,215)	
Government Grants	(324)	(324)	(324)	(324)	(324)	
Reserves	0	0	0	0	0	
Collection Fund Surplus(-)/Deficit	0	0	0	0	0	
Council Tax	(11,895)	(12,619)	(13,387)	(14,203)	(15,068)	
<b>Total Funding</b>	<b>(14,901)</b>	<b>(15,625)</b>	<b>(16,393)</b>	<b>(17,209)</b>	<b>(18,074)</b>	

**Medium Term Financial Plan 2023/24 to 2028/29 - Summary MTFP Q1 2023/24...cont**

Budget	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Notes
Savings Required	10,942	12,889	13,240	13,040	16,178	
Saving Proposals for Consultation:						
- Grants to External Organisations	(686)	(686)	(686)	(686)	(686)	
- Organisational Restructure / Service Review	(3,178)	(3,178)	(3,178)	(3,178)	(3,178)	
- NNDR Discretionary Discounts	(260)	(260)	(260)	(260)	(260)	
<u>Management Savings</u>						
- Civic Offices Savings	(250)	(250)	(250)	(250)	(250)	
- Debt Management Expenses	TBC	TBC	TBC	TBC	TBC	
Total Savings Proposals for Consultation	(4,374)	(4,374)	(4,374)	(4,374)	(4,374)	
Sub-Total: Revised Savings Target	6,568	8,515	8,866	8,666	11,804	
Savings Requiring further review						
- Leisure Services						
- Forensic Review of Council Budgets						
- Property Services Savings	(4,350)	(4,350)	(4,350)	(4,350)	(4,350)	
- Contracted Services: Procurement						
Sub-Total:	(4,350)	(4,350)	(4,350)	(4,350)	(4,350)	
Further Savings Required	2,218	4,165	4,516	4,316	7,454	

Note: as there is a Negative General Fund balance the Council holds no usable reserves; accordingly, there is no prospect of making contributions from Reserves to balance the budget shortfalls through this period.

## The MTFP Change Log

	2024/25 £'000
Shortfall reported in March 2023	9,477
Changes since:	
Contract/Pay inflation	2,583
FFF1 & 2 Savings variations	69
Funding for the Local Plan	550
Interest on investments changes	(1,000)
Fees and charges increase	(556)
Increase in Council Tax due to higher Tax Base assumption/Base funding	(181)
<b>Total Changes</b>	<b>1,465</b>
<b>Revised Shortfall</b>	<b>10,942</b>
Savings Proposals for Consultation	
- WBC Grants to External Organisations	(686)
- Organisational Restructure / Service Review	(3,178)
- Civic Offices Savings	(250)
- NNDR Discretionary Discounts	(260)
<b>Total Savings Proposals for Consultation</b>	<b>(4,374)</b>
<b>Sub-Total: Revised Savings Target</b>	<b>6,568</b>
Savings Requiring further review	
- Leisure Services	
- Forensic Review of Council Budgets	
- Property Services Savings	
- Contracted Services: Procurement	(4,350)
<b>Sub-Total: Savings Requiring further Review</b>	<b>(4,350)</b>
<b>Further Savings Required</b>	<b>2,218</b>



Risks: Principal Risks to the MTFS & headline Mitigation

Risks	Headline Mitigation
Failure to constrain expenditures within relevant budget targets.	The Council's financial reporting arrangements including the chart of accounts, budget management approaches, and forecasting are under review. This will be completed in financial year 2023/24.
Failure to prepare for balancing the 2024/25 'business-as-usual' Budget shortfall.	The preparation of this MTFS at this point in the financial year, the generation of savings proposals, the planned launch of consultation and engagement and the promulgation of the Budget Timetable incorporating two meetings of Full Council to take decisions on savings.
Failure to increase Reserves.	The Council has a medium term intention to re-build essential reserves. A small but significant first step is planned for decision of Full Council in February 2024, assuming that the Deficit is able to be funded following the Council's own endeavours to reduce costs and impending discussions with Government.
Failure to negotiate a package of support with Government	Led by Commissioners and the Council's Statutory Officers the Council will seek to open conversations with Government during July 2023.
Failure to deliver savings.	The Council is developing monitoring arrangements for its emergent savings programme as part of regular financial monitoring and improved governance.
Failure to arrange cover for expected cost increases	The Council has set in place a process whereby the MTFP is updated quarterly and the thoroughness of review and analysis will be enhanced on each occasion as additional information becomes available and insight gained. In addition the Council will adjust its fees and charges annually in the future to ensure that the net cost of services is moderated where it is equitable to do.
Inability to Fund the Capital Programme arising from continued rises in interest rates and higher cost of borrowing.	The Council has suspended its previous 'Investment Programme' indefinitely and will organise its capital programme moving forward within tighter controls and governance. These arrangements are referred to in this report and further work will be undertaken by Full Council in February 2024.

Companies: Structure of Portfolio

