To: [redacted]

[redacted]

Cc [redacted]

From: [redacted]

17th May, 2021.

Exceptional Support for Woking District Council (WBC)

1. Scope of this report.

This report has been produced to review an application to MHCLG by WBC for Exceptional Support (ES) to deal with its significant financial challenges.

The report has been commissioned by MHCLG to be delivered via an LGA framework contract, to which I am an accredited supplier. I am an independent consultant specialising in Local Government Finance, I have been CIPFA qualified since 1990 and am a Fellow of CIPFA. I have 32 years' experience as a local government officer, 10 of them as Director of Finance. For the last four years I have worked as a consultant, with clients including CIPFA and the LGA, as well as individual Councils. I have conducted two previous reviews of Exceptional Support Applications.

The terms of refence agreed for these reviews are as below:

- **VFM:** an assessment of affordability and a review of the council's position. This includes a review of what existing resources the council may be able to deploy to mitigate pressures.

- **Securing the longer term financial sustainability of a council**: does the requested support and the authorities longer term plan seek to underpin the longer term financial position of a council.

- **Addressing the underlying drivers of risk or fragility:** does the requested support and the authorities longer term plan seek to address the underlying causes of pressures.

- **Eligibility:** Is the authority able to demonstrate why the measures in the generalised sector wide package did not provide enough financial support.

However in an email to the LGA commissioning this review ([redacted] of the LGA, 7th April, 2021) the following were raised for particular consideration:

- **Relative financial performance**

  - How confident are you that the Council is suitably efficient in comparison to similar types of council?

  - To what extent are the challenges being faced by the Council unique in comparison to similar types of council?

- **Budget gaps and pressures**

  - How confident are you that the Council's assessment of its underlying drivers of financial fragility are comprehensive and accurate?

  - What is the reviewer's assessment of what the underlying drivers of financial fragility are, and the adequacy of the Council's plan (or ability to plan) to move towards a sustainable position?

  - Can the reviewer provide a view on whether the Council has adequately reflected in its current position the outcomes of the Spending Review and Provisional Local Government Financial Settlement.

- **Recovery plans**

  - How confident are you that the Council's proposals would allow it to mitigate its pressures and to become financially sustainable?

  - How significant would the impact on financial sustainability be if the Council did not receive each part of its requested support?

- **Capita assets and strategy**

  - What is the reviewer's assessment of the scope for the Council to use current or future asset receipts to fund any capitalised pressure?

  - How confident are you that the Council's capital strategy is necessary and affordable?

- **Risk exposure and resilience**

  - How problematic is the Council's current level of exposure to commercial and investment risk?

  - How confident are you in the Council's plans to limit its exposure to commercial and investment risk?

  - How confident are you in the Council's current and planned reserves position, and are these levels providing sufficient resilience?

- Can the reviewer provide a view on how firmly committed individual earmarked reserves are? i.e. is there any scope for the Council to draw on these to further mitigate pressures?

- **Savings**

  - Has the Council done enough to bridge the funding gap through making savings / efficiencies?

- **Reserves**

  - Prior to the financial year 2020/21, does the reviewer consider that the Council held proportionate and financially prudent levels of reserves? To include consideration on the Council's loan repayment commitments

- **Financial planning**

  - How robust is the Council's financial planning and projections? In the reviewer's opinion, are they overly optimistic or pessimistic (or neither)?

- **Governance**

  - How robust are the Council's governance arrangements with regard to their Capital portfolio?

  - Does the Council demonstrate appropriate scrutiny / skills / accounting practices with regard to its Capital and investment strategies?

- **Resilience**

  - Does the Council have recourse to alternative means (other than EFS) to address its financial sustainability issues, either wholly or in part? For example, through drawing down on savings, selling assets, reducing services, or service transformation.

  - What is the reviewer's opinion of any value for money implications of any alternative options the Council could consider

These points appear to me to cover all the issues in the original brief, with the exception of Eligibility. I will therefore use them, plus Eligibility as a framework for analysis.

The report focuses on the General Fund in WBC (as opposed to the HRA).

The report has been produced to a tight timescale and is based on a high level desktop review of documents provided by MHCLG and WBC, and discussions with Woking's S151 Officer. Its findings are necessarily limited by this process.

2. Context.

It is important to put this report in the context of the point in time at which it is written:

- The UK is still in the grip of a pandemic that is creating unprecedented pressures and uncertainty.
- England is just emerging from the third national lockdown period. This will create further pressure and uncertainty.
- The future impact of the pandemic, and the timescales for getting it under control are still uncertain, and a further wave of infection is predicted by some health professionals.
- The legacy of Covid on the economy, society and the spending and income for Councils remains unknown and impossible to predict accurately.
- The impact of Brexit is still unfolding.
- Even without Covid, Local Government Finance is in a period of huge uncertainty, facing significant possible reform of the overall system that was put on hold firstly because of Brexit and then again as a consequence of the pandemic. This makes planning, and the evaluation of a Council's position extremely difficult.

At the point of writing this report, the Local Government has a single year Settlement covering 2021/22, which while more generous than many had feared, still leaves massive uncertainty from 2022 onwards.

The position for MHCLG, WBC and this review is a moving target, in a context of unprecedented change and uncertainty. This review is based on a snapshot taken in early March/April 2021, using documents provided by MHCLG, supplemented by discussions and additional input from WBC

3. WBC's Ask of MHCLG

The ask from WBC is clarified in the latest Medium Term Financial Strategy which states:

The potential Exceptional Support, based on current forecasts, and assuming that flexibility will be provided to enable Covid related losses to be met from capital resources is set out in the table below:

Exceptional Support	£'000	
2020/21	7,646	January Green Book
2021/22	4,743	Covid Provision adjusted for improvement in Rents
	12,389	

This position has improved on previous figures shared with MHCLG based on the latest view on rental losses to WBC in 2021/22, which have improved on previous estimates.

It is understood by WBC that this would allow revenue losses to be capitalised over a maximum period of 20 years. WBC have estimated the costs as follows:

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL
2020/21 Exceptional Support funded over 20 years (3.5%)	650	650	650	650	
2021/22 Exceptional Support funded over 20 years (3.5%)		403	403	403	
	650	1,053	1,053	1,053	3,809

The Benefit of this for the Council is summarised as:

> *Over the MTFS period, the revenue reserves retained would be approximately £8.5m. This would provide the Council with more flexibility and allow longer for income to recover, or for more significant management decisions to be made. It would reduce the risk that a reduction in services is necessary to manage the, potentially temporary, lower income generated over this period.*

The £8.5m benefit is the difference between the Capitalisation Direction of £12.4m and the loan costs over the plan period of c£3.8m.

4. <u>The problem in WBC in 2021/22 and beyond</u>

The problem in WBC is that the impact of Covid, and other pressures on its MTFS mean that it is predicting that by the end of the plan period in 2024/25 it will have reduced its overall general fund revenue reserves to a slightly negative position.

GENERAL FUND REVENUE RESERVES AT 31 MARCH	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	34,178	24,386	16,429	9,690	3,841	-1,545

This is despite opening 2020/21 with a very healthy balance of over £34m, in an authority with a net revenue budget of £12.3m.

The proposition from the Council is that being allowed to capitalise the first two years of the deficit will allow reserve balances to be maintained at positive levels, c£7m, at the end of 2024/25. This will help the Council to avoid cuts to service provision.

The problem is not an urgent and pressing one – the Council is able to live within its means until 2024/25 albeit on a reducing reserves basis.

The overall picture does throw up a number of concerns:

- Unlike other Exceptional Support Applications I have dealt with the support does not lead to a position of ongoing stability – there will still be a deficit in 2025/26 that is not addressed.
- The Councils own forecast predicts a reduction in resources as a result of government funding reform – although the detail and timing remains uncertain. This suggests that the Council needs to address reducing its spend – a one off Exceptional Support package could deflect attention from the need to get budgets back into line with resources.

5. Eligibility: Is the authority able to demonstrate why the measures in the generalised sector wide package did not provide enough financial support.

Some parts of the picture in WBC are exceptional. It has embarked on very high levels of borrowing to enable regeneration projects in the Borough. Its long term borrowing stood at £1.3bn at the end of 2019/20, and its debt servicing costs in 2021/22 were budgeted at £15.4m – well above its annual budget of £12.3. Incorporated within this are lower levels of MRP than may ordinarily be expected.

The authority is also highly exposed to income losses through car parking, commercial rents and leisure operations. Looking at the CIPFA Resilience Index for 2021, Woking has the highest level of fees and charges as a percentage of total service spend when compared to other Districts. This has made it especially vulnerable to those income streams drying up due to Covid.

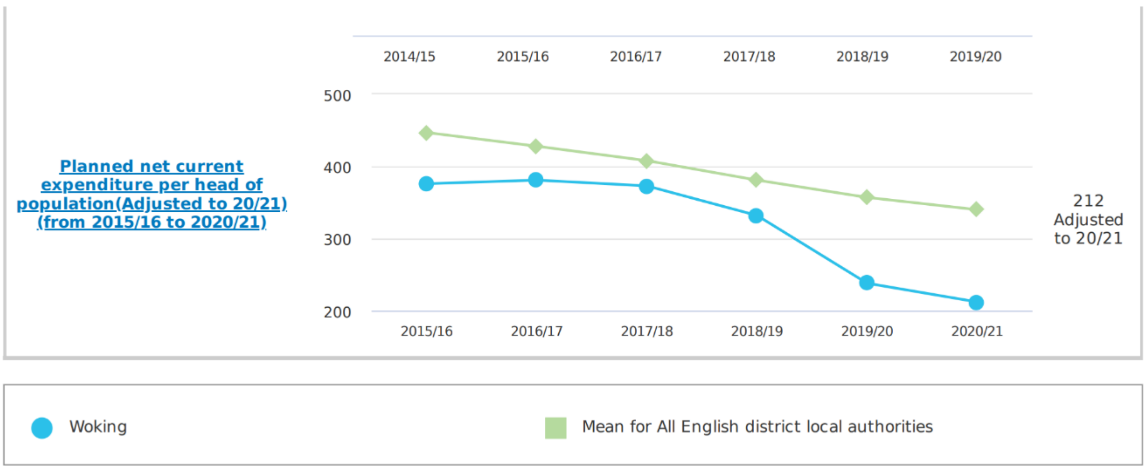
WBC's loans are backed by a complex series of business plans, but the overall risk exposure is exceptional and the debt level much larger than in very many Councils of significantly bigger size than WBC. Delays in delivering on business plans are part of the predicted year on year use of reserves that WBC is predicting.

Overall however, I am not persuaded that the position in WBC is necessarily such as to warrant Exceptional Support. I have worked with a number of other Councils who face similar challenges to their reserve positions arising from service pressures, the impact of Covid and the lack of certainty on resources going forward. Most take the view that if they can manage over the next year until more clarity emerges they will make plans to be sustainable in the medium term, including any required savings that need to be delivered.

If Exceptional Support is available to protect against a problem three or four years ahead, I suspect a very large number of Councils would be making applications, and applications that left them in a more sustainable position than this one would appear to leave Woking.

6. Relative financial performance

Woking's spend per head of population tracks below the average for all English District Councils.



At this very general level there is nothing to identify that the Council is inefficient. The Council does produce a sophistacated performance plan, but that does not benchmark with other Councils.
As oulined above, the unusual characeristic in Woking is the size of of it borrowing and the scale of its regeneration actvitiy for a Council of its size, compared to other English Districts. In addition, it has very high income from fees and charges. It has therefore been able to support high levels of debt and spend, while keeping its net expendiure relatively low.

Woking has been protected from the level of financial pressures that most other Councils have faced since 2010 – it has been able to genrate increased income to avoid te need for service reductions.

7. Budget gaps and pressures

Appendix One below summarises the most recent version of the Council's MTFS. The bottom line, Annual Use of Reserves is the in year deficit plus other reserve balances used. Note that in 2021/22, the negative figure or £3.397m is an underspend against a budgeted use of reserves of £9.562m leaving a net call in that year of £6.165m.

I am satisfied that the Council has understood and planned for the one year Settlement currently in operation. Like all Councils it faces enormous uncertainty about the outcome of possible reform to the Local Government Finance System, which it had recognised by planning for annual government funding reductions.

Woking has held this view for some time yet in the 2020/21 base budget only planned for £100k of savings, at a time when many Councils were still implementing significant savings plans to manage existing and predicted grant cuts. In the MTFS, Woking has introduced a £1m saving target in 2021/22, but this feels a little late to be taking this initiative and there are as yet no detailed plans that underpin it.

The MTFS takes into account costs driven by Covid, especially lost car park income. Inevitably this is based on assumptions that may or may not prove to be accurate. For example on car park income

2022/23	80% of pre-Covid budgeted activity/income
2023/24	90% of pre-Covid budgeted activity/income

Given that the base budget in 2021/22 for car parking was £7.9m, well over half the net budget, these assumptions will prove critical. Overall in my view the assumptions are prudent but not unreasonable.

The key underlying driver for the Council's costs is however the scale of its regeneration ambitions. Looking at the use of reserves in the MTFS, between the end of 2019/20 and 2024/25 the Council burns through £35.7m of reserves (including £4.8m of HRA reserves), of which £24.9m are used to balance the revenue programme, and the remaining £10.8m going on other purposes.

8. Recovery plans

The Council does not at this point have a plan that gets its MTFS back into balance.

The Exceptional Support requested buys time before the Council's reserves ae exhausted. Economic recovery and the end of the pandemic will restore income streams, and the various regeneration projects can be completed. But the MTFS shared with me does not see a long term balanced position even if Exceptional Support is granted.

9. Capital assets and strategy

WBC has a large number of assets, some of which can potentially be sold to raise capital receipts, although the timing of any sale requires careful consideration – the current economic climate may not provide the best context to achieve good prices. As discussed in section 15 below, capital receipts, along with a reworking of the approach to financing the Capital Programme, could also bolster WBC's reserve position, and reduce the need for ES.

For both of these reasons WBC should review all of its assets to identify candidates for possible sale as a priority.

The Council has an ambitious capital strategy, and is heavily exposed to debt costs. Prior to Covid these appeared to be affordable, but the impact of the pandemic will mean this is much more challenging going forward.

Woking clearly felt that its capital strategy was needed to meet housing/economic development/sustainable place priorities – all Councils can identify extensive need to spend on projects. The key for a Council is to balance need, affordability and financial sustainability. Woking's expansive action to meet need are currently helping to put its finances under strain. It must now establish how it can return to a sustainable position as we emerge from the pandemic. ES does not in itself deliver this for WBC.

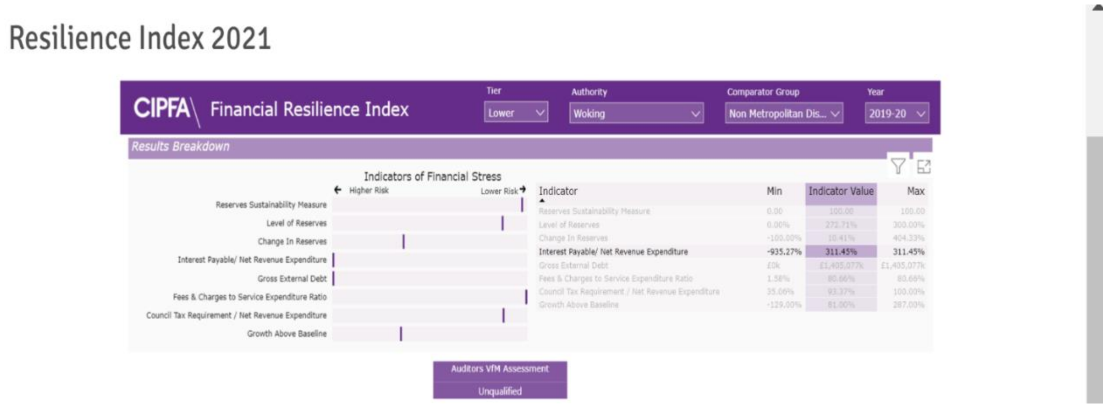
10. Risk exposure and resilience

The overall position in Woking is summarised in the 2021 CIPFA Resilience Index. This Index is designed to help Council's understand their relative risks. The graph below drawn from the Index shows WBC's position relative to other English Districts based on 2019/20 data. In the left hand panel, the vertical lines on each bar show relative risk with high risk to the left of the bar, low risk to the right.

It is clear that Woking is exposed to risk as a result of high interest charges as a proportion of relative spend, and high external indebtedness. In both cases WBC is on the extreme end of the range. This reflects the level of borrowing WBC has incurred to fund its Investment Programme in the town.

Woking has low risk exposure because of its reserve balances as at 2019/20, the problem is that it exhausts these over the plan period , as per the Table above.

WBC also appears to have low risk exposure because of a high ratio of fees and charges to spend. When the Index was compiled, such exposure was seen as helpful as it reduced reliance on grant and exposure to changes in Local Government Finance. Ironically, Covid has turned that view on its head, as income streams such as car parking and rental have been devastated by the pandemic. So this too is a risk area for Woking, and at the extreme end of the range.



The risks to WBC form Covid are mainly from lost car parking and commercial rent income as shown below in its analysis of 2020/21 losses:

Forecast Covid Impact - 2020/21

	Total £'000	**%**
Costs		
Commercial Rents & NNDR	4,645	34%
Car Parks	5,377	39%
Housing	938	7%
Leisure	1,446	10%
Leisure mgt fee & direct income	762	6%
WN&M	137	1%
Marketing/Sanitiser/PPE etc	240	2%
Services covid spend	307	2%
	13,852	100%

The risks and resilience to WBC depend crucially on how rents and car park income return, exacerbated by the fact that the Investment Programme, which plans to regenerate the town, was planned to deliver increases to these income streams, and has been slowed down by Covid.

On Car parking WBC assumes a gradual pull back to 2020/21 levels in 2021/22 and beyond:

Quarter 1 (1 April – 30 June)	30% of pre-Covid budgeted activity
Quarter 2 (1 July – 30 September)	50% of pre-Covid budgeted activity
Quarter 3 (1 October – 31 December)	60% of pre-Covid budgeted activity
Quarter 4 (January – March 2022)	70% of pre-Covid budgeted activity
2022/23	80% of pre-Covid budgeted activity
2023/24	90% of pre-Covid budgeted activity

Income does not get back to something approaching pre Covid planned levels until 2024/25.

Similarly on commercial rents, the MTFS assumes a gradual recovery over the plan period, with an ongoing 10% vacancy level ongoing.

These assumptions do not appear unreasonable, but it remains impossible to be certain how quickly the economy will recover and when if ever behaviours, including car use and office occupancy, will return to pre covid levels. Similar issues face many other Councils, as many, especially Districts, will have significant exposure to car parking, rent and other income, and will not have a clearly sustainable MTFS at this point in time.

It should be noted that WBC does not have significant exposure to commercial property investment purchased out of area purely for yield.

I have reviewed the earmarked reserves held by WBC - see appendix Two for a full list. Under the current plan, reserves will be overdrawn to the tune of c£1.5m at the end of 2024/25, and many of the earmarked reserves will not be available for the purposes planned. In some, probably most cases this may be manageable but in others clearly not, as reserves are held for specific purposes eg the Insurance Reserves £0.186m. WBC's S151 Officer recognises this and agrees that the position in Appendix Two cannot be allowed to happen – it is indicative of the current planning assumptions and how they will work through if further action is not instigated (eg the ES is not approved).

11. Savings

The MTFS in Appendix One below contains a new line of "Productivity and Procurement" savings to help improve the position. The cumulative savings per annum planned are:

	£m
2021/22	1.0
2022/23	2.0
2023/24	2.5
2024/25	3.0

Even if this is delivered, the plan does not balance beyond 2024/25.

Savings rising to £3m per annum is on the face of it a very steep challenge, especially in an authority that has been protected from the worst impacts of grant cuts since 2010, and does not have a track record of savings implementation and delivery. The £3m would amount to a very high percentage of its net revenue budget of £12.3m in 2020/21, although there may be opportunities to make savings in areas already explored in other authorities.

At this stage the Council has no worked up plans for delivering on this programme, which will clearly have a significant lead time. I am also concerned that badging them as “productivity and procurement” may indicate a lack of willingness to make some fundamental reductions in spend to achieve a balanced position.

On the other hand, Woking’s high level of fees and charges income has supported high levels of discretionary spending that may give some opportunities for swift savings.

If this line of savings is not delivered, the MTFS is even further out of balance at the end of the plan period.

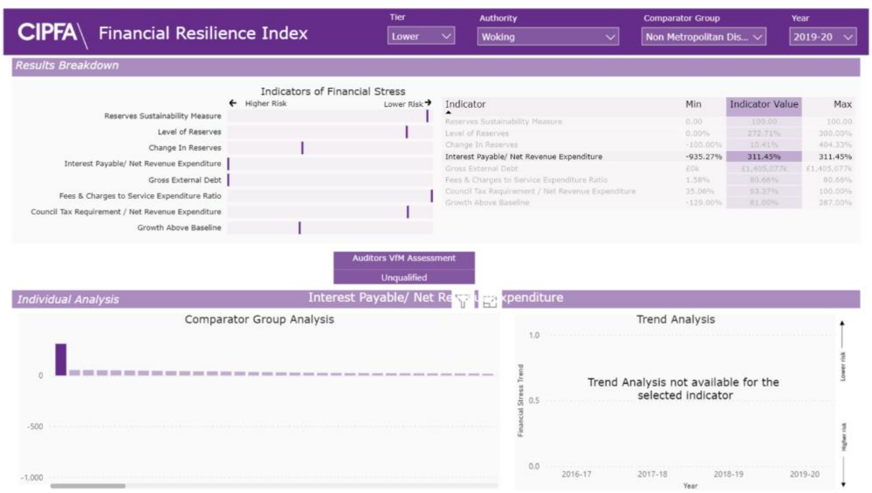
In my view, MHCLG should require much more detailed information about how and when these savings will be delivered before agreeing Exceptional Support.

12. **<u>Reserves. Prior to the financial year 2020/21, did the Council hold proportionate and financially prudent levels of reserves? To include consideration on the Council’s loan repayment commitments</u>**

Appendix Two is an analysis of the Council’s reserves.

At the end of 2019/20, as the pandemic began to gather force, the Council held £34m in revenue reserves, many for the specific purpose of mitigating risk. The analysis in section 10 above and reproduced below from the 2021 CIPFA Resilience Index demonstrates that the Council held relatively high reserves, but also was exposed to very high levels of debt servicing costs, measured by annual interest payable as a proportion of net revenue expenditure. The graph in the top left quadrant shows on this measure, and on gross debt, Woking is at the very high risk end of the range of District Councils.

Resilience Index 2021



The level of reserves held to mitigate risk is ultimately a subjective judgement. WBC knew it was taking risk, and made mitigation. It is not alone in failing to predict the devastating impact of the pandemic.

Overall most commentators in 2020 would have thought Woking's debt levels were very high, exposing them to risk. This issue was under debate at national level, especially in the context of borrowing for commercial investments.

Ultimately the judgement can only be made form a detailed review of the business cases, risk assessment and benefits from the Councils major regeneration schemes for which the capital was borrowed. This is beyond the scope of this current review.

13. Financial planning

The problem for WBC and all other Councils is that the lack of any clarity of impending Local Government Finance Reform, and the impact of Covid on spending and the economy make forward planning almost impossible with any accuracy. I have reviewed WBC's plans and projections and they appear reasonable as far as it is possible to make any judgements. They are broadly in line with assumptions made in other Councils that I have worked with recently.

14. Governance

It is difficult to draw clear conclusions on Governance from a process primarily concerned with reviewing financial strategy, based on a desk top exercise and written reports.

I am aware of political debate in Woking about the size of its capital programme and associated debt, and it is clear that WBC is in an extreme position for a Council of its size.

The S151 officer has shared a summary of the Investment Programme Governance arrangements, which appears to be sensible and appropriate. It is reproduced at Appendix Three. However when reviewing the Executive and Council Report agreeing the revised Investment Programme in February 2021, which approved general fund capital spend of £180m in 2021/22, the only coverage of risk was the following paragraph:

> *The project management arrangements provide for risk analysis as part of the improved control of Investment Programme projects; this seeks to minimise and manage risk. In corporate terms the main risk for the Council is in overstretching its capacity, this is recognised by Officers and from time to time it will be necessary to re-prioritise the programme to reflect the capacity of the Council.*
>
> [section 14.5 of the Report]

Coverage of Investment Programme risk is also fairly thin in the Capital Strategy and Treasury Management Strategy. There is therefore a concern that the level of risk the Council is exposed to in its Investment Programme needs to be more fully understood. In practice, because many of the capital schemes are already committed, this is an issue for the future rather one that can help in the present.

In general, looking at the suite of financial reports to Council in February 2021, I am not convinced that the full urgency of the position, which must underpin a request for ES, was clearly communicated to Members.

For example from the Capital Investment and Treasury Management Report:

> ***6.0 Chief Finance Officer***
> *6.1 Taking into account the factors set out in the Capital, Investment and Treasury Management Strategies the Chief Finance Officer (CFO) has confirmed that the Council's investment plans are affordable and there are sufficient reserves in place to manage the immediate risks.*

And from the Budget Report:

> *Risk Management*
>
> *18.4 As set out in the report the most significant financial risks relate to the financial consequences of the Covid-19 pandemic. In setting the budget for 2021/22 an allowance has been made for lost income or irrecoverable debts. This will need to be funded by reserves and has been taken into account when forecasting the Council's available resources going forward.*
> *18.5 Expenditure which can be deferred, without impacting services, will be postponed until the exceptional support discussions with the government have concluded. If necessary budgets will be revisited at this stage, in light of the outcome and 2020/21 outturn.*

Given the overall position, I would have expected more action to be being prompted and agreed in this report. There is a concern that the ES application is deflecting attention from the need to make a response to the position outlined in this report.

I am aware that concerns have been raised about WBC's MRP policy by the Auditors and others. The 2019/20 audit is not yet concluded and it remains to be seen if the auditors make an issue of this. The S151 Officer is clear the policy complies with Regulations, and has sought advice on the matter from Treasury advisers.

15. Resilience

There are a range of actions that the Council could seek to undertake to improve resilience as an alternative to Exceptional Support at this stage. These fall into two broad categories:

a) Taking action to reduce spend

b) Exploring flexibilities within existing budgets to free up reserves and create resilience.

15.1 Taking action to reduce spend

The Council has taken action to reduce capital spend on some projects because of Covid. In my view a root and branch review of all spend is required, investigating any scope to cease or scale back capital projects. Such scope may be limited as much of the programme will be committed.

The Council should explore the scope to renegotiate or redefine its regeneration schemes to create further income for the Council. There may be an opportunity in particular in the £50m Housing project, where shifting the balance from social/affordable units to market rents or to build for sale may be able to generate a pay back that helps the Council to become sustainable.

All asset holding should be reviewed to identify scope for sale to generate capital receipts to help reduce the burden of capital financing costs.

There are also a number of fairly standard cost control/savings strategies that Councils in challenging positions adopt that should be considered. These include:

- A vacancy freeze.
- Measure to control drift in pay costs and establishment size
- Increased control over the placing of procurement orders
- Reviewing all non-essential or discretionary spend with a view to ceasing it.
- Reviewing fees and charges to maximise income
- Cease discretionary spend

These measures will be challenging for the Council, especially in the wake of the pandemic, but the financial outlook and the fact that they have applied for Exceptional Support implies they need to be considered.

15.2 **Exploring flexibilities within existing budgets to free up reserves and create resilience.**

The ES application is based on a strategy of bolstering reserves to give the Council time to adjust to the outcome of the pandemic and its impact on finances. There are a variety of ways the Council can seek to do this without recourse to ES.

Appendix Two is the Councils analysis of reserves. While many are required just to balance the MTFS some are expended over the period e.g.

Wolsey Place Reserve - £5.98m expended

New Home Bonus Reserve - £1.03m expended.

The Council should review spending of these reserves to establish if it is absolutely necessary or whether it can be capitalised and funded from borrowing or receipts instead, leaving the revenue reserve in place to add resilience. Discussion with the S151 Officer suggests there is scope in the two reserves above, and there may be others that could be looked at.

Refinancing capital spend from a reserve into borrowing would have the a better overall impact than a capitalisation direction of the same value. The interest rate to be applied is 1% lower. In addition, if the asset being funded has a life of longer than 20 years, this could create further flexibility by lengthening the MRP period and reducing the annual charge when compared to a capitalisation direction.

Further scope for Woking exists in refinancing its General Fund Capital programme. The current position is shown below.

	FINANCING SUMMARY - GF												
	CHARGE TO GEN. FUND (Revenue) £'000	BORROWING GENERAL FUND £'000	BORROWING HRA £'000	BORROWING TO FUND EXTERNAL LOANS £'000	CAPITAL RECEIPTS £'000	RESERVES IT RESERVE £'000	RESERVES HIP RESERVE £'000	RESERVES GENERAL RESERVE £'000	RESERVES MAJOR REPAIRS £'000	RESERVES SECTION 106 £'000	COMMUNITY FUND £'000	GRANTS & CONTRIBS £'000	TOTAL £'000
2020/2021	460	183,776	0	372,794	2,778	180	0	2,639	0	1,488	0	24,880	588,995
2021/2022	174	68,976	0	248,503	1,482	180	0	1,093	0	50	0	23,974	344,432
2022/2023	140	8,875	0	113,286	1,182	180	0	1,010	0	0	0	42,537	167,210
2023/2024	140	14,491	0	133,162	190	180	0	1,010	0	0	0	15,791	164,964
2024/2025	140	4,948	0	523,902	190	180	0	425	0	0	0	1,186	530,971
TOTAL					5,821	900		6,178		1,538			

Flexibility could be achieved by:

- Halting all non-essential and non-committed schemes.
- Using borrowing to replace capital receipts. These receipts could then be used to fund any revenue spend that falls within the definition of the capital receipts definition. They can also be used to fund MRP, freeing up those revenue resources to be added to reserves. This latter is only suggested as an exceptional approach, rather than as a routine practice.
- Revenue funding totalling c£7m some of which can potentially simply be switched into borrowing.
- Depending on the wording of S106 contracts, the payments to the Council may be revenue. If so the Council can add these sums to reserves and fund its obligations from borrowing or receipts.

  It is likely that from a combination of these approaches significant flexibility can be achieved, which will impact on the need or size for any ES, with similar value for money impacts. In my view these approaches, by which he Council manages its own position, should be explored before ES is awarded.

16. Conclusions.

16.1 Although some elements of the financial position in WBC are exceptional, it does not have a an immediate and pressing problem in its finances, rather it predicts that it may run out of resources in the medium term. Many other Councils are in this position and will need to rework their MTFS as the pandemic recedes, the economy recovers and more insight is gained to future reform of Local Government Finance. Woking is not in such a sufficiently different position to many others to warrant ES at this point.

16.2 As outlined in section 15, there are a variety of things that Woking should be pursuing to create flexibility and resolve problems for itself eg:

- develop a specific savings delivery plan,
- review the capital programme and cease or reduce schemes where possible,
- investigate possible sales of assets,
- review funding of its Capital Programme.

MHCLG should not approve an ES until this work has been completed, and a firmer view of the need for ES and the creation of a sustainable financial position in the longer term has been developed.

16.3 There is a concern that granting ES now may help delay making difficult decisions that are likely to be required to establish a sustainable MTFS going forward.

16.4 MHCLG should continue a dialogue with Woking, as it explores these issues. In a year's time the impact of Local Government Finance Reform and recovery from the pandemic will potentially be much clearer, and WBC will have had time and opportunity to implement some strategies to help improve its position. At that point a decision over ES, based on moving to a sustainable medium term position, can be reviewed.

APPENDIX ONE

MEDIUM TERM FINANCIAL STRATEGY - MARCH 2021	2021/22	2022/23	2023/24	2024/25	TOTAL
	£'000	£'000	£'000	£'000	£'000
In year Pressures					
Remove use of Reserves 2021/22		9,562			**9,562**
Remove Business Rates pooling/Collection fund surplus/deficit		244		-68	**176**
General Service Pressures		725	725	725	**2,175**
Potential SCC Funding reductions			153		**153**
Land Charges transfer to Land Registry		80			**80**
Funding and Council Tax					
Reduce reliance on New Homes Bonus to zero		200			**200**
Government Funding reductions		794	448	432	**1,674**
Investment Programme pressures:					
Investment Programme projects		885	747	562	**2,194**
Town Centre Car Parks financing costs	-631	1,359	386		**1,114**
Increase in interest rate	117				**117**
Woking Gateway - loss of rents			350		**350**
York Road Project			160		**160**
Reduction in TEL/TCMK annuity interest		53	75	75	**203**
	-514	13,902	3,044	1,726	**18,158**
Funded by:					
Economic Recovery					
Car Parking	318	-1,225	-764		**-1,671**
Commercial Rents - removing provision for irrecoverable debts	-1,871	-1,939			**-3,810**
Commercial Rents - recovery of some vacant units			-250	-285	**-535**
Leisure income		-116			**-116**
	-1,553	-3,280	-1,014	-285	**-6,132**
Other Contributions					
Increase in Taxbase		-310	-80	-82	**-471**
Council Tax increase		-208	-214	-220	**-642**
Fees and Charges - Car Park income 10p a year from Oct 21	-200	-400	-400	-200	**-1,200**
Fees and Charges - New Car Park income	-130	-510	-530	0	**-1,170**
Less: car park operational costs (TBC)					
Investment in Housing		-687	-749	-749	**-2,185**
Productivity and Procurement Saving Target	-1,000	-1,000	-500	-500	**-3,000**
	-1,330	-3,115	-2,473	-1,751	**-8,669**
In year cost pressure/saving	**-3,397**	**7,507**	**-442**	**-310**	3,358
Annual Use of Reserves	**-3,397**	**4,110**	**3,668**	**3,358**	

APPENDIX TWO

APPENDIX TWO									
RESERVES AT 31 MARCH	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**			
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**Total Spend over period £000**		
REVENUE RESERVES									
Investment Strategy Reserve	2,511	2,401	2,577	2,787	2,997	3,207	696		
Forecast use of reserves due to COVID		-7,646	-13,811	-17,921	-21,589	-24,947	- 24,947		
Housing Investment Programme Reserve	4,835	3,956	2,698	1,430	610	0	- 4,835		
Medium Term Financial Strategy Reserve	4,999	4,710	4,710	4,710	4,710	4,710	- 289	Risk Mitigation	
Provision for Flexibility Reserve	130	130	130	130	130	130	-	Funding Investment Programme Projects	
Freda Ebel Bequest	5	5	5	5	5	5	-	Specific bequest	
Community Fund	421	421	421	421	421	421	-	Funding Investment Programme Projects	
Insurance Fund	186	186	186	186	186	186	-	Risk Mitigation	
Environmental (CO2) Reserve	35	35	35	35	35	35	-	Funding Investment Programme Projects	
Wolsey Place Reserve	3,198	1,104	227	-676	-1,579	-2,782	- 5,980	Risk Migitation/Budget support	
New Homes Bonus Reserve	1,113	1,114	907	632	357	82	- 1,031	Funding Investment Programme Projects	
Group Company Reserve	750	750	750	750	750	750	-	Risk Mitigation	
Woking Palace Reserve	35	35	35	35	35	35	-	Funding Investment Programme Projects	
Equipment Reserve	430	451	431	481	531	531	101	Funding Investment Programme Projects	
Peer grant Reserve	38	38	38	38	38	38	-	Funding Investment Programme Projects	
Business Rates Equalisation Reserve	4,025	4,025	4,025	4,025	4,025	4,025	-	Risk Mitigation	
Local Council Tax Support Scheme Hardshi	48	48	48	48	48	48	-	Budget support	
Westfield Common Reserve	82	82	82	82	82	82	-	Funding Investment Programme Projects	
PFI Reserve	2,739	2,739	2,739	2,739	2,739	2,739	-	To manage implications of PFI	
Town Centre Management Agreement Res	470	412	354	296	238	88	- 382	Funding Investment Programme Projects	
Victoria Square Reserve	1,985	3,632	4,470	4,470	4,470	4,470	2,485	Risk Mitigation	
Sheerwater Reserve	71	-314	-700	-1,085	-1,470	-1,470	- 1,541	Specific Project funding	
Off Street Parking Reserve	2,000	2,000	2,000	2,000	2,000	2,000	-	Risk Mitigation	
Syrian Refugee Reserve	535	535	535	535	535	535	-	Specific Project funding	
Homelessness Support Reserve	264	264	264	264	264	264	-	Specific Project funding	
Dukes Court Reserve	3,273	3,273	3,273	3,273	3,273	3,273	-	Risk Mitigation	
TOTAL	34,178	24,386	16,429	9,690	3,841	-1,545	- 35,723	Check	-35,723

APPENDIX THREE

Investment Programme Governance – Woking Borough Council

The Council has an Investment Programme which includes all Council projects – capital and revenue. The Investment Programme is approved by the Council in February as part of the budget setting process. Release of funds is following the completion of project documentation which must be approved by the Council's Corporate Management Group. This comprises a project mandate (initial summary) and project workbook covering all relevant considerations.

The Executive receives a quarterly project monitoring report which sets out the project progress and spend using a traffic light system. This report provides an update on the project and summary of the reasons for the project status. Separate arrangements for the larger projects/programmes are set out below.

The monthly monitoring publication 'Green Book' includes treasury pages which detail loans made to group companies and external organisations at the month end and at the previous month for comparison. It also provides key information on Thameswey Group performance.

Group Companies

The Council's Thameswey Group of companies work to a set of protocols (attached). The companies all have Independent, Councillor and Officer Directors. In January 2021 the Executive agreed to increase the number of Independent Directors on the company boards and a process to appoint additional Independent Directors has been completed.

The Group prepares business plans for the companies which are approved by Council at the end of the calendar year ahead of the Council setting its own budgets in February. A Members briefing is held to present the detail of the business plans.

Significant Projects

For the most significant projects there are Councillor working groups or oversight panels which are regularly briefed by the project teams:

- Victoria Square Oversight Panel
- Sheerwater Regeneration Delivery & Oversight Panel
- Housing Infrastructure Fund (HIF) Oversight Panel

The project teams also report to the Overview and Scrutiny Committee as requested.

Members briefings are held if there is a significant change or issue arising with the project. This provides the opportunity for questions to be asked including of external advisors to the projects.