

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

Executive Summary

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 needs to take to deliver the Improvement and Recovery Plan (IRP) and respond to the Section 114 Notice, whilst continuing to meet its statutory duties. The paper includes feedback from the recent resident engagement exercise, alongside next steps for public consultation on proposed changes to Council services.

Recommendations

The Executive is requested to:

RECOMMEND TO COUNCIL That

- (i) the MTFS and embedded MTFP are an estimate of the Council's current financial position at Q2, noting that the figures will change as further updating takes place;**
- (ii) it be noted that the Section 114 Deficit continues to be reviewed but is able to be used for conversations with Government to attain financial support and for other sundry purposes as referred in the report;**
- (iii) the Council consults on a number of the proposed savings contained within the MTFS, as set out in Annex 6 to the report; and**
- (iv) the Chief Executive, as Head of Paid Service, has the delegated authority to now proceed with the full implementation of Phase Two of the Fit For the Future Programme and associated staffing restructures.**

Reasons for Decision

Reason: The decision is sought to ensure open and transparent governance in the financial affairs of the Council in balancing the 2024/25 Budget.

The item(s) above will need to be dealt with by way of a recommendation to Council.

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Background Papers: None.

Reporting Person: Eugene Walker, Interim Finance Director & Section 151 Officer
Email: eugene.walker@woking.gov.uk, Extn: 3070

Contact Person: Eugene Walker, Interim Finance Director & Section 151 Officer
Email: eugene.walker@woking.gov.uk, Extn: 3070

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

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1.0 Government Intervention

- 1.1 On Thursday 25 May 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the outcome of its non-statutory external assurance review into Woking Borough Council's (WBC) finances, investments and related governance. The Secretary of State considered the Council was failing to comply with its best value duty under the Local Government Act 1999. In particular, the scale of financial and commercial risk due to the Council's legacy of extraordinarily high and disproportionate levels of debt. The government's intervention will be in place for five years.

2.0 Section 114 Notice

- 2.1 On 7 June 2023, the Section 151 Officer issued WBC with a Section 114 Notice. The notice was required because the Council's expenditure was likely to exceed the financial resources available, and therefore it could no longer balance its budget for the remainder of the financial year and subsequent years. The Council faces this extremely serious financial shortfall because of its historic investment strategy that has resulted in unaffordable borrowing, inadequate steps to repay that borrowing and high values of irrecoverable loans. The notice stated that against available core funding of £16m in the 2023/24 financial year, WBC faced a deficit of £1.2bn.

3.0 Deficit

- 3.1 Since the publication of the Section 114 Notice, further review work is being undertaken and will be completed in the early Autumn 2023. The Council is proceeding to approach Government to make the case for financial support. However, to access any support, the Council needs to show that it has 'its own house in order' and take steps to meet a significant part of the Deficit from its own resources. This includes divesting from the Council's property portfolio, in a way that delivers the best returns for the public purse, allowing key services to be maintained and reducing the cost of debt service.

4.0 2024/25 Budget Position

- 4.1 Budget savings of £8.5m (detailed in Annex 6) against the previously agreed £12m target have been identified, which would have closed the June budget gap of £10.9m to £2.4m. However, following a detailed review, the latest MTFS has identified additional costs that have increased the scale of the financial challenge in both the current year 2023/24 and also next year 2024/25. The increase in costs identified next year is £8.3m, making the budget gap now £19.3m which, with the £8.5m savings, still leaves a budget shortfall of £10.8m.
- 4.2 These additional costs relate to Woking's historic investments, not services. As it will be difficult to find additional savings above £12m given the size of Woking BC's revenue budget in one year, the focus of financial planning for 2024/25 will need to:
 - a) Focus on delivering the maximum possible savings against service budgets, as per the previously agreed £12m target. This will demonstrate the Council's commitment to meeting as much of the deficit as possible.
 - b) Review the options for savings above the £12m from asset management and debt reduction options i.e. to target the historic arrangements that are the source of the pressures. This approach will be part of the Commercial Strategy being developed within the Council's Improvement and Recovery Plan (IRP).
- 4.3 However there will clearly need to be an annual service and financial planning process which will follow the strategic work in refocussing the Council on the essential services it provides to residents. There may be additional pressures identified over the next few months as a result of the Council's investment decisions.

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4.4 The reasons for the forecast increase in expenditure are summarised in the MTFS and included in Annex 8 of the report. As stated in the version of the MTFS prepared at Q1, the figures contained in the MTFS will continue to be adjusted as new information is acquired, refined and built into the forecasts.

5.0 Investment Programme and Future Commercial Strategy

5.1 The Council has previously funded a number of capital investment programmes (such as Sheerwater and Victoria Square) through the setting up of group companies, financed through loans provided by the Council - drawn from the Public Works Loan Board. This practice has now been deemed both unsustainable and not compliant with financial regulations and a new Company Governance process has been put in place. The Council has commissioned consultancy advice on a Commercial Strategy, which will include strategic options for key regenerations schemes such as Sheerwater and Victoria Square. The Commercial Strategy is in development with the support of Commissioners and will be reported to Council in the coming months.

6.0 Council Tax

6.1 The Government council tax cap for lower tier councils (including WBC) in 2023/24 was 3%. The level of council tax cap for 2024/25 that will be applied is currently unknown but the Council is working on the assumption that it will again be 3% and this is the percentage used throughout the Medium-Term Financial Plan (MTFP) contained in the MTFS. Council tax increases are subject to public consultation.

7.0 Resident Engagement Exercise

7.1 From July 10 to August 10 2023, WBC undertook a resident engagement exercise to gather feedback on how the Council should deal with its budget shortfall. The survey outlined how the Council would need to make difficult decisions regarding discretionary services, asked residents which services they valued the most and how they could be delivered in the future. The Council received over 8,000 responses.

7.2 According to the engagement exercise:

7.2.1 Residents feel they have a good understanding of the severity of the Council's financial position.

7.2.2 The top three most highly valued services were access to parks, play areas and green spaces (55%); keeping the borough a safe place for everyone (53%) and keeping our streets clean (32%).

7.2.3 Residents felt that Woking Pool in the Park, Woking Leisure Centre and the sports pitches and pavilions were their top three most frequently utilised services.

7.2.4 The majority of residents said they would consider paying an additional charge for discretionary services, with the exception of car parking.

7.2.5 When asked which services the council should consider closing, arts and theatre services was the most frequently select answer (27%), as opposed to leisure (5%) and community centres (5%).

7.2.6 Residents preferred option for tackling the budget shortfall by finding other organisations to deliver services (32%), followed by charging more for discretionary services (20%).

7.3 A full evaluation of the engagement exercise is included in Annex 5(A) and the raw data has been published on the Council's website. The responses to the resident engagement exercise

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have helped inform the options put forward for the public consultation, and the responses to that consultation will be considered as part of budget decisions in early 2024. However, the Council acknowledges that the severity of its budget position means that, in some cases, proposals have been put forward which do not align with residents' views.

8.0 Budget Savings

8.1 Annex 6 details proposes a number of savings to address the budget shortfall. This includes internal measures such as reducing 'back-office' services, management costs and reviewing Civic Office provision. It also includes proposed reductions to public-facing discretionary services including such as the phased closure of Pool in the Park; removal of funding to arts, cultural and sports development; removal of community grant funding and closure of public conveniences which will be subject to public consultation.

9.0 Public Consultation

9.1 Delivering the proposed savings outlined in Annex 6 will impact the delivery of public services in Woking. Where services cannot be self-funded or delivered by other organisations, there is a significant likelihood they will be reduced or closed. Public and/or service user/stakeholder consultation will be carried out to understand the implications of potential reductions and, where possible, seek to mitigate against complete closures for the most valued services.

9.2 The Council has committed to formal public consultation and/or stakeholder/service user consultation, lasting a period of six weeks. The findings of these consultations will be submitted to Executive and Council in February 2024, alongside final budget recommendations. Further details regarding consultation are included in Annex 5(B).

10.0 Partnership Arrangements

10.1 When asked how WBC should tackle its budget shortfall, 32% of respondents to the resident engagement exercise said that the Council should find other organisations to deliver services. Following constructive conversations with partners, the Council is in the process of agreeing the transfer of the following services:

10.1.1 Social prescribing – team to transfer to another council partner and service to residents retained.

10.1.2 Hospital discharge – team to transfer to another council partner and service to residents retained.

10.1.3 Family centres – Surrey County Council (SCC) to select new provider to deliver service from 1 April 2024.

10.2 Conversations continue to take place with partners regarding potential alternative arrangements for other services.

11.0 Implications

Finance and Risk

11.1 A robust MTFS and MTF are key documents in the Council's financial planning cycle. This document sets out the strategic approach that the Council needs to take to deliver the Improvement and Recovery Plan (IRP) and respond to the Section 114 Notice, whilst continuing to meet its statutory duties. The MTF is designed to acknowledge and structure approaches that mitigate financial risk.

Equalities and Human Resources

- 11.2 The delivery of the MTFS will require the review of many of the Council's services. These will include the development of an Equality Impact Assessment (EIA) where appropriate prior to decisions being made.
- 11.3 Staffing changes because of the Organisational re-design are being careful managed and a formal consultation approach is being taken. Full EIAs are being carried out as part of this process.

Legal

- 11.4 The Council is still obliged to meet its statutory duties and continue to make decisions in accordance with public law principles. The setting of a balanced budget in March 2024 is a legal requirement.

12.0 Engagement and Consultation

- 12.1 The results of the recent residents engagement exercise and the next steps for consultation are detailed in Annex 5(A) and Annex 5(B) of this report.

REPORT ENDS