

UPDATE ON GENERAL FUND AND HOUSING REVENUE ACCOUNT BUDGETS 2024-25

Executive Summary

This report sets out an interim update on the General Fund and Housing Revenue Budgets pending a more detailed report to a special Executive in December and prior to the final report to Council in February 2024.

It also sets out a timetable and process for wider Member involvement via the Finance Working Group and Overview and Scrutiny Committee and public consultation.

Recommendations

The Executive is requested to:

RESOLVE That

the information in the report be noted and the timetable and process for the budget be agreed.

Reasons for Decision

Reason: To provide information on the current budget position and timetable for further work.

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

Background Papers:	None.
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1.0 Introduction

- 1.1 This report provides a brief update on the report to Executive and Overview and Scrutiny Committee in September on the Medium Term Financial Strategy (MTFS). It sets out the proposed timetable and process leading up the final report to Full Council in February 2024 on the MTFS and the setting on the 2024/25 budget.
- 1.2 A more detailed update will now be provided to a special Executive on 14th December, following public consultation on the savings proposed in the September report and also work on further options to balance the budget against the agreed £12m target.

2.0 The General Fund Budget Gap 2024/25

- 2.1 In June 2023, the then 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 an 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 £15m in the 2023/24 financial year, WBC faced a deficit of £1.2bn.
- 2.2 Clearly, the size and scale of the historic debt prevents a legal budget being set for 2024/25. So, since June, work with Commissioners has focussed on separating as far as possible how this historic debt is dealt with from the challenge of setting a "business as usual" budget for Woking's services to its residents.
- 2.3 The September MTFS report Budget identified savings of £8.5m against the previously agreed £12m savings target for this service budget. This £12m target would have balanced the "business as usual" budget gap identified in June 2023. However, following a detailed review, the September MTFS identified additional costs that 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 for 2024/25 increased the budget gap to £19.3m which, with the £8.5m savings, leaves a budget shortfall of £10.8m.
- 2.4 The additional costs identified relate to pressures arising from Woking's historic investments, not services i.e. the commercial estate, car parking and capital financing costs. As it will be difficult to find additional savings above £12m given the size of Woking BC's revenue budget in one year, the financial planning process for 2024/25 will continue to be to:
 - a) Focus on delivering the maximum possible savings against service budgets, as per the previously agreed £12m target for the service budget. 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 the wider debt reduction options being worked on i.e. to target the historic arrangements that are the source of the pressures. This approach is part of the Commercial Strategy being developed within the Council's Improvement and Recovery Plan (IRP).

Work since September and up to December is focussed on these two strands.

- 2.5 The first strand is comprised of both testing the existing £8.5m savings and identifying additional options and a review of the cost pressures (demand and inflation). This includes working with the Member Finance Working Group on key areas of concern for Members in the budget, such as reviewing key savings proposals like Pool in the Park in more depth and testing options. The Group will also review business cases for the Council's wholly owned companies and debt management arrangements, feeding their work back into the Overview and Scrutiny Committee and all Member Briefings.

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- 2.6 Work on a debt reduction plan linked to an asset disposal strategy has commenced and will develop proposals that provide a basis for Commissioners to discuss options with Government. These options will seek to separate the costs of debt from the £12m target being used to set the 2024/25 budget.

3.0 Prior Year Costs and Impact on Budget Setting

- 3.1 Additional challenges arise from the overspends in current year budget 2023/24 of £7.6m (plus £8m of reserves used to set the budget) and also the previous year's 2022/23 outturn £8m above budget, as reported elsewhere on this agenda.
- 3.2 These reports identify a need to adjust recharges between the Housing Revenue Account (HRA) and General Fund budget, to the benefit of the HRA. The impact of these recharges further back than 2022/23 and for 2024/25 is subject to further work to be updated in December.
- 3.3 The cumulative impact of these costs is likely to still be at least £20m at the point when Full Council sets the final budget in February and will be an issue in setting a legal budget. The deliverability of a legal budget will be reviewed once discussions have been held with Commissioners and Government. The focus for now remains on identifying savings towards the £12m target, which is 80% of the Council's net budget of £15m (but 25% of its gross budget of £48m), which is a significant challenge.

4.0 Reserves

- 4.1 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 Section 114 Notice, the Council has no reserves because the General Fund should 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.

5.0 Council Tax

- 5.1 The Government council tax cap for lower tier councils (including Woking BC) 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 above that level are subject to public consultation, but could also be part of the Government's position via its intervention. In other Council's subject to intervention, tax increases above the cap have been implemented as part of dealing with budget gaps.

6.0 Process and Timetable

- 6.1 Attached at Appendix 1 is a detailed timetable for the budget process that will inform the work of both Officers and Members. The Finance Working Group, Overview and Scrutiny Committee and all Member Briefings are a key part of the process alongside public consultation to ensure that decision making is based on sound principles in the challenging circumstances we face.

7.0 Housing Revenue Account Budget 2024/25

- 7.1 A significant focus to date has been on identifying the correct level of recharges between the General Fund and HRA, back dated where needed. This adjustment will assist in setting a legal budget for 2024/25 for the HRA. Further work is also being undertaken in the context of the Government's rent setting guidance. The capital programme and revenue budget will also be developed to ensure that appropriate resources are in place to meet regulatory standards.

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- 7.2 The increase anticipated for Council dwellings rents in 2024/25 is 7.7%. This is based on September 2023 CPI of 6.7% plus 1%, in line with Government rent guidance. This is expected to generate additional dwelling rents income of £1.6million. Also, in 2024/25 there are fifty-three rent weeks, the extra one week will generate additional rent in the region of £347,000.
- 7.3 The decision not to continue with the Sheerwater redevelopment and retain circa 100 HRA homes will generate extra income of around £650,000 to the HRA.
- 7.4 Housing and Finance will be updating the 30 years HRA Business Plan as part of the budget setting process. This will involve a review of the current year assumptions on income and expenditure, the development of MTFs budgets using the latest CPI inflation rate, stock condition survey data and latest contractual agreements. This will also involve the development of growth and savings assumptions for updating revenue and capital expenditure budgets for the 30 years business plan. The exercise will involve completing scenario planning and stress testing of all options considered.

8.0 Investment Programme and Future Commercial Strategy

- 8.1 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 that is reported on elsewhere on this agenda.
- 8.2 The rest of the Council's capital programme will be developed in line with the principles set out in the July 2023 report and reported as part of the budget process. The following *Capital Planning Principles* were adopted by Council in July 2023 to form the Capital Programme which will be presented to Council in February. Proposals that do not fall within these 'Capital Principles' will not be included within the Draft Capital Programme.
- Items of programming that relate to essential health and safety works and deliver compliance to the regulations within in the Council's property estate.
 - 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.
 - 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 (this is the basis of the business cases reported elsewhere on this agenda).
 - Any schemes that can be shown to be wholly funded from external resources without implying additional cost burdens for the Council.
 - 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.

In addition, the programme will include schemes which can be sustainably funded via the Housing Revenue Account.

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9.0 Public Consultation

- 9.1 Delivering the proposed savings in the budget 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 has been carried out to understand the implications of potential reductions and, where possible, seek to mitigate against complete closures for the most valued services. As explained above the Finance Working Group (reporting to Overview and Scrutiny Committee) will also review business cases and options for the savings in detail.
- 9.2 The Council has commenced formal public consultation on the proposals, 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.

10.0 Implications

Finance and Risk

- 10.1 There are no direct financial implications of this report.

Equalities and Human Resources

- 10.2 There are no direct implications in this report, but the budget process as outlined will consider implications of options fully.

Legal

- 10.3 There are no direct implications in this report, but the budget process as outlined will consider implications of options fully.

11.0 Engagement and Consultation

- 11.1 As set out above there is a full public consultation exercise as part of the budget process.

REPORT ENDS