EXECUTIVE – 11 OCTOBER 2018

MEDIUM TERM FINANCIAL STRATEGY (MTFS) INVESTMENT STRATEGY UPDATE

Executive Summary

The current Medium Term Financial Strategy (MTFS) was approved by Council in April 2018. It outlined a strategy to militate against identified cost pressures over the period to 2021/22. This report provides an update on the outlook, considering developments since April. It proposes a strategy to continue to move towards a sustainable medium term position.

The figures included in the report are estimates provided for planning purposes. Assumptions are made on those projects and policies within the Council's control as well as future external pressures. The position will continue to change and it may be necessary to revisit assumptions and plans in the light of new information. The MTFS enables the Council to forecast the financial environment within which long term decisions are being made and seek ways to achieve its long term objectives.

The government funding position for 2020/21 and beyond will not be clear until late in 2019. This does not allow much time to manage the position if the results are significantly different from those assumed in this forecast. If transition arrangements are insufficient it may be necessary for reserves to be used to smooth the impact of significant funding changes in excess of the assumed level.

In recent years good progress has been made in securing income to offset the pressures on costs and lost sources of funding. However, the MTFS assumes continued funding reductions throughout the period. In order to absorb these, and the impact of the Council's Investment Programme, further savings are required. During the period covered by the current MTFS the new Town Centre car parks will become operational and the capital financing costs will need to be covered. It is expected that it will take some time for the activity to increase to cover these costs and there will therefore be an additional savings requirement during this period.

The MTFS recommends further investment in strategic property and the confidential report also on this agenda provides detailed proposals. It is also recognised that, based on current capital plans, an additional £3m of ongoing savings or income is likely to be required by 31 March 2022. It is proposed that the Council seeks to secure this through investment in both housing and other strategic income generating assets during the period to 2022. Allowance for this will be incorporated for approval in the detailed 2019/20 revenue and investment programme budgets.

Recommendations

The Executive is requested to:

RECOMMEND to Council That

(i) the Medium Term Financial Strategy (MTFS) Investment Strategy Update report be approved and the Executive be authorised to continue to prepare an Investment Strategy for future consideration which would generate sufficient income to avoid reduction in services for local people; and

RESOLVE That

(ii) the acquisition of CMS House, initially funded by the opportunity purchases budget, be allocated to the Investment Programme MTFS Investment Strategy budget.

Reasons for Decision

Reason: The decision is sought to set the framework for Officers to develop the detailed budget for 2019/20 and further proposals for consideration, in due course, by the Council to ensure the medium term financial stability of the Council in the context of its objective to support growth and to maintain services for local people.

Recommendation (i) above will need to be dealt with by way of a recommendation to Council; the Executive has the authority to determine recommendation (ii).

Background Papers: None.

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1.0 Introduction

1.1 On 8 February this year the Council approved the budget and Council Tax for 2018/19, the Investment Programme, Housing Revenue Account budgets and Treasury Management Strategy including Prudential Indicators.

1.2 Following this, in April 2018, the Council considered the Medium Term Financial Strategy (MTFS) for 2019/20 to 2021/22 and identified £3.5m of further savings would be required over this period.

1.3 This report updates the MTFS and takes the forecast on a further year forming the start of the 2019/20 budget cycle. The government funding position from 2020/21 onwards remains unclear, so for medium term planning purposes assumptions have been made to enable a longer term view to be taken. Section 2 considers the funding changes and the expected timings. The report considers the underlying assumptions critical to the projections and proposes a strategy to secure the required income over the period.

1.4 Sections 3-6 summarise the key budget areas and set out the assumptions made.

1.5 Sections 7-9 consider the impact of the Council's Investment Programme proposals.

1.6 Sections 10 and 11 set out the overall cost pressures and available reserves, and recommends a strategic approach, based on maintaining the Council's strategy of not reducing services in the Borough.

1.0 Update since last MTFS

1.1 The MTFS was last approved by the Council in April 2018, and identified savings to be secured. Since then the government has published a consultation on funding for 2019/20, there have been developments at Surrey County Council and the Council has continued work on a number of strategic projects. Further consideration has also been given to the strategy to secure financial stability over the MTFS.

1.2 This update will establish the base position for the detailed budget proposals for 2019/20 due to be reported in draft to the Executive in November, with the final budget and Council tax to be approved by Council in early February.

1.3 In pursuing economic regeneration and sustainability plans the Council has acquired a number of strategic properties. These are all within the Borough and have a strategic purpose to the Council as well as generating income. The current position on these properties is reported in the Green Book each month.

1.4 In November 2017 the Council acquired the Dukes Court office block, through the acquisition of its holding company. This had the benefits of protecting employment space in the Town Centre, enabling regeneration of the surrounding area, and providing commercial rent income for the Council. The asset was transferred from the holding company to direct Council ownership on 28 September. An assumed level of net income from the asset has been included in the 2018/19 base budget.

1.5 With the inclusion of another year in the MTFS it has been necessary to consider the transition into the operational phase of Victoria Square in more detail. On completion of construction the Council acquires the car park element of the scheme. Together with other planned car park development this increases Town Centre car park capacity for the future. However, the MTFS recognises that the additional demand will take a period of time to build.

2.0 Government support

2.1 The 2018/19 final settlement figures announced in February 2018 were consistent with those provided when the Council accepted the multi-year settlement in 2016.

Government Funding

	4 year settlement - Feb 2018		
	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**
Business Rates	1,993	2,053	2,099
RSG			
Transition Grant	112		
Tariff adjustment			- 991
Total Funding	**2,105**	**2,053**	**1,108**
Reductions in funding	- 1,304	- 52	- 945

2.2 In July 2018 the government published a consultation on the 2019-20 Settlement. This included proposals to address the problem of negative RSG in 2019/20, as well as setting out the principles for New Homes Bonus and Council Tax increases.

2.3 The 4-year settlement methodology in 2016 allocated reductions in government funding across the local government sector. This resulted in a 'negative RSG' position for a number of authorities where there was no Revenue Support Grant left to take. Following consultation on the provisional proposals in 2016, the negative RSG was removed for 2017/18 and 2018/19 but has remained in 2019/20 through the various announcements since this time.

2.4 Over the last 3 years the Council has consistently made representations to the government reiterating concerns about negative RSG. The July 2018 consultation acknowledges the issue of negative RSG and considers 'fair and affordable' approaches to address the issue. The Government's preferred option is to simply allocate additional funding to remove the negative amounts in those affected authorities. The funding would be allocated from the Government's share of business rates income. This is positive news and this MTFS assumes that the proposals in the consultation are implemented as shown in the table below.

Future Government Funding

	4 year settlement		Estimated		
	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**
Business Rates	2,053	2,099	2,162	2,227	2,294
RSG					
Transition Grant					
Tariff adjustment		-991			
Assumed adjustment following consultation (July 18)		991			
Assumed adjustment post BR retention/FF review			-750	-1,250	-1,750
Total Funding	**2,053**	**2,099**	**1,412**	**977**	**544**
Reductions in funding	-52	46	-687	-435	-433

2.5 The consultation closed on 18 September 2018 and it is assumed that the results will inform the announcement of the provisional figures for 2019/20 in December 2018.

2.6 The funding position from 2020/21 onwards remains unknown. The March 2018 MTFS assumed annual reductions of £500,000 in addition to the £1 million reduction in 2019/20. For the purposes of this MTFS it is now assumed that the funding reduction in 2019/20 is removed, but that the reduction in 2020/21 is increased to £750,000 acknowledging the risk that these funds will be recouped on transition to the new system. In future years the assumption remains the tariff adjustment will increase by £500,000 pa, offset by inflation of 3% in the Business Rates retained. In reality the introduction of the new Business Rates system will combine these two figures and the fair funding review will set the retained element of Business Rates (before growth). The section below sets out further detail on the new arrangements.

2.7 If funding reductions continue beyond 2022/23 the Council could be in a position where it no longer receives any central funding and becomes a net contributor to the national system.

Business Rates

2.8 The Government plans to introduce a new system for the allocation of Business Rates from 2020/21. The new system will require baseline income and needs to be assessed. These levels will be used to determine the redistributive model within the scheme. This is a significant risk as it will ultimately determine the financial impact of the transition to the new system (see table in 2.23).

2.9 Changes to Business Rates in recent years including Small Business Rates Relief, other discount schemes following the revaluation, and the change from RPI inflation to CPI have been funded by the government at no cost to individual Councils.

2.10 For 2018/19 the local authorities in Surrey are operating as a pilot for 100% Business Rates retention. This means that a greater proportion of Business Rates growth is retained locally this year. The government has recently made it clear that the Surrey pilot is only for one year.

2.11 The government's intention is now to move to a system of 75% Business Rates retention by the local government sector in 2020/21. In July 2018 the government published an invitation to bid to become a 75% Business Rates Pilot in 2019/20. The offer is not as attractive as the 2018/19 pilots – the benefit is less as only 75% of the gains are retained, the no-detriment clause which protected pilot authorities from a reduction in income as a result of the pilot has been removed, and the number of pilots to be approved will be reduced. However, there remains a significant benefit in being a pilot area and a bid has been submitted by Surrey County Council and the Surrey Districts and Boroughs. In the event of an unsuccessful pilot bid Woking is not one of the Boroughs which maximise the income retained in the County, so would not be part of the Business Rates pool which would be formed.

2.12 £200,000 of additional Business Rates income above baseline levels has been used to support annual revenue budgets since the first Surrey Business Rates pool in 2015/16. However, actual income collected has been above the baseline level generating surpluses which have enabled the MTFS and Business Rates equalisation reserves to be established, and to cover the budget requirement in years when the Council has not been part of a pool or pilot. It is not prudent to include a greater benefit in baseline budgets given the uncertainty of this funding in future years. Any reliance would increase the potential difficulty at the reset of the system in 2020/21.

2.13 There were a number of valuation adjustments from the Valuation Office in 2017/18 due to the current Town Centre redevelopment and infrastructure works. Despite this, the position currently remains at positive levels and this will continue to be monitored over the coming months and years until the works are completed.

2.14 Any benefit generated from the 2018/19 pilot will be credited to the MTFS reserve at 31 March 2019, and used to fund Town Centre feasibility work as set out in the pilot bid.

New Homes Bonus

2.15 2018/19 is the second year since the New Homes Bonus scheme was revised to reduce the number of years the bonus is paid for (from 6 to 4) and to include a baseline growth which is required before any grant is received.

2.16 Once through the transitional period it has been assumed that Woking would qualify for approximately £600k of grant annually. This would be the position from 2021/22 onwards by which time the baseline will affect all 4 years for which the grant is being received.

2.17 The July 2018 consultation on the 2019/20 settlement commented on New Homes Bonus:

- Due to the upward trend in house building it is likely that the baseline of 0.4% will be increased for 2019/20;
- The government intends to explore how to incentivise housing growth most effectively in the next Spending Review, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need.

2.18 It is clear that New Homes Bonus in the current form will not continue, however it is not clear what will replace it or how the transition will work. For this MTFS the assumptions on total grant income have not been amended. Actual receipts could vary significantly from this level depending on the annual growth in new homes. The baseline growth requirement may also be set at a considerably higher level depending on the funding made available by the government and national levels of growth.

2.19 The Council has £1m of New Homes Bonus income in its base budget for 2018/19. The forecast assumes this is reduced by £200,000 in 2019/20 and 2020/21 until just £600k remains in the base budget.

Council Tax income

2.20 The government has consulted on the Council Tax referendum principles for 2019/20. The intention is to maintain the same approach as in 2018/19:

- District Councils to be allowed increases of up to 3% or up to and including £5, whichever is higher;
- A core principle of 3% increases, plus the Adult Social Care (ASC) precept for relevant authorities (subject to the total ASC not exceeding 6% between 2017/18 and 2019/20);
- Increases of up to £12 for Police and Crime Commissioners.

2.21 The Government calculates future spending power figures which demonstrate resources available to each authority. In these calculations it is assumed that authorities take advantage of this flexibility to generate the maximum Council Tax income. The Government also assumes increases to the taxbase based on previous taxbase trends.

2.22 For the forecast it is assumed that the Council will implement the maximum increase in Council Tax without needing a Referendum, in line with the government proposals. This ensures that income does not fall behind assumed levels. The taxbase is forecast to increase by 0.75%, equivalent to approximately 300 Band D properties per annum, broadly in line with the Local Plan.

Council Tax Income	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2021/22**
Taxbase	41,030	41,338	41,648	41,960	42,275
Increase (Band D equivalents)	509	308	310	312	315
Council Tax	£233.46	£240.46	£247.68	£255.11	262.76
Total Council Tax income (£'000)	9,579	9,940	10,315	10,704	11,108

Future developments

2.23 Going forward there are a series of significant workstreams which will affect the system of government funding from 2020/21 onwards. In addition a Business Rates revaluation is expected in 2021 (and every 3 years thereafter) together with transitional arrangements. Neither the detail of these nor the potential impact is available at this stage.

Review	**Purpose**	**Update since last MTFS**
Fair Funding Review (FFR) Due to be implemented 2020/21	Determines which authorities have the greatest 'need' for government funding.	None
'Redesign of Business Rates retention system' Due to be implemented 2020/21	Sets the mechanics for how Business Rate income collected is distributed - to meet the need determined in FFR and incentivise growth.	Applications invited for a small number of 75% Business Rates pilots for 2019/20
Business Rates Baseline Reset Due to be implemented 2020/21	Determines the expected Business Rates income collected by each authority. Amounts above this level are considered 'growth' and the amount of this growth retained is funding above baseline level.	None
Transition arrangements	'Soften' the impact of significant changes in funding through implementation over a period of time.	None

2.24 Until some of the elements of the system are settled, it is not possible to assess the funding expected in future years with any certainty. It is also very difficult to assess the maximum potential impact, although it would seem difficult for funding to drop below zero.

3.0 2017/18 outturn

3.1 The outturn for 2017/18 year was an underspend of £1.1m as reported in the March 2018 Green Book. Much of this saving was additional rental income from Orion Gate which was not acquired until after the budget had been set.

3.2 Where there are timing differences, any additional income generated above budgeted levels is credited to reserves to manage the medium term financial position and provide resource for management of the asset going forward.

3.3 Other variances in 2017/18 have now been incorporated into the base budget and are not being forecast in the 2018/19 Green Book to date.

4.0 General Service Pressures

Employee costs

4.1 The 2018/19 base budget is based on a salary control total of £13.575 million. The proportion of costs allocated to the General Fund increased compared to 2017/18 as a result of a review which showed a reduction in direct staffing costs to be allocated to the Housing Revenue Account (HRA). It is not expected that a further adjustment will be required going forward.

4.2 The budget continues to allocate some employee costs to the Investment Programme to be funded annually alongside the projects to which these posts relate. It will be important to continue to assess that project work continues such that employee costs can be capitalised.

4.3 There is a 5% vacancy management savings target within the 2018/19 salaries budgets. The total annual cost of a full staff structure has been scaled back by this amount to the control total. A vacancy target at this level is acceptable but higher than in previous years and will require close management in year.

4.4 Going forward it is necessary to assume that all pay progression is funded in future years if services are to be maintained at the existing levels, and that some contribution is made to reduce the vacancy management target.

4.5 Allowance is made for the control total to increase by £400,000 in 2019/20 and 2020/21 with an assumed cost increase of £350,000 per annum across the period. This is equivalent to an increase in salary budget of between 2.45% (2019/20) and 2.35% (2021/22) and enables a reduction in the vacancy management target of £100,000 so that it represents 4% of the total costs by 2021/22.

4.6 It may be necessary to review this later in the budget process if it is not possible to manage this level of in-year savings.

Contractual Inflation

4.7 As in previous versions of the MTFS, an allowance for inflation has been included for the Council's highest value contracts. This includes Waste and Recycling, Environmental Maintenance, Asset and Facilities Management as well as Energy and Business rates budgets.

4.8 For the purposes of this report inflation is based on the HM Treasury August publication of independent inflation forecasts. Contract increases are assumed to be in line with RPI. Between £250,000 and £275,000 is allowed in each year of the forecast.

Medium Term Forecasts August 2018 (HM Treasury)

Inflation	2018	2019	2020	2021	2022
RPI (%)	3.4	3.1	3.0	3.1	3.2
CPI (%)	2.4	2.1	2.0	2.0	2.1

Other inflation

4.9 No specific allowance is made for inflation on the remaining £11 million of service expenditure. It is assumed that any further cost pressures will be offset by increases in income budgets which total £25 million excluding parking which is covered separately in section 6. A significant proportion of this income (£16m) relates to rents and it is recognised that these will be subject to rent reviews and may not increase in the same way as contract inflation.

5.0 Specific Service Pressures

Additional Car Parks

5.1 This MTFS now includes the financing and net income forecast from the new Victoria Square car park and the proposed extension of other car parks.

5.2 It is difficult to evaluate the additional car parking activity on the opening of Victoria Square, and it is likely that it will take some time for activity to increase to a new 'base' level.

5.3 Previous versions of the MTFS have assumed increases in parking fees and charges every 2 years effective October. Actual income from car parks in 2018/19 is currently less than budgeted and there is a risk of reduced parking income in the Town until infrastructure works are complete. It is now assumed that an increase in charges during 2019/20 would just help meet existing budgets and the additional income previously forecast for 2019/20 will not be achieved.

Reduction in Surrey County Council support

5.4 A number of the Council's service areas have historically benefited from financial support from Surrey County Council (SCC). SCC has been very open about their financial funding issues as a result of reductions in government funding and increased demand (particularly for social services and services for people with learning difficulties). For the purposes of the MTFS it is assumed that Woking will lose all remaining income in 2019/20, with the exception of waste funding which has been agreed under new funding mechanisms and is assumed to be lost at the end of the period of the agreement.

5.5 There is also a risk due to SCC funding of community and voluntary groups in Woking where support may be withdrawn. Where this happens the Council will need to consider the implications on an individual basis. No further costs have been incorporated into the MTFS at this stage.

New Leisure Facilities

5.6 Additional operational costs have been built into the 2018/19 budget for the Woking Sportsbox, which opened during the summer. These costs will be reviewed during the year and amended in the 2019/20 budget if necessary. An assumed £825,000 for operating the new Sheerwater facilities has been included in the MTFS.

HG Wells

The lease for HG Wells is due to end in 2020. There is a net cost of running the centre plus the cost of leasing the property. The impact of closing the centre, assuming no additional net cost of providing an alternative facility, is £480k.

Housing

5.7 The Homelessness Reduction Act places new responsibilities on the Council. In 2018/19 funding has been received to assist in the implementation of these new requirements. In future years there is a risk that there will be additional ongoing costs that have not been recognised in the MTFS. Currently properties in Sheerwater are being used as temporary housing, saving the cost of Bed and Breakfast accommodation. As the Sheerwater scheme progresses the Council will need to identify alternative housing for these tenants.

Land Charges

5.8 The Land Registry will take on the future provision of Land Charges information. The timing and exact proposal of what elements of the service will transfer have not yet been confirmed, however there is a risk that there are residual costs which will no longer be covered by income from charges. No new information is available since the last MTFS. The £80,000 pressure remains for any costs which cannot be recovered, although for planning purposes moved to 2020/21.

Commercial Rents

5.9 The Council has a number of properties with leases which expire during the MTFS period, in particular during 2021. There is a risk that these properties become vacant, with the rental income lost and the associated landlord costs for the Council. No allowance has currently been made for this pressure, it is assumed that reserves will be used to mitigate any shortfall until the properties are re-let. The further risk is that there will be a general reduction in rental levels, however with the regeneration of the Town it is hoped that levels can be maintained.

5.10 The retail sector has been experiencing difficulties in recent times. Income has reduced from a number of units where rents had been agreed when the historic financial environment was more positive and there may be further adjustments necessary as leases are renewed. A strong retail offer is important as part of a balanced and attractive Town Centre and despite the challenging market the number of vacant units in Woking remains low.

5.11 The We are Woking campaign is promoting the town, keeping the community informed and interested in developments. It aims to ensure that it is clear that the town remains open for business during this time. The campaign launched during 2017/18, and resources will be reviewed as part of the Investment Programme this autumn.

6.0 Fees and Charges

6.1 Of the total £11.3m income from discretionary fees and charges, £7.5 million is derived from car parking charges.

6.2 It is assumed that there will be an annual increase in income generated and that this trend will continue at some £250,000 per annum over the forecast period with the exception of 2019/20 which will absorb the shortfall being experienced in the current year.

6.3 Planning fees were increased in January 2018 in line with government guidance. The government has suggested a further 20% increase would be available in the future with details to be announced. This has not been built into the forecast since it is assumed there will need to be an equivalent increase in expenditure within the planning service.

7.0 Investment Programme

7.1 The cost of Investment Programme projects, where project funding is through borrowing, consists of interest charges and an allowance for repayment of debt which is called the 'Minimum Revenue Provision' (MRP).

7.2 The forecast is based on the Investment Programme approved by the Council in February 2018, updated for slippage and planned schemes.

7.3 There is considerably less activity in the outer years. It may be that nearer the time further projects will be developed for these years, however the Council can assess whether these are affordable in due course once the financial position is established.

7.4 There remains a budget for strategic investment opportunities as well as the opportunity purchase budget within the Investment Plan. Where not specifically allocated, the MTFS assumes that the Strategic Investment budget achieves a 2% margin on the costs of acquisition.

<u>Flood Schemes</u>

7.5 In March 2016 the Executive approved the first stage investment in the Hoe Valley flood alleviation and enhancement scheme. It is recognised whist we remain hopeful that grant funding will be available, it is probable that it will not completely fund the project. An estimated cost of borrowing of £4 million has been assumed for each scheme. These costs have been slipped as the funding has not yet been secured.

7.6 It is likely that further investment will be required in future years for the Rive Ditch, but at this stage these works have not yet been quantified.

<u>Woking Sportsbox</u>

7.7 The community facility element of the Egley Road scheme is funded by development contributions, with interim borrowing applied until the contributions are secured. These financing costs, assumed at £625,000 pa, are now in the 2018/19 budget. The athletics track is a replacement for the track in Sheerwater which is required for the regeneration scheme. It is assumed that the Sheerwater project will make a contribution of £8m for this during 2020/21.

<u>Brookwood Cemetery</u>

7.8 The Investment Programme includes capital and revenue grants to Brookwood Cemetery to fund backlog maintenance as well as capital improvements. Going forward future investment will be assessed and agreed annually and would be an additional cost to the base budget. It is expected that continued investment will be required so a revenue allowance of £300k and an annual £1m capital grant is assumed in the Investment Programme.

<u>Gateway</u>

7.9 The Woking Gateway project is a private development scheme, which includes some of the Council's property assets. Once construction is underway, there will be a loss of £350,000 commercial rents during the development. It will be important to the Council that these are reprovided and that this income stream is not permanently lost. The MTFS recognises this loss of income assumed in 2021/22.

Car Parks Extensions

7.10 The Investment Programme allows £10m for expansion of Town Centre Car Parks. It is assumed that additional car parking income will offset the financing costs of the increased capacity, approximately £370k based on a 50 year annuity at 2.75%.

7.11 The Victoria Square project also provides for additional car parking which will be acquired by the Council on completion of construction. The total cost of these additional spaces is £58m which it is assumed to become due to Victoria Square Woking Ltd (VSWL) over 2 years and will require approximately £2.4m from car parking charges to finance. It will take time for the new asset to be able to generate this level of income so funds will need to be set aside to offset the financing costs until activity increases.

7.12 A net cost is now included in the MTFS. Resources will be set aside to offset this pressure for a period of time.

Technical accounting changes

7.13 Both the government and CIPFA have issued updated guidance on investment and treasury management practices which will apply from 2018/19. In particular there are new suggested periods for the repayment of borrowing (MRP) applied to specific assets. Whilst this remains guidance and not a statutory requirement, it may be more difficult in to justify an approach which is significantly different to the recommended calculations.

7.14 For share capital the suggested Minimum Revenue Provision (MRP) is over 20 years as the government wishes to discourage the use of share capital. The Thameswey Business Plans and Investment Programme considered in November will recommend that in light of this future project financing reduces the use of share capital in supporting long term business plans.

8.0 Group Companies

8.1 The Council's Group companies provide a net revenue benefit in the base budget. It is assumed that the approved investments in the Thameswey Group are advanced as set out in the Investment Programme. The timing of these may change as a result of the Thameswey Business Plans due to the Council this autumn.

8.2 Beyond the Investment Programme years, it is assumed that there will be a continued investment in the Thameswey Group as outlined in the Thameswey Business Plans but not yet approved by the Council in its Investment Programme. The additional income generated is offset in part by the reduction in interest on older annuity loans as the principal is repaid by Thameswey group companies.

9.0 Treasury Management

9.1 The base treasury management position in the 2018/19 budget reflects the borrowing necessary to meet the requirements of the approved Investment Programme. It is based on a long term borrowing rate of 2.95%. As at 26 September, 50 year PWLB rates are 2.61% (maturity), 2.78% (annuity).

9.2 For future years long term borrowing rates have been based on the forecast maturity rates provided by Link Asset Services, the Council's treasury management advisors (7 August 2018). This incorporates the bank base rate increase from 0.5% to 0.75% on 2 August 2018.

The table below shows the forecast certainty rates for maturity loans. The 50 year annuity rate is approximately equivalent to the 25 year maturity rate.

Link Asset Services Interest Rate View	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

9.3 The forecasts are heavily caveated and assume:

> "that sufficient progress is made, in respect of negotiations, to produce a reasonable agreement for Brexit that benefits both the EU and the UK in a sensible manner. If no agreement is reached at all, then our forecasts for increases in Bank rate and PWLB rates will be subject to greater change, most likely downwards."

It is also expected that:

> "there are likely to also be periods of sharp volatility from time to time."

9.4 If rates rise above assumed levels for projects which require financing over a period of time, it is likely that a consolidated rate, mixing long and shorter term borrowing, could be achieved.

9.5 For the Victoria Square project financing was assumed at a base rate of 2.5%, with modelling at 2.75%. To date £155m of 50 year annuity borrowing has been secured for the project at a weighted average interest rate of 2.57%. There remains a risk on the timing of loan advances and interest rates which could have an effect on future plans.

9.6 Most of the Council's historic debt has been maturity loans which are repaid at the end of the term. More recently there has been a move to annuity loans which repay the principal alongside the interest, over the life of the loan. With the levels of investment planned over the MTFS period it is likely that annuity loans will continue to be taken for new long term debt. This will mean the principal is repaid gradually over the term of the loan so the Council is not left with a significant payment to be made at maturity, and therefore does not need to hold significant cash balances with which to make the payment.

10.0 Summary Forecast

10.1 The table below sets out the impact on future years of the assumptions outlined in sections 3-9 of the report, and the previously agreed mitigation strategies.

10.2 It also assumes an increase in Investment in strategic investment in assets, yielding £1.6m to support the financial position from 2019/20 onwards. The detail of these proposals is included in the confidential report to be considered in Part 2 of this agenda.

10.3 It is proposed to use the MTFS Investment Strategy budget in the Investment Programme for the acquisition of CMS House, Poole Road. The asset was acquired for £1.96m (including SDLT) and yields a rent of £120,000. After assumed financing costs of £72,370 (50 yr annuity at 2.75%), the net income achieved is £47,630. The purchase was completed using the opportunity purchases budget, however the financials meet the assumptions made for Investment Strategy purchases and will contribute towards the target income for 2018/19.

10.4 New rental income contributes towards the financing costs of some of the Investment Programme projects. This is currently an estimated amount and will be further clarified as the full detail of the schemes come forward for approval.

10.5 Investment in housing through loans to Thameswey Housing Ltd/Thameswey Developments Ltd are forecast to generate £2m of additional income. The timing of this income will be revisited as part of the budget process for 2019/20 which will include the update of the Thameswey Business Plans.

WOKING BOROUGH COUNCIL - MEDIUM TERM FINANCIAL STRATEGY

In year pressures	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	TOTAL £'000
Remove use of reserves	309				**309**
Remove Business Rates pooling/CF surplus	38	299			**337**
Reduce reliance on NHB	200	200			**400**
General Service Pressures	653	658	615	625	**2,551**
Specific Service Variances	346	346	104		**796**
Investment Programme projects	777	912	908	354	**2,951**
Less: additional revenue income from projects			-350		**-350**
Sportsbox funding from Sheerwater project		-370			**-370**
Sheerwater Leisure facilities - operational cost		125	700		**825**
Woking Gateway - loss of rents			350		**350**
HG Wells - lease termination		-479			**-479**
Town Centre Car Parks financing costs			1,583	1,178	**2,761**
TEL/TCMK interest	-62	-10	75	75	**78**
Government Funding reductions	-46	687	435	433	**1,509**
	2,215	2,368	4,421	2,665	11,669
Funded by:					
Fees and Charges - Car park income		-250	-250	-250	**-750**
Fees and Charges - new Car park income			-616	-616	**-1,232**
Council Tax income	-361	-375	-389	-404	**-1,529**
In year savings required	1,854	1,743	3,165	1,395	8,158
Agreed/Proposed MTFS Strategies					
Investment in Housing	-737	-663	-688		**-2,087**
Investment in MTFS Investments Clockhouse	-187				**-187**
Investment in MTFS Investments CMS House	-47				**-47**
Investment in MTFS Investments (@2%)	-137				**-137**
New Investments in Town Centre	-1,600				**-1,600**
Limiting Investment Programme revenue cost	-100	-100	-100	-100	**-400**
Productivity and Procurement	-100	-100	-100	-100	**-400**
	-1,055	**881**	**2,278**	**1,195**	**3,299**
Cumulative requirement	**-1,055**	**-174**	**2,104**	**3,299**	

The cumulative requirement shows that, if the additional investment is approved, the financial position is forecast to be in surplus in 2019/20 and 2020/21. This should enable some resources to be set aside for future years. The pressure comes on introduction of the new car park assets, and the associated financing costs, which are expected to initially operate at a net cost. The table below tracks the changes since the April 2018 MTFS.

In year pressures	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	TOTAL £'000
Surplus (-)/deficit after agreed strategy (Apr 18)	**1,608**	**1,548**	**315**	**0**	**3,471**
Government funding	-991	250		433	-308
Additional year of forecast (inc savings)		-2	7	-154	-149
HG lease termination		-479			-479
Lost income (car parks/SCC/Gateway)	250		104		354
Investment Programme	-202	340	185	354	677
New Car Parks			1,583	1,178	2,761
New Car Park income			-616	-616	-1,232
MTFS income	-1,796				-1,796
Reschedule cashflow timings	76	-776	700		0
	-1,055	**881**	**2,278**	**1,195**	**3,299**
Cumulative additional Pressure	**-1,055**	**-174**	**2,104**	**3,299**	

10.6 Over the period to 2022/23 the Council is likely to need to secure a further £3.3m in additional income or reduced costs. The savings are forecast to be needed in 2021 and 2022. The timing of income and cost pressures will continue to be reviewed as the detailed 2019/20 revenue and investment programme budgets are developed over the coming weeks.

10.7 The Council's approach to date has been to invest in strategic and housing assets to underpin the future development and financial sustainability of the Borough. This has been successful and it is recommended that this be continued over the coming years.

10.8 It is recommended that further investment in assets is incorporated in the budget proposals for 2019/20 to seek to secure the required savings for 2021/22 and 2022/23 with a target of £2m to be secured from housing and £1m from other assets.

10.9 The risks to the forecast have been covered in earlier sections of this report however, there are a number of items in the MTFS which could improve the Council's position:

- The government review of funding may secure at least a cash neural settlement for the Council saving £1.5m between 2020 and 2023
- Parking activity could increase more quickly than forecast once the town centre works are complete
- With the level of development underway the Council taxbase could increase at a greater rate than assumed and generate additional Council Tax income
- There are possible additional income sources from loans to external organisations or opportunity purchases which have not yet been incorporated into the figures.

10.10 There also remains flexibility within the Investment Programme where projects could be deferred until resources can be identified. It is also possible that some projects won't progress as quickly as currently envisaged.

10.11 The Council also has a number of reserves which are available to mitigate short term shortfalls in income. The level of reserves is covered in the following section.

10.12 It will be necessary to keep the MTFS under frequent review and update it as part of the budget process and as better information becomes available.

11.0 Reserves

11.1 It is important to review the use of reserves alongside forecast budget plans to maintain adequate resources in reserve. The Council's main usable revenue reserve is the Investment Strategy Reserve which is managed with a target of maintaining approximately £3 million of available funds. The February budget papers showed the balance on this reserve was projected to be £2.7 million at 31 March 2021. At 31 March 2018 the balance on the Investment Strategy reserve was £4.1m.

11.2 The Wolsey Place reserve is used to mitigate variations in rental income and one-off revenue costs in Wolsey Place and Export House. At 31 March 2021 the balance is forecast to be £3.1 million, and based on similar levels of use is reducing at approximately £685,000 a year. At this rate of use, the funds in this reserve will last until 2025/26

11.3 A new Car Park reserve has been established as part of closing of the final accounts for 2017/18, with £1m of available funds.

11.4 The Council has a number of other revenue reserves holding funds which are set aside for specific purposes or to address particular identified risks. These include the MTFS reserve and Business Rates Equalisation Reserve which are available to provide a buffer should income levels take time to grow or further costs/lost income be incurred while the major construction projects in the Town Centre continue.

Reserves available to manage the transition period to 2021 and beyond

	31-Mar-18 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-21 £'000
Forecast reserve balances				
Medium Term Financial Strategy Reserve	3,444	3,136	3,136	3,136
Wolsey Place Reserve	5,915	4,564	3,824	3,056
Business Rates Equalisation Reserve	6,002	2,502	2,502	2,502
Victoria Square Reserve	796	1,596	2,396	3,196

11.5 The Council's overall level of reserves is considered to be sound with funds available to provide support for a short period provided medium and long term actions are taken to align underlying revenue expenditure with underlying revenue income; a balanced budget.

12.0 Conclusions

12.1 The MTFS projects cost pressures of £8m over the period 2019/20 – 2022/23. Of this total, £2.6m relates to Investment Programme projects, £1.5m is due to the new car parks and £1.9m is due to government funding reductions.

12.2 Income and savings to the value of £4.85m are proposed or identified, including new strategic investments as set out in the confidential report also on this agenda.

12.3 Further investment is proposed for inclusion in the detailed budgets to mitigate the remaining savings requirement to 2022/23.

13.0 Implications

Financial

13.1 The financial implications are detailed within the report.

Human Resource/Training and Development

13.2 No specific Human Resource or Training and Development implications.

Community Safety

13.3 No specific Community Safety implications.

Risk Management

13.4 There are a number of specific risks to the figures included in the forecast as set out in the report. There is an ongoing risk in the medium term of changes in government policy which could affect the General Fund as well as the Housing Revenue Account and Thameswey Group.

Sustainability

13.5 There are no sustainability implications.

Equalities

13.6 There are no equalities implications.

Safeguarding

13.7 There are no safeguarding implications.

14.0 Consultations

14.1 There have been no formal consultations on this paper.

REPORT ENDS