EXECUTIVE – 28 MARCH 2019

MEDIUM TERM FINANCIAL STRATEGY

Executive Summary

The last Medium Term Financial Strategy (MTFS) was approved by Council in October 2018. It outlined a strategy to mitigate identified cost pressures over the period to 2022/23. This report provides an update on the outlook, considers developments since October and, following approval of the budget for 2019/20, extends the forecast out to 2023/24. It considers the strategy in place to achieve a sustainable medium term position whilst progressing the Council's service and Investment Programme ambitions.

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 later this year. This does not allow much time to manage the impact if the funding allocations are 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 whilst financial planning is updated.

The projected income and expenditure shows that the action taken, including new strategic and housing investment allocated as part of the 2019/20 budget setting, achieves the required savings for the period to 2022/23. The additional of a further year to the forecast, with continued funding reductions and Investment Programme costs, adds a further £1m to the savings requirement. It is recommended that the focus remains on progressing existing income strategies, and the requirement is revisited later in the year when future government funding is clearer.

Following a VAT inspection of Brookwood Cemetery, a significant proportion of VAT incurred on cemetery expenditure will not be recovered in future. This adds some £100,000 to the costs of the service which, due to the different VAT status, could be recovered if the cemetery was operated directly by the Council. It is therefore recommended that the Council takes on direct operation of Brookwood Cemetery and that resources are allocated as previously agreed in the 2019/20 budget and Investment Programme.

Recommendations

The Executive is requested to:

RECOMMEND TO COUNCIL That

(i) the Medium Term Financial Strategy (MTFS) report be approved; and

(ii) subject to appropriate due diligence Brookwood Cemetery be acquired by the Council to be operated as a direct Council service.

Reasons for Decision

Reason: The decision is sought to agree the framework for Officers to develop 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.

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

Background Papers: None.

Reporting Person: Leigh Clarke, Finance Director
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Contact Person: Leigh Clarke, Finance Director
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Portfolio Holder: Councillor Ayesha Azad
Email: cllrayesha.azad@woking.gov.uk

Shadow Portfolio Holder: Councillor Deborah Hughes
Email: cllrdeborah.hughes@woking.gov.uk

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1.0 Introduction

1.1 On 13 February this year the Council approved the budget and Council Tax for 2019/20, the Investment Programme, Housing Revenue Account budgets and Treasury Management, Investment and Capital Strategies including Prudential Indicators.

1.2 This report updates the MTFS previously considered in October 2018 and takes the forecast on a further year with 2019/20 as the new base. The MTFS in October proposed investment strategies to enable the Council's ambition to be maintained while securing the £3.3m of savings required. As part of the update the underlying assumptions critical to the projections are reviewed and the savings strategy assessed.

1.3 Government funding from 2020/21 onwards remains unclear, so for medium term planning purposes assumptions have been made throughout the forecast period. Section 2 sets out the latest funding position, expected changes and timings.

1.4 Sections 3-5 summarise the key budget areas and set out the assumptions made.

1.5 Sections 6-8 consider the impact of the Council's Investment Programme proposals.

1.6 Sections 9 and 10 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 October 2018, and identified £3.3m savings to be secured in the period to 2022/23. Since then the Council has finalised the 2019/20 General Fund budget and Investment Programme, and has progressed work on a number of strategic projects and proposals.

1.2 This update provides a new base position for 2019/20. The MTFS will continue to be updated as new information becomes available and decisions are made. It is important that the Council has an up to date view on future pressures to understand the short, medium and long term impact of policy decisions. The MTFS will be formally considered again if there are substantial changes, or as part of the 2020/21 budget process.

1.3 An additional year, 2023/24, is included in the forecast. It is assumed that general service pressures are offset by increases in income from Council Tax, fees, charges and rents. However any reduction in government funding and the impact of the Investment Programme would add to the savings requirement.

<u>Economic Development</u>

1.4 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. Since October the properties acquired are:

Midas House - included in 2019/20 base budget

Victoria Gate – included in 2020/21 forecast

1.5 The Investment Programme includes allowance for further acquisitions not yet completed and the 2019/20 budget increased this allocation by a further £50m to support the MTFS where property of strategic importance to the Council is identified.

1.6 Investment properties are valued annually as part of the final accounts process. They are held on the Council's balance sheet with the value offset by borrowing taken to secure the acquisition. The value is important if the asset is to be sold but if the asset will be held for the long term, the income stream is of most importance, together with any further investment or irrecoverable costs. This is the focus of the Green Book reporting.

1.7 The Victoria Square town centre regeneration is progressing well with the structures continuing to take shape during 2019. The planned acquisition of the Victoria Square car parks is now well within the period of the MTFS forecast. As the town centre integrated transport works and Victoria Square near completion the focus will turn to the next phases of the town redevelopment including Woking Gateway and the Victoria Arch and transport works to the south of the railway.

1.8 The former recycling centre and adjacent land off Kestrel Way and Sythwood has been earmarked for development by the Council's Joint Venture Company, Rutland Woking Limited (RWL). In support of local business activity, the Executive has approved funding to develop 3 new industrial units on this site, 2 of which will be pre-let.

Housing

1.9 In October the Chancellor scrapped the Housing Revenue Account (HRA) borrowing cap. This enables the Council to use retained right to buy receipts to progress provision of additional HRA properties. Proposed developments include a 57 unit sheltered housing scheme at Old Woking and 54 units at Monument Way West.

1.10 The Council in December also approved two General Fund housing schemes, part funded by right to buy receipts. One will be leased to a specialist housing provider to meet the needs of vulnerable people, the other premises will house the services operated by the York Road Project (YRP) for homeless people. Both developments will be at a cost to the Council, but will provide appropriate residential accommodation for some of the most vulnerable in the community.

1.11 Revised planning applications for the Sheerwater regeneration scheme are due to be considered by the Planning Committee on 9 April 2019. This project provides new affordable and market housing, leisure facilities and open spaces. On 21 March the Council received confirmation that the £9.4m Housing Infrastructure grant provisionally allocated by Homes England towards the scheme had been approved subject to conditions which will be set out in a formal offer letter.

2.0 Government support

2.1 For the period 2016/17-2019/20 government funding was set by a 4 year funding settlement in February 2016. Local government is now at the end of that funding settlement period with no indication of the level of funding, or funding reductions, going forward. Whilst the 4 year settlement initially provided some certainty for medium term planning purposes, as this was not a 'rolling settlement' the future certainty has diminished through the period. There is now no indication from government as to funding levels beyond the MTFS base year so a judgement has to be made based on the potential impact of changes being consulted on and the likely priorities for local government.

2.2 The final funding figures for the 4 year settlement are shown in the table below, together with the support provided through New Homes Bonus which varies year on year depending on delivery of New Homes offset by the number of empty homes.

Government Funding

	4 year settlement & NHB - final figures			
	2016/17	**2017/18**	**2018/19**	**2019/20**
	£'000	**£'000**	**£'000**	**£'000**
Business Rates	1,954	1,993	2,053	2,099
RSG	588			
Transition Grant	137	112		
Tariff adjustment				- 991
Tariff adjustment removed 19/20				991
New Homes Bonus	2,043	1,820	1,386	1,181
Total Funding	**4,722**	**3,925**	**3,439**	**3,280**
Reduction(-)/Increase in funding	- 215	- 797	- 486	- 159
Cumulative reduction in funding	**- 215**	**- 1,012**	**- 1,498**	**- 1,657**

2.3 The funding position from 2020/21 onwards remains unknown. For the purposes of this MTFS the assumptions are consistent with the October forecasts. It is 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.

2.4 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).

2.5 If New Homes Bonus were to continue under the existing arrangements it has previously been assumed that funding would reduce to £600,000 being 4 years grant at £150,000. In 2019/20 the annual grant allocation was only £14,000 due to the increase in empty properties.

2.6 It is possible that future years will also see he impact of timing of residential properties developments, in particular the Sheerwater regeneration, which may temporarily reduce the number of occupied properties. For this forecast, it is assumed that the £150,000 annual grant is received for 2020/21-2022/23.

2.7 The 2019/20 General Fund budget includes only £600,000 of the New Homes Bonus allocated, with the remainder of the funding transferred to the New Homes Bonus reserve to fund project costs. As the allocation for 2019/20 was less than expected, it is considered prudent to reduce in-year reliance on this grant by an additional £200,000 for 2020/21.

Future Government Funding

	Estimated			
	2020/21	**2021/22**	**2022/23**	**2023/24**
	£'000	**£'000**	**£'000**	**£'000**
Business Rates	2,162	2,227	2,294	2,362
New Homes Bonus	816	575	464	600
Assumed adjustment post BR retention/FF review	-750	-1,250	-1,750	-2,250
Total Funding	**2,228**	**1,552**	**1,008**	**712**
Reductions in funding	-1,052	-676	-544	-295

2.8 The table above shows that beyond 2023/24 the Council could be left with minimal funding from Business Rates. It is not clear if it would be possible to become a net contributor to the national system.

Future developments

Review	**Purpose**	**Update since last MTFS**
Government Spending Review	To set the Central Government funding available to the local government sector.	In his Spring Statement the Chancellor announced that the Spending review would commence before the summer break 2019 and would conclude for the autumn budget 2019.
Fair Funding Review (FFR) Due to be implemented 2020/21	Determines which authorities have the greatest 'need' for government funding.	A consultation was published as part of the provisional settlement with a February deadline for responses. The consultation considered some principles involved in determining 'need'. The key elements of the Council's response were that income from car parking should not be considered part of the Council's core spending power, and any transition should be from 2019/20 actual funding which includes the grant to remove negative RSG.
'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.	The application to extend the Surrey Pilot into 2019/20 at 75% was not successful. A consultation was published as part of the provisional settlement with a February deadline for responses. The key elements of the Council's response were that growth should be retained locally long term to match the ongoing costs of investment, appeals should be funded centrally as suggested by the government and it should be possible to determine tier splits of business rates locally.
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.	The consultation document sates that the government intends a 'full reset' in 2020/21 and will consult on this transition to the new system 'later'.
Transition arrangements	'Soften' the impact of significant changes in funding through implementation over a period of time.	None

2.9 Going forward there continues to be a significant amount of the new funding arrangements which have not yet been confirmed. Together with uncertainty over the total value of local government funding which will be determined by the spending review, this makes it very difficult to establish the impact of the individual elements.

2.10 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 and the projections in this paper therefore remain judgements on potential reductions.

Council Tax income

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

2.12 For the forecast it is assumed that the Council will implement the maximum increase in Council Tax without needing a Referendum, and that the government limits remain at current rates. 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	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Taxbase	41,323	41,633	41,945	42,260	42,577
Increase (Band D equivalents)	293	310	312	315	317
Council Tax	£240.46	£247.68	£255.11	£262.76	270.64
Total Council Tax income (£'000)	9,937	10,312	10,701	11,104	11,523

3.0 2019/20 budget

3.1 The detailed budget for 2019/20 was approved by Council on 13 February 2019. The table below shows how the budget compares to the MTFS forecast for 2019/20. Some cost pressures/income have slipped into future years so are assumed to be incorporated in 2020/21.

2019/20 General Fund Budget	Oct-18 £'000	Feb-19 £'000	Variance £'000
Pressures			
Pay, contractual inflation and service variations	898	1,590	692
Collection fund income and Use of Reserves	347	347	0
Government Settlement/New Homes Bonus	154	358	204
Investment Programme	615	-374	-989
Income			
Increase in Fees and Charges (including Planning)		-141	-141
Additional income from Council Tax	-361	-359	2
MTFS Strategies			
Investment in Housing	-737	-756	-19
New Strategic Acquisitions	-1,971	-1,971	0
Additional transfer to reserves	**-1,055**	**-1,306**	**-251**

3.2 The additional service pressures included an increase in the salaries control total, which reduces the vacancy management target for 2019/20. There was also an adjustment to Wolsey Place rental income reflecting agreed ongoing reductions in rents. The investment programme variance is due to slippage of projects which had been previously assumed to impact from 2019/20, and borrowing achieved at lower rates than budgeted (as reported in the Green Book).

3.3 There are a number of cost pressures which are being experienced in 2018/19. Whilst the monitoring in the Green Book shows they are offset by positive variances, these issues remain a risk in 2019/20. In particular the car park income has fallen below budgeted levels due to the town centre works, and there have been claims for loss of income due to operational issues at the leisure centre. There also continues to be pressure on the General Fund element of the salaries budget.

3.4 Other budget areas which will be monitored closely to determine appropriate levels of future ongoing resource include the Sportsbox and the Market.

3.5 The impact of these issues will continue to be assessed during 2019/20, and if necessary included in future updates of the MTFS and the detailed 2020/21 budget.

4.0 General Service Pressures

Employee costs

4.1 There is a 3% vacancy management savings target within the 2019/20 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 will require close management in year.

4.2 In future years 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.

4.3 A £400,000 annual allowance is made for the control total increases across the period. This is equivalent to an increase in salary budget of between 2.45% (2020/21) and 2.2%

(2023/24) and enables a reduction in the vacancy management target of £100,000 so that it represents 1.9% of the total costs by 2023/24.

Contractual Inflation

4.4 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.

4.5 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 February 2019 (HM Treasury)

Inflation	**2019**	**2020**	**2021**	**2022**	**2023**
RPI (%)	2.8	3.2	3.2	3.2	3.2
CPI (%)	1.9	2.0	2.0	2.0	2.1

Other inflation

4.6 No specific allowance is made for inflation on the remaining service expenditure. It is assumed that any further cost pressures will be offset by increases in income budgets which, with the exception of parking, have not been assumed in the forecast. excluding parking. A significant proportion of this income 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 includes the financing and net income forecast from the new Victoria Square car park and the proposed extension of other car parks. It is difficult to estimate 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.

5.2 Whilst the Council approved an increase in car parking charges from October 2019, no increase in total income was incorporated into the budget. The assumed increases remain in the MTFS for future years, and will be assessed once the short and medium term trends in activity become clearer.

Reduction in Surrey County Council support

5.3 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 2020/21, 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.

5.4 As SCC continue the review of service provision, there is a risk that funding of community and voluntary groups in Woking 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

5.5 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

5.6 The Homelessness Reduction Act places new responsibilities on the Council. In 2019/20 £257,000 funding has been awarded to assist in providing these requirements. In future years there is a risk that there will be additional ongoing costs that have not been recognised in the MTFS. Properties in Sheerwater, which will be effected by the later phases of the regeneration project, 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.

Commercial Rents

5.7 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.

5.8 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 economic 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.

6.0 Investment Programme

6.1 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).

6.2 The forecast is based on the Investment Programme approved by the Council in February 2019. 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.

6.3 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.

Flood Schemes

6.4 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.

6.5 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.

Woking Sportsbox

6.6 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.

Gateway

6.7 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

6.8 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%.

6.9 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.

7.0 Group Companies

7.1 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.

7.2 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.

Brookwood Cemetery

7.3 The Investment Programme includes capital and revenue grants to Brookwood Cemetery to fund backlog maintenance as well as capital improvements. It is expected that continued investment will be required so a revenue allowance of £500k and an annual £1m capital grant is assumed in the Investment Programme.

7.4 During 2018 the Cemetery was the subject of a VAT inspection and HMRC have now raised concerns regarding the rate of recovery of VAT. As a private Cemetery the majority of income generated is from services which are exempt from VAT. This means that VAT on the associated expenditure cannot be recovered from HMRC. Since prior to acquisition the company has been recovering 85% of VAT incurred on expenditure based on historic staff activity, HMRC consider the appropriate recovery rate to be 15%.

7.5 The Cemetery company appointed PwC to assist with clarifying the calculations. Following review of a sample of data, the advice from PwC was that it is difficult to defend the current VAT position and that the returns to HMRC should be corrected.

7.6 PwC also advised that consideration be given to running the Cemetery service as a direct Council activity. Local Authority Cemeteries are governed under the Local Authorities' Cemeteries Order 1977 ("LACO") and most of the income generated is non-business for VAT purposes. This would mean that the Council could fully recover the 20% VAT added to most supplier invoices. It is estimated that this would save approximately £100,000 per annum in irrecoverable VAT, compared to the current management arrangements. The cost of most revenue or capital expenditure incurred by the company is 17% (being 20% VAT at 85% irrecoverable) greater than it would be for the Council.

7.7 Given the ongoing saving which would be achieved for the Council as a group the change in the ownership structure is financially attractive. The resources allocated as grants towards investment in the site achieve greater value for money if 17% is not lost to HMRC. In all other respects the service can continue to be operated as it is currently, with resources allocated in the Council's Investment Programme.

7.8 Further work is currently being undertaken to ensure that there are no legal constraints on the sale of the asset, to establish that the VAT advice is sound based on the projected revenue and capital budgets for the cemetery, there are no better legal structures which could be adopted and no operational issues with the transfer of the asset to the Council. Officers have not identified any initial issues with a change in the legal entity holding the asset and there would be some efficiency and control benefits from the cemetery service being operated on the Council's finance and payroll systems.

7.9 Subject to appropriate legal and financial due diligence, including confirmation that a sale is possible and will achieve an overall saving, it is recommended that the acquisition of the Cemetery from Brookwood Park Ltd is approved.

Thameswey Energy Assets

7.10 In recent months there have been some issues with the energy generating equipment owned and operated by Thameswey Energy Ltd at the Leisure Centre and Pool in the Park. This has had an impact on the Leisure services provided with some loss of service for which compensation has been sought by Freedom Leisure. Going forward there would be operational efficiencies if the Council had direct management of these assets. During 2019/20 the equipment will be transferred to the Council with an offsetting adjustment to the loan balances between the Council and Thameswey Energy Ltd. Ongoing maintenance and investment requirements will not change, but will be managed by the Council in a co-ordinated way as part of the leisure service.

8.0 Treasury Management

8.1 The base treasury management position in the 2019/20 budget reflects the borrowing necessary to meet the requirements of the approved Investment Programme. It is based on a long term borrowing rate of 3%. As at 14 March, 50 year PWLB rates are 2.45% (maturity), 2.57% (annuity).

8.2 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 (12 February 2019). 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	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%
3 Month LIBID	0.70%	0.80%	1.00%	1.10%	1.20%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.80%	0.90%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.00%	1.10%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%
10yr PWLB Rate	2.20%	2.30%	2.40%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.00%
25yr PWLB Rate	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%

8.3 The forecasts are heavily caveated and note that caution should be exercised in respect of all interest rate forecasts due to the number of variables at this time.

8.4 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.

8.5 For the Victoria Square project financing was assumed at a base rate of 2.5%, with modelling at 2.75%. To date £195m 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.

8.6 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.

9.0 Summary Forecast

9.1 The table below sets out the impact on future years of the assumptions outlined in sections 3-8 of the report, and the previously agreed mitigation strategies.

9.2 It shows that the investment in Strategic Properties and Housing agreed in the Investment Programme in February are still forecast to meet the pressures identified in the period to 2022/23. However, the inclusion of another year of the forecast, 2023/24, increases the target by £1m, due to assumed reductions in government funding and the costs of Investment Programme projects.

In year pressures	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	TOTAL £'000
Remove contribution to reserves			-1,307			**-1,307**
Remove Business Rates pooling/CF surplus		299				**299**
General Service Pressures		665	665	675	675	**2,681**
SCC Funding reductions		359	104			**463**
HG Wells - lease termination		-479				**-479**
Reduce reliance on NHB		200				**200**
Government Funding reductions		687	435	433	431	**1,987**
						0
Investment Programme pressures:						**0**
Investment Programme projects (General)		768	664	316	450	**2,199**
Town Centre Car Parks financing costs			1,963	1,124		**3,086**
Woking Gateway - loss of rents			350			**350**
Sportsbox funding from Sheerwater project		-370				**-370**
Sheerwater Leisure facilities - operational cost		125	700			**825**
Kestrel Way net rent (October 18 Exec)			-25			**-25**
York Road Project				160		**160**
Sythwood			25			**25**
Cinema		190				**190**
Woking College 3G pitch		48				**48**
TEL/TCMK interest		-75	-12	53	75	**42**
	0	2,418	3,563	2,761	1,631	**10,373**
Funded by:						
Fees and Charges - Car park income		-250	-250	-250	-250	**-1,000**
Fees and Charges - new Car park income			-616	-616		**-1,232**
Council Tax income		-375	-389	-404	-419	**-1,586**
In year savings required	0	1,793	2,308	1,492	962	**6,554**
Agreed/Proposed MTFS Strategies						
Investment in Housing		-668	-540	-1,170	-1,050	**-3,428**
Investment in Victoria Gate		-431				**-431**
Investment in MTFS Investments (@2%)	-337	-500	-250			**-1,087**
Limiting Investment Programme revenue cost		-100	-100	-100		**-300**
Productivity and Procurement		-100	-100	-100		**-300**
In-year cost pressure/saving (-)	**-337**	**-6**	**1,318**	**122**	**-88**	**1,009**
Cumulative requirement	**-337**	**-343**	**975**	**1,096**	**1,009**	

9.3 The timing of Investments results in a forecast surplus In 2019/20 and 2020/21. Any surplus will be transferred into reserves and released to offset the pressures identified in future years.

9.4 A significant cost is forecast due to the Council taking on the Victoria Square car parks. It is assumed the Council will need to finance the full interest and repayment costs by 2022/23. Further consideration will be given to the timing of this transfer, and the management of the

income generated, as the project progresses during 2019/20. On initial opening the new car parks are expected to operate at a net cost until parking activity increases.

9.5 The table below tracks the changes since the October 2018 MTFS:

Updates since last approved MTFS	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	TOTAL £'000
Surplus (-)/deficit after agreed strategy (Oct 18)	**-1,055**	**881**	**2,278**	**1,195**	**0**	**3,299**
Government funding					431	431
Remove transfer to reserves	1,307		-1,307			0
February detailed budget	-252					-252
Service/cashflow timings		20	50	50	6	126
Investment Programme		-159	70	-59	525	377
New Car Parks			379	-54		325
Investment Programme - new projects		188	-50	160		298
MTFS Commercial & Housing income (IP Feb 19)	-337	-936	-102	-1,170	-1,050	-3,595
Forecast surplus (-)/deficit February 19	**-337**	**-6**	**1,318**	**122**	**-88**	**1,009**
Cumulative additional Pressure	**-337**	**-343**	**975**	**1,097**	**1,009**	

9.6 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 the approach continues as set out in the forecasts. Income generation is dependent on securing appropriate strategic and housing assets to underpin this strategy.

9.7 The MTFS is a live plan which is updated and reported to Council regularly as part of the budget cycle or when there is a significant change or decision to be made. The final accounts for 2018/19 will confirm the service income and expenditure for the year, and the rental and business rates pilot income which can be allocated to reserves to mitigate future costs or loss of income. Any slippage in Investment Programme projects (including those which generate income) will change the timing of the impact of the projected costs. Government funding changes for the 4 years of the MTFS should also become clear within the next 12 months and could result in a significant change in the saving requirements.

9.8 It is recommended that the focus remains on progressing existing income strategies, and the savings requirement is revisited later in the year when future government funding is clearer.

10.0 Reserves

10.1 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 £2.4 million at 31 March 2023. At 31 March 2018 the balance on the Investment Strategy reserve was £4.1m.

10.2 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 2023 the balance is forecast to be

£2.8 million, and based on similar levels of use the funds in this reserve will last until 2025/26.

10.3 A new Car Park reserve was established as part of closing of the final accounts for 2017/18, with £1m of available funds. If possible further funds will be credited to this reserve at 31 March 2019. 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 2022 and beyond

	31-Mar-18 £'000	31-Mar-19 £'000	31-Mar-20 £'000	31-Mar-21 £'000	31-Mar-22 £'000
Forecast reserve balances					
Medium Term Financial Strategy Reserve	3,444	2,885	4,195	4,195	4,195
Wolsey Place Reserve	5,915	5,082	4,364	3,616	2,840
Business Rates Equalisation Reserve	6,002	2,475	2,475	2,475	2,475
Victoria Square Reserve	796	1,301	2,725	4,186	4,186
Off Street Parking Reserve	1,000	1,000	1,000	1,000	1,000
	17,157	12,743	14,759	15,472	14,696

10.4 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.

11.0 Conclusions

11.1 The MTFS projects cost pressures of £10.4m over the period 2020/21 – 2023/24. Of this total, £3.4m relates to Investment Programme projects, £3.1m is due to the new car parks and £2.2m is due to government funding reductions.

11.2 Income and savings to the value of £9.4m are identified, including from the allowance for new strategic property acquisitions and investment in housing. Once the government funding for this period has been established it will be possible to determine whether further savings/income generation strategies are required.

12.0 Implications

Financial

12.1 The financial implications are detailed within the report.

Human Resource/Training and Development

12.2 No specific Human Resource or Training and Development implications.

Community Safety

12.3 No specific Community Safety implications.

Risk Management

12.4 There are a number of specific risks to the figures included in the forecast as set out in the report. There is also an ongoing medium term risk of changes in government policy which

could affect the General Fund as well as the Housing Revenue Account and Thameswey Group.

12.5 There are a number of items in the MTFS which could improve the Council's position:

- The government review of funding may secure a cash neural settlement for the Council saving £1.2m between 2020 and 2024
- 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.

12.6 There also remains flexibility within the Investment Programme where projects could be deferred until resources can be identified. The forecast includes the full financing costs of £12m borrowing for flood schemes. It is also possible that some projects won't progress as quickly as currently envisaged.

12.7 The Council also has a number of reserves which are available to mitigate short term shortfalls in income allowing time for action to be taken if there are permanent changes to the forecast.

Sustainability

12.8 There are no sustainability implications.

Equalities

12.9 There are no equalities implications.

Safeguarding

12.10 There are no safeguarding implications.

13.0 Consultations

13.1 There have been no formal consultations on this paper.

REPORT ENDS