

Medium Term Financial Strategy

2024/25 to 2028/29

Woking Borough Council



Medium Term Financial Strategy (MTFS)

2023

Shaping the *future*
of our borough



Finance Directorate

Q2 2023/24

September 2023

Version: MTFS 202324 Q2

<u>List of Annexes</u>
1 The Working For All Strategy 2022 - 2027
2 The Role of Commissioners
3 The Section 114 Notice & Chief Executive's Response
4 Budget Timetable in 2023/24 for 2024/25
5 (A) The Engagement with Residents: Evaluation
5 (B) Formal Consultation for Potential Changes to Discretionary Services
6 List of Proposed Savings
7 Budget Planning Assumptions
8 The MTFP
9 MTFP Change Log
10 Risks
11 Companies: Structure of Portfolio

Introduction

Statement from the New s151 Officer

This report has been prepared after extensive internal work in what continues to be a very challenging financial context. The financial commitments that Woking BC has created are beyond the capacity of an organisation its size to cope with. The work being undertaken by Officers, Commissioners and Members through the Improvement and Recovery plan aims to tackle this legacy by putting in place firm governance and a clear savings programme to reduce the level of spending on services to one that balances operational budgets. These actions will put in place the basis for a minimum viable level of services but will not resolve the historic debt issues. To deal with that the IRP also includes a significant review of the assets and companies that the council has created – the aim of this commercial work is to minimise further losses to the Council and the wider public purse and to develop a plan to reduce the level of debt.

Woking BC has commenced this difficult work, but as this report shows, there is still much to do to firm up the level of financial challenge and ensure that the IRP can deal with it. The key challenges that this report presents are:

- a. Despite identifying a significant level of potential savings for consultation, additional costs have been identified that have increased the scale of the financial challenge in both the current year 2023/24 and next year 2024/25. It is noteworthy and not surprising that the most significant parts of the additional costs relate to Woking's historic investments ie the costs of debt and commercial income from investment assets being below expectations
- b. The level of historic debt led to a s114 notice earlier in the year that identified a £1.2billion deficit. Further technical work is being undertaken with advisers on the treatment of this deficit and how it will impact on this year's final accounts and future years' budgets. At this stage of that work, the difficult issues that need working through, mean that it is not prudent to report a final view on any revisions to the £1.2bn or recommend how the costs should be dealt with. Woking is committed to taking responsibility for its previous actions, but given the scale of the challenge the resolution of the problem will require significant work with advisers, Commissioners and up to Government

Both of these issues will need to be the basis of significant continued work and reports to Members.

Eugene Walker CPFA
Interim Director of Finance & Section 151 Officer from 1 September 2023

6 September 2023

The MTFS - Form and Purpose

1. The purpose of the Medium Term Financial Strategy (MTFS) is to set down the approaches that will be used by the Council in assembling, organising and deploying its financial resources to (i) deliver the objectives set down in the Improvement & Recovery Plan presented to Full Council on 22 August 2023, (ii) the Chief Executive's Response to the S114 Notice and (iii) observance of the financial constraints referred to in the Section 114 Notice issued on 7 June 2023 (See Annex 3) and reported to the Extraordinary Meeting of Full Council on 20 June 2023.
2. The MTFS contains a Medium Term Financial Plan (MTFP) which sets out the planning assumptions and financial limits formed by the relevant funding constraints presently assumed. These will be updated quarterly moving forward. This is the second quarterly update since issuance of the Section 114 Notice on 7 June. The updated MTFP appears at Annex 8. Further updates will be required as further insight is gained regarding the Local Government Finance Settlement generally (likely to be released by Government in late December 2023), as savings proposals within the Council are more fully developed and as Commissioners engage with Government to explore prospects of securing a package of financial support in balancing the 2024/25 Budget. In this regard it is important to note that like all Councils, Woking is *required under statute* to set a balanced Budget for 2024/25. The meeting of Full Council on 8th February 2024 will be held for this purpose.
3. The MTFS sets out (i) a set of Guiding Principles which have been agreed by Council in July 2023 in seeking to obtain financial balance in the medium term and (ii) the design and operation of specific programmes and other initiatives that will - when fully developed - contribute to savings and cost reductions which are able to be considered in balancing the 2024/25 Budget in the Autumn of 2023 for Full Council on 8 February 2024. The Principles may not be fully developed in the first year of the Improvement & Recovery Plan although it is expected that the majority will be used to frame financial planning for agreement of the Budget in February 2024.
4. This being so, the MTFS (incorporating the MTFP) provides a framework within which the annual Budget can be considered, and eventually set, by Council. Accordingly, this document is to be seen as a dynamic part of the Council's financial operations and is of critical importance on the Council's recovery journey.

Background & Context

5. On 7 June 2023 the Section 151 Officer issued a Section 114 Notice to the Council which estimated a General Fund deficit ('the Deficit') of £1.2 billion by 31 March 2024. This means that on estimates made at that time the Council required £1.2 billion of financial support to enable the General Fund to be balanced as required by law at that date. As set out in the July update of the MTFS that Deficit is currently being reviewed; the results of the review are expected during Autumn of 2023. This reflects the complexity of the technical material needing to be work through in undertaking the work needed. The Section 114 Notice appears at Annex 3 to this report with the Chief Executive's Response.

6. In seeking recovery from the current financial position the Council needs to approach Government to make the case for financial support on a large scale. The journey towards financial recovery entails that the Council needs to take responsibility at a corporate level for addressing the mistakes of past years and to take clear and effective steps - insofar as it is able as a relatively small borough council - to meet a significant part of the Deficit from its own resources. Accordingly, the Council needs to consider all options and opportunities to reduce its debt which will include divesting itself of a significant element of its property portfolio - but with the support of Government and Commissioners who were appointed by the Secretary of State on 25 May 2023 - to do so using methods that deliver the best returns for the 'public purse' generally and allow key services to be maintained. In considering the interests of the 'public purse' the Council will need to consider carefully the additional costs (chiefly debt service) of deferred disposal against the benefits of earlier generation of sales proceeds (capital receipts).

Strategic Goals

7. The MTFS has the following strategic goals:
 - a. To provide a framework within which the Council is eventually able to achieve a series of balanced budgets in the medium term to support the delivery of the Improvement & Recovery Plan and against the backdrop of the Section 114 Notice and past events.
 - b. By so doing to reach for and deliver where possible both financial stability and sustainability to do so in the short, medium and long term.
 - c. To enable successive budgets to be balanced using a set of Guiding Principles that are commonly adopted across the Local Government Sector and to apply these rigorously; and
 - d. To provide a budget and risk structure within which the Improvement & Recovery Plan can be delivered successfully.

Key Points of Briefing

8. The MTFS and accompanying MTFP - following a detailed and extensive review - is suggesting that by adopting and delivering savings to the value of £8.5m against the previously adopted £12m target there is a remaining estimated Budget shortfall of £10.8m in 2024/25 at the date of this report. The fact that the figures have changed is not a surprise given (a) the financial position of the Council, (b) given that the financial estimates inevitably change as fresh information becomes available and is taken into the budget forecasts and (c) the nature of historic record keeping and investments.
9. The reasons for the increases in net expenditure are shown in Annex 8 and include the net effect of:
 - a. Additional savings identified of £114,000.
 - b. Net reductions to rental income from the commercial estate in the sum of £1.96m.

- c. Additional costs of borrowing in the sum of £5m relating to the maintenance of the Council's very large borrowing portfolio which exceeds £1.8 billion.

The payment of a parking management fee to VSWL in the sum of £1.544m in 2024/25. A budget had been incorporated into the MTFS from 2025/26, however an agreement needs to be formalised between VSWL and the council to reflect the operation of the management arrangements already in place in 2024/25. This agreement will be subject the negotiation of the terms of a formal contract and will be subject to formal commercial negotiations.

10. Overall, it is drawn to attention that it is no surprise that the Council faces grave challenges in balancing the 2024/25 Budget in respect of the 'business-as-usual' element of the overall shortfall. This is because the revenue budget currently accommodates a gross debt service cost of circa £68m in 2024/25 that is the result of decisions made in the past and the consequences of which have been seen in the Section 114 Notice issued on 7 June 2023.
11. Given the disproportionate size of the Council's investments into investment and regeneration assets when compared to the size of the Council's general fund budget and financial resilience, the focus needs to be on the delivery of service savings alongside the asset management and funding aspects of the Council's operations. To this end the Council needs to develop further its consideration of significant asset disposals and to bring these to decision at pace.
12. The Council has commenced a resident engagement exercise through the summer of 2023 and this is accompanied where required by consultation on a number of savings in services designed to enable the Council to operate within appropriate budgetary constraints. This engagement exercise has helped inform the savings proposed being put forward as outlined in Annex 6. Due to the projected overspend reflected in the Quarter 1 Financial Monitoring Report it will be necessary to bring forward, where possible, some of the savings proposed for 2024/25.
13. A Budget Timetable for the 2024/25 Budget has been agreed by Council in July and this incorporates a high level of challenge and review by Overview & Scrutiny Committee.
14. Aside from the 'business-as-usual' revenue shortfall recently adjusted to £19.4m in 2024/25 the Council also has to deal with the Deficit arising from the Section 114 Notice. The Council and Commissioners need to enter conversations with Government to explore the prospect of a package of financial support from Government in order to assure that a balanced Budget can be lawfully set in February 2024 for financial year 2024/25.
15. The MTFS (and MTFP) will be further updated for the meetings of the Executive, Budget Scrutiny and Full Council in January and February 2024.
16. The Provisional Finance Settlement from Government is expected in late December 2023; on this occasion the agreement of *support arrangements* with Government is of overwhelming importance in allowing Council to set a Budget for 2024/25 and accordingly it is presently assumed that discussions with Government on these matters will have been brought to a focus within this timescale.

The Guiding Principles

17. In undertaking its financial operations over the period of the MTFS the Council has adopted from July 2023 the following Guiding Principles ('The Principles'). The Principles are based on sound management and professional practice. They are presented as *Guiding* Principles because there may be occasions where – after careful consideration - the exigencies of strategic or operational management may necessitate from time to time a departure from the Principles.

No.	Guiding Principles
1	Fees & Charges will be reviewed annually and adjusted for inflation, comparability, and competitiveness.
2	As a compassionate Council, in setting charges, the impact on vulnerable groups will be considered carefully.
3	Service level spend will be benchmarked regularly with a suitable peer group and proposals to align with the benchmark will be brought forward.
4	The Council will adopt a policy of Digital First in service delivery but as a compassionate Council will be mindful of the risks of <i>digital exclusion</i> in doing so.
5	A rolling programme of Service Reviews launched as part of the <i>Budget Gateway</i> process will continue within the timeframe of the MTFS and will be used to ensure that operating models, organisational design and cost footprints are subject to regular review and adjustment across the Council.
6	Service developments, savings and investment will be brought forward on the basis of business cases that must demonstrate feasibility, deliverability, and appropriate financial pay back and other investment appraisal techniques.
7	The Council will consult with residents and other stakeholders in the Borough in forming budget proposals
8	Where business cases are prepared for decision a proactive approach will operate encompassing review in depth prior to such presentation; this will include rigorous application of investment appraisal techniques, peer review and use of the Scrutiny function to achieve searching review and challenge before business cases are adopted.
9	The Council will welcome approaches from regional and other partners for joint working and joint management initiatives.
10	The Council presently has a <i>negative</i> balance on the General Fund of £1.2 billion (7 June 2023 estimate). The Council will seek to re-balance the General Fund through (a) its own endeavours generally (b) a programme of property rationalisation and (c) with support to be sought from Government. In the long term the Council will seek to reach for Unearmarked Reserves at a level of 5% of Net Expenditure (i.e. £0.8m based on current core funding of £16m).
11	Given the financial position of the Council and the need to maintain key statutory services the Council will seek to maximise receipts from all funding streams including Council Tax and income over the period of the MTFS.
12	Growth in service budgets must be funded from (a) grants or other contributions, (b) realistic estimates of commercial income or fees and charges (c) or revenue savings. No other growth will be adopted into the Budget within the period of the MTFS.

13	Council will develop enhanced means of assessing and managing risks at both strategic and operational levels and these will be used to inform the annual Budget process.
14	The Council will seek to make Value for Money decisions and be mindful of its obligations to obtain best value for the 'public purse' generally.

Financial Challenges: Governance & Decision Making

18. A full Budget Timetable appears at Annex 4 to this report. It must be noted that - following the Intervention announced by the Secretary of State on 25 May 2023 - the Commissioners will in support of the Executive - consider and receive the materials referred to below and will guide and advise the Council in fulfilment of their supporting role as part of the overall process.

19. In summary, the following arrangements are envisaged for Budget decision making in the period to the setting of the 2024/25 Budget in February 2024.

- a. That Overview & Scrutiny Committee hold a Budget Enquiry and Review meeting to consider the Budget proposals in September 2023; the recommendations to be reviewed by the Executive meeting on 14 September 2023.
- b. The Medium Term Financial Strategy will be reported to the meeting of Full Council on 28 September for the recommendations to be agreed.
- c. Consideration of draft proposals for a balanced budget in 2024/25 to be undertaken by the Executive with Commissioners by 30 November 2023 and – following consultation (and any adjustment needed) adopted for forwarding to the Budget Scrutiny Meeting of the Overview and Scrutiny Committee on 22 January 2024.
- d. The Executive to receive the recommendations from Overview and Scrutiny Committee at its meeting on 1 February 2024; and
- e. Full Council to consider the setting of the 2024/25 Budget on 8 February 2024.

20. The Budget timetable has been considered by the Audit and Standards Committee on 7 July 2023 so that (i) it may take assurance on whether the Council has a thorough and appropriate process in mind for preparation and agreement of the Budget and (ii) whether it has any recommendations for officers as to the character and timetable for budget preparation.

Consultation & Engagement

21. It will be noted that this Budget timetable envisages public engagement in July and August 2023 and public consultation in October and November 2023. Further explanation appears at Annex 5(A) and Annex 5(B).

22. The engagement with residents commenced in early July 2023 and formal consultation with staff and trades unions commenced from 24 July 2023. At the date of this report, the scale of the savings proposals is expected to be consistent with a reduction in headcount at this point of approximately 60 FTE in the Council overall. As part of this process briefings with staff, trade unions and other stakeholders have been scheduled accordingly. The Council will

comply with its obligations under statute in all respects in undertaking these activities.

Engagement with Residents

23. In line with the arrangements set out above the Council has launched engagement with residents of the Borough to gather feedback to guide the Council in forming decisions as to how to deal with the budget shortfall and Section 114 Deficit. There is a need to understand services that are valued most by residents to inform the decisions that must be made. That said the scale of the Council's budget shortfalls entails that savings must be taken from some part of the Council's current service offer.
24. This engagement outlined the significant financial challenge faced by the Council including the need to meet the budget shortfall identified for 2024/25 although this estimate has since been revised upwards. In particular residents were reminded that it is necessary for the Council to make difficult decisions about discretionary services. If such services are able to continue there is a need to remove subsidy and increase the costs met by service users, transfer the services to partners outside of the Council or cease the provision of specific services. The responses to the engagement are set out in Annex 5(A).

Statutory Consultation

25. The Council has also committed to statutory consultation (to statutory timelines where appropriate) building on work already undertaken. Where needed, this consultation will run for 6 weeks and the findings will be used to inform a final recommendation for adoption which will be submitted to the January 2024 Executive and the February 2024 meeting of Full Council when decisions are made for the Budget and Council Tax for 2024/25. The process to be used as well as the statutory services that will be consulted upon appear in Annex 5(B).

The National Financial Background

26. The National economy is being driven by international economic events not least the impact of the war in Ukraine, ongoing issues with international supply chains and the ongoing impact of the Pandemic. One of the key issues that has emerged is the emergence of high levels of inflation in energy, food and other products and commodities which has caused very significant inflationary pressures in wholesale and retail markets across a range of goods and services; naturally these pressures have also related to increases in labour costs. The resulting inflationary pressure has not been seen in the UK economy since the very high levels experienced during the late 1970's and early 1980's.
27. In recent years Local Government has received a much higher proportion of funding from local rather than national sources as has historically been the case. It follows that Government has inherited a position where it no longer has the appropriate levers or – following the support afforded to communities and businesses through and following the Pandemic and energy crisis – the resources to meet the inflationary pressure in the cost of service delivery.
28. The result is that much of the financial pressure has been left for local councils to manage and this has resulted and will continue to entail a need for largescale savings across the Local Government sector. In Woking's case the position

has been exacerbated by the decisions made by the Council between 2007 and 2021 which has resulted in the largest financial deficit to date in the history of UK Local Government.

The Pandemic and ongoing Societal Changes

29. The ongoing impact of the Pandemic has resulted in a number of behavioural changes at a societal level which result in additional costs for local authority budgets. Examples have included but are not confined to:
- a. Higher waste collection costs.
 - b. Pressure on the collection of commercial rents.
 - c. Changes in the demand for office accommodation associated with the emergence of 'working from home' as a 'new normal' and which has stalled temporarily the lettings market whilst organisations consider their policy options.
 - d. A consequential adverse impact on car parking income. Prior to Covid, the Council generated around £7m p.a. of income from its off street car parks. This fell by 70% in 2020/21 and whilst this is recovering, the 2022/23 income was still 31% below pre-pandemic levels.
 - e. Retail lettings generally through reduced footfall in retail outlets.
30. Although some of these effects are estimated to recover towards former levels in the medium term (particularly commercial rental income and car parking revenues) the evident financial pressures are expected to continue into the medium term. This is the case in Woking as for other councils.

Financial Planning Assumptions

31. The following paragraphs set out a suite of headline planning assumptions which inform the construction of the MTFP; greater detail is presented in Annex 7. These will be reviewed on an ongoing basis for the next quarterly update of the MTFP to be prepared for the meeting of Full Council on 8 February 2024.

Council Tax

32. As a response to the inflationary pressures in the economy the Government at the last Finance Settlement (2023/24) raised the referendum threshold for Council Tax increases to an overall total of 3% for lower tier councils such as Woking. The level of the council tax cap for 2024/25 is presently unknown but for planning purposes - in expectation that inflationary pressures will continue to be significant in the economy – it is assumed that an annual increase of 3% will apply in future years. Even at this level, the Council's spending power will decrease in real terms if - as seems likely - inflation continues to erode the value of money in the short and early medium term.

33. The increase in Council Tax will be a decision of Council in each year moving forward but to do other than maximise potential increases would imperil the Council's ability to sustain statutory services at a reasonable level. At this update of the MTFP it is unknown whether Government will permit a higher Council Tax for Woking as has been agreed in other councils suffering financial distress; further, at the time of writing local sentiment on such a proposal - were it to emerge - is not presently known.

National Non-Domestic Rates (NNDR)

34. The Government has for some years been considering reform of the NNDR system amid concerns from the business sector that the Rate imposes an unwarranted burden on the commercial sector. To this point no firm proposals have been brought forward by Government and so the MTFP uses the existing methodology to forecast the yield in the forward period of the Plan. In addition, for Woking, the continued existence of the Surrey NNDR Pool to which the Council presently belongs is assumed at this time.

The Historic Investment Programme

35. The Deficit that has been estimated in the recent Section 114 Notice and to which the Council adopted the Chief Executive's Response at Council on 20 June 2023, has entailed that on the basis of cost avoidance the Investment Programme as configured to this point has been *suspended*. In the future, capital expenditure will be planned and delivered through a new capital programming methodology that is referenced below.

A Renewed Capital Programming Methodology

36. A new planning methodology will be drawn up when the proposals for balancing the 2024/25 Budget are fully formed and presented with a revised Capital Strategy to Council on 8 February 2024. For financial year 2024/25 and within the period of this MTFS the following *Capital Planning Principles* have been adopted by Council in July 2023 to form the Capital Programme which will be presented to Council on that date. Proposals that do not fall within these 'Capital Principles' will not be included within the Draft Capital Programme.

- a. Items of programming that relate to essential health and safety works and deliver compliance to the regulations within in the Council's property estate.
- b. 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.
- c. 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.

- d. Any schemes that can be shown to be wholly funded from external resources without implying additional cost burdens for the Council.
- e. 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.

Reserves & the General Fund Deficit

37. 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 recent Section 114 Notice (7 June) it can now be seen that 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.

Treasury Management: Improvement

38. The Council holds a debt portfolio exceeding £1.8 billion for which the annual debt service costs are estimated at c. £68m per annum. The Council has neither the resources nor the funding to manage the risks associated with this portfolio and – as implied by the Section 114 Deficit (£1.2 billion) – there is a risk that much of this money may not have been well spent. This is because the assets created have recently been revalued downwards (i.e. impaired) compared with the cost of acquisition and construction of many of those assets.
39. A recent management review of Treasury operations in the Council has indicated that significant improvement is needed in the Treasury Management Strategy, the Capital Financing Strategy, the Prudential Indicators and associated documents that are required as part of the Treasury Management and Capital Accounting Codes of Practice (which are 'proper accounting practices' under the relevant legislation and with which compliance is mandatory). This work will be set in train and presented to Council on 8 February as part of the suite of papers that form the Budget Report for 2024/25 and its supporting strategies and plans.
40. The same management review has indicated that there is little scope to reschedule the loans portfolio to obtain better Value for Money (VFM) under present operating conditions and so operations are likely to be confined to accurately forecasting the budget estimates for interest payable and interest receivable to inform the budget position for 2024/25. This work will be kept under review during the Autumn of 2023.

Funding of the Companies

41. , The Council has traditionally furnished its group companies with cash drawn from the PWLB for capital purposes to create the fixed assets now lying in the companies' accounts. In addition this has led to the subsidising of the operating expenses of the companies. As the latter is (i) not compliant with the Council's responsibilities under Section 25.1.b of the Local Authority Capital Financing

regulations 2003 and (ii) is clearly unaffordable given the Deficit faced by the Council this practice is now suspended *indefinitely*.

42. Accordingly, the Boards of the relevant companies will need to take advice from advisers appointed for the purpose by the Council with regard to their consideration of and response to this position. This point is made without prejudice to the point made elsewhere in this report whereby business cases which may entail further investment may be put forward to Government for specific support where this supports the optimisation of VFM for the 'public purse' generally.
43. On a wider basis the Council is considering and will continue to consider the advice of the leadership team, statutory officers and Commissioners with regard to the feasibility of seeking specific support from Government in order to complete certain aspects of the original Investment Strategy where there is a business case for doing so.

The Finance Settlement 2024/25: Forecast and Key Points

44. The Provisional Local Government Finance Settlement for 2024/25 is likely to be published in late December 2023 and will become Final in late January or early February 2024. Accordingly, at this stage in the planning process an assessment is made of the forecast position with regard to the content of the Finance Settlement at that future date. These assumptions will be improved and revised as information becomes available.
45. The key points of briefing in relation to the Forecast are:
 - a. New Homes Bonus – The Government has been considering reform or phasing out of New Homes Bonus and currently the grant is calculated on a one-off annual basis. In the absence of detailed consultation by Government it is assumed that the Council will receive £231,000 in 2024/25 and future years of the MTFP.
 - b. Controls on use of packaging and waste volumes – the Government is planning to establish a system where the producers of packaging waste are charged a levy related to the waste volumes that result such that the proceeds - net of regulatory costs - are passed on to local Councils. The assumption made generally in the MTFP is that the incoming monies will need to be reinvested in waste services and that, accordingly, there will not be a net benefit to the Council from this scheme. This assumption will be reviewed for the next update of the MTFP; in addition Government has deferred implementation until 2025/26.
 - c. Revenue Support Grant – in the absence of Government policy advice this is currently assumed to be unchanged from 2023/24 at c. £100,000.
 - d. Planning Fees – in the period ahead Government is expected to set revised planning fees that are significantly higher than is presently the case. The results of this decision – if received by February 2024 – will be built into the final budget proposals.

- e. Collection Fund – the working assumption is that Council Tax is assumed to increase by 3% throughout each year of the MTFP, the maximum permitted under current Government guidance. The Collection Fund is assumed to be in balance for the current review without any surplus or deficit but this will be reviewed in depth for the next update of the MTFS.
- f. The NNDR Pool - it is assumed that the Council will continue to be a member of the Surrey-Sutton Business Rates Pool in 2024/25 and future years and it is also assumed that the Government will continue to permit the operation of such pools as a matter of policy.

Other Planning Assumptions

46. Further planning assumptions made in the Medium Term Financial Plan appear at Annex 7.

The Fit for the Future Programme & Savings Adopted

47. The Fit for the Future Programme has been operating for the last 12 months with the aim of securing recurring financial savings to support the Council's budget processes on an ongoing basis. The separate phases have been divided into (a) Phase 1 and 2 and (b) Savings to be committed and taken in order to contribute to balancing the MTFP.

Fit for the Future Phases 1 & 2: Review

48. A review of phases 1 and 2 has taken place to assess whether the targeted savings were actually delivered in 2022/23 and 2023/24 as planned. Should this not be the case, the additional cost this implies is fed into the forward years of the MTFP as a pressure. At the present time the additional pressure for non-delivered savings is estimated as shown in Table 1.

Table 1: Fit for the Future 1 & 2 Savings.

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Savings not delivered - carried forward from previous year		22	69	169
FFF 1 & 2 Savings Target	1,752	1,313	235	0
Total Savings Target	1,752	1,335	304	169
Savings Identified for Delivery	1,730	1,266	135	0
Savings not Delivered	22	69	169	169

Savings to Balance the MTFP

49. Annex 6 contains details of potential new savings for financial year 2024/25. This work – against a target of £12m has so far identified a number of savings which are considered to be feasible and for which consultation has already started or is to commence in the near future. The savings have been developed in 3 tranches as shown in the summary in Table 2. It is recognised that further work will be required to deliver the required savings in 2024/25.

Table 2 – Fit for the Future 3 Savings

Source	Amount 2024/25 £'m	Amount 2025/26 £'m	Amount 2026/27 £'m	Amount 2027/28 £'m
MTFS FFTF Savings 3A	3.914	3.914	3.914	3.914
MTFS FFTF Savings 3B	2.489	3.739	3.989	3.989
MTFS FFTF Savings 3C	2.135	3.365	3.665	3.765
Total Savings	8.538	11.018	11.568	11.668

Flexible Use of Capital Receipts

50. As in 2023/24 the Council will wish to make use of the facility to use capital receipts to fund revenue expenditure used to fund business change and transformation. Any proposals will be discussed with Commissioners and assurance that this provides VFM will be required. For this reason, a plan will be produced and included in the Budget Report for Council on 8 February 2024 following which the plan will be shared with the Government Department (DLUHC) as required in the guidance issued by Government.

Property

51. The management of property assets is a significant business for the Council and work is proceeding in three strands in order to prepare for the September update of the MTFS.
- A review of commercial rent yields in the Council's portfolio of commercial property assets. Although this market had sustained a level of reduced activity during the Pandemic property enquiries have in the last few months begun to increase; that said the Council has lost key tenants in recent months and this buoyancy in the market is not presently expected to result in additional revenues for the Council in 2024/25. This is partly due to difficult trading conditions and a highly competitive rental market. It follows that estimates of rental income (assessed prudently) in 2024/25 are lower compared with pre-Pandemic levels.
 - As part of the Asset Rationalisation Plan which is being developed alongside specialist advisers the Council is drawing up plans to release net capital receipts. These assets are those which for various reasons do not meet the Council's needs moving forward. It follows that there is the

prospect of reducing borrowing costs, reducing property holding costs and maintenance costs whilst achieving capital receipts that will (i) enable the Council to reduce its debt portfolio and (ii) to provide suitably for the Flexible Use of Capital Receipts as described elsewhere in this report. To date assets of around £30m are the subject of sale negotiations.

- c. A suite of savings proposals from the Property area has been prepared and the total is included in this version of the MTFP. A further review from consultants Avison Young which is expected to be available in Autumn 2023 is expected to bring forward further opportunities for property rationalisation.

Re-establishment of General Balances

52. As rehearsed elsewhere in this report the Council presently holds a General Fund with a negative balance estimated at £1.2 billion. In order to signify a break with past practice it will be proposed to Council in the future meetings that a small adjustment from all budgets within the Council be set aside to establish a small General Reserve of £35,000. This will demonstrate a break with the past and will be funded by taking 0.001 % of every budget in the Council. This represents just £100 from every budget of £100,000 in the Council.

The Medium Term Financial Plan (MTFP)

53. The Council's MTFP (MTFS Q2 2023/24), 2024/25 to 2028/29 is shown in Table 4. The MTFP is the product of (i) detailed technical analysis (ii) detailed discussion with the Directorates and their respective management teams regarding the pressures identified and (iii) further engagement to assist the Directorates to identify savings to bridge the Budget shortfall identified.
54. In preparing to balance the 2023/24 Budget the Council produced an initial forecast 'business-as-usual' shortfall of £9m for 2024/25 which was revised to £11m following the emergence of additional pressures discussed at Q1. Following a further searching review the overall gross shortfall is estimated at £19.4m, and this, when offset by proposed savings (pre – consultation) could result in a net shortfall of £10.8m. The full detail of the MTFP is shown in Annex 8 and the movements between the original figures and those now presented are shown in Annex 9.

Table 4: Medium Term Financial Plan 2024/25 to 2028/29 [outturn Prices]

Financial Year:	2024/25	2025/26	2026/27	2027/28	2028/209
	£m	£m	£m	£m	£m
Budget Requirement	29.52	29.93	30.35	30.81	34.12
Pressures	4.75	5.27	4.29	4.44	5.14
Revised Budget Requirement	34.27	35.19	34.63	35.25	39.25
Funding	-14.90	-15.63	-16.39	-17.21	-18.07
'Business-as-usual' Shortfall (+)/Surplus (-)					
	19.37	19.57	18.24	18.04	21.18
Proposed Savings:					
MTFS FFTF Savings 3A	3.91	3.91	3.91	3.91	3.91
MTFS FFTF Savings 3B	2.49	3.74	3.99	3.99	3.99
MTFS FFTF Savings 3C	2.14	3.37	3.67	3.77	3.77
Total Proposed Savings	8.54	11.02	11.57	11.67	11.67
Further Savings Required	10.83	8.55	6.67	6.37	9.51

The Section 114 Deficit

55. The Section 114 Notice of 7 June reported an estimated Deficit of £1.200 billion by 31 March 2024; the Deficit continues to be reviewed in order to prepare the final accounts for 2022/23 (and earlier years) but also to enable a balanced Budget for 2024/25 to be set by the Council in line with legislation on 8 February 2024. Should it emerge that a balanced Budget 2024/25 may not be achievable then a further Section 114 Notice will need to be issued; however at the present time the Council is working on the assumption that this will not be the case. The Section 114 Deficit with the 'business-as-usual' element removed is shown in Table 5 below.

Table 5: The Section 114 Deficit showing the Negative General Fund net of the 'Business-as-usual' element

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		£m	£m	£m	£m	£m	£m	£m	£m
General Fund Balance as originally stated		(30)	(28)	(31)	(41)	(30)	(30)	(30)	(30)
Balance at 1 April a	a								
In year transactions on the General Fund	b	2	(3)	(10)	11	0			
Balance at 31 March c=a+b	c=a+b	(28)	(31)	(41)	(30)	(30)	(30)	(30)	(30)
Restated General Fund balance									
Balance at 1 April	d = n	(30)	73	102	134	199	347	1,181	1,329
Restatement at 1 April 2018 for MRP understated in previous years	e	78							
Revised balance at 1 April 2018	f=d+e	48							
In year transactions on the General Fund	g=b	2	(3)	(10)	11	0	0	0	0
Restatements:									
MRP understated	h	23	32	42	54	67	94	93	73
Revenue loans	i					81	80		
Impairment of loans	j						614		
Understated repair and maintenance budget	k						45	45	45
Budget cost pressures	l							9	10
Other cost pressures	m						1	1	1
Impact on Budget	n=f+g+h+i+j+k+l+m	73	102	134	199	347	1,181	1,329	1,458
Less: Business as usual Pressures adjustment							-1	-10	-11
Total		73	102	134	199	347	1,180	1,319	1,447

56. The definition of the Deficit is designed to (i) inform conversations with Government regarding the prospects for and timing of financial support (ii) to design prior period adjustments to the past accounts and (iii) to inform means of setting a balanced Budget for financial year 2024/25 (including Government support if available) at Full Council on 8 February 2024.

Meeting the Section 114 Deficit

57. In order to achieve a balanced position the Council - unlike others which have found themselves in financial distress in recent years - will not have sufficient funding streams to accept a higher debt burden in dealing with the Deficit described in the Section 114 Notice. In the absence of such a possibility it would appear that the Council must seek a very large package of financial support in 2023/24 in order to achieve balance. This would deal with the additional charges arising from Minimum Revenue Provision, revenue use of capital loans and a write down of loans to the companies which had been secured on asset values now impaired.

58. If such a package is not accessed the Council will attract a further Section 114 Notice. This is because, whilst the Council is focussed on efforts to balance the business-as-usual deficit, it has no capacity from its own small resources to take further steps with regard to meeting the charges described whilst at the same time continuing to deliver services.
59. That said, the Council fully acknowledges its corporate responsibility to the community and the taxpayer and to Government to take such steps as are available to meet a proportion of the overall deficit from its own resources. Accordingly the Assets Rationalisation Programme discussed in this report will need to be pointed at reducing the debt portfolio and repaying loans from PWLB.

Companies Owned by the Council

60. The Council owns or part owns 24 companies split into 3 categories. As referred elsewhere in this report the Council will not be able to subsidise these moving forward as it has sought to do in the past. This means that the boards of the companies will need to take advice - sources of which have been put in place by the Council - on their particular circumstances, in seeking to deal with the challenges that this may present.
61. The categories are:
- a. Thamesway Group, developing and managing housing regeneration and district energy networks.
 - b. Victoria Square Woking Limited (VSWL) – a significant investment in and redevelopment of Woking town centre.
 - c. 7 other companies of much smaller size but complex historic arrangements.
62. The expectation is that, through work undertaken by staff and external advisers, the Council will have identified options for the company by Autumn 2023. The Council has informed the companies of the Council's updated cost control process and the companies report they have aligned their own procedures to those measures.
63. The organisation and structure of the Council's company portfolio appears at Annex 11. There is ongoing work to review the structure of the portfolio. This is likely to include reducing the number of companies in the group, seeking to ensure that where possible any companies that remain are viable business operations and add value to the Council.
64. Thamesway and VSWL investments have been wholly funded by the Council, contributing significantly to its high levels of borrowing. The Section 114 Notice draws out the implications of this funding and the response of the Chief Executive to this Notice provides the details of the future actions required to deliver an Improvement and Recovery Plan which includes these elements of the Council's operations.

65. From July 2023 the Council has agreed and continues to develop a new Company Governance model. The Council is now operating a Shareholder Liaison Service and advice is being drawn from specialist advice procured for the purpose. The process of reviewing the companies is complex and activity is being formed under the Improvement and Recovery Programme. This additional support will:
- a. Lead and set up a team of internal resources and external advisers to create a company restructure programme that assess the options for each company, an implementation plan and then follow through to conclusion in order to maximise public value and minimise loss.
 - b. Engage with Companies to ensure they have business plans that are sufficient for the business they relate to and to provide the Shareholder assurance over their investments.
 - c. Work with the Council and companies to develop and implement data driven performance management and reporting systems.
 - d. Work with the Council and companies to provide an integrated and standardised decision making and risk management frameworks.
 - e. Work with and through company solvency arrangements that may arise.
 - f. Engage directly with the senior management of the companies and lead any instructions or negotiations with them.
 - g. Advise on and work with Council officers on the arrangements needed to manage the residual portfolio.
66. The Council has commissioned further consultancy advice on a Commercial Strategy which is now in the final stages of development. This seeks strategic options for completing its key regeneration schemes in the Town Centre and Sheerwater Housing estate that:
- a. Reduces Council borrowing.
 - b. Mitigates and minimises financial risks to the Council.
 - c. Protects financial returns to the Council to support its financial resilience and sustain a level of financial independence.
 - d. Introduces alternative equity investment and options for alternative delivery vehicles that can best commercialise investments made in regeneration schemes.
 - e. Introduces high quality market housing, retail, office and leisure investment and delivery expertise.
 - f. Supports a thriving high street and town centre community.
 - g. Delivers high quality mixed tenure homes, including affordable homes.
 - h. Retains or enhances community infrastructure.

- i. Supports a sustainable Housing Revenue Account (HRA) for the Council's remaining housing stock.

67. This advice also encompasses:

- a. Identification of the full range of strategic options for the Council that:
- b. Recognises the strategic priority outcomes the Council is seeking to achieve as outlined in the Working for All Strategy.
- c. Recognises the limitations that the current status of the regeneration plans places on the deliverability of alternative options.
- d. Scopes out each option, clearly setting out the considerations and necessary actions that would be required.
- e. Compares options against the baseline of continuing with the current plans.
- f. Undertakes a cost-benefit analysis and financial appraisal for each option. This includes, but is not limited to, indicative valuations for any disposals; cost estimates for any refurbishment or redevelopment works; high level tax implications; Council borrowing requirement. Each option is to clearly set out what is delivered in terms of the regeneration outputs and delivering against the strategic priority outcomes in the Working for All strategy.
- g. Sets out delivery plans and timescales for delivering the recommended options.

68. The Commercial Strategy is planned to be available for consideration and reporting in September 2023.

The MTFS & MTFP: Governance & Reporting

69. The MTFP will continue to be updated on a rolling basis from this point forward and will be reported quarterly to the Executive, Overview & Scrutiny, Full Council, and the Commissioners. This will enable stakeholders to receive regular briefing on observed changes to the forecasts that are from time to time observed.

Risk Assessment & Management

70. The Council has a need to develop structured arrangements to manage risk with regard to strategic and operational dimensions of its operations. The principal risks associated with maintenance of the Council's services within the financial constraints identified in the MTFS and associated MTFP are set out in Annex 10.

Summary

71. This document has set out the MTFS and the embedded MTFP and the acceptance and application of these documents can be summarised as follows:

- a. The Council has identified a set of Guiding Principles which will assist in shaping responses to future budget shortfalls.

- b. The Council is aware of the challenging financial pressures that bear on the 2024/25 Budget and beyond and has understood the issues that this presents.
- c. The Council has taken effective action to identify a portfolio of potential savings in the order of £9m to partly balance the 2024/25 Budget shortfall of £19.4m and will continue efforts to identify the full £12m target.
- d. The Council has already taken steps to suspend the Investment Programme indefinitely to contribute to the balancing of the Budget in 2024/25 and thereafter.
- e. It will be key across the years of the MTFS for the Council to maximise funding streams including Council Tax and this should continue – as in previous years – to inform planning assumptions in the MTFS and MTFP.
- f. MTFP Planning assumptions will continue to be refined and reviewed on an ongoing basis; accordingly the figures contained in this report will continue to change, moving forward.

Recommendations

72. It is recommended to Council that:

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

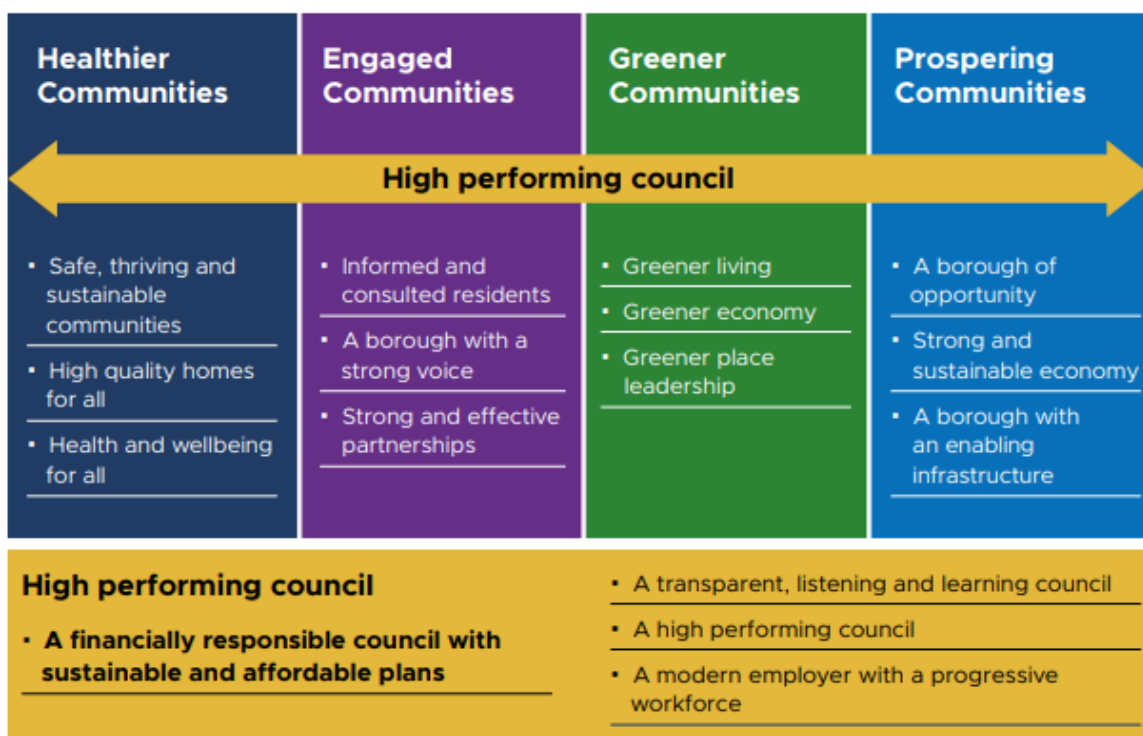
The priority outcomes

The Council has four community facing priority outcomes: **Healthier communities; Engaged communities; Greener communities; Prospering communities** and one cross cutting, **High performing council**, priority.

These priority outcomes shape our activities and resourcing decisions over the term of this five-year strategy and the priority actions we will deliver in the current year, 2022-2023.

The Liberal Democrat administration has committed to “take on the gradual challenge of major change and take both decisive and targeted actions”. This means we will:

- use the framework of the 'Woking for all' strategy to ensure a managed transition to the new administration and leadership of the Council
- make clear and targeted changes to priority actions in 2022-2023 to ensure our policies and priorities are reflected in these actions
- augment the High performing council theme with a new theme setting out the administration’s focus to ensure a financially responsible council
- work in an open and inclusive way to review the priority outcomes going forward from 2023-2024 to ensure there is a legacy of positive change because of our administration.



The Role of Commissioners

1. On 25 May 2023, the Secretary of State for Levelling Up, Housing and Communities exercised his powers under the Local Government Act 1999 to intervene in Woking Borough Council. The Secretary of State has done this because he considers that Woking Borough Council is failing to meet the 'Best Value Duty' which all councils have, to secure continuous improvement in how they deliver their functions.

2. The intervention is formed of a set of actions which the Authority is directed to take, and the appointment of commissioners who have been given powers over certain functions of the authority. The range of functions which the commissioners will exercise is broad, relating to financial and commercial governance, strategic decision making and the authority's operating model, as well as other functions.

3. The Directions enable the Commissioners to exercise the following functions:

- All functions associated with the financial governance and scrutiny of strategic financial decision making by the Authority;
- The requirement from section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Authority's financial affairs, and all functions associated with the strategic financial management of the Authority, to include:
 - i. providing advice and challenge to the Authority on the preparation and implementation of a detailed action plan to achieve financial sustainability, and to close any short and long-term budget gaps identified by Authority across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan;
 - ii. providing advice and challenge to the Authority in the setting of annual budgets and a robust medium-term financial strategy (MTFS) for the Authority, strictly limiting future borrowing and capital spending;
 - iii. scrutiny of all in-year amendments to annual budgets;
 - iv. the power to propose amendments to budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty; 3
 - v. providing advice and challenge to the Authority on the preparation of sustainable and affordable capital, investment and treasury management strategies; a strict debt.
 - vi. reduction plan; and a revised minimum revenue provision (MRP) policy;
 - vii. providing advice and challenge to the Authority on a suitable scheme of delegations for financial decision making;
 - viii. ensuring compliance with all relevant rules and guidelines relating to the financial management of the Authority.

- All functions associated with commercial decision-making, regeneration, property management, procurement and the management of commercial projects by the Authority.
- All functions associated with the governance, scrutiny and transparency of strategic decision making by the Authority.
- All functions associated with the Authority's operating model and redesign of the Authority's services to achieve value for money and financial sustainability.
- All functions relating to the appointment and dismissal of persons to positions the holders of which are to be designated as senior officers and statutory officers, and the designation of those persons as statutory officers, to include:
 - i. The functions of designating a person as a statutory officer and removing a person from a statutory office.
 - ii. The functions under section 112 of the Local Government Act 1972 of:
 - appointing and determining the terms and conditions of employment of an officer of the Authority, insofar as those functions are exercised for the purpose of appointing a person as an officer of the Authority principally in order for that person to be designated as a statutory officer; and
 - dismissing any person who has been designated as a statutory officer from his or her position as an officer of the Authority.
- All functions to define the officer structure for the senior positions, to determine the recruitment processes and then to recruit the relevant staff to those positions.
- All functions pertaining to the development, oversight and operation of an enhanced performance management framework for officers holding senior positions

4. The Secretary of State envisages that most decisions will be carried out by the Authority, with the oversight of Commissioners: they will uphold proper standards and due process and recommend action to the Authority. The Directions set out, though, that the functions set out in the directions shall be exercised by Commissioners; and the Authority must comply with any instructions of the commissioners relating to them. Further, the Authority is directed, to undertake in any of its functions, actions that the Commissioners may reasonably require in order to avoid giving rise to the risk of further failures to meet the Best Value Duty.

5. The Secretary of State's intention is that the powers he is providing to the Commissioners be used to ensure that the Authority takes the necessary steps to achieve the best possible outcome for Woking residents and the public purse. The exercise of these functions should enable the Commissioners to make sure that the Authority has made sufficient improvement within the next five years to be able to comply with its best value duty on a sustainable basis.

The Section 114 Notice

Link to Chief Executive's Response to the Section 114 Notice:

- [Agenda for Council on Tuesday, 20th June, 2023, 7.00 pm \(woking.gov.uk\)](#)

Report to all Elected Members of Woking Borough Council

under

Section 114 (3) of the Local Government Finance Act 1988

by

Brendan Arnold FCPFA

Interim Director of Finance (Section 151 Officer), Woking Borough Council

Date of report: 7 June 2023

Purpose of Report

1. Members of the Council are asked to consider this report by the Section 151 Officer (the Chief Finance Officer). The report is made under section 114 (3) of the Local Government Act 1988 because the Section 151 Officer is of the opinion that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed resources (including sums borrowed) available to it to meet that expenditure.
2. The Section 114 Notice is issued following statutory consultation with both the Chief Executive (Head of Paid Service) and the Monitoring Officer. At the date of this report that consultation has taken place. Following the issuance of the Section 114 Notice the Council has 21 days to hold a meeting of Full Council to consider the report from the Section 151 Officer and decide how it will respond.
3. The purpose of this Section 114 report is to make it clear to Members of the Council that – following events that have played out over a long period of time and which relate to the Council's Investment Strategy and which has resulted in (a) unaffordable borrowing (b) inadequate steps to repay that borrowing and (c) high values of irrecoverable loans - the Council faces a financial situation of an extremely serious nature. In summary, the Council faces an unprecedented financial shortfall that cannot be funded from resources available to the Council.

Key Issues

4. Following a searching and continuing review of the Council's financial affairs (the 'Financial Review') the main issues that have come to light are as follows:
 - a. Over a long period of time the Council has been using a business model that incorporated a 50 year payback period and has used assumptions that inevitably entailed that the companies used for asset construction and ownership would return accounting losses over a long period of time. The Council – having insufficient revenue resources to fund these operating losses – has chosen to fund them by advancing monies sourced from loans supplied by the Public Works Loans Board (PWLB). Reflecting the business model used, loans have been advanced to the Council's companies for capital purposes (i.e. the construction of fixed assets or laying out of land under the relevant legislation) *and* revenue purposes (i.e. to meet operating expenses). Where the loans have been used for *revenue* purposes, this practice falls outside Regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended.
 - b. The Council has been setting aside insufficient monies for the repayment of debt. The Council's debt portfolio is £1.8bn at 31 March 2023 and the Minimum Revenue Provision (to repay debt) appears to have been undercalculated since 2007/08. This will result in an additional charges to the Revenue Account (in 2023/24 in the region of £95m) and an average in the region of £75m in each year moving forward.
 - c. In addition, as a result of the under-calculation, the opening balances in the historic suite of final accounts at 1 April 2018 will need to be re-stated by c. £80m and *prior period adjustments* (totalling £220m) made to the financial accounts prepared by the Council for the years from 2018/19 to 2022/23. The under provision for repayment of debt also affects the Council's Medium Term Financial Plan which will face additional charges in each year moving forward. In order to explain the impact, if the additional charges of c. £75m in each year were to be funded by service reductions, this would mean that the Council could no longer afford to provide any services at all and would still see a net budget shortfall.
 - d. The Council has passed the majority of the loans drawn down from the PWLB to various of its companies (£1.3 billion in total) principally Victoria Square Woking Limited (VSWL) and Thamesway Group Limited (TL). Most of these loans were applied for capital purposes (as is correct), but a significant proportion (up to c. £160m) is likely to have been used to fund *revenue* expenses which is not in accordance with Regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended. If loans were advanced for a revenue purpose these should have been treated as revenue expenditure in the Council's accounts rather than funded from borrowing; this raises the prospect of a corrective charge.

- e. The majority of the assets created by the Investment Programme that has been in delivery over a number of years lie within the accounts of the Council's companies (some of which are joint owned with commercial parties). These assets have been re-valued by experts in the field and it is clear that asset values have diminished substantially over time and further valuation work will be required to bring these values up to date.
- f. It follows that the loans advanced by the Council to the various companies need to be adjusted to reflect impairment of the underlying assets in a sum exceeding of £600m. This has an adverse impact on the security available to the Council in terms of the loan advances made.
- g. The *core funding* of the Council in financial year 2023/24 – comprising Council Tax, Business Rates and Government Grants - is just £16m. The size of the debt portfolio acquired by the Council (£1.8bn) is out of step with the funding streams available.
- h. Aside from the above, arising from a deterioration in the performance of its acquired assets against the original commercial targets as a result of economic factors (including general inflation, energy inflation, reduced parking revenues owing to homeworking, moderated high street spending through internet shopping), the Council is already facing a 'business-as-usual' budget shortfall of £9m in financial year 2024/25 and thereafter. This shortfall is likely to increase as additional pressures are identified at the next update of the MTFs. In addition, the repair and maintenance budget is estimated to be insufficient by £45m per annum based on the value of the Council's asset portfolio at 31 March 2021 and industry benchmarks for repair and maintenance budgets. Overall, the balancing of the 2024/25 Budget will result in very significant reductions in both budget and service levels.
- i. The existence of the factors set out in this report, render the forward budget shortfalls unbridgeable; there is no prospect that the Council will balance its budget in 2023/24, 2024/25 or the successive years without external intervention on a very large scale. On this journey, the enriched service suite that the Borough has enjoyed over a number of years will need to be removed or alternative funding sources found. In this regard, work has been underway for some months to bring forward proposals to offset the £9m budget shortfall - as adjusted by additional cost pressures – already identified.

- j. When the overall deficit complicit with the points set out above is calculated, and because calculation of the charge for Minimum Revenue Provision entails a suite of *prior period adjustments* in the financial accounts for years past, the Council presently has an estimated negative General Fund balance of c. £350m at 31 March 2023. The negative value of the General Fund at this date is forecast to more than triple to around £1.20bn by 31 March 2024. In order to resolve this position the Council will need a commensurate injection of cash or removal of liability.
 - k. At the date of this report the Council is working towards definition of the revenue outturn position for 2022/23 against budget. It is considered likely that an overspend will be identified; in this case for the reasons set out above in this report there are in reality no cash backed reserves available to fund this overspend because the General Fund balance is negative.
5. It should be noted that the figures quoted in the above paragraphs will change as the ongoing work of the Financial Review continues in the period ahead. However, the matters defined so far do not allow any doubt as to the scale and breadth of the financial challenge described in this report.

Consequences of the Section 114 Notice

6. The issuing of the Section 114 report has the following impact on the work of the Council:
- a. A series of Financial Controls will be imposed until Council has had the opportunity to meet and to consider an accompanying report from the Head of Paid Service on how the Council should proceed.
 - b. Many of these Financial Controls will need to remain after the Council has met to consider the Section 114 report. This is because the Council will lack the resources to maintain spending in all areas moving forward.

The Financial Controls

7. The Financial Controls will be exercised by a Financial Control Panel (FCP) and will apply from the date of this report. The FCP will comprise a small team of senior officers selected and chaired by the Section 151 Officer. The controls – which are a statutory requirement when a Section 114 Report is issued – are as follows:

- A. The Council is prevented without the explicit agreement of the Section 151 Officer from entering into any new agreement or commitment for expenditure until Council has met to consider the Section 114 report. These controls may be re-applied after the date of that Council meeting.
- B. Temporary Measures are in force from the date of this report such that all non essential expenditure will stop with immediate effect without the written confirmation of the Section 151 Officer. For the avoidance of doubt noncompliance with this requirement will be considered a disciplinary matter by the Council.
- C. These controls (A) and (B) equally apply where services are being delivered through companies controlled by the Council or where the Council supplies funding to companies that are jointly or partly owned by the Council.
- D. There will be an immediate suspension of the Council's Investment Programme. All expenditures generated by operation of that programme are suspended until the Section 114 Notice has been considered by Council, unless Directorates can evidence that the Council is in contract with suppliers for the delivery of construction works or professional services essential to the continuation of works for which the Council is in contract. That judgement will be exercised by the Section 151 Officer in consultation with Monitoring Officer. On grounds of affordability it is likely that this suspension will continue in the medium term.
- E. The Financial Controls described apply to all Council services, including statutory services, those delivered through Council controlled companies and connected entities. The control framework will be set in place to ensure this happens while ensuring that key services to vulnerable people and those who are homeless are not affected by these controls.
- F. Spending controls will need to remain in place for the foreseeable future i.e. at least for 2023/24 and a progress report on the wider Recovery Plan including progress with the Financial Recovery Plan will be made to Full Council on a quarterly basis moving forward.
- G. Complicit with the position that the Council's loan portfolio is unaffordable the Council's Capital Financing Requirement will be reviewed and re-calculated. In addition, this means that no further loans will be sought from the PWLB unless these are to be applied for capital purposes for which the Council is in contract, for the replacement of existing maturing loans, the maintenance of working capital or other specified matters agreed by the PWLB in conjunction with DLUHC and the Commissioners and the Section 151 Officer.
- H. Insofar as the Financial Controls generally have an adverse impact on the profit and loss accounts of the various companies hitherto in receipt of support - and which is now unaffordable - the boards of those companies may look to the Council to make up for the lost

funding from revenue resources. However, reflecting the financial position, which is the subject of this Section 114 Notice, the Council is unlikely to be in a position to consider provision of such support. Accordingly, there is a responsibility for company boards that find themselves in this position to consider taking professional advice on the options available to them. To provide for this eventuality the Council has taken steps to set in place sources of professional advice to support company boards in these considerations.

- I. If the Financial Controls are not adhered to or for unforeseen reasons do not achieve the required outcomes a further Section 114 report will need to be issued.

Support to be Sought from Government

8. Attainment of the actions envisaged in the emergent Recovery Plan will not by themselves resolve the Council's financial exigency. The Council must therefore approach Government to explore the prospect of financial support and to seek views on the provision of such support.
9. It follows that the Council, on the basis of the estimated financial deficit of **£1.20bn** to 31 March 2024 referred to in this report, needs to acquire financial support on a very large scale. For the avoidance of doubt, the Council has no means of funding the financial deficit from resources that are available locally and has a very small funding base (just **£16m** in 2023/24 excluding use of reserves) in relation to the size of the deficit identified.

The Legal Framework

10. Section 114 (3) requires that:

“The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.”

11. The process for issuing a Section 114 report and the effect of it are set out in various sections under the 1988 Act. Subsection 3(A) requires the chief finance officer to consult, so far as reasonably practicable, the Head of Paid service and the Monitoring Officer. Both of these statutory officers have been fully briefed and consulted in the preparation of this report. Further, the Corporate Leadership Team has been fully briefed on the content of this report and have similarly been consulted.
12. Section 115 of the 1988 Act requires Full Council to consider and decide on the report made under Section 114 within 21 days beginning on the day the report is issued. Full Council must consider the report at a meeting where it shall decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it.

13. Section 115 (6) states that pending consideration of the report by Full Council, there is a prohibition period which runs from the date the report is made to the date of the Full Council meeting. During this period, the Council must not enter into any new agreement which may involve the incurring of expenditure (at any time) by the authority unless the chief finance officer of the authority authorises it to do so.
14. Subsection (6A) states the chief finance officer may only give authority for the purposes of subsection (6) if he considers that the agreement concerned is likely to:
 - a. prevent the situation that led him to make the report from getting worse,
 - b. improve the situation, or
 - c. prevent the situation from recurring.
15. Subsection (6B) requires that authority for the purposes of subsection (6) shall:
 - a. be in writing,
 - b. identify the ground on which it is given, and
 - c. explain the chief finance officer's reasons for thinking that the ground applies.
16. Subsection (8) states that if subsection (6) is not complied with, the Council shall be taken not to have had power to enter into the agreement (notwithstanding any option to do so under contract or otherwise). Therefore, the Council's actions will be deemed unlawful.
17. Section 116 requires the Council to notify its external auditors of the report and the time, date and place of the full Council meeting. The external auditors also need to be informed of the outcome of the meeting as soon as practicable. The external auditors have been kept informed of the emerging financial position and the planned work. The external auditors will need to consider the implications of this report on their statutory functions and the implications for their opinion on the 2019/20 and subsequent accounts which remain unaudited at the date of this report.
18. CIPFA guidance recommends that informal contact is made with DLUHC, lead members and statutory officers in advance of issuing a Section 114, to undertake a level of scenario testing and to ensure a robust action plan to address the issues raised is able to be prepared. Lead members have been kept up to date on the emerging budget situation, as has the Executive and the key statutory officers and there has been regular liaison with DLUHC officials and professional advisers including *CIPFA Solutions* and others.

19. The Council's legal duties around budget setting are set out in Section 31A of the Local Government Finance Act 1992, which states:

- (1) In relation to each financial year a billing authority in England must make the calculations required by this section.
- (2) The authority must calculate the aggregate of:
 - (a) the expenditure which the authority estimates it will incur in the year in performing its functions and will charge to a revenue account, other than a BID Revenue Account, for the year in accordance with proper practices.
 - (b) such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account for the year in accordance with proper practices.
 - (c) the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure.
 - (d) such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.
 - (e) any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with regulations under section 97(2B) of the 1988 Act,
 - (f) any amounts which it estimates will be transferred in the year from its general fund to its collection fund in accordance with section 97(4) of the 1988 Act; and
 - (g) any amounts which it estimates will be transferred from its general fund to its collection fund pursuant to a direction under section 98(5) of the 1988 Act and charged to a revenue account for the year.

20. The findings of the continuing Financial Review are such that the financial parameters described above and which were considered by the then Section 151 Officer when Council met on 27 February 2023 to agree the Budget for 2023/24 now need to be reviewed and considered in the context of a revised Medium Term Financial Plan and Strategy. The intention is to present a revised MTFs in July 2023. Accordingly, the Council will seek to open discussions with Government to inform this reporting timetable.

21. Following these considerations Council may wish to call for a revised Budget for 2023/24 in order to endorse:

- (a) the financial support arrangements which may then pertain.
- (b) to agree budget savings for 2024/25 in order to reach for savings in advance of the 2024/25 financial year; and
- (c) to receive a report on how the Financial Review has led changes to financial management arrangements on a broad front.

The Financial Review - Background

22. The Council has been in dialogue with DLUHC – the relevant Government Department - since May 2022. This dialogue focussed on the very large loan portfolio held by the Council and risks around the ability of the Council to manage the scale of operations then in place. As a result of this engagement the Council was offered and welcomed a non-statutory review by DLUHC that commenced in December 2022; the report from this review was published in May 2023.

23. In setting the 2023/24 Budget in February 2023 the then Section 151 Officer approved the setting of a balanced budget through use of reserves but did so with the cautionary advice that ‘the Council was in Section 114 territory’. Further information was included in the Section 25 report which formed part of that Budget Report.

24. On appointment, having taken note of work already undertaken by the leadership team and having made further observation, the new Section 151 Officer with support from that team (a) presented an updated MTFs to the Executive and Council (from 23 March 2023) and (b) commissioned a suite of work to unpack and define aspects of the Council’s financial affairs. This work, undertaken with support from professional advisers including *CIPFA Solutions* and other specialists comprises the Financial Review referred to in this report. This work is ongoing.

Detailed Points Arising from the Review

25. The key findings arising from the Review and which have been operating in the Council for some considerable time period (with the exception of (g) prior to 2016) include:

- (a) A weak financial control environment.
- (b) Sub-optimal record keeping.
- (c) Weak management review processes.
- (d) Weak understanding of accounting guidance.

- (e) Weak understanding of statutory requirements in respect of accounting arrangements.
- (f) Insufficient resources generally to manage successfully the scale and complexity of the company structures, assets and liabilities that had been brought into existence by the Council over many years.
- (g) The absence of external audit opinions on the Council's accounts since 2018/19.

26. The Financial Review commissioned by the current leadership team has brought to light and defined the financial deficit in the Council. The financial challenges with which the Council is faced have been acquired over a long period of time and in particular have accelerated between 2016 and 2021. It is likely that further issues will arise in the coming months as more work is completed and the recovery planning is developed fully to set the Council's financial affairs on an appropriate course. It follows that these matters will take some time to resolve and the estimated timeline until a substantive recovery has been achieved is likely to be two years from the date of this report. That said, the financial recovery is being pursued at pace and a plan for the first 100 days is being prepared as a component of the wider Recovery Plan and action is already being taken as part of this greater whole.

27. It is notable that had the issues now being drawn out been understood in previous years (i.e. before 2021) the Council would have had grave difficulty in setting lawfully balanced budgets in the period since 2018/19. The following points are relevant:

- a. The current estimated negative General Fund balance prior to submission of any request for support from DLUHC is c. £350m to 31 March 2023. The additional in-year deficit for 2023/24 is estimated to be in excess of £800m resulting in an overall deficit of almost **£1,200,000,000** or **£1.2bn** forecast to 31 March 2024. This is further described at paragraph (29) of this report.
- b. It is fair and reasonable - given the circumstances - that the Council take all possible steps to mitigate the level of financial support needed from Government in order to set the Council's affairs on an appropriate financial course. To this end the recommendations prepared by the Chief Executive in the accompanying report on this agenda are of critical importance.

- c. The financial deficit identified in this Council has the highest ratio compared to the resource base of any major Council in recent years. The expected deficit at 31 March 2024 (£1.181bn as defined at paragraph (29)) is estimated to be 107 times greater than the amount raised in Council Tax in each financial year (£11m). This raises an important point; that the resource base in this Council is insufficient to accommodate meeting the overall deficit even if capitalised over a very long period of time.
- d. Further Section 114 Notices may need be issued if means of managing the position are not able to be agreed with partners in Government in the weeks ahead. That said, there is a level of confidence that the position faced by the Council is understood in DLUHC and thanks are extended to officials in the Department who have been both supportive and helpful in wider discussions that have so far taken place.
- e. The Minimum Revenue Provision (MRP) calculation to set aside resources for the repayment of debt has not been undertaken in the manner required for a number of years. The additional charge to be made in 2023/24 is in the region of £95m. Given that the charge has been calculated on a basis that is (a) incorrect and (b) lacking a prudent basis it is clear that the Council has not complied with the relevant guidelines and Codes of Practice that apply.
- f. From the observations made there is a high probability that the Council's various reports which have been produced over a number of years to deal with budget setting, financial monitoring, capital programming, capital financing and treasury management have all contained inaccuracies and misassumptions. Improvements are needed to ensure that these documents meet the needs of decision makers through suitable transparency and clarity as the Council moves through the process to achieve recovery.
- g. The Chief Executive has sought to ensure that the incoming external auditor (Grant Thornton LLP) is aware that the leadership team is keen to see the initiation of suitable enquiries to clarify how the matters described in this report unfolded in the period 2016 to 2021. This initiative is supported by the Section 151 Officer and at the date of this report a meeting has taken place between the statutory officers and the incoming external auditor who had already been in the process of forming proposals to serve this need.

- h. The accounts for the Council for 2019/20 are still awaiting an audit opinion from the previous external auditor and the audits for years following have yet to commence. Over a substantial period the leadership team has sought to bring this matter to a focus with the external auditor and Public Sector Audit Appointments (PSAA) (the agency responsible for appointing external auditors to local government). In addition the Standards & Audit Committee has enquired closely on this issue. The delivery of an effective external audit service is a continuing priority for the Council and work continues to bring this matter to a focus with providers and stakeholders in the near future.
- i. The Council has a number of wholly or partly owned companies. Historically governance and financial management processes in relation to these arrangements have been weak and a number are in need of ongoing financial support which – on grounds of affordability – the Council is unable to provide. This being so it is inevitable that unless additional resources can be made available by Government some of the boards of these companies will need to seek advice on available options in the period ahead. The Council has set in place sources of such advice where this is needed and - thanks to the efforts of the Council's leadership team - the strengthened arrangements for shareholder liaison are beginning to enable a more structured approach to governance and decision making.
- j. The Finance Directorate – never of adequate size for the commitments it has faced – has sustained in recent weeks the departure of a number of staff experienced and knowledgeable about the arrangements made by the Council. As at the date of this report the majority of the Finance Directorate Management Team is formed of interim contract staff who have been retained by the Council only recently.
- k. Financial processes, reporting and internal controls need in some cases to be strengthened. Budget monitoring processes in particular are weak and poorly designed. These are being redesigned at pace and support for budget managers is being put in place in the period ahead.
- l. The Housing Revenue Account is under severe financial pressure significantly because the Sheerwater housing development scheme has removed a large portfolio of dwellings from the portfolio of HRA rental properties with commensurate loss of rental income. A HRA Financial Recovery Plan is in development to focus on rent collection, the level of recharges from the General Fund and a number of other key opportunities for cost reduction. The Council does not have a 30 year business plan for the HRA at this time.

- m. The Council's company structures are in need of detailed review and simplification and initial steps have already been taken and resources assigned to begin work in this regard. Given the financial position of the Council, it is likely that the case for using companies to develop assets and run services may be significantly weakened and that alternative approaches will need to be explored through conversations with DLUHC and other Government agencies on the forward journey.
- n. The Council's leadership team has been fully briefed on the conclusions of the Financial Review.

Other Issues

- 28. The Council has already noted (See the Medium Term Financial Strategy reported to the Executive on 23 March 2023) that in 2024/25 it faces a budget shortfall of £9m. It is expected that additional cost pressures (estimated presently at c. £1m) will need to be added to this total as when the MTFS is next updated. The shortfall is already being targeted through the roll out of the *Fit for the Future Programme* which is designed to bring forward proposals to enable a balanced budget to be formed. The results of this exercise will be presented as part of the July update of the Medium Term Financial Strategy and will form part of the over-arching Recovery Plan led by Commissioners under the terms of their appointment in pursuit of the Best Value duty held by the Council.

The Deficit

29. The deficit now faced by the Council from the conclusions of the continuing Financial Review at the present time is as follows:

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
		£m	£m	£m	£m	£m	£m	£m	£m
General Fund Balance as originally stated									
Balance at 1 April a	a	(30)	(28)	(31)	(41)	(30)	(30)	(30)	(30)
In year transactions on the General Fund	b	2	(3)	(10)	11	0			
Balance at 31 March c=a+b	c=a+b	(28)	(31)	(41)	(30)	(30)	(30)	(30)	(30)
Restated General Fund balance									
Balance at 1 April	d = n	(30)	73	102	134	199	347	1,181	1,329
Restatement at 1 April 2018 for MRP understated in previous years	e	78							
Revised balance at 1 April 2018	f=d+e	48							
In year transactions on the General Fund	g=b	2	(3)	(10)	11	0	0	0	0
Restatements:									
MRP understated	h	23	32	42	54	67	94	93	73
Revenue loans	i					81	80		
Impairment of loans	j						614		
Understated repair and maintenance budget	k						45	45	45
Budget cost pressures	l							9	10
Other cost pressures	m						1	1	1
Impact on Budget	n=f+g+h+i+j+k+l+m	73	102	134	199	347	1,181	1,329	1,458

Notes:

- i. All figures are at Outturn prices. The figures for 2018/19 are taken from the audited Statement of Accounts. The figures for 2019/20 to 2021/22 are taken from draft accounts for those years as no audit opinions have yet been provided by the external auditor.
- ii. For 2022/23 the balances have been rolled forward from 2021/22. The outturn has yet to be completed for 2022/23 and will impact the In-year transactions on the General Fund at rows b and g above.
- iii. For 2023/24 onwards the balances are taken from the 2023/24 Budget and MTFs reported to Council on 23 March 2023.
- iv. Rows (a) to (c) show the movement on the General Fund balance as originally reported in the Statements of Account and projected forward to 2025/26.
- v. Rows (d) to (n) show the revised General Fund balance after restating the accounts for understated MRP in the years to 31 March 2018 (row e) and annual adjustments detailed in rows (h) to (m).
- vi. The detail of the restatements is in the following paragraphs:
 1. Rows (e) and (h) (MRP understatement) paras 4(b) to (c);
 2. Rows i and j (revenue loans and loan impairment) paras 4 (d) to (f) :
 3. Rows (k) to (m) (repair and maintenance budget understatement and budget cost pressures) para 4 (h).

30. It is clear from this analysis that the Council cannot meet these very large costs from its own resources. The only way forward is to open discussions with DLUHC on the provision of financial support from Government.
31. Council is asked to note that any support made available by DLUHC is likely to require the Council to dispose of surplus property or otherwise secure value from the assets under ownership, in order to discharge at least part of the ongoing financial liabilities that may be incurred by the public purse generally in the years ahead if a package of support is able to be secured. Accordingly, Council needs to prepare itself for such a course moving forward.
32. Similarly, on the forward journey, Council needs to consider that it might be invited to pass ownership of the relevant assets into the care and management of other agencies as part of a *quid pro quo* for financial support if negotiations with Government are able to be undertaken successfully. At this time and pending the opening of discussions with Government on the matter of support the approach preferred by Government in this matter is not yet known.

Next Steps

33. The issuing of a Section 114 report is a serious matter and will impact on how the Council operates. Local Authorities however cannot go into Administration or Liquidation as they are backed by taxation and Government. This means that all creditors are secured, contracts in flight are secure and the Council will continue to pay staff and deliver its statutory services, particularly services to the vulnerable and homeless. That said, the Financial Controls referred to in this report will operate from 7 June 2023.
34. Council is required under legislation to hold a meeting of Full Council scheduled for the purpose of considering this Section 114 report and the Chief Executive's Response to this report so that Council can decide on any action to be taken as a result.

Future Intervention

35. I will monitor in line with the responsibilities of my office the Council's response to this Notice on an ongoing basis to ensure that sufficient action is taken at pace to address the issues identified. If I am not able to see satisfactory progress, I will consider the issuing of a further Section 114 report. It is also the case that an inability to agree financial support from Government may inevitably lead to further Section 114 reports being laid before Council.

Brendan Arnold BA MA FCPFA DMS
Interim Finance Director & Section 151 Officer
Woking Borough Council
June 2023

Annex 4

The Budget Timetable for 2024/25 Budget

	<u>Updated Budget 2024/25</u>	Date	Month
O&S	O&S Budget Meeting	11/09/2023	September
Exec	Executive	14/09/2023	September
Council	Council	28/09/2023	September
	<u>Final Budget 2024/25 Timetable</u>		
O&S	O&S Budget Meeting	22/01/2024	January
Exec	Executive	01/02/2024	February
Council	Council	08/02/2024	February

Annex 5 (A)

Annex 5 (A) – Resident engagement survey feedback exercise attached separately

Formal Consultation for Potential Changes to Discretionary Services

Savings identification process

1. Throughout the period from February to April work has been undertaken to review all services that are provided by the Council. The process, referred to as 'Gateway Reviews', set out to explore statutory, discretionary, and business critical functions to produce options of delivery that would deliver savings. The process required senior managers to identify options – one being the statutory minimum level of service that can be provided (minimum viable provision (MVP)), the other options being to provide alternatives to achieve savings or increase income. Each option was reviewed by a panel chaired by the Chief Executive or a CLT member and included other CLT officers to scrutinise the options. All services went through this process.
2. A 'top down' approach was then applied by CLT and the Executive. A set of guiding principles was developed for the new organisation – in summary, the council will be a smaller organisation focused on essential services. Discretionary service areas must have a strong rationale for being delivered by WBC and need to be cost neutral, meaning fees and charges may need to be increased if it allows the service to continue. WBC will look to partners and the voluntary sector for delivery where appropriate. Throughout the change, the council will treat staff and residents fairly and compassionately.
3. The finances of the council mean that it is not able to subsidise services that are discretionary for a borough council to provide therefore a guiding principle is that they must become 'self-funding'; this means that they will be removed unless different models of operation (increased fees, transfer to another Local Authority/partner, community ownership etc.) can be implemented to remove any Council subsidy.
4. A resident engagement exercise was held during the summer to identify which discretionary services residents value most (see Annex 5A). The analysis has been used to support the options that will now be consulted upon. However, the Council acknowledges that the severity of its budget position means that in some cases, decisions need to be taken which do not align with residents' views. Community feedback remains valuable as it will inform the council on the impact that decisions that it is having to consider will have on the borough.
5. The results of the Gateway Review, and the resident engagement through the summer, have led to the following proposed changes that will be formally consulted upon from October:

Parks and green spaces

This was the most highly valued discretionary service in the recent resident engagement exercise. A more detailed review is taking place to inform the options for consultation – due to commence later in the autumn. Options we may look at as part of this review include areas such as closing play areas that are not used frequently, explore lower levels of maintenance, understanding the geographic spread of play areas. Potential savings tbc.

Arts, Cultural & Sports Development

The Council currently subsidises the Lightbox and provides funding support and co-ordination for arts and cultural development. 'Arts development' includes the provision of arts events such as Summer Sounds, support for community groups such as Woking

Community Choir and Dance for Parkinson's classes (through our membership of Arts Partnership Surrey), management of BUZZ theatre, and support for arts organisations across the borough. 'Cultural development' includes enabling and supporting community cultural initiatives such as annual celebrations for Diwali and Chinese New Year as well as other one-off events. The Council also provides funding for Dance Woking. 'Sports Development' includes the provision of Woking's inclusion in the Surrey Youth Games and the support and development of a range of sports clubs and health and wellbeing activities. The proposal to be consulted upon is the removal of Council support and co-ordination for each of these functions. A public consultation will commence on 2nd October 2023. During this period, discussions with the partners will be held to identify possible alternative funding sources.

Pool in the Park

The Leisure Partnership has run at a considerable loss since the pandemic closures were enforced. This, combined with the sharp rise in utility prices and the cost-of-living crisis, has made the financial position of this provision very difficult. In the last financial year £1.8M was spent subsidising the entirety of the leisure provision and it is expected to require £900k in subsidy this year.

Pool in the Park specifically amounts to £700k of the subsidy, a large amount of this is capital depreciation and the rest is the significant cost of utilities such as an aging building requires. It is also anticipated that further investment into the building will be required in the short to medium term to keep the building open.

The proposal to be consulted on is the phased closure of this building over the next 3 years, with initial focus on the closure of the Leisure Pool to deliver early savings.

A public consultation will commence on 2nd October 2023. There will be further savings achieved through increasing charges over time.

Sports pavilions

WBC currently funds a 13 sports pitches and pavilions. The proposal is to remove funding for these. Assets will be transferred to community groups where possible. A public consultation will commence on 2nd October 2023.

Public conveniences

WBC currently provides public conveniences at 12 locations across the borough. The proposal is to remove all public toilets. A public consultation will commence on 2nd October 2023.

Community Grants

A community grants scheme is currently in place. Previous beneficiaries of the grants scheme have included Citizens Advice Woking, Woking Community Transport, Your Sanctuary, and Maybury and Sheerwater Community Trust. The proposal is to cease the grants scheme. A consultation with stakeholders of the scheme will take place from 2nd October 2023.

Woking Translation Service and Voluntary Sector Support

This is a paid-for service provided to schools, healthcare providers, and other support services co-ordinated by the Council. There are alternative translation service providers available, therefore the proposal is to cease to provide these services to third parties. There will also be a reduction in other support the Council offers the Voluntary Sector. A consultation with stakeholders will commence on 2nd October 2023.

Café at the Vyne

Currently, hot lunchtime meals are offered at The Vyne Monday – Friday. The service is primarily used by older or vulnerable residents. This current offer provided at the Vyne and is heavily subsidised. The proposal is to stop providing the café directly and seek a new provider to run it without subsidy. Meals on Wheels will be an alternative provision. A consultation with users of this service will commence on 2nd October 2023.

Community Centres – day care

Currently, day care facilities are offered at St Mary's, The Vyne, Hale End Court and Brockhill for frail or vulnerable residents. The service includes care and assistance from support staff, hot drinks and a hot midday meal, social and gentle exercise activities, and a return journey on the accessible Bustler bus. The proposal is to relocate the current day care offer from The Vyne and St Mary's to Hale End and Brockhill Extra Care Schemes. This will remove Council subsidy which will assist in moving the service towards a self-funding model and enable discussions to be held with other community groups to take greater ownership. A consultation with the users of this service will commence on 2nd October 2023.

Services transferred to partners and therefore not requiring consultation

As part of the resident engagement, when asked how WBC should tackle its budget shortfall, 32% of respondents to the resident engagement exercise said that the council should find other organisations to deliver services. Following constructive conversations with partners, the council is in the process of confirming alternative delivery arrangements for the following services:

- Social prescribing – team to transfer to another council partner and service to residents retained.
 - Hospital discharge – team to transfer to another council partnerservice to residents retained.
 - Family Centres – Surrey County Council (SCC) to select new provider to deliver service from 1 April 2024.
6. It is important to note that this list does not represent the full extent of savings activities across the Council; this list highlights public facing services that will have the most impact on residents, organisations, and other stakeholders across the borough.

Consultation Process

7. Where possible, consultations will be grouped by theme to ensure that related services can be considered together. As described above, where services are potentially used by all residents, a full public consultation will take place. For the service proposals that will impact the direct users of this service, the consultation will be targeted at those users and stakeholders.

8. Each consultation will start and finish at the same time to ensure consistency across functions, except for play areas, which will commence later in the year. The consultation process will be based around focused questions tailored to the correct audience, which will be informed by customer/user data. The consultations will be issued and managed through the Council's engagement portal. Feedback from the recent Resident Engagement (See Annex 5B) will also inform the public consultations.

Equality Impact Assessment

9. Service leads will be completing detailed Equality Impact Assessments (EIA) for each service to fully understand the risks and implications of removal, reduction, or a change in delivery on residents and users of these services. This will be undertaken in parallel to the consultation process.
10. Surrey County Council are providing support and guidance to WBC to ensure that the public consultation process and the EIAs are robust and comprehensive.
11. The outcome of the Equality Impact Assessment, alongside the findings of the consultation process, will be assessed and used to prepare final recommendations that will be presented to the January Executive for approval.

Timeline for Public Consultation

12. Work will commence to prepare public consultations once approval of the recommendations has been received. The key dates and milestones around this phase are:
 - 2 October to 12 November (6 wks.): Public Consultation around each service.
 - 13 November to 1 December (3 wks.): Consultation/EIA analysis.
 - 18 January: Update and final recommendation to Executive to agree implementation.
 - 8 February: Savings reflected at Council as part of 2024/25 budget setting process.

List of Proposed Savings

FFtF Savings 3(A)

Source	Amount 2024/25 £'000	Amount 2025/26 £'000	Amount 2026/27 £'000	Amount 2027/28 £'000	Comments
Removal of Grants to External Bodies	686	686	686	686	The Council has historically allocated funds each year to community groups within the borough via a grant award programme. It is proposed that the community grants programme is removed, whilst in-kind support will continue.
NNDR Discretionary Discounts	30	30	30	30	
Gateway Process / Service review: Community Centres Savings proposed through moving to a self-funding model, with more spaces leased out, other community providers running the centres (including cafes) and day care services transferring to extra care settings.	353	353	353	353	The recent Gateway Process has identified a number of service redesign and organisational restructuring savings across the Council.
Gateway Process / Service review: Translation Service and Voluntary Sector Support Savings proposed through staffing reductions, ceasing to offer a translation service to third party organisations and utilising grant funding.	105	105	105	105	
Gateway Process / Service review: Family Services The full cost of the service proposed to be covered by funding from Surrey County Council. SCC to select a new provider of Family Centres from 1 April 2024.	73	73	73	73	
Gateway Process / Service review: Sports, Arts Development (This specifically relates to the provision of Sport and Arts Development both directly to residents but mainly provision	312	312	312	312	

for Borough Sports and Culture groups.) The proposal is to remove Council support, co-ordination and funding for arts and culture, including grants to The Lightbox and Dance Woking. Alternative funding to be investigated with partners.				
Gateway Process / Service review: Community Safety Savings proposed through staff reductions, with resources focussed on the provision of the statutory community safety action plan and any associated actions, as well as working with partners to reduce crime.	80	80	80	80
Gateway Process / Service review: Health & Wellbeing These initial proposed savings are expected to be achieved through staffing reductions, higher fees and charges, consolidation of meal service and other efficiency savings. The service is expected to be self-funding with further savings expected through transfer of social prescribing and hospital discharge teams) to another council and increased funding from Health.	99	99	99	99
Gateway Process / Service review: Housing Options This is a statutory service. However, a proposed saving of 1 vacant post has been identified.	43	43	43	43
Gateway Process / Service review: Strategic Housing Savings proposed through staff reductions, with resources focused on the statutory elements of service.	53	53	53	53
Gateway Process / Service review: Neighbourhood Services: removal of vacant post	58	58	58	58
Gateway Process / Service review: Planning / Planning Policy. Review of staffing levels supported by service redesign and process improvement. This is likely to see the loss of 6 FTE in a	228	228	228	228

current establishment of 31 FTE across the Planning service.				
Gateway Process / Service review: Building Control. Staff resource review in response to reduction in income, which is forecast to remain at a reduced level in the short to medium term.	66	66	66	66
Gateway Process / Service review: Green Infrastructure. Review of staffing structure in the context of reduction of discretionary services offered, which will include climate change work, play areas and green spaces. This could result in a reduction from 7 to 4 FTE within the service.	171	171	171	171
Gateway Process / Service review: Env Health/Housing Standards The saving identified for this service area and licensing primarily be staffing which could see the reduction of 4 posts in these service areas.	93	93	93	93
Gateway Process / Service review: Licensing.	37	37	37	37
Gateway Process / Service review: Business Liaison The Council is no longer in a position to support the business liaison function, which is a discretionary service. Staff resources are being reviewed accordingly	313	313	313	313
Gateway Process / Service review: Member Services The Team provide support to the Councils Democratic and Civic Event services and administrative support to the Corporate Leadership of the Council. The proposal is to reduce the current staffing by 3 full time equivalent posts through making efficiency savings and some reductions to the level of support provided.	153	153	153	153

MTFS FFTF Savings 3A
Continued

Source	Amount 2024/25 £'000	Amount 2025/26 £'000	Amount 2026/27 £'000	Amount 2027/28 £'000	Comments
<p>Gateway Process / Service review: Marketing Communications</p> <p>The Team provide marketing and communication support to the Council and content management support for the Council's website</p> <p>The proposal is to reduce the current staffing by 2 full time equivalent posts through making efficiency savings and some reductions to the level of support provided.</p>	107	107	107	107	The recent Gateway Process has identified a number of service redesign and organisational restructuring savings across the Council.
<p>Gateway Process / Service review: Human Resources (HR)</p> <p>The Team provide HR support to the Council as employer, support for Health and Safety, administer the payroll; pension contribution; lease car and Insurance processes.</p> <p>The proposal is to reduce the current staffing by 3 full time equivalent posts through making efficiency savings and some reductions to the level of support provided.</p>	172	172	172	172	
<p>Gateway Process / Service review: Transformation & Digital</p> <p>The Team provide ICT and Transformation and change support</p> <p>The proposal is to undertake a whole service redesign in order to reflect the development of the Council's IT and Digital strategy</p>	141	141	141	141	
<p>Gateway Process / Service review: Customer Services/Revs & Bens</p> <p>The Team provide first line customer service support and administer Council tax payments and benefits and business rates</p>	291	291	291	291	

The proposal is to undertake a redesign of how the Council deals with customer enquiries and support and provide a better digital (online) service based on customer needs.					
Debt Management Expenses	250	250	250	250	Savings arising from suspension of Investment Programme on grounds of affordability.
Totals	3,914	3,914	3,914	3,914	

**MTFS FFTF Savings 3B -
Further Investigation**

Source	Amount 2024/25 £'000	Amount 2025/26 £'000	Amount 2026/27 £'000	Amount 2027/28 £'000	Comments
Leisure Services Savings: (This specifically relates to the Leisure Partnership Agreement. For clarity this includes Pool in the Park, Woking Leisure Centre, Sportsbox, Eastwood Leisure Centre and our Sports Pavilions)	900	900	900	900	Savings delivered through removal of Council subsidy, phased closure of Pool in the Park and a move towards a self-funding principle of delivery.
Forensic Review of Council Budgets (Gateway Outcomes)	750	750	750	750	Work is underway to methodically review all Council budgets (supplies and services) to reduce spend. This work is informed by service option assessments as part of the Gateway Review Process.
Organisational Restructure To undertake a review of leadership and roles in the organisation.	0	0	250	250	As part of the move to a 'smaller organisation' that focuses on core services there will be a further need to streamline management and decision making arrangements
Property Services Savings: CCTV Contract Review	72	72	72	72	Saving resulting from reviewing the CCTV maintenance arrangements and moving to a semi-comprehensive contract.

Source	Amount 2024/25 £'000	Amount 2025/26 £'000	Amount 2026/27 £'000	Amount 2027/28 £'000	Comments
Property Services Savings: CCTV Infrastructure Review	40	40	40	40	Delivery of efficiency measures in CCTV operations, including a review of the number and location of cameras.
Property Services Savings: FM Efficiencies	100	100	100	100	Reprovision the Facilities Management contract for the Council's operational properties.
Property Services Savings: Removal of Public Conveniences	203	203	203	203	The savings resulting from the removal of 12 public conveniences across the borough.
Property Services Savings: Removal of Vacant Posts	174	174	174	174	Savings based around services changes and associated structure redesign.
Property Services Savings: Civic Offices Savings	250	250	250	250	A series of operation changes to deliver savings in the running of the Civic Offices.
Grounds Maintenance Contract - Retender	0	1,250	1,250	1,250	The Grounds Maintenance Contract is due for renewal in 2025/26. The scope of the contract will be reviewed as part of the tender process to deliver savings.
Totals	2,489	3,739	3,989	3,989	

Annex 6..cont

MTFS FTF Savings 3C - Further Investigation

Source	Amount 2024/25 £'000	Amount 2025/26 £'000	Amount 2026/27 £'000	Amount 2027/28 £'000	Comments
Neighbourhood Services - In-Year	Research underway through Autumn 2023	1,000	1,000	1,000	Discussions are underway with the Neighbourhood Services to identify in-year contract savings.
Micro-Slice Budgets	35	35	35	35	A small adjustment from all budgets within the Council be set aside to establish a small General Reserve. This is funded by taking 0.001 % of every budget in the Council.
Procurement (tail spend) and Contract Savings	200	400	0	0	These savings will be achieved through a review of off-contract spend throughout the Council and implementing cost controls and supplier contracts were beneficial.
Asset/Commercial Rationalisation Exercise	Research underway through Autumn 2023	Research underway through Autumn 2023	Research underway through Autumn 2023	Research underway through Autumn 2023	Savings arising from a full review of Council assets and implementation of an asset disposal / commercial strategy. OR Interim Property Asset Review Approach
Closure of Civic Offices / Move to Smaller Premises	Research underway through Autumn 2023	Research underway through Autumn 2023	Research underway through Autumn 2023	Research underway through Autumn 2023	The relocation and consolidation of Council operations to smaller premises to deliver value for money. Disposal strategy will follow in due-course.
Lease surrender receipts	1,900	1,900	1,900	1,900	Revenue receipts from a former lessee following early surrender of lease
Increase in Commercial Rents	0	0	700	800	This reflects current and expected market operations
Increase in Fees and Charges Beyond 20/10%	Research underway through Autumn 2023	Research underway through Autumn 2023	Research underway through Autumn 2023	Research underway through Autumn 2023	Income achieved through price increases as part of the fees and charges process to ensure that services are self-sustainable.

Shared Services Efficiencies	0	30	30	30	Savings delivered through sharing services with other authorities and partner organisations.
Totals	2,135	3,365	3,665	3,765	

Total Proposed Saving:
Collection

Source	Amount 2024/25 £'m	Amount 2025/26 £'m	Amount 2026/27 £'m	Amount 2027/28 £'m
MTFS FFTF Savings 3A	3.914	3.914	3.914	3.914
MTFS FFTF Savings 3B	2.489	3.739	3.989	3.989
MTFS FFTF Savings 3C	2.135	3.365	3.665	3.765
Total	8.538	11.018	11.568	11.668

Budget Planning Assumptions

The key points of briefing in relation to the Forecast are:

- a. New Homes Bonus – The Government has been considering reform or phasing out of New Homes Bonus and currently the grant is calculated on a one-off annual basis. It is assumed that the Council will receive £231,000 in 2024/25 and future years of the MTFP.
- b. Controls on use of packaging and waste volumes – the Government is planning to establish a system where the producers of packaging waste are charged a levy related to the waste volumes that result such that the proceeds - net of regulatory costs - are passed on to local Councils. The assumption made in this version of the MTFP is that the incoming monies will need to be reinvested in waste services and that, accordingly, there will not be a net benefit to the Council from this scheme. This assumption will be reviewed for the next update of the MTFP. Government has confirmed that implementation will be deferred until 2025/26.
- c. Revenue Support Grant – this is currently assumed to be unchanged from 2023/24 at c. £100,000.
- d. Collection Fund – the working assumption is that Council Tax is assumed to increase by 3% throughout each year of the MTFP, the maximum permitted under current Government guidance. The Collection Fund is assumed to be in balance for the current review without any surplus or deficit but this will be reviewed in depth for the next update.
- e. NNDR Pool - it is assumed that the Council will continue to be a member of the Surrey-Sutton Business Rates Pool in 2024/25 and future years and it is also assumed that the Government will continue to permit the operation of such pools as a matter of policy.

Inflation

Inflation is held as a contingent sum centrally within the budget structure and will be assigned to services and functions based on need as the financial year progresses.

Fees and Charges

For present estimates it is assumed that fees and charges (aside from those set statutorily) rise on an average of 20% for 2024/25 and 10% thereafter throughout the term of the MTFP. The yield from this is estimated at around £1.6m which includes amelioration for loss of volume arising from the proposed adjustments.

A review of fees and charges will be carried out and the resultant charges figure reported at the MTFP refresh in September 2023. A 1% increase equates to around £110,000.

Parking Income

Parking charges are presently assumed to rise by 20% in 2024/25 and 10% in each year thereafter; these assumptions will be revised following receipt of the recommendations of the Parking Strategy which is expected in Autumn 2023.

Commercial Rents

The Council holds a considerable number of properties and from this acquires a substantial commercial rental stream is accrued in each financial year. For financial year 2024/25 the yield – as a result of tenant loss – is expected to reduce. However, within a buoyant market rental income is expected to increase in years afterwards although in competitive trading conditions.

These rentals are important in maintaining key services to the community and – given that a property rationalisation programme is being set in place – the Council will need to seek retention of those assets with the highest yield in forming this programme in the months ahead.

Most business cases that emerge to deliver a significant revenue benefit to the Council for small or modest capital investment are likely to lie within this area of operations.

Asset Rationalisation and Capital Receipts

In order to demonstrate that the Council is acting to pursue recovery by exploiting its own value base to deliver reductions in the £1.8 billion debt portfolio Council has already been advised (20 June 2023) that a rationalisation programme on some scale would be required. Consultants Avison Young LLP are working up proposals to inform preparation of this programme and the results of this are expected in the early Autumn.

In the meantime the Council's existing disposal activities are continuing and the Council will consider marking a sea change in the character of its operations by using capital receipts to make a contribution to repaying debt in the months ahead.

The MTFP - Medium Term Financial Plan 2023/24 to 2028/29 - Summary MTFP Q1**2023/24****Summary MTFP Q2****2023/24**

Budget	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Notes
Service Expenditure - Gross	45,846	48,173	50,583	53,114	58,562	March MTFP assumptions updated for 4% increase in 2024/25 and 5% thereafter
Other Income	(27,607)	(27,607)	(27,607)	(27,607)	(27,607)	
Fees and Charges	(12,291)	(13,213)	(14,204)	(15,269)	(16,415)	March MTFP assumption uplifted by 20% and 10% thereafter (volume mitigation)
Financing Costs	67,857	67,857	67,857	67,857	67,857	Interest cost up due to replacing current borrowing with PWLB loans at higher interest rates
Interest and Investment Income	(44,281)	(45,281)	(46,281)	(47,281)	(48,281)	Increased by £1m p.a.
	29,524	29,929	30,348	30,814	34,117	
Add: Pressures						
Car Park Management Fee	1,466	1,466	1,466	1,466	1,466	Charge from companies
2023/24 Cost Pressures (FFF 1&2)	69	169	169	169	169	Savings not met
Pay inflation	700	1,400	2,100	2,800	3,500	Pay inflation
Commercial Rent	1,960	1,680	0	0	0	
Local Plan	550	550	550	0	0	Unavoidable cost pressure
Total Pressures	4,745	5,265	4,285	4,435	5,135	
Total Expenditure	34,269	35,194	34,633	35,249	39,252	
Funded by:						
Baseline Funding (NNDR)	(467)	(467)	(467)	(467)	(467)	
Surrey Pool NNDR	(2,215)	(2,215)	(2,215)	(2,215)	(2,215)	
Government Grants	(324)	(324)	(324)	(324)	(324)	
Reserves	0	0	0	0	0	
Collection Fund Surplus(-)/Deficit	0	0	0	0	0	
Council Tax	(11,895)	(12,619)	(13,387)	(14,203)	(15,068)	
Total Funding	(14,901)	(15,625)	(16,393)	(17,209)	(18,074)	
Budget (cont)	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Notes
Savings Required	19,368	19,569	18,240	18,040	21,178	
Proposed Savings FFTF 3A	(3,914)	(3,914)	(3,914)	(3,914)	(3,914)	
Proposed Savings FFTF 3B	(2,489)	(3,739)	(3,989)	(3,989)	(3,989)	
Proposed Savings FFTF 3C	(2,135)	(3,365)	(3,665)	(3,765)	(3,765)	
Sub- Total Proposed Savings	(8,538)	(11,018)	(11,568)	(11,668)	(11,668)	
Further Savings Required	10,830	8,551	6,672	6,372	9,510	

The MTFP Change Log

Movement of Savings Target from June 2023 MTFP Report

	2024/25 £'000
Shortfall reported in June 2023	2,218
Changes since:	
Commercial Rent Pressures	1,960
Car park Management Fee*	1,466
Interest on borrowing	5,300
Additional Savings	(114)
Total Changes	8,312
Revised Shortfall	10,830

* The car park management fee to VSWL is already included in the 2025/26 budget but has been added provisionally to 2024/25 pending negotiations with VSWL

Pending Changes:

1. The charges from the General Fund to the HRA are being reviewed. NO firm proposals for reductions in the charge have yet emerged and therefore no provision for this has been made at this stage.

Risks: Principal Risks to the MTFS & headline Mitigation

Risks	Headline Mitigation
Failure to constrain expenditures within relevant budget targets.	The Council's financial reporting arrangements including the chart of accounts, budget management approaches, and forecasting are under review. This will be completed in financial year 2023/24.
Failure to prepare for balancing the 2024/25 'business-as-usual' Budget shortfall.	The preparation of this MTFS at this point in the financial year, the generation of savings proposals, the planned launch of consultation and engagement and the promulgation of the Budget Timetable incorporating two meetings of Full Council to take decisions on savings.
Failure to increase Reserves.	The Council has a medium term intention to re-build essential reserves. A small but significant first step is planned for decision of Full Council in February 2024, assuming that the Deficit is able to be funded following the Council's own endeavours to reduce costs and impending discussions with Government.
Failure to negotiate a package of support with Government	Led by Commissioners and the Council's Statutory Officers the Council will seek to open conversations with Government during July 2023.
Failure to deliver savings.	The Council is developing monitoring arrangements for its emergent savings programme as part of regular financial monitoring and improved governance.
Failure to arrange cover for expected cost increases	The Council has set in place a process whereby the MTFP is updated quarterly and the thoroughness of review and analysis will be enhanced on each occasion as additional information becomes available and insight gained. In addition the Council will adjust its fees and charges annually in the future to ensure that the net cost of services is moderated where it is equitable to do.
Inability to Fund the Capital Programme arising from continued rises in interest rates and higher cost of borrowing.	The Council has suspended its previous 'Investment Programme' indefinitely and will organise its capital programme moving forward within tighter controls and governance. These arrangements are referred to in this report and further work will be undertaken by Full Council in February 2024.

Companies: Structure of Portfolio

