Public Document Pack

COUNCIL

23 February 2023

To: The Mayor and Members of
WOKING BOROUGH COUNCIL

SUMMONS TO A MEETING

You are hereby summoned to attend an EXTRAORDINARY MEETING of the COUNCIL to be held in the Council Chamber, Civic Offices, Gloucester Square, Woking on THURSDAY, THE TWENTY THIRD DAY OF FEBRUARY 2023 at 7.00 pm to transact the business specified in the agenda overleaf

JULIE FISHER
Chief Executive

Civic Offices,
Woking

NOTE: Filming Council Meetings

Please note the meeting will be filmed and will be broadcast live and subsequently as an archive on the Council's website (www.woking.gov.uk). The images and sound recording will also be used for training purposes within the Council. Generally the public seating areas are not filmed. However by entering the meeting room and using the public seating area, you are consenting to being filmed.

AGENDA

Prior to the commencement of business, Reverend Pieter Lalleman, Minister of Knaphill Baptist Church, Woking will say prayers.

1. APOLOGIES FOR ABSENCE.

2. MAYOR'S COMMUNICATIONS.

3. URGENT BUSINESS.

To consider any business which the Chairman rules may be dealt with under Section 100B(4) of the Local Government Act 1972.

4. DECLARATIONS OF INTEREST. (Pages 5 - 6)

(i) To receive declarations of disclosable pecuniary and other interests from Members in respect of any item to be considered at the meeting.

(ii) In accordance with the Officer Employment Procedure Rules, the Chief Executive, Julie Fisher, declares a disclosable personal interest (non-pecuniary) in any items concerning the companies of which she is a Council-appointed director. The companies are listed in the attached schedule. The interests are such that Mrs Fisher may advise on those items.

(iii) In accordance with the Officer Employment Procedure Rules, the Strategic Director - Corporate Resources, Kevin Foster declares a disclosable personal interest (non-pecuniary) in any items concerning the companies of which he is a Council-appointed director. The companies are listed in the attached schedule. The interests are such that Mr Foster may advise on those items.

(iv) In accordance with the Officer Employment Procedure Rules, the Strategic Director - Place, Giorgio Framalicco, declares a disclosable personal interest (non-pecuniary) in any items concerning the companies of which he is a Council-appointed director. The companies are listed in the attached schedule. The interests are such that Mr Framalicco may advise on those items.

(v) In accordance with the Officer Employment Procedure Rules, the Strategic Director - Communities, Louise Strongitharm, declares a disclosable personal interest (non-pecuniary) in any items concerning the companies of which she is a Council-appointed director. The companies are listed in the attached schedule. The interests are such that Mrs Strongitharm may advise on those items.

5. QUESTIONS.

To deal with written questions submitted by Members under Standing Order 8.1. Copies of the questions and of the draft replies (which are subject to amendment by the Leader of the Council) will be laid upon the table.

6. **COUNCIL TAX** WBC23-011**.** (Report to follow.)

6a. Medium Term Financial Strategy (MTFS), General Fund, Service Plans, Budgets and Prudential Indicators 2023-24 WBC23-002. (Pages 7 - 52)

6b. Housing Revenue Account Budgets 2023-24 WBC23-003. (Pages 53 - 62)

6c. Investment Programme 2022-23 to 2026-27 WBC23-004. (Pages 63 - 88)

6d. Capital, Investment and Treasury Management Strategies WBC23-005. (Pages 89 - 148)

6e. Thameswey Business Plans 2023 WBC23-010. (Pages 149 - 200)

7. **APPOINTMENT OF STATUTORY OFFICER** WBC23-012**.** (Report to follow.)

8. **NOTICES OF MOTION.**

To deal with any motions received in accordance with Standing Order 5.0. Any motions received before the deadline has passed for the receipt of motions will be published and a copy of the list will be tabled at the meeting.

AGENDA ENDS

Date Published - 15 February 2023

Schedule Referred to in Declaration of Interests

Council-appointed directorships

Julie Fisher, Chief Executive	
Brookwood Cemetery Limited	Thameswey Guest Houses Limited
Brookwood Park Limited	Thameswey Housing Limited
Energy Centre for Sustainable Communities Ltd	Thameswey Limited
Rutland Woking (Carthouse Lane) Limited	Thameswey Maintenance Services Limited
Rutland Woking (Residential) Limited	Thameswey Solar Limited
Rutland (Woking Limited)	Thameswey Sustainable Communities Limited
Thameswey Central Milton Keynes Limited	VSW Hotel Limited
Thameswey Developments Limited	Victoria Square Residential Limited
Thameswey Energy Limited	Victoria Square Woking Limited
Woking Necropolis and Mausoleum Limited	

Kevin Foster, Strategic Director – Corporate Resource	
Brookwood Cemetery Limited	Thameswey Housing Limited
Brookwood Park Limited	Thameswey Limited
Energy Centre for Sustainable Communities Ltd	Thameswey Maintenance Services Limited
Thameswey Central Milton Keynes Limited	VSW Hotel Limited
Thameswey Energy Limited	Victoria Square Residential Limited
Thameswey Guest Houses Limited	Victoria Square Woking Limited
Woking Necropolis and Mausoleum Limited	

Giorgio Framalicco, Strategic Director - Place	
Brookwood Cemetery Limited	Thameswey Developments Limited
Brookwood Park Limited	Thameswey Energy Limited
Export House Limited	Thameswey Limited
LAC 2021 Limited (Dormant)	Thameswey Solar Limited
Kingfield Community Sports Centre Limited	Thameswey Sustainable Communities Limited
Thameswey Central Milton Keynes Limited	Woking Necropolis and Mausoleum Limited
Woking Shopping Limited	

Louise Strongitharm, Strategic Director – Communities	
Rutland Woking (Carthouse Lane) Limited	Thameswey Developments Limited
Rutland Woking (Residential) Limited	Thameswey Guest Houses Limited
Rutland (Woking) Limited	Thameswey Housing Limited
Thameswey Limited	

COUNCIL – 23 FEBRUARY 2023

MEDIUM TERM FINANCIAL STRATEGY (MTFS), GENERAL FUND, SERVICE PLANS, BUDGETS AND PRUDENTIAL INDICATORS 2023-24

Executive Summary

The General Fund Estimates for 2023/24 are presented for recommendation to Council.

There have been regular updates on the Council's Medium Term Financial Strategy (MTFS) during 2022/23. This report is the latest update incorporating detailed budget proposals for 2023/24.

This MTFS report includes a Section 25 report at Appendix 5. Section 25 of the Local Government Act 2003 requires the Finance Director to report to the Council when setting its council tax on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

The Council is required to have regard to this report in approving the budget and council tax. The Finance Director has reported on the Medium-Term Financial Strategy to the Executive through 2022/23, the last update report was to the 19th January meeting.

It is important to refer to this section 25 report (Appendix 5). At a headline level the Council is able to set a balanced budget for 2023/24 with the use of £8.3m one off reserves and has made arrangements:

- To operate a cost control framework and discipline
- To establish further savings over the MTFS period through developing a minimum viable position for all services
- To comprehensively track savings and establish full financial variance monitoring in a timely way
- For a Fit for the Future programme that has to balance implementing a strong programme discipline for delivery critical savings plans alongside establishing the future state of the Council.
- For reviewing the prudent position on the amounts set aside for debt
- To stabilise reserves
- To review Company business plans and investments

It is not evident at this stage, however, how the Council will establish a balanced budget for 2024/25 and the MTFS period. The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required. This report however may lead to the issuing of a S114 Notice in 2023/24 as work on the 2024/25 budget progresses.

The net budget for the General Fund is £11.4m and the resulting Band D Council Tax figure for 2023/24 is £263.12, an increase of 3% compared to 2022/23. The increase is within the referendum limit flexibilities of 3% or £5 proposed by the Government in February 2023. Given the Council's difficult financial position it is critical that the maximum increase in Council Tax is secured. When assessing the resources available to the Council the government assumes that Council tax is increased by the maximum amount.

The 2023/24 budget does not incorporate any changes to the Minimum Revenue Provision (MRP) which is the amount the Council sets aside for the repayment of debt.

The Council's position on MRP will be subject to further independent assessment and review. An independent review has been commissioned on the Council's MRP policy, and the amount that has been accounted for in its accounts, to be completed by early April 2023. For this MTFS report the MRP policy adopted in 2022 is being rolled forward and any amendments required following the independent review will be brought forward in 2023/24 as part of the MTFS reporting

The Medium Term Financial Strategy (MTFS) will be updated in detail in March including the delivery of savings, approach to the next phase of savings, and review of inflationary pressures and income projections.

Recommendations

The Council is requested to:

RESOLVE That

(i) the Revenue Estimates and Human Resource requirements for 2023/24 be approved;

(ii) a Band D Council Tax for the Borough of Woking for 2023/24 of £263.12 be approved; and

(iii) the Prudential Indicators at Appendix 3 to the report be approved, subject to any changes arising from consideration of the Investment Programme, revenue budgets and Final Government Settlement.

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

Background Papers: None.

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

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

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

Shadow Portfolio Holder: Councillor Kevin Davis
Email: cllrkevin.davis@woking.gov.uk

Date Published: 15 February 2023

1.0 Introduction

1.1 This paper provides an update on the Medium Term Financial Strategy (MTFS), and sets out the draft General Fund budgets and variances (Appendices 1-2) and Prudential Indicators for 2023/24 (Appendix 3).

1.2 It is the latest in a series of MTFS reports to the Executive during 2022/23 providing updates on the financial position, challenges and the strategies required to achieve a balanced budget.

1.3 The December MTFS report set out the Council's strategic approach to addressing the ongoing budget shortfall, which identified actions across two categories:

- Analysis to identify cost savings from discretionary services which demonstrate that a sustainable budget can be achieved in the time available, through temporary use of reserves
- Actions that will have a direct and / or indirect impact on protecting the level of revenue reserves which provide more time to address the annual budget deficit

1.4 It was important to recognise that both of these areas must be addressed. Protecting reserves through temporary measures simply delays the use reserves without addressing the net cost of services. Identifying further savings at the level required, without these measures, was unlikely to be possible before reserves were exhausted.

1.5 In January the MTFS update report provided detail on the work to date. This report provides a further a further update to enable the Council to set a budget and Council Tax for 2023/24.

1.6 This MTFS report includes a Section 25 report at Appendix 5. Section 25 of the Local Government Act 2003 requires the Finance Director to report to the Council when setting its council tax on:

- o the robustness of the estimates included in the budget, and
- o the adequacy of the financial reserves in the budget.

1.7 The Council is required to have regard to this report in approving the budget and council tax. The Finance Director has reported on the Medium-Term Financial Strategy to the Executive through 2022/23, the last update report was to the 19th January meeting.

1.8 It is important to refer to this section 25 report (Appendix 5). At a headline level the Council is able to set a balanced budget for 2023/24 with the use of £8.3m one off reserves and has made arrangements:

- To operate a cost control framework and discipline
- To establish further savings over the MTFS period through developing a minimum viable position for all services
- To comprehensively track savings and establish full financial variance monitoring in a timely way
- For a Fit for the Future programme that has to balance implementing a strong programme discipline for delivery critical savings plans alongside establishing the future state of the Council.
- For reviewing the prudent position on the amounts set aside for debt
- To stabilise reserves
- To review Company business plans and investments

1.8 It is not evident at this stage, however, how the Council will establish a balanced budget for 2024/25 and the MTFS period. The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required. This report however may lead to the issuing of a S114 Notice in 2023/24 as work on the 2024/25 budget progresses.

1.9 The net budget for the General Fund is £11.4m and the resulting Band D Council Tax figure for 2023/24 is £263.12, an increase of 3% compared to 2022/23. The increase is within the referendum limit flexibilities of 3% or £5 proposed by the Government in February 2023. Given the Council's difficult financial position it is critical that the maximum increase in Council Tax is secured. When assessing the resources available to the Council the government assumes that Council tax is increased by the maximum amount.

2.0 National Developments and Economic Environment

Economic Indicators

2.1 Developed economies have been open for some months post-pandemic. The degree to which inflation has taken root in those economies has demanded central banks tighten monetary policy dramatically compared to the ultra-low interest rates of the past decade. On the 2 February 2023 the Bank of England increased the bank rate to 4.00%. As detailed in the Treasury Management Strategy Report, the Bank Rate is expected to peak at 4.50% in mid 2023/24 then gradually reducing to 2.50% at the end of the forecast period in 2026.

2.2 The HM Treasury comparison of independent forecasts published in November 2022 shows GDP growth of -0.7% or 2023, 1.4% in 2024, 2.0% in 2025 and 1.8% in 2026 as the economy recovers from the impact of Covid and the war in Ukraine.

2.3 Further economic forecasts and commentary can be found in the Capital, Investment and Treasury Management Strategies also on this agenda.

3.0 Government Policy

Levelling Up Bill and Review of the Council's finances

3.1 In the May 2022 Queen's Speech the government announced the Levelling up and Regeneration Bill which makes provision for the legislative changes required to deliver on some aspects of the levelling up programme set out in the White Paper.

3.2 Of particular relevance to the Council, the Bill will make amendments to the Local Government Act 2003 Section 12 (power to invest) through adding:

- Risk mitigation directions
- Risk thresholds
- Restriction of power to give risk mitigation directions
- Duty to cooperate

3.3 The Department for Levelling Up, Housing and Communities (DLUHC) advised the Council that it would likely to be in scope of the Bill's powers due to its high level of debt. Officers from the Council and DLUHC worked collaboratively to assist the Department in understanding the Council's local borrowing and investment practice

3.4 In October 2022 the Minister of State for Local Government wrote to the Council setting out the intention to complete an external review into Woking's finances, investments, and related governance.

3.5 An independent team was appointed by DLUHC and in January 2023 commenced a non-statutory review into Woking Borough Council's finances, investments and related governance. Council Officers have worked with the review team to share the Council's financial commitments, forecasts and plans as well as work in hand to improve governance and oversight of the Council's investments.

3.6 Once complete the report will provide insight and an independent view of the Council's finances and will be important in determining the future direction of the MTFS. The final report will be made available on the Council and Government websites.

Minimum Revenue Provision

3.7 The Council has very high levels of borrowing. The current policy and judgement in assessing the appropriate level of Minimum Revenue Provision (MRP), the amounts set aside for the repayment of that debt, enables a balanced budget to be set. There is a significant and substantial risk that a more prudent assessment of MRP provision should be adopted. At this stage no additional prudent provision has been made and any change in assessment of MRP would result in an unsustainable position.

3.8 There is equally a significant and substantial risk that a more prudent provision for impairment of capital loans should be made. At this stage no additional prudent provision has been made and any change in assessment of MRP would result in an unsustainable position.

3.9 If it is assessed that there is a risk of impairment of capital loans then it is appropriate to commence charging a MRP on the balance. The review of both Thameswey and Victoria Square investments indicate risks through asset values less than loan balances, reductions in valuations, long term business plans which are sensitive to assumptions and require support for many years, and losses which may be realised and not contained within the Group.

3.10 In November 2021 the government consulted on changes to the guidance for Minimum Revenue Provision (MRP), which is the amount set aside each year from the Council's revenue budget for the repayment of debt. A follow up to this consultation was completed in June 2022 The outcome, determining changes in approach which the Council would need to adopt, has not yet been published.

3.11 The consultations sought to address the issues:

- Local authorities not charging MRP on debt related to certain assets
- Local authorities using sales from assets (capital receipts) in place of a charge to revenue

3.12 The June 2022 consultation amended the original proposal that all capital loans should be subject to MRP, allowing those where the underlying investment was for service provision to be outside of the requirement for MRP. It would still be necessary to provide MRP if it was determined that there was a risk that the loan was irrecoverable.

3.13 The Council's position on MRP will be subject to further independent assessment and review. An independent review has been commissioned on the Council's MRP policy, and the amount that has been accounted for in its accounts, to be completed by early April 2023. For this MTFS report the MRP policy adopted in 2022 is being rolled forward and any amendments required following the independent review will be brought forward in 2023/24 as part of the MTFS reporting

Local Government Finance Settlement 2023/24

3.14 The Comprehensive Spending Review (CSR) in 2021 set government departmental budgets for the 3 years from 2022/23 – 2024/25, with a one year settlement for 2022/23 confirmed in February 2022. The provisional settlement announced on 21 December 2022 provided detailed funding provisions for 2023/24 and an indication of the approach for 2024/25. The final settlement for 2023/24 was announced on 6 February 2023.

3.15 The government has confirmed the proposed reforms to Local Government funding will not be progressed until after 2024/25 – deferring the impact until after the next election. This includes the review of Fair Funding (where resources should be allocated) and a review of the Business Rates system (the mechanics of how income is distributed and to what extent any growth is retained). Proposals for New Homes bonus for 2024/25 will be announced during 2023/24.

3.16 Given the time elapsed since the original consideration of potential funding reform, as well as the political changes, it is difficult to predict the direction of any reform in 2025/26 or beyond. However, any change is unlikely to benefit authorities in the South East, and funding for Social Care remains a significant challenge on resources for which District Councils will be competing. It therefore remains likely that the government funding will continue to be at risk.

3.17 For 2023/24 the government has introduced a 'Core Funding Guarantee' which provided a minimum level of funding uplift for all local authorities. Woking did not receive any funding through this mechanism as the Council's funding was already increasing through the award of New Homes Bonus related particularly to the Victoria Place development. This guarantee was introduced for one year only.

3.18 The Council Tax referendum limit for District Councils has been set at 3% for 2023/24 and the government has indicated that the same level will be applicable for 2024/25. For 2023/24 three Councils – Croydon, Thurrock and Slough have been allowed referendum limits above the normal levels as a result of their financial position and engagement with the government.

Business Rates

3.19 The government continues to award relief to businesses in the direct Retail, Hospitality and Leisure (RHL) sectors as well as extended relief for small businesses. The RHL is set at 75% for 2023/24, an increase on the 50% applied in 2022/23. The Council is funded through section 31 grants for the relief granted to businesses. This means the business rates being collected continues to be less than previous years. The effect is that the government has paid the business rates for these businesses.

3.20 The Valuation Office Agency (VOA) has published updated valuations for the purposes of Business Rates from 1 April 2023. They have also permanently removed the revenue neutral transitional arrangements, therefore will not fund upwards transitional relief (upwards caps) by restricting falls in bills to raise revenue (downward caps). For Woking the Business Rates base has increased by 14% as a result of the revaluation. Businesses are able to apply through the 'Check, Challenge, Appeal' process if they do not agree with the rateable value figure. Going forward valuations are due to be completed every 3 years.

4.0 Corporate Update

Fit for the Future Programme

4.1 The Council has established a Fit for the Future Programme which incorporates transformation and service improvement workstreams as well as the detailed strategy to establish a balanced budget.

4.2 An initial savings exercise, Fit for the Future 1, was completed in the Summer 2021, this identified a total of £4.8m of savings over a 3 year period.

4.3 In July 2022, following the lifting of all Covid restrictions and social distancing guidance, the MTFS was comprehensively reviewed. It was recognised that the income the Council had previously relied upon would not be returning in the short to medium term. It was also recognised that the energy crisis and inflation at levels not seen for many years, would result in significant pressure on the Council's budgets. A further exercise to identify savings was launched, Fit for the Future 2, with Senior Managers reviewing opportunities within their budgets. This identified a further £3.7m of potential savings between 2022/23 and 2024/25.

4.4 Savings identified for 2023/24 through both processes have been reviewed and incorporated into the base budget where they continue to remain valid. A summary of the Fit for the Future 2 savings proposals can be found at Appendix 4. The proposals are sufficient to enable the reductions to the cash limit budgets but do not pre-determine how the budget reductions will be delivered. Appropriate consultations and equality impact assessments will be undertaken in order to determine how services will be delivered within the cash limit budgets that are approved.

4.5 The November 2022 draft budget paper incorporated all identified savings but these were offset by forecast pressures, increasing interest rates and further realignment of income budgets. There continued to be a substantial forecast use of reserves with reserves being used at a pace which meant they would be fully utilised during 2024/25.

4.6 In response to this position the December MTFS report set out a series of actions intended to increase reserves and identify savings through establishing the Minimum Viable Position (MVP).

4.7 This important budget analysis was critical to understanding the scale of discretionary service provision and through this the maximum level of saving possible. The aim was to provide insight on the scale of the challenge and opportunity as well as determining how service savings could contribute to the budget gap.

4.8 During December 2022 and January 2023 a programme of workshops with Senior Managers were completed to capture information regarding the services they deliver. This included understanding more about the function, assessing if it was statutory, non-statutory or business critical and establishing what would be required to deliver a Minimum Viable Position (MVP) to ensure the function is legally compliant or fit for purpose.

4.9 Whilst it is recognised that this has been an initial high level process and requires further validation by the respective Senior Managers and Strategic Directors, the completed workshops identified approximately £5.5m of discretionary spend. The analysis was based on 2022/23 budgets which will increase in 2023/24 through additional energy and contractual costs. There were also some areas where no savings were identified and further analysis is required to understand the position.

4.10 It will not be possible to realise savings from all the discretionary spend on services identified, however, it is considered reasonable to target a further £3m of savings from these budgets over the MTFS. These savings are likely to be more difficult to secure than previous rounds as they will require more fundamental service review. It will be necessary to consider the best approach to securing these budget reductions to ensure they are delivered and that remaining resources are focussed on priority services.

<u>Other Financial Strategy Actions</u>

4.11 The table below updates the progress on the other actions identified in the December and January MTFS reports.

Action	Update/Treatment in 2023/24 budget
Transfer Commercial Property to company structure	Not currently being actively progressed for 2023/24
Renegotiate Victoria Square Car Park Management Fee	Discussions have commenced with VSWL, it is assumed that the saving will be achieved, the 2023/24 budget has been amended. The MTFS assumes the fee will be paid in 2025/26
Consider Treatment of Development income	Work continues with Thameswey Housing Ltd (THL) to identify properties which can be allocated to the development income. It is assumed that this will be completed by the end of the year. The reserves forecast in section 11 includes the additional £6m
Review capitalisation of costs	Costs have been capitalised where possible in preparing the 2023/24 budget
Review of discretionary expenditure through Senior Manager workshops	As set out in the section above, an initial review has been completed which will inform further work to identify savings from discretionary services
Review the allocation of overheads to the Housing Revenue Account (HRA)	A review of the allocation of overheads identified some areas where the allocation has been adjusted for 2023/24. These changes have been incorporated into the General Fund and Housing Revenue Account budgets. A further full review of the allocation of overheads to services is planned during 2023/24.
Review of Fit for the Future 1 savings to establish any at risk of underdeliver or slippage	This review is in hand. The budget continues to include those FFF1 savings identified for 2022/23 as well as those scheduled for 2023/24. Any slippage in year will be reported through the variance reporting in the Green Book and an update on progress will be provided in the March MTFS.
Analysis of movement in budget position between 2019 and 2023 to identify key contributing factors to the forecast deficit	This has been completed and identified the key factors to be increasing inflation on contractual and pay costs, and reductions in commercial and parking income. A summary will be included in the March MTFS.
Identify procurement support to achieve savings from 'tail end spend'	Support has been identified through partnership with Orbis. This will provide resource dedicated to Woking and access to specialist procurement expertise when required.

Cost Controls

4.12 There is a need to further strengthen the controls that are in place over spend in order to respond to the projected budget gap in 2022/23 of £8.8m, which will continue to be a gap of £8.3m in 2023/24. The Council must take all arrangements to bring spending back in line with the budgets we have available, in the short and medium term.

4.13 Councils are required by law to have balanced budgets. If a council cannot find a way to finance their budget then a Section 114 (S114) must be issued. The issuing of a S114 notice bans all new spending with the exception of protecting vulnerable people and statutory services and pre-existing commitments.

4.14 The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required The criteria however is being used to help steer the Council's control of spend. A number of steps are being taken to bring planned spend down to within the level of funding available and as part of these measures, the Council has moved to essential spend only. Any spend that is discretionary and can be avoided or deferred should not be made. The criteria for essential spend is:

- Existing staff payroll and pension costs
- Expenditure on goods and services which have already been received
- Expenditure required to deliver the Council's provision of statutory services at a minimum possible level – we call this the minimum viable position
- Expenditure within HRA to meet regulatory standards
- Urgent expenditure to safeguard vulnerable residents
- Urgent expenditure in response to issues of health and safety in council buildings and in areas of public realm
- Expenditure required through existing legal agreements and contracts
- Expenditure required through ring-fenced grants or third party funding
- Expenditure necessary to achieve value for money and/or mitigate additional in year costs
- Expenditure to deliver future savings

4.15 These spend control measures have been formally established and will remain in place until the Chief Executive alongside the Finance Director (S151 officer) determine they can be released. This assessment will be subject to review through the established MTFS.

4.16 In addition to control over the Council's direct expenditure, there has also been increased scrutiny and challenge of the Thameswey Group business plans for 2023. These plans were due to be approved in December 2022 however, as set out in an update to the December meeting of the Executive, the Council's Shareholder Advisory Group (SAG) has requested further exploration of a number of options that would have the impact of reducing the Council's Capital Finance Requirement; minimising risk associated with loan exposure and improve the controls the Council applies to the release of further loan funding.

4.17 Updated plans have been further reviewed by the SAG, and the Thameswey Board, and are being brought forward for approval to the 23rd February 2023 meeting of Council.

Flexible Use of Capital Receipts

4.18 The Fit for the Future work programme requires project resource and capacity to deliver the identified savings and improvements. The government allows capital receipts to be used to fund the delivery of specified transformation programmes. Any use of this flexibility to apply capital funds requires a submission to be made setting out the projects to be funded along with projected savings.

4.19 A Fit for the Future project team is being established and work is underway to estimate the costs and benefits of the transformation workstreams. The details of the application for Flexible

Use of Capital Receipts will be reported in the March MTFS to be approved by Council ahead of the start of 2023/24.

Woking for All Strategy

4.20 The updated Woking For All Strategy was agreed by Council July 2022 reflecting the priorities of the new administration.

4.21 The work on the MTFS during 2022/23 has made it clear that the Council will not have the level of financial resources to be able to commit to moving forward on all strategic priorities. The Woking for All Strategy will be reviewed through April – June 2023 with 2 key outcomes:

- The approved 2023/24 budget will establish the actions within the Woking for All Strategy that can be taken forward and progressed in 2023/24.
- The strategic priorities within the Woking for All Strategy will be reviewed in the context of the financial challenges over the Medium-Term 2023/24-2026/27 in order to provide the strategic priority framework that can inform funding decisions, recognising that the availability of funding will be a significant limiting factor.

4.22 The 2022/23 outturn performance on the Woking for All Strategy will be reported to the June 2023 meeting of the Executive and the priorities for 2023/24 will be reported to the July 2023 meeting of the Executive.

5.0 2023/24 General Fund Budget

5.1 The General Fund Summary at Appendix 1 summarises the proposed budget and Council Tax for 2023/24. Appendix 2 provides a summary of service budget changes.

5.2 The budget requires £8.3m of reserves to support services in 2023/24.

5.3 Council services are funded by government grants, fees and charges and the net income from commercial activities and loans to the Council's group companies. For 2023/24 this is summarised in the table below.

5.4 The Council has historically provided services at a level facilitated by commercial income. As has been reported through updates to the MTFS, the Council's income from both parking and commercial rents has reduced post pandemic. This reflects changing life and workstyles and is considered a permanent amendment to the Council's revenue. It is therefore necessary for service provision to be re-aligned to be affordable within this reduced level of income. This is even more challenging given the additional inflationary pressures on service costs.

Budget Summary 2023/24				
		£'000		£'000
Service Expenditure (excluding benefits and capital charges)				44,013
Service Income - Grants, Fees and Charges (excluding benefits)			-	19,198
Net Service Costs				24,815
Interest Costs		62,036		
Investment Income from loans to (group) companies	-	43,281		
Commercial Rents	-	19,097		
Total Net Investment and Financing Income			-	342
Use of Reserves			-	8,345
Government Funding and Business Rates retained			-	4,680
Council Tax			-	11,448
Total Income and Use of Reserves			-	24,815

5.5 The proposed 2023/24 budget is based on the 2022/23 approved budget updated for contractual inflation, Fit for the Future savings and efficiencies, changes in funding and forecast income, and financing costs driven by the draft investment programme which is also on this agenda.

5.6 The table below sets out a summary of the pressures and the following sections provide further details.

Budget variation 2022/23 to 2023/24	Feb-23
Cost (+)/ Saving (-)	£'000
Investment Programme/Treasury Management	1,738
Service Pressures	3,434
Increase in Fees and Charges (excluding parking)	-280
Increase in Government Funding	-1,136
Increase in Council Tax/taxbase	-829
Increase in use of reserves required in 2023/24	**2,927**

Core Government Funding

5.7 The final Local Government Finance Settlement confirmed funding from redistributed Business Rates and Revenue Support Grant (RSG) for 2023/24. The forecast reduction in funding, ‘negative RSG’, has again been deferred from the funding provided for 2023/24 and the government has confirmed a consistent approach to funding will be adopted for 2024/25.

5.8 Funding through the Lower Tier Services Grant introduced in 2021/22 has been removed in 2023/24. The new ‘Services Grant’ included as a one off in 2022/23 to cover the increased cost of National Insurance contributions has been reduced in value from from £147k to £86k.

New Homes Bonus

5.9 The most significant change in funding for 2023/24 for the Council is the value of New Homes Bonus (NHB) grant awarded. The NHB scheme match funds the additional Council tax for each new home, above a baseline level, after that home is built or brought back into use.

5.10 The government has been phasing out New Homes Bonus and currently the grant is calculated on a one-off annual basis. For 2023/24, the government has awarded the Council £1,221,134 under this scheme. This is significantly greater than the amount received in 2022/23 and includes the completion of new residential properties at Victoria Place.

5.11 The budget assumes that this is used in-year to support services, reducing the use of reserves. The government has indicated that the future of the New Homes Bonus scheme will be confirmed during 2023/24 with changes effective 2024/25.

Business Rates

5.12 Woking has again accepted membership of the Surrey-Sutton Business Rates pool in 2023/24, as one of the better placed Authorities in the County. The continued government support for Retail, Leisure and Hospitality businesses during 2023/24 reduces the risk of irrecoverable income. The benefit of pooling, together with the forecast Business Rates growth is expected to provide approximately £1m in addition to the baseline Business Rates receivable.

5.13 This benefit from growth over the baseline funding level, together with pooling is included in the budget for 2023/24, however it should be noted that this is not a reliable ongoing income stream and may not be secured in future years. The MTFS assumes a return towards baseline funding from 2024/25 and there is a risk that all growth is removed once the system is 'reset' through reform of the funding arrangements.

5.14 As well as Business Rates collected, the Council also pays Business Rates on its own properties. Whilst neutral nationally, after 3.7% inflation, the revaluation effective 1 April 2023 increased business rates payable in Woking by 14%. This revaluation has contributed an additional £320k to the Council's budgetary pressures for 2023/24.

Total Government Funding

5.15 The total Government funding for 2023/24 is shown in the table below.

	2022/23 £'000	2023/24 £'000	Variance £'000
New Homes Bonus	231	1,221	990
Business Rates Baseline funding	2,135	2,215	80
Revenue Support Grant		93	93
Lower Tier Services Grant	96	-	- 96
Service Grant (NEW 2022)	147	86	- 61
	2,609	3,615	1,006

Management and Administration budgets

5.16 The Executive has agreed that for budgeting purposes, the salaries budget will be controlled within two parameters of cost and average number of full time equivalent staff.

5.17 The Fit for the Future savings exercise has identified a number of vacant posts which can be removed from the establishment for 2023/24. Other variations to the 2023/24 budget are shown in the table below.

Pressures on staffing budgets	
	£'000
Cost of turnover, pay progression and allowances 2022/23	231
Reverse National Insurance Health & Social Care Levy 1.25%	-164
New posts and structure changes 2022/23	316
Pressure on Staffing Budgets	**383**
Fit for Future savings 1	-251
Fit for Future savings 2	-476
Removal of vacant posts	-234
Savings	**-961**
Increase in investment programme funding	-124
Add new posts externally funded	202
Changes in funding	-422
Reverse 2022-23 savings target built into base budget	450
Other	**105**
Add posts which are budgeted elsewhere in the accounts	155
Parking Structure removal of SCC on street funding	181
Assumed increase for pay progression and allowances 2023/24	1,325
Pressure on staffing budget (before control total increase)	**1,188**
Vacancy Management savings assumption (4.8%)	-973
Increase in staffing control total	**215**

5.18 The Medium Term Financial Strategy assumed an increase of £850,000 in staffing costs, offset by a £498,000 savings target. Recognising the current cost of living pressures for staff and in order to remain comparable within the employment market, this budget includes an increase in the assumed inflationary costs for 2023/24 to £1.3m (6.5%) with an equal increase in the vacancy management target for the year. If progressed, this means that although the overall pay budget would increase if all posts were filled, it would be matched by an increased number of posts which will need to be held vacant during the year. Whilst this is challenging it is considered achievable through close management.

5.19 The budget tracks those posts which are funded by Council Tax and the Housing Revenue Account. It is net of any posts which are funded externally or by Investment Programme projects. The table below shows the trend in the total staffing budget.

Year	Budget (in cash terms) £m	Average Number of FTE Staff
2014/15	12.400	345
2015/16	12.500	345
2016/17	12.600	335
2017/18	13.000	335
2018/19	13.575	340
2019/20	14.360	350
2020/21	15.690	365
2020/21 (in-year variation)	15.041	358
2021/22	15.590	340
2022/23	18.505	373
2023/24 (proposed)	18.720	360

5.20 Accounting rules require that these costs are allocated out to individual services to show the full cost of the service. The total Management and Administration budget includes salaries, and other overhead costs which need to be allocated across services such as ICT and expenditure relating to the Civic Offices. In total for 2023/24 the full Management and Administration budget is £25.5m, with an increase of £2.7m compared to 2021/22 as shown below.

5.21 The triennial actuarial review of the pension fund has been completed for the position of the fund at 31 March 2022 and sets the employer's on going pension costs, and annual lump sum payment towards the pension fund deficit, for 2023/24 to 2025/26. The valuation has enabled a reduction in the lump sum funding of £87k as part of the agreed approach. This reflects maintaining a constant cash contribution across the lump sum and ongoing employer contributions relative to current employees. It is recognised that whilst it is possible to achieve this position currently in relation to the pension fund, it may not be possible in the long term and there is a risk at subsequent valuations that the lump sum contribution would be required to increase.

Variances in Management and Administration budgets

	£'000
Management and Administration 2022/23	25,513
Staffing	215
Less: Funding allocated directly to services	-167
Superannuation	-86
Energy	278
Indirect staffing costs/savings	6
Other repairs, maintenance & IT costs	138
Total Variations	384
Management and Administration 2023/24	25,897

5.22 This total budget is allocated between the General Fund, Housing Revenue Account and Capital programme as set out in the table below.

	2023/24		2022/23		Difference	
	£'000	%	£'000	%	£'000	%
General Fund	20,844	79.8	20,357	79.8	487	0.0
HRA	4,840	19.5	4,962	19.5	-122	0.0
Other (capital/reserves)	213	0.7	194	0.7	19	0.1
TOTAL	**25,897**	**100.0**	**25,513**	**100.0**	**384**	**0.0**

5.23 Those posts which are capitalised or funded from Investment Programme budgets are categorised as externally funded. Only posts directly working on projects are allocated, this position will continue to be reviewed including the opportunity to fund wider staffing costs from project budgets.

Fees and Charges 2023/24

5.24 Council agreed the Fees and Charges for 2023/24 in December 2022 and the changes to forecast income are incorporated into the budget. The increase in yield included in the Fees and Charges report, excluding Car Parks, was £280,336.

5.25 Increases in income identified as savings through the Fit for the Future programme were incorporated into the Fees and Charges review where appropriate and budgets have been adjusted to reflect these changes.

5.26 Loss of income resulting from Surrey County Council taking back on-street car parking has been built into the budget pressures and this contributes to the budget gap.

5.27 In setting the budget for 2022/23, with the Omicron wave of Covid resulting in ongoing social distancing, the budget for Car Parking income was maintained at the pre-pandemic level with a £1.3m provision allowed for reductions in activity due to Covid. During the year it has become clear that post pandemic activity has stabilised at a level significantly below 2019 levels. Current monitoring shows income 35% less than pre pandemic levels. This will reflect the impact of hybrid working, online shopping and the cost of living crisis on economic activity.

5.28 For 2023/24 the off street parking budget is based on 2022/23 activity, a 35% reduction on pre pandemic activity, applied to the new charging structure. This results in a reduction in the income budget for off street parking from £7.7m to £7.1m. The new parking system will provide improved data which will enable activity to be better monitored and analysed which will inform decisions going forward.

5.29 Management of the on-street parking service, which had been operated by the Council on an agency basis, will return to Surrey County Council (SCC) on 1 April. SCC have determined that the service will be provided on a County wide basis. This has required a restructure of the Council's parking team which has previously managed on and off-street parking on an integrated basis. The reduction in costs, through the return of the on-street element, together with the reduction in income generated, are both removed from the 2023/24 budget.

Commercial Rents 2022/23

5.30 Over recent years the Council has acquired a number of strategic properties within the Borough across a variety of property types and sectors. In many cases the properties have been enhanced or developed to attract new employers or services to the Borough.

5.31 Rental income is shown within service budgets whilst the cost of servicing borrowing, both interest and repayment costs, are shown within interest costs in the General Fund Summary (Appendix 1).

5.32 The commercial rental market continues to be challenging following the economic impact of the pandemic, the energy and cost of living crisis. The office sector is reacting to increased hybrid working, and the retail sector to increased online shopping. This continues to affect the Council's commercial estate and the ability to attract and retain new tenants.

5.33 The 2022/23 budget included a £0.5m provision towards reductions or irrecoverable rents as the economy emerged from the Covid pandemic. During the year an additional £2m risk has been reported against the commercial rent budget in 2022/23 reflecting the loss of some tenancies and the necessary negotiation of rents at lower levels for some properties.

5.34 Updates to the MTFS have incorporated the income reductions experienced in 2022/23 as an ongoing adjustment to yield from the Council's property portfolio. Whilst this is consistent with the current position, there remains further risk to income as tenancies reach break points. A further £185k reduction is incorporated in the budget for 2023/24 to align with the detailed forecast prepared by the Estates team.

5.35 Where there are void properties the Council also incurs additional costs of Business Rates and service charges. Budgets have also been increased to allow for this forecast pressure – Business Rates new properties £511k of which £180k relates to the new car park, Service Charges, £500k.

5.36 Further information on the Council's approach to Strategic Property Investment can be found in the Capital and Investment Strategies, also on this agenda.

6.0 Investment Programme

6.1 The draft Investment Programme was considered by the Executive at its November meeting.

6.2 As part of the Council's financial sustainability work a detailed review of the projects incorporated within the programme has been completed by Corporate Leadership Team (CLT) and senior managers. This is to ensure the programme reflects only essential capital spend with the exception of:

- Projects already committed;
- Projects funded by external contributions, not Council revenue or borrowing; and
- Updated investment in the Thameswey Group and Victoria Square Woking Ltd (updated loan facility approved by Council in December 2022)

6.3 Further details on the assumptions and status of projects can be found within the updated Investment Programme report also on this agenda.

6.4 The revenue impacts of the Investment Programme have been built into the draft General Fund budget. There is an increase in net interest costs of £1.7m compared to 2022/23, reflecting the cost of financing the Council's expenditure, and the increase in interest rates on new borrowing. The cost to the General Fund includes interest and repayment costs for those projects funded by borrowing, as well as contributions from reserves for some revenue projects.

7.0 Thameswey Group

7.1 The Thameswey Group of companies have been used to further the Council's strategic sustainable energy, housing and regeneration objectives. As well as the direct service benefit there is income to the Council from the group from loans and shares which is invested on Council services. Investment in Thameswey Housing Ltd (excluding Sheerwater) is at a margin of 1.5% over the Council's borrowing costs. Investment in Thameswey Energy Ltd for the new Poole Road Energy Centre was at a margin of 1% over the cost of borrowing.

7.2 The Thameswey Group Business Plans are also on the agenda for this meeting. The introduction of new company governance during 2023/24, establishing the Shareholder Advisory Group (SAG), has provided additional challenge to the business planning process for 2023. The SAG review of the Business Plan proposals has also reflected the Council requirement to reduce its exposure to borrowing. Work continues in a number of areas and a 1 year approval of plans and loan advances is recommended in the separate report on this agenda.

7.3 The 2023/24 budget does not include any additional margins from loans not currently advanced. During the year options and sensitivities will continue to be explored with updates provided to the Council through the SAG and incorporated into MTFS reporting where there is an impact on the Council's financial position.

8.0 Robustness of the 2023/24 Budget and Risks

8.1 The following sections set out the most significant risks within the budget for 2023/24.

<u>Minimum Revenue Provision (MRP)</u>

8.2 As set out in Section 3 of this report, the MRP calculation has been prepared adopting the same approach as in previous years. The MRP policy is part of the Treasury Management, Capital and Investment Strategies also on this agenda. The Council has commissioned an independent review of its MRP policy and this may recommend that a more prudent position is taken.

8.3 In addition there is a risk that the review of group company loans will require further amounts to be set aside due to the risk of impairment of the underlying assets, or of the loan through the risk of irrecoverability. As has been reported during the year the size of the Council's loans means that any change in approach would likely have an unsustainable impact on the annual revenue budget.

<u>Interest costs</u>

8.4 Net interest costs during the year are affected by decisions on whether borrowing should be taken long or short term, and when the borrowing should be secured. During 2022/23, in response to increasing inflation and the 'mini budget', interest rates have increased significantly and are now higher than they have been for many years. Short term borrowing, has been taken during the year which will be refinanced as long term loans once the rates have fallen from current levels.

8.5 It is likely that this approach will continue through 2023/24. As shown in the table below, the Council's Treasury Management Advisors, Link, forecast a gradual reduction in rates over the coming 2 years from a peak in 2023/24.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

8.6 The current budget assumes average short term borrowing rates at 4% for 2023/24. There is a risk that this is not achievable and financing costs in the short term are greater than the amounts allowed within the budget.

8.7 There is a possible saving during the year from treasury management budgets where it is assumed that the Council borrows the full amounts required to fund its proposed Investment Programme. Savings are possible if there is slippage of capital projects and through the Council using internal borrowing – using its own cash reserves to delay the need for external PWLB borrowing. However at this stage it is envisaged that interest budgets are appropriate for 2023/24.

Savings Targets and Risk Contingency

8.8 The budget continues to require a significant use of reserves to achieve a balanced position. As noted earlier in the report, and in the MTFS updates during 2022/23 this use of reserves is unsustainable and will result in the Council's reserves falling below the minimum reserves level which has been set, and being fully utilised during 2025/26. The strategic actions taken to reduce the use of reserves (section 4) are one-off or short term in nature and will only temporarily delay the reduction in reserve balances.

8.9 It will be critical that savings plans are formed, based on the exercise to identify discretionary budgets, to reduce the budget gap at pace. The experience of the initial Fit for the Future savings programmes has been that some savings are delayed and some not achieved at all.

8.10 There also remains a risk to the delivery of existing savings plans which will increase with the scale of the transformation and change programme. With the pressure the organisation is facing there is risk that there is insufficient focus on delivery of cashable savings.

8.11 A funded Risk Contingency has been kept in the budget at £250,000, the same level as in previous years. In the context of the significant budgets, uncertainty and judgement required, there is a risk that there are variations which exceed this level during 2023/24. However income budgets have been realigned to current activity for 2023/24 and inflationary pressures have also been incorporated which will reduce this risk.

Service Risks

8.12 The table below sets out the significant risks to service budgets.

Budget	Cost/Income	Description of Risk and any mitigating factors
Commercial Rents	Income and Cost	There is a significant risk of additional loss of tenants at break clauses and that it will not be possible to attract alternative tenants, or that new tenancies will be at lower rents. Assumptions in the budget take account of this risk, however as the rent budget is high value a significant budget variation could arise. With void properties there are associated service charge and business rates costs. Additional allowance for service charges has been incorporated in 2023//24, and the additional business rates costs following revaluation and for current void properties are included. Consideration will be given to challenging the business rates valuations which are effective April 2023.
Parking	Income	2023/24 budgets are based on 2022/23 activity applied to new charges. There is a risk that the

		increased charges, cost of living crisis or economic downturn result in a further reduction in the activity currently being experienced and less income than expected being generated in 2023/24.
Energy	Cost	Energy costs have experienced significant increases during 2022/23 and the government has introduced some supporting schemes to help households and businesses with these additional costs. There is likely to be less support going forward and there remains a risk that energy prices continue to be volatile during 2023/24. The additional pressure in 2022/23 has been included in the 2023/24 budget. Currently forecast prices would reduce this pressure by c15% however it is proposed that the budget be maintained at this level to allow for some scope for prices increases to return.
Recovery of debt	Income	There is a risk that the cost of living crisis and economic downturn affects recovery of Council Tax, and other income. The 2023/24 taxbase calculation has been adjusted to include an additional allowance for bad debt.

General Risks

8.13 No specific provision has been made in the Budget for abnormal events. The proposed risk contingency at £250,000 is available to mitigate service variations in year. If there were significant other variations to the budget during the year the Council would need to consider the impact on the reserves and appropriate actions.

9.0 Council Tax 2023/24

9.1 The amount to be raised from Council Tax, after taking account the Government Settlement and Collection Fund surplus, is £11,448,211. The recommended Band D Council Tax for 2023/24 for Woking Borough Council is £263.12, an increase of 3%. The referendum level for District Councils in 2023/24 is the higher of 3% or £5. In assessing the Council's core resources the government assumes that the maximum Council Tax increase is applied.

9.2 The Council's medium term financial position requires that the maximum Council Tax increase is applied.

Long Term Empty Properties

9.3 The government passed legislation during 2018/19 to enable councils to charge a long-term empty premium on top of the council tax payable, in respect of domestic properties that have been left empty and substantially unfurnished.

9.4 These changes encourage empty homes to be brought back into use and generate additional income to support the services of the County Council, the Police and Woking Borough Council. In February 2020 the Council approved the premium for empty properties from the applicable dates. The changes are now fully implemented and the premiums applied are set out below.

Premium rate	Properties affected
100%	Properties empty for between two and five years
200%	Properties empty for between five and ten years
300%	Properties empty for over ten years

9.5 Surrey County Council has introduced a scheme where any increased County element of Council Tax generated from changes to empty home policies can be claimed by the District and Borough Council's to support mutually agreed projects. Funds have been used to support the Decarbonisation works at Midas House and Export House.

Collection Fund deficit

9.6 The government required that 2020/21 Collection Fund deficits, both Council Tax and Business Rates, be spread over 3 years. The final third is taken into account in the 2023/24 Council Tax setting. A surplus from previous years Council Tax outturn above estimates offsets this deficit in 2023/24.

10.0 Medium Term Financial Strategy

10.1 The Medium Term Financial Strategy (MTFS) will be updated and reported to the Executive in March and continue to be regularly reported during 2023/24. The latest forecast is shown below. The most significant assumptions underlying this update are:

- Continued assumption that contractual and pay inflation continue at higher levels during 2024/25 (£1m) before reducing in 2025/26;
- Rate of increase in Parking activity – 10% in 2024/25 and then constant for 2025/26;
- Commercial Rent budgets continue at 2023/24 levels;
- Fit for the Future savings built into 2022/23 and 2023/24 budget are secured and those offered in 2024/25 and 2025/26 as part of the detailed exercises to date remain achievable;
- No further savings from the Minimum Viable Provision (MVP) and transformation work (FFF3) have been incorporated as there is insufficient detail at this stage;
- No margins are included from loans yet to be advanced to the group companies and joint ventures;
- No continuation of the government 'Core Funding Guarantee' which would secure the 2023/24 New Homes Bonus funding for another year;
- Gradual reduction in interest rates from 2023/24 onwards as inflation subsides; and
- Additional corporate resources for transformation of the Council's services and governance can be funded through the Flexible Use of Capital Receipts.

MTFS Position - February 2023	2023/24 £'000	2024/25 £'000	2025/26 £'000	TOTAL £'000
Use of reserves - 2023/24	8,345			
Service Pressures (as previous MTFS assumptions)		1,867	862	2,729
Reduction in New Homes Bonus (one-year only)		990		990
Reduction in Business Rates retained		597	0	597
Investment Programme financing		351	-618	-267
Increase in Parking income		-1047	-200	-1,247
Increase in Council Tax		-415	-313	-728
Remove Council Tax surplus		236		236
Fit for the Future savings 1		-440	0	-440
FFF 2		-1,008	-191	-1,199
Car Park Management Fee			1,466	1,466
In year pressure/saving	0	1,131	1,006	2,137
Forecast Use of reserves pre FFF3	**8,345**	**9,476**	**10,482**	

10.2 The forecast above shows an increase in the use of reserves as one-off factors are reversed. In particular additional government funding awarded/retained through New Homes Bonus and Business Rates retention (£1.5m) and the temporary saving from deferral of the Car Park Management Fee (£1.5m).

10.3 It should be noted that the following are now incorporated within base budget for 2023/24:

- £1m increase in energy costs;
- £850k allowance for pay increases in 2023/24;
- Car Park reduction in activity of 35% reflecting current performance which has not recovered to the pre pandemic levels in 2019;
- Commercial Rents reduction in rents and increase in void costs, £3.5m; and
- Fit for the Future 2 Savings as set out in Appendix 4.

10.4 It is clear that from the financial forecast that a reset of service provision is urgently required to ensure it is within the resources available. An update on the progress of this work is included in section 4. As discussed in previous updates of the MTFS, without this reduction in net costs, the Council will be unable to set a balanced budget and the Finance Director would be required to prepare a Section 114 report.

10.5 A full review of the MTFS assumptions, risks and forecasts will be considered as part of the March 2023 report, including actions to realise the necessary savings to close the budget gap.

11.0 Reserves

11.1 The Council has a risk based reserves strategy and policy on general balances. The prudent level established is £10m which reflects 10% of operational expenditure (£5m) plus £5m for business change and budget savings risk. Whilst this level of general reserve is high for a District Council it is representative of the financial risks facing the Council and remains appropriate.

11.2 The Council has historically held a series of earmarked reserves with funds set aside to address specific risks to the Council's financial position. Since 2020/21 significant reserves have been used to support the Council's service provision following reductions in income and increasing costs.

11.3 Operational deficits in 2020/21, 2021/22 and forecast for 2022/23 have substantially reduced the buffer previously provided by reserves which had been accumulated over time to mitigate annual revenue fluctuations, cyclical economic cycles and one off project and transformation costs.

11.4 The ongoing forecast deficits set out in the MTFS section above, result in a continued use of reserves to support the in-year budget position. All funds which can be used, including those previously earmarked in individual reserves and the General Fund balance, are now considered in aggregate as available resources to allow time for costs to be brought in line with income. A summary of the projected reserves position is shown below.

Reserves Forecast - February 2023	**£'000**
Revenue Reserves at 31 March 2022	
General Fund Revenue Reserves	28,640
Less: Ringfenced	(5,142)
General Fund Balance	1,500
Usable Revenue Reserves at 31 March 2022	24,998
Budgeted use of reserves 2022/23	(5,421)
Forecast additional use of reserves	(3,420)
Investment Programme revenue projects	(684)
Development income recognised	6,000
Car Park Management Fee saving	1,466
Forecast usable reserves at 31 March 2023	22,939
Use of reserves 2023/24	(8,345)
Investment Programme revenue projects	(612)
Forecast usable reserves at 31 March 2024	13,982
Use of reserves 2024/25	(9,476)
Forecast usable reserves at 31 March 2025	4,506

11.5 As has been reported in the MTFS during the year, the use of reserves to cover revenue deficits is forecast to reduce balances beneath the minimum level. The actions taken to reduce the use of reserves, see Section 4, have delayed this until 2024/25. However, as the temporary savings/income cannot be relied on there is an increasing challenge which will use all available balances during 2025/26.

11.6 This is not a sustainable position. Actions taken to date have not slowed the draw on reserves or have been offset by new pressures. A fundamental reduction in the net cost of services provided is required immediately before the reserves are fully utilised.

11.7 Some reserves are held for specific purposes and cannot be reallocated. These are shown as 'ringfenced' in the summary above.

12.0 Prudential Indicators

12.1 The Treasury Management, Capital and Investment Strategies elsewhere on this agenda set out the borrowing limits and the policies and practices to be followed in managing the Council's debts, capital spend and investments. The reports incorporate the Prudential Indicators which relate to borrowing and investment.

12.2 Allowance has been made in the borrowing limits for borrowing associated with the Investment Programme including investment through the Council's group companies. The Thameswey Business Plans on this agenda propose formal approval of the investments during 2023/24 with future years subject to a number of actions to review options going forward. For the purposes of the Investment Programme and Prudential Indicators indicative baseline investment projections are included for the years beyond 2023/24, based on earlier proposals. These will be revised once updated forward plans are available.

12.3 Prudential Indicators for approval by the Council are set out in Appendix 3. These Prudential Indicators will be updated if necessary in the light of the Council's consideration of the Investment Programme and revenue budgets.

13.0 Conclusion - Strategic Approach for 2023/24

13.1 This report is the latest in a series of MTFS update reports during 2022/23. Whilst it is possible to set a budget for next year the outlook is critical and it is not clear whether the Council will be able to set a balanced budget in future.

13.2 The following actions are key in establishing the future short, and medium term, financial framework of the Council:

- A fundamental reset of the Council's budget, and service provision, within the resources now available. This will require consideration of priority services towards which limited resources should be focussed;
- As set out in the Section 25 report, a programme of enhanced governance and financial controls is required to provide timely and informed information, track savings and improve oversight of the Council's investments;
- A medium term plan to optimise the Council's strategic property investment portfolio in the best and long term interest of the Borough. The solution should provide financial benefits through revenue income or capital receipts from disposals whilst delivering, where possible, on the place making benefits identified on securing and holding the assets.

14.0 Finance Director – Budget Robustness Statement

14.1 Section 25 of the Local Government Act requires the Finance Director to report to the Council when setting its Council Tax on:

- The robustness of the estimates included in the budget; and
- The adequacy of the financial reserves in the budget

14.2 The Finance Director's report is included as Appendix 5. The Council is required to have regard to this report in approving the budget and Council Tax.

14.3 The Council is able to set a balanced budget for 2023/24 with the use of £8.3m one off reserves and has made arrangements:

- To operate a cost control framework and discipline

- To establish further savings over the MTFS period through developing a minimum viable position for all services
- To comprehensively track savings and establish full financial variance monitoring in a timely way
- For a Fit for the Future programme that has to balance implementing a strong programme discipline for delivery critical savings plans alongside establishing the future state of the Council.
- For reviewing the prudent position on the amounts set aside for debt
- To stabilise reserves
- To review Company business plans and investments

14.4 The report emphasizes the work required to secure the reset of the Council's budget and the necessary improvements in financial analysis and reporting. It draws attention to the Council's dependence on Commercial and Parking income and impact of the disproportionate exposure on the Council's financial resilience.

14.5 The report concludes that whilst it is possible to set a budget for 2023/24 it is not evident, at this stage, how the Council will establish a balanced budget for 2024/25 and the MTFS period. The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required. As the work on the 2024/25 budget progresses this may lead to the issuing of a S114 notice.

15.0 Corporate Strategy

15.1 This report sets out the resources available to support the Woking for All Strategy. The priorities within the Strategy will be reviewed to reflect available resources and an update provided for the Executive in July 2023.

16.0 Implications

<u>Finance and Risk</u>

16.1 The financial implications are explicit in the report.

16.2 The Medium Term Financial Strategy includes an assessment of the likely financial impact and incorporates actions to mitigate these. The MTFS has been reported to the Executive regularly during 2022/23 and will continue to be the subject of regular reports during 2023/24 as the Council seeks to establish a sustainable medium term budget position.

16.3 The Council's underlying revenue budget continues to be challenged by reductions in commercial income due to changes to economic activity following the pandemic, and high levels of energy, contractual and pay inflation increase the cost of services. Whilst in previous years the loss of income has been considered a temporary change, budgets now reflect these changes in income as the new baseline position for the Council.

16.4 The government has indicated stable government funding levels for 2024/25 but future funding beyond the next election is uncertain.

16.5 The risks within the proposed budget and financial forecasts are set out in detail within the report, and in the Section 25 report, Appendix 5.

16.6 As set out in the report the most significant financial risk to the Council's budget relates to the required level of Minimum Revenue Provision (MRP) as a result of the independent review being commissioned and any update of government guidance.

16.7 Equalities and Human Resources

16.8 The Council's Human Resource Requirement reflected in these estimates as detailed in section 5.

16.9 Service planning takes account of the Council's policies in respect of equalities.

Legal

16.10 Section 151 of the Local Government Act 1972 places a general duty on local authorities to make arrangements for 'the proper administration of their financial affairs'. The Local Government Act 2003 places a duty on the Council's Chief Finance Officer to advise on the robustness of the proposed budget and the adequacy of reserves. The Medium Term Financial Strategy is a policy framework document that is required by law to be adopted by Council.

16.11 The Council is required by statute to set a balanced budget and related council tax demand. The function of the Executive is to prepare and propose the relevant strategy to the Council. This document provides a comprehensive update on the Council's current position.

16.12 Members have a duty to seek to ensure that the Council acts lawfully. They are under an obligation to produce a balanced budget. Members must not come to a decision which no reasonable authority could come to; balancing the nature, quality and level of services which they consider should be provided against the costs of providing such services.

17.0 Engagement and Consultation

17.1 The Council undertook a significant programme of engagement during 2021/22 in preparing for the adoption of a new 5 year Corporate Strategy for 2022/23 onwards. This included community roadshows as well as online questionnaires and a budget simulator tool.

17.2 The 2023/24 budget has been prepared to incorporate the savings and efficiencies identified through the two programmes of budget savings completed during 2021 and 2022. As set out in this report further savings will be required. An update to the Strategy recognising, where appropriate, financial constraints will be prepared for July 2023.

17.3 Where services changes are required to deliver the further savings as set out in this report, the necessary engagement and consultation will be undertaken.

REPORT ENDS

GENERAL FUND SUMMARY

	ESTIMATE 2022/23 £	ESTIMATE 2023/24 £
TOTAL PROGRAMME REQUIREMENTS	4,046,406	8,872,205
Provision for lost income due to Covid-19 (2022/23 only)	1,818,000	
MTFS savings requirement	-100,000	
PROGRAMME REQUIREMENTS AND SAVINGS TARGETS	5,764,406	8,872,205
Management of Change	250,000	250,000
Risk Contingency	250,000	250,000
PFI Unitary Charge and management	175,000	175,000
Investment Programme items funded from revenue	134,000	120,000
NET COST OF SERVICES	6,573,406	9,667,205
INTEREST AND OTHER ITEMS		
- Interest costs	55,520,055	62,036,006
- Interest and Investment Income	-38,503,475	-43,281,301
NET OPERATING EXPENDITURE	23,589,986	28,421,910
USE OF RESERVES/BALANCES		
- Net Use of Revenue Reserves	-4,033,535	-8,346,609
- Contribution from Wolsey Place reserve	-1,003,347	
- Contribution from Capital Reserves (Depreciation)	-4,006,238	-3,947,271
- Contribution from Reserves - Management of Change	-250,000	
- Contribution from Reserves - IP items funded from revenue	-134,000	
AMOUNTS TO BE MET FROM LOCAL TAXATION AND GOVERNMENT GRANTS	14,162,866	16,128,030
EXTERNAL FINANCE - SETTLEMENT FUNDING ASSESSMENT	-2,134,965	-2,214,507
- Revenue Support Grant	0	-92,845
- Lower Tier Services Grant	-95,753	0
- Services Grant (New 2022/23)	-147,156	-86,333
New Homes Bonus	-230,905	-1,221,134
Business Rates Surrey Pool	-935,000	-1,065,000
PRECEPT ON COLLECTION FUND	10,619,087	11,448,211
FORECAST COUNCIL TAX LEVEL		
Precept on Collection Fund (from above)	10,619,087	11,448,211
Woking share of Collection Fund Surplus(-)/Deficit	-80,527	-304,284
Woking share of 2020/21 Collection Fund Deficit	68,041	68,041
	10,606,601	11,211,968
Council Tax Taxbase	41,519	42,611
Council Tax Requirement (£)	£255.46	**£263.12**
Year on year increase (£)	**£5.00**	**£7.66**
Year on year increase (%)	**2.00%**	**3.00%**

Service Budget Variations 2023/24

	£
Total Programme Requirements 2022/23	**4,046,406**
Employees and Overheads	20,886
Premises	927,934
Transport	-35,160
Supplies & Services	378,355
Agency & Contracted Services	397,600
Depreciation	-203,217
Fees & charges	974,974
Sales	1,320
Rents	2,655,904
Other grants, reimbursements, contributions	-13,502
Other Income	-279,295
Total Variations	4,825,799
Total Programme Requirements 2023/24	**8,872,205**

PRUDENTIAL INDICATORS FOR 2022/23 TO 2026/27

1 Investment Programme Expenditure

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Non - Housing Revenue Account	185,726	190,223	124,523	112,221	23,222
Housing Revenue Account	5,716	12,669	6,352	4,956	4,956
Total	191,442	202,892	130,875	117,177	28,178

2 Ratio of Financing Costs to Net Revenue Stream

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Non - Housing Revenue Account	111%	118%	138%	131%	133%
Housing Revenue Account	29%	26%	25%	25%	24%

3 Capital Financing Requirement

	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
General Fund Services	517	530	527	522	516
Council Housing (HRA)	156	157	157	158	158
Capital Investments	1,432	1,525	1,625	1,725	1,738
TOTAL CFR	2,105	2,211	2,309	2,405	2,412

FIT FOR THE FUTURE 2 SAVINGS

APPENDIX 4

Directorate	Service Area	Details of the proposal for saving; additional income or efficiency	2022/23	2023/24	2024/25	2025/26	TOTAL	Savings Cateogry
Communities	Arts Heritage & Events	Reduce grant funding to Rhoda Theatre	44000	31000	0	0	75000	Grant Reduction
Communities	Arts Heritage & Events	Withdraw Council funding to Bandstand event	0	1500	0	0	1500	3rd Party Spend
Communities	Arts Heritage & Events	Reduce Council contributon to Lightbox	0	113000	55000	0	168000	Grant Reduction
Communities	Leisure Services	Reconfigure services at Pool in the Park inc. closure of Heatwaves to reduce energy consumption	22500	65500	0	0	88000	Service Redesign
Communities	Leisure Services	Reduce sports consultancy budget	3000	0	3000	0	6000	3rd Party Spend
Communities	Leisure Services	Reduce Lakeview Cycle station budget	2500	0	0	0	2500	3rd Party Spend
Communities	Leisure Services	Remove funding to LinkAble & WABF (Woking Asian Business Forum)	8000	10000	0	0	18000	Grant Reduction
Communities	Community Centres	Community centre staff restructure	0	25000	0	0	25000	Staff Costs
Communities	Volunteer	Cease contribution & membership to Community Matters People Partnership (CMPP)	16000	0	0	0	16000	3rd Party Spend
Communities	Community Development	Remove funding for vacant posts in Community Development	239000	0	0	0	239000	Staff Costs
Communities	Youth Development	Restructure of youth development service	0	47000	0	0	47000	Staff Costs
Communities	Family Support	Reduced family support training costs	0	10000	0	0	10000	3rd Party Spend
Communities	Housing Services	Remove funding for vacant posts in Housing Strategy & Housing Standards	51000	0	0	0	51000	Staff Costs
Communities	Extra Care	Staffing restructure of Brockhill	20000	65000	0	0	85000	Staff Costs
Communities	Community Meals	Remove funding for vacant posts in Community Meals	42000	15000	0	0	57000	Staff Costs
Communities	Community Meals	Remove diesel vans for community meals delivery & reduce number of rounds	6000	6000	25000	0	37000	Service Redesign
COMMUNITIES TOTAL			**454000**	**389000**	**83000**	**0**	**926000**	
Place	Environmental Health	Withdraw from Out of Hours Environmental Health contract	0	30000	0	0	30000	3rd Party Spend
Place	Environmental Maintenance	Cease planting & irrigation of bedding plants, hanging baskets, troughs & trees	0	95000	0	0	95000	Service Redesign
Place	Environmental Maintenance	Service efficiencies on emptying dog bins	0	3000	0	0	3000	Service Redesign
Place	Environmental Maintenance	Withdraw placement of solar Christmas trees	0	5000	0	0	5000	3rd Party Spend
Place	Environmental Maintenance	Remove funding for vacant post in Environmental Maintenance	0	42000	0	0	42000	Staff Costs
Place	Green Infrastructure	Reduce grant funding of Basingstoke Canal	0	0	27000	0	27000	Grant Reduction
Place	Waste & Recycling	Reduce excess budget for contaminated mixed recycling	0	14000	0	0	14000	
Place	Waste & Recycling	Reduce advertising, signage frames & repairs budget	0	25000	0	0	25000	3rd Party Spend
Place	Waste & Recycling	Reduce budget for assisted collections within Waste & Recycling	0	3000	3000	0	6000	3rd Party Spend
Place	Building Services	Deliver facilities management savings in Civic Offices (vending, plants, layout)	3000	39000	0	0	42000	3rd Party Spend
Place	Building Services	Reduce cleaning costs in out of town car parks	0	2000	0	0	2000	3rd Party Spend
Place	Building Services	Generate advertising income by installing digital screen in Victoria Place	0	0	50000	0	50000	Income Generation
Place	Building Services	Reduce Council funding of seasonal events	0	15000	0	0	15000	3rd Party Spend
Place	Building Services	Victoria Way Car Park - Close 4 floors to reduce energy consumption.	6000	19000	0	0	25000	Service Redesign
Place	Building Services	Close down absorption chiller at the leisure centre for the winter.	20000	0	0	0	20000	Service Redesign
Place	Development Management	Introduce a charge for dropped kerb enquiries	0	5000	0	0	5000	Income Generation
Place	Development Management	Reduce the number of planning committee meetings	0	2000	0	0	2000	Staff Costs
Place	Estate Management	Change the use of Goldsworth Trading Estate to incorporate residential use	0	0	0	100000	100000	Income Generation
Place	Estate Management	Reduce security budget for 10 Acre Farm	5000	0	0	0	5000	3rd Party Spend
Place	Estate Management	Reduce land management budget for Havering Farm	0	10000	10000	0	20000	3rd Party Spend
Place	Estate Management	Manage estates to mitigate business rates liabilities	0	25000	0	0	25000	Financing
PLACE TOTAL			**34000**	**334000**	**90000**	**100000**	**558000**	

Corporate Resources	Member Services	Change frequency of Peace Garden event	0	0	5000	0	5000	Service Redesign
Corporate Resources	Member Services	Removal of budget for Civic Services, Receptions & Events	0	44000	0	0	44000	3rd Party Spend
Corporate Resources	Member Services	Reduce Mayoral Allowance	0	9000	0	0	9000	Staff Costs
Corporate Resources	Member Services	Reduce use of Mayoral Car	0	35000	0	0	35000	3rd Party Spend
Corporate Resources	Member Services	Civic functions restructure	0	0	27000	0	27000	Staff Costs
Corporate Resources	Member Services	Remove Members IT Allowance & Training Budget	0	17580	0	0	17580	Staff Costs
Corporate Resources	Member Services	Reduce O&S budget for external commissioned support	0	10000	0	0	10000	Service Redesign
Corporate Resources	Member Services	Reduce courier, postage & refreshment budget	11000	24000	15000	0	50000	3rd Party Spend
Corporate Resources	Member Services	Reduce annual canvas costs	5000	0	0	0	5000	Service Redesign
Corporate Resources	Member Services	Reduce costs of election preparation & cancel election lunch provision	17000	1000	0	0	18000	Service Redesign
Corporate Resources	Member Services	End Town Twinning Association relationship	0	1000	0	0	1000	3rd Party Spend
Corporate Resources	Licensing	Restructure of Licensing team	0	30000	0	0	30000	Staff Costs
Corporate Resources	Marketing	Stop production & distribution of Woking magazine	0	53000	0	0	53000	Service Redesign
Corporate Resources	Marketing	Downgrade social media software, cancel engagement & media monitoring software	0	21000	0	0	21000	3rd Party Spend
Corporate Resources	Legal	Cancel Lexcel Accreditation and associated costs	35000	0	0	0	35000	3rd Party Spend
Corporate Resources	Legal	Restructure of post room service	0	11000	0	0	11000	Staff Costs
Corporate Resources	HR	Reduction of Training budgets	17000	15000	13000	0	45000	3rd Party Spend
Corporate Resources	ICT	Remove funding for vacant ICT posts and align charging to projects	0	70000	0	0	70000	Staff Costs
Corporate Resources	ICT	Remove Disabledgo survey, cancel Syncpoint & Bang the Table engagement tool	0	33000	0	0	33000	3rd Party Spend
Corporate Resources	Customer Services	Customer Service redesign & efficiencies	0	0	30000	0	30000	Service Redesign
Corporate Resources	Customer Services	Remove funding for vacant customer services post	25000	25000	0	0	50000	Staff Costs
Corporate Resources	Finance	Lower lump sum pension contribution due to improved fund valuation	0	146000	146000	135000	427000	Financing
Corporate Resources	Finance	Appeal Valuation of Car Parks for Business Rates	0	160000	0	0	160000	Financing
Corporate Resources	Finance	Reduce discretionary Business Rates Relief	0	0	250000	0	250000	Financing
Corporate Resources	Cross-cutting	Reduction of off-contract spend	0	550000	550000	0	1100000	3rd Party Spend
CORPORATE RESOURCES TOTAL			**110000**	**1255580**	**1036000**	**135000**	**2536580**	

SAVINGS TOTAL	**598000**	**1978580**	**1209000**	**235000**	**4020580**	

Section 25 Report from Chief Financial Officer

Fiduciary and Statutory Considerations

In setting the budget the Council has a duty to ensure:

- It continues to meet its statutory duties
- Governance processes are robust and support effective decision making
- its Medium-Term Financial Strategy reflects the significant challenges being faced and remains responsive to the uncertainties in the economy by continuing to deliver against its savings targets
- its savings plans are clearly communicated and linked to specific policy decisions, with the impact on service provision clearly articulated
- It understands profile of existing and forecast liabilities and makes sufficient provision for repayment
- it has the appropriate levels of reserves and that it closely monitors its liquidity to underpin its financial resilience
- it continues to provide support to members and officers responsible for managing budgets
- it prepares its annual statement of accounts in an accurate and timely manner

In making decisions in relation to the revenue budget and council tax the Council has various legal and fiduciary duties. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the calculation of the council tax requirement and the setting of the overall budget and council tax. The amount of the council tax requirement must be sufficient to meet the Council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget.

In exercising its fiduciary duty, the Council should be satisfied that the proposals put forward are a prudent use of the Authority's resources in both the short and long term; that the proposals strike a fair balance between the interests of Council taxpayers and ratepayers, current and future, on the one hand and the community's interests in adequate and efficient services on the other; and that they are acting in good faith for the benefit of the community whilst complying with all statutory duties. Officers have addressed the duty to strike a fair balance between the different elements of the community and the interests of council tax and business rate payers in developing the proposals which are set by reference to the strategic outcome priorities in the Woking for All Strategy.

Section 25 of the Local Government Act 2003 requires the Finance Director to report to the Council when setting its council tax on:

- the robustness of the estimates included in the budget, and
- the adequacy of the financial reserves in the budget.

The Council is required to have regard to this report in approving the budget and council tax. The Finance Director has reported on the Medium-Term Financial Strategy to the Executive through 2022/23, the last update report was to the 19th January meeting. This report is now going to the Council to make its final decision.

Section 25 concentrates primarily on the risk, uncertainty and robustness of the budget for the next financial year rather than the greater uncertainties in future years. Given the significance of the funding reductions over recent years and the impact that the changes in behaviours since the pandemic is having on the Councils' investments into regeneration and returns from its commercial estate, this report considers not only the short-term position but also the position beyond 2023/24 in the context of the Council's current Medium Term Financial Strategy (MTFS).

Section 28 of the Local Government Act 2003 also imposes a statutory duty on the Council to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or to finance the shortfall from reserves.

Section 114

Under Section 114 of the Local Government Finance Act 1988, where it appears to the Finance Director 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, the Finance Director has a duty to make a report to the Council.

The report must be sent to the Council's External Auditor and every member of the Council and the Council must consider the report within 21 days at a meeting where it must 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. In the intervening period between the sending of the report and the meeting which considers it, the authority is prohibited from entering into any new agreement which may involve the incurring of expenditure (at any time) by the authority, except in certain limited circumstances where expenditure can be authorised by the Finance Director. Failure to take appropriate action in response to such a report may lead to the intervention of the Council's Auditor.

Section 25 Summary Overview

The Council is able to set a balanced budget for 2023/24 with the use of £8.3m one off reserves and has made arrangements:

- To operate a cost control framework and discipline
- To establish further savings over the MTFS period through developing a minimum viable position for all services
- To comprehensively track savings and establish full financial variance monitoring in a timely way
- For a Fit for the Future programme that has to balance implementing a strong programme discipline for delivery critical savings plans alongside establishing the future state of the Council.
- For reviewing the prudent position on the amounts set aside for debt
- To stabilise reserves
- To review Company business plans and investments

It is not evident at this stage, however, how the Council will establish a balanced budget for 2024/25 and the MTFS period. The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required. This report however may lead to the issuing of a S114 Notice in 2023/24 as work on the 2024/25 budget progresses.

There are sections in this report that are made in bold for attention. This summary overview section extracts these for ease of reference.

The Council does need to make significant improvements in its approach to resource management as a strategy and discipline

The requirement to make savings has dominated the budget setting process in 2021/22 and 2022/23 and this will be an even more dominant feature for the 2023/24 – 2025/26 MTFS period and the foreseeable future beyond this term. The 2023/24 budget is only balanced with the use of £8.3m reserves and it will take a significant re-think and restructure of the Council, its investments and strategic partnerships in order to deliver an operational reset.

The Council has a significant dependency on the income generated from its commercial estate. All of this income is taken directly to the general fund and the Council will need to develop an approach to smoothing this reliance on income over a longer trading period.

The Council has some exposures which are more significant than other local authorities:

- **The level of dependency on combined income from the Council's off-street car parking and commercial estate which is disproportionate to the Council's financial resilience and ability to respond to such an economic downturn.**

- **The size of borrowing alongside the policy it has adopted on Minimum Revenue Provision is equally disproportionate to the Council's financial size, resilience and ability to respond to risks in the event of needing to impair loans**

  The costs and lost income experienced over the last 2 years, and the financial climate post pandemic, have resulted in the financial position now becoming an immediate problem.

The Council does not have the financial resilience to absorb the impacts of the current economic downturn and changes in consumer behaviours in the short and medium-term and cannot solely rely on its investment approach to protecting services. The Council needs to develop a more far-reaching strategy of service transformation that will enable it to manage within the predicted level of funding available whilst both ensuring it maintains the services it is statutorily required to provide and uses the strategic priorities established within the Woking for All strategy to target funding.

The Council has not undertaken a review of its compliance with this CIPFA Financial Management Code as of the date of this report. The Council will need to programme in a review in 2023/24 as part of its delivery of the MTFS strategy.

Audit Opinion on the Council's Accounts

The Council does not have an audit opinion on its accounts for 2019/20 and subsequent years (2020/21 and 2021/22). This position creates a significant risk for the Council is it cannot place any reliance on prior year accounts.

The Council has raised its concerns with its auditors and has engaged with the Financial Reporting Council (FRC) and Public Sector Audit Appointments (PSAA). The Council recognises that the delay in audits is a national issue for the sector, however, it has been seeking what options are available to specifically respond to the situation and delays in Woking Borough Council.

The delay to the Council's accounts relates to the consolidation of group companies into the Council's accounts. An outline timetable of this work has been discussed with the Council's auditors to progress this work for completion by September 2023. This is however subject to risks around resourcing this work by the auditors, the Council's finance team and the Group Companies finance teams. By September 2023 there will be a 3 year delay of external audit.

At this stage the Council are not able to get any feedback from its auditors on its 2020/21 and 2021/22 accounts in advance of getting an audit opinion on the 2019/20 accounts. The Council will continue to engage with the FRC and PSAA where this can assist the Council to address the delays in its external audits and where it can assist the sector to address the backlog in audit opinions on accounts.

Robustness of Estimates in the Budget

The budget setting process within the Council has been operating effectively for many years but has been placed under significant strain over the 2021/2 and 2022/23 years arising from three predominant factors:

- The previously adopted approach the Council had taken to invest in the Woking economy and Council assets as a way of generating income that counteracted budget pressures was no longer a sole viable strategy
- The council had relatively little experience of delivering notable service and budget reductions, nor does it have the capacity for delivering a savings based approach to addressing a significant budget shortfall
- The impact of the Covid-19 pandemic and subsequent downturn in the economy was disproportionate to the Council's financial resilience and its ability to manage the impacts, particularly in the short term.

The underlying assumptions within the MTFS are continually reviewed to provide the most reliable projection of the future financial position. In many cases this will result in a range of potential scenarios for consideration.

The implications of these factors are that the Council does need to make significant improvements in its approach to resource management as a strategy and discipline, specifically in relation to:

- Producing comprehensive in-year full financial variance monitoring in a timely way
- Aligning financial reporting to the new organisational structure of the Council and budget holding responsibilities

- Thorough and systematic tracking actual savings delivered against savings decisions and financial planning assumptions
- Targeting financial performance reporting on the key areas of financial risk and volatility
- Developing a stronger strategic commercial oversight of the Council's investment in its wholly owned and joint venture companies

A new performance reporting framework has been proposed and agreed in 2022/23 which replaces the Green Book reporting. This needs to be adopted as soon as possible in 2023/24.

The requirement to make savings has dominated the budget setting process in 2021/22 and 2022/23 and this will be an even more dominant feature for the 2023/24 – 2025/26 MTFS period and the foreseeable future beyond this term. The 2023/24 budget is only balanced with the use of £8.3m reserves and it will take a significant re-think and restructure of the Council, its investments and strategic partnerships in order to deliver an operational reset.

A major transformation programme, Fit for the Future, is being put in place to effectively and corporately design and deliver this reset and manage the delivery of savings within the required timescales, or as is more recently the case, to provide cash flow funding to support a longer delivery timescale for the more complex elements of the Programme. This is an emerging programme and therefore has to balance implementing a strong programme discipline to critical savings plans and cost control measures, alongside establishing what the future state of the Council needs to be.

The flexible use of capital receipts for the Fit for the Future, as an invest to save, to generate savings through a fundamental reset of how the Council operates will be essential and is being reported in the MTFS report to the 23 March 2023 meeting of the Executive and for approval at 30 March 2023 meeting of Council.

More detailed financial and performance modelling is being developed for the Council's commercial estate, drawing from national forecasts in respect of performance of retail and office sector assets. **The Council has a significant dependency on the income generated from its commercial and off street car park estate. All of this income is taken directly to the general fund and the Council will need to develop an approach to smoothing this reliance on income over a longer trading period.** The shortfall of forecasted income against budgeted income is c£5.5m (c18%) per annum in the short term, 1-2 years. Whilst this is reflective of the national picture in respect of these commercial assets, and Woking is out-performing the national position in some areas, it does represent a variance that the Council does not currently have the financial resilience to be able to manage.

Budget management within the Council requires strengthening which is supported by the actions that have been taken to strengthen financial variance reporting and savings tracking.

Risk and Financial Resilience

The Council has a Risk Management Strategy that is reviewed annually. Within the strategy the Council has a Strategic Risk Register that is held by the Council's Corporate Leadership

Team. The Strategic Risk Register is being reported to the Executive and is reviewed by the Overview and Scrutiny Committee

As can be seen from the Strategic Risk Register, the risk of not being able to set a balanced budget has been identified as the most significant risk to the Council (risk 1 in the strategic risk register). Despite the mitigations highlighted in the register the level of risk remains outside of the Council's established risk appetite and therefore further mitigating actions have been initiated, targeted at bringing the risk towards a level that the Council can tolerate.

It has been recognised, in updates to the MTFS over the last 2 years, from the outset of the Covid pandemic, that the financial position of the Council was in a critical position. The Council had been able to maintain services and provide community infrastructure as a result of its strategy to develop alternative sources of funding through investing in local assets that provide a commercial return for the Council. These returns are then invested in delivering services to the communities of Woking.

The pandemic resulted in an immediate, and dramatic, fall in activity and footfall severely impacting the Council's car parking revenue and affecting tenants across all of the commercial estate. It has become clear over the last 10 months that, despite the removal of all Covid restrictions, the economic model on which the Council's budget is based has changed. The Council made an application to Government in 2021 for exceptional support. This application was due to the impact the Covid 19 pandemic had on its commercial income budgets.

The basis of the application related to the impact that Covid 19 was having on the economy and specifically the reduction in income to the Council from car parks and its commercial estate. The Council maintained, at the time, that it had the financial strategy to withstand the vagaries of normal economic cycles but Covid impacts far exceeded the scenarios it envisaged and therefore the Council sought support to enable it to capitalise its "losses" so that these could be spread over time.

The application for Exceptional Support was not approved. It was recognised that although some elements of the financial position in the Council are exceptional, it did not have an immediate and pressing problem in its finances, rather it predicts that it may run out of resources in the medium term.

Many other Councils are experiencing financial pressures from both the current high levels of inflation and the ongoing impact of the pandemic, Brexit and the war in Ukraine. In recent months increasing numbers within the sector have expressed concerns about the sustainability of budgets and ability to balance finances in the current economic climate. The challenge of inflationary pressures on services being experienced by the Council is one shared across the sector. **This Council has, however, some exposures which are more significant than other local authorities:**

- **The level of dependency on combined income from the Council's off-street car parking and commercial estate which is disproportionate to the Council's financial resilience and ability to respond to such an economic downturn.**

- **The size of borrowing alongside the policy it has adopted on Minimum Revenue Provision is equally disproportionate to the Council's financial size, resilience and ability to respond to risks in the event of needing to impair loans**

The costs and lost income experienced over the last 2 years, and the financial climate post pandemic, have resulted in the financial position now becoming an immediate problem.

The July MTFS report provided an update on the development of the Council's Financial Resilience Strategy, a key component of the Council's MTFS. A full overview on all of the actions taken on the Financial Resilience Framework will be included in the MTFS update report to the 23rd March 2023 meeting of the Executive and 30th March meeting of Council. This overview forms an integral part of the S151 Officers view on their statement of budget robustness and sustainability.

The Council does not have the financial resilience to absorb the impacts of the current economic downturn and changes in consumer behaviours in the short and medium-term and cannot solely rely on its investment approach to protecting services. The Council needs to develop a more far-reaching strategy of service transformation that will enable it to manage within the predicted level of funding available whilst both ensuring it maintains the services it is statutorily required to provide and uses the strategic priorities established within the Woking for All strategy to target funding.

The Adequacy of Reserves

The Council has a risk-based reserves strategy and policy on general balances. The prudent level established is £10m which reflects 10% of operational expenditure (£5m) plus £5m for business change and budget savings risk. Whilst this level of general reserve is high for a District Council it is representative of the financial risks facing the Council and remains appropriate.

The Council has historically held a series of earmarked reserves with funds set aside to address specific risks to the Council's financial position. Since 2020/21 significant reserves have been used to support the Council's service provision following reductions in income and increasing costs. Operational deficits in 2020/21, 2021/22 and forecast for 2022/23 have substantially reduced the buffer previously provided by reserves which had been accumulated over time to mitigate annual revenue fluctuations, cyclical economic cycles and one-off project and transformation costs.

Ongoing forecast deficits reported through the MTFS result in a continued use of reserves to support the in-year budget position. All funds which can be used, including those previously earmarked in individual reserves and the General Fund balance, are now considered in aggregate as available resources to allow time for costs to be brought in line with income. Despite this, without action to reduce deficits, balances will fall below the minimum level during 2024/25 and be fully utilised during 2025/26.

A fundamental reduction in the net cost of services provided is required immediately before the reserves are fully utilised.

Introduction of Cost Controls

There is a need to further strengthen the controls that are in place over spend in order to respond to the projected budget gap in this year of £8.8m, which will continue to be a gap of £8.3m in 2023/24. The Council must take all arrangements to bring spending back in line with the budgets we have available, in the short and medium term.

Councils are required by law to have balanced budgets. If a council cannot find a way to finance their budget then a Section 114 (S114) must be issued. The issuing of a S114 notice bans all new spending with the exception of protecting vulnerable people and statutory services and pre-existing commitments.

The Council is in the territory of S114 but as of the date of this report a S114 Notice is not required The criteria however is being used to help steer the Council's control of spend. A number of steps are being taken to bring planned spend down to within the level of funding available and as part of these measures, the Council has moved to essential spend only. Any spend that is discretionary and can be avoided or deferred should not be made. The criteria for essential spend is:

- Existing staff payroll and pension costs
- Expenditure on goods and services which have already been received
- Expenditure required to deliver the Council's provision of statutory services at a minimum possible level – we call this the minimum viable position
- Expenditure within HRA to meet regulatory standards
- Urgent expenditure to safeguard vulnerable residents
- Urgent expenditure in response to issues of health and safety in council buildings and in areas of public realm
- Expenditure required through existing legal agreements and contracts
- Expenditure required through ring-fenced grants or third party funding
- Expenditure necessary to achieve value for money and/or mitigate additional in year costs
- Expenditure to deliver future savings

These spend control measures have been formally established and will remain in place until the Chief Executive alongside the Finance Director (S151 officer) determine they can be released. This assessment will be subject to review through the established MTFS.

In addition to control over the Council's direct expenditure, there has also been increased scrutiny and challenge of the Thameswey Group business plans for 2023. These plans were due to be approved in December 2022 however, as set out in an update to the December meeting of the Executive, the Council's Shareholder Advisory Group (SAG) has requested further exploration of a number of options that would have the impact of reducing the Council's Capital Finance Requirement; minimising risk associated with loan exposure and improve the controls the Council applies to the release of further loan funding.

Updated plans have been further reviewed by the SAG, and the Thameswey Board, and are being brought forward for approval to the 23rd February 2023 meeting of Council

Minimum Revenue Provision

The Council has very high levels of borrowing. The current policy and judgement in assessing the appropriate level of Minimum Revenue Provision (MRP), the amounts set aside for the repayment of that debt, enables a balanced budget to be set. There is a significant and substantial risk that a more prudent assessment of MRP provision should be adopted. At this stage no additional prudent provision has been made and any change in assessment of MRP would result in an unsustainable position.

There is equally a significant and substantial risk that a more prudent provision for impairment of capital loans should be made. At this stage no additional prudent provision has been made and any change in assessment of MRP would result in an unsustainable position.

If it is assessed that there is a risk of impairment of capital loans then it is appropriate to commence charging a MRP on the balance. The review of both Thameswey and Victoria Square investments indicate risks through asset values less than loan balances, reductions in valuations, long term business plans which are sensitive to assumptions and require support for many years, and losses which may be realised and not contained within the Group.

The government have previously consulted on changes to the guidance for provision of MRP. Given the level of investment the Council has made through capital loans, any changes which affect these loans are likely to cause an additional unsustainable pressure to the General Fund budget.

The Council's position on MRP will be subject to further independent assessment and review. An independent review has been commissioned on the Council's MRP policy, and the amount that has been accounted for in its accounts, to be completed by early April 2023. For this MTFS report the MRP policy adopted in 2022 is being rolled forward and any amendments required following the independent review will be brought forward in 2023/24 as part of the MTFS reporting.

CIPFA Financial Resilience Index

Following the events in Northamptonshire and a heightened national focus on the finances of local government more generally, the Chartered Institute of Public Finance and Accountancy (CIPFA) produced a Financial Resilience Index (FRI). The index uses a range of financial information and other factors to generate a series of measures against which all authorities are 'stress tested', although clearly Covid-19 has created a very real and more complex stress test than we would ever have modelled for.

CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position. The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA, public consultation and technical stakeholder engagement.

The Woking Resilience Index results can be accessed directly from the CIPFA website at Financial Resilience Index | CIPFA. The 2021/22 revenue outturn information remains outstanding and will be returned to Government in April 2023.

As can be seen from the information presented, the analysis indicates areas of lower risk around level and sustainability of reserves and income generated through fees and charges alongside some areas of higher risk around changes in reserves; the level of debt and level of interest payments.

The position on the level and sustainability of reserves has however changed during 2021/22 – 2023/24 and this is now a high risk area. The high risk around changes in reserves has materialised which reflects this change.

Whilst these indicators are not highlighting anything that we are not already aware of, and they are not statements of fact – they are indicators that require continued and ongoing review.

It is also useful to note that the tool allows us to benchmark Woking against nearest neighbours and also upper tier councils.

CIPFA Financial Management Code

The Financial Management Code (FM Code) sets out the standards of financial management expected for local authorities. The Code builds on the CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The FM Code was launched in 2019 with the first full year of compliance from 2021/22.

Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the Director of Finance and their professional colleagues in the leadership team. It is for all the Senior Management Team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority.

The Council has not undertaken a review of its compliance with this CIPFA Financial Management Code as of the date of this report. The Council will need to programme in a review in 2023/24 as part of its delivery of the MTFS strategy.

The FM Code applies a principle-based approach. The principles are:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
  - Adherence to professional standards is promoted by the leadership team and is evidenced.
  - Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.

Section Three of the code is particularly important as it covers the need for a long-term approach to the evaluation of financial sustainability, recognising that short-termism runs counter to both sound financial management and sound governance. The following paragraphs set out the Financial Management standards in this area.

Standard F - The authority has carried out a credible and transparent financial resilience assessment - The CIPFA Financial Resilience Index has been developed to enable organisations to identify pressure points.

The index is not intended to represent the entire story on the financial sustainability of a Local Authority but provides some indicators of potential risk. The Director of Finance has examined the major assumptions used within the budget calculations and associated as covered in this Section 25 report.

Standard G - The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members. - This report sets out the longer term financial strategy and how financial sustainability is being maintained. it is also demonstrated by the Section 25 statement within this report.

Standard H -The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities. This includes information based on the proposed revenue and capital budgets, such as authorised and operational boundaries for debt and the maturity structure of the Council's borrowing.

Standard I - The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans. It is recommended best practice that Local Authorities have a longer-term strategy for financial resilience and a multi-year financial plan. Whilst the suite of budget reports are focussed on 2023/24 to align with the central governments Finance Settlement effective arrangements are in place to facilitate longer term financial planning including:

Five-year Capital Strategy (and financing arrangements) and asset management plans

- Three-year financial position and strategy for delivering a balanced budget set out in this report
- Financial and scenario planning over the next spending review period

Officers have tested that the new savings and mitigations identified for 2023/24 are deliverable with some risks. The Council's Risk Based Reserves Strategy provides for some slippage and under-delivery of savings plans. A detailed risk rated savings tracker is monitored and will be reported to the Corporate Leadership Team through the new performance monitoring arrangements that are being introduced in 2023/24 to replace the Green Book reporting.

Additionally, the governance process for investment and funding decisions for the Council's investment programme requires a clear and detailed business case for any proposed investment, which must explain the benefits of the project to the organisation, both financial and otherwise, alongside the funding requirement. This allows senior officers and members to make decisions on proposals based on value for money and other concerns, for example statutory requirements.

REPORT ENDS

COUNCIL – 23 FEBRUARY 2023

HOUSING REVENUE ACCOUNT BUDGETS 2023-24

Executive Summary

Under the Government's current rent setting regime, social rents should increase by up to CPI+1% each year. In light of the cost of living crisis and high inflation rate (10.1% in September 2022), the Government undertook a consultation on an imposed ceiling from 1 April 2023 to 31 March 2024. Having carefully considered the responses to the consultation, the Government has decided that a 7% ceiling would strike an appropriate balance between protecting social tenants from high rent increases and ensuring that social landlords are able to invest in new and existing social housing and provide decent homes and services to tenants. It is proposed that the Council increases rents by 7% for 2023-24, in line with the Government's decision.

On 13 February 2020, Council approved the full Sheerwater Regeneration Scheme under which the HRA will lose the rental income from the dwellings within the regeneration red line. Many dwellings within the Regeneration Red Line are now being held as vacant as they become void or have been demolished. The HRA is foregoing the rental income from these dwellings whilst still incurring costs.

The Housing Revenue Account (HRA) is forecast to be significantly impacted by rising costs from energy (net £1.4 million pressure) and contractual inflation (c.£600k) in 2023-24, which will not be adequately matched by increased rental income (due to the Government rent cap). The HRA was already facing considerable financial challenges as a result of losing homes and associated rental income to the Sheerwater regeneration project and the legacy impact of 4 years' of rent cuts.

The HRA is forecast to make an estimated deficit of £1,365,498 in 2023-24 with a £1,366,898 contribution from reserves being required to maintain a working balance per property of £100.

Reserves are forecast to have depleted to £221,477 by 31 March 2024, which is not sustainable on an ongoing basis. It was always intended that the HRA be compensated by ThamesWey for £3.8 million of revenue costs it incurred in underwriting New Vision Homes' costs of developing the first proposed regeneration scheme for Sheerwater. The receipt of the £3.8 million in 2023-24 is in the process of being secured from ThamesWey and will be critical for the HRA if it is to set a balanced budget in 2024-25 and beyond. This payment will be incorporated into the 2024 ThamesWey Business plans which will presented to Council for approval later in 2023/24.

Recommendations

The Council is requested to:

RESOLVE That

(i) the Final Housing Revenue Account budgets for 2023-24, as set out in Appendix 1 to the report, be agreed; and

(ii) with effect from 3 April 2023, rents be increased by 7%.

Reasons for Decision

Reason: To approve the resources necessary to implement the Council's objectives and to enable the Council to determine charges to tenants for 2023/24.

The Council has the authority to determine the recommendations set out above.

Background Papers: None.

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

Contact Person: Prabha Parameswar, Business Support Manager
Email: Prabha.parameswar@woking.gov.uk, Extn: 3248

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

Shadow Portfolio Holder: Councillor Kevin Davis
Email: cllrkevin.davis@woking.gov.uk

Date Published: 15 February 2023

1.0 Introduction

1.1 This paper sets out the Council's final Housing Revenue Account (HRA) budgets (Appendix 1) for 2023-24.

1.2 Detailed explanations of the changes and pressures within the different elements of the budget are set out in the sections below. The HRA is forecast to make an estimated deficit of £1,365,498 in 2023-24 with a £1,366,898 contribution from reserves being required to maintain a working balance per property of £100.

2.0 Forecast Outturn

2.1 Adjustments to the revised estimates for 2022/23 have been made to reflect variations identified during the year to date.

2.2 The New Vision Homes contract ended on 31 March 2022 and the Housing Services were brought in-house. The new team Housing Landlord Service is now in place in the Council. The Final Account process concluded in August 2022 with an under-accrual of £45,500.

2.3 Rent arrears are increasing. The current tenant arrears are at 5.11% with the HRA current tenant debt at £1 million. The income team have experienced issues with delays in Universal Credit (UC) arrears payments, which have been compounded by the cost of living crisis, adding further pressures to arrears as more tenants struggle to pay bills. The tenancy management team have also had resource issues with several staff leaving in the past 6 months and this has had a knock-on effect to the income team as they have had to deal with an increase in general enquiries that would normally have been dealt with by the Customer Service team or Housing Managers.

2.4 Rising energy costs in 2022-23 have placed a significant pressure on the HRA. Current forecasts suggest the HRA will be overspent by circa £280,000 on energy costs, which cannot be recovered from tenants.

2.5 Overall, the HRA is forecast to overspend by £216,753 in 2022-23, resulting in a deficit position of £1,019,461 for the whole year.

3.0 Approach to Budget Setting 2023/24

3.1 The final budgets in this paper should be considered alongside the final Investment Programme report elsewhere on the agenda which will influence the overall budget position.

Management and Administration

3.2 Salary and other central costs have been allocated to the HRA in accordance with normal accounting rules to show the full cost of the service. The budgets are set and monitored in a pre-allocated format to make it possible to see the overall impact rather than just a proportion of the overall cost/variance which may be allocated to an individual service. An initial review of recharges was conducted in 2022-23 with a full review planned for 2023-24.

3.3 Inflation in staff costs has been factored into these budgets and has been offset by the capitalisation of some staff posts to the Asset Management Plan along with savings from restructuring the Independent Support and Extra Care Housing teams.

4.0 Rent and Other Charges

4.1 Under the Government's current rent setting regime, social rents should increase by up to CPI+1% each year. In light of the cost of living crisis and high inflation rate (10.1% in September 2022), the Government undertook a consultation on an imposed ceiling from 1 April

2023 to 31 March 2024. Having carefully considered the responses to the consultation, the Government has decided that a 7% ceiling would strike an appropriate balance between protecting social tenants from high rent increases and ensuring that social landlords are able to invest in new and existing social housing and provide decent homes and services to tenants.

4.2 It is proposed that the Council increases rents by 7% for 2023-24, in line with the Government's decision, and this figure has been incorporated into the final estimates.

<u>Recovery of Charges</u>

4.3 Service charges, including energy charges, are based on the cost of the service being provided. The Chief Finance Officer has delegated authority to vary service charges in line with external factors.

4.4 A major cost pressure is seen on account of the increasing energy prices, which is anticipated to add a net cost pressure of £1.4 million to the HRA in 2023-24. The district heating costs have not changed to date, but are expected to increase significantly when the current energy contract is renewed in October 2023. The cost of communal electricity has seen the largest increase, rising from approximately 16p per Kwh to 89p per Kwh.

4.5 Energy charges are levied on a per block basis based on cost. This allows energy costs to be recharged to tenants on a more detailed basis. Estimates have been made around predicted energy price increases, but these are still volatile at the present time. Income will be based on recharging the full amount, but capping any increase to a maximum of £15 per property per week to protect our most vulnerable tenants from potentially unaffordable price increases over the next financial year. This poses a risk of under-recovery of energy charges.

4.6 Housing-related support charges have also been reviewed. Up to 31 March 2018, Surrey County Council fully subsidised the housing-related support charges for council tenants in receipt of a means tested benefit. This funding ceased in 2017-18. From 1 April 2023, these will be considered as tenancy support charges (reflecting the work now undertaken by the Independent Support team) and will be eligible for Housing Benefit /Universal Credit. It is no longer intended to apply any subsidy from the HRA towards these charges from 1 April 2023. Tenants will however receive HB where applicable. This should bring savings to the HRA of approximately £184,000. Careline charges have had the uplift applied in line with the Fees and Charges report.

4.7 A £50,000 annual hardship fund has been included in 2023-24 HRA budget to support tenants who are affected the most be the combined increases in service and support charges.

<u>Implementation Date</u>

4.8 The new rents will be applied from the first Monday in April (i.e. 3 April 2023).

4.9 Service charges are usually increased from August each year. However, several new contractual changes will take place from April 2023. Officers are reviewing whether the new service charges should be applied from 3 April 2023 (in line with the new contractual arrangements) or from 1 August 2023.

5.0 Prudential Borrowing

5.1 The HRA requires certainty and accuracy of costs wherever possible, especially following government policy changes, rent reductions/caps, and the impact of the Sheerwater regeneration project. HRA interest charges for pre 2016/17 borrowing are fixed at the Council's average borrowing rate on 31 March 2016. HRA borrowing from April 2017 onwards are charged at the annual average 50-year PWLB borrowing rate. This ensures that General Fund investment decisions made by the Council do not impact the HRA.

5.2 The updated forecast for HRA interest costs are £5,509,580 in 2022/23 and £5,540,927 in 2023/24. It is assumed that future acquisitions and new developments of HRA homes will be funded from capital receipts associated with Sheerwater land transfers as opposed to additional borrowing. An amount of £6,699,297 is expected upon completion of the land transfer from Thameswey in 2022-23 for the red, yellow and purple phases.

5.3 The 2023-24 final budget makes no allowance for repayment of the debt taken on for Self-Financing or for the repayment of the borrowing relating to new build developments completed up to 2022-23. The borrowing relates to long life assets which are fully maintained.

6.0 Robustness of the Budget and Risks

6.1 It is important to consider the robustness of the budget and the adequacy of reserves for the purpose of maintaining the financial health of the Housing Revenue Account. The key risks are set out in the following paragraphs.

6.2 Rent collection continues to be a significant risk. The number of tenants in receipt of Universal Credit continues to grow which is an additional challenge to rent collection due to the way the Universal Credit is paid (monthly in arrears). Cost of living pressure is likely to add further risks to the HRA rent collection. A new dedicated Income Team Leader is currently being recruited to strengthen the income collection experience in the team in order to tackle the growing arrears. The Housing team are also looking at options to invest in additional software services to help analyse and prioritise arrears cases, as well as, investing in specialist consultancy support to review its arrears policies and processes to maximise income collection over the longer term.

6.3 Assumptions have been made relating to energy price increases for 2023-24 and recovery rates, particularly given key contracts are due to be renewed in October 2023. The team will continue to monitor energy price trends but this continues to be a risk for the HRA.

6.4 Void numbers and turnaround times have been higher than forecast in 2022-23. If this were to continue next year, it would result in further rental income losses and void costs.

6.5 It is also unclear whether the Government will impose further caps on rent increases for future years.

<u>HRA New Build Developments</u>

6.6 The Housing Investment Programme Report elsewhere on the agenda lists new build development schemes. In 2023-24 a new housing development is planned at Bonsey Lane.

6.7 In order for this scheme to be viable for the HRA the new properties will be let at Affordable Rents (up to 80% of market rates). Historically, HRA dwellings have been let at Social rent levels however the HRA cannot afford to subsidise the net cost of new developments. At Social rent (50% of market rates) the additional rental income generated by the new build units will not cover the management, maintenance, and interest costs attributable to the new build dwellings, even with grant.

<u>Repairs, Maintenance, and Management and Contractual Inflation</u>

6.8 The HRA contractual costs, such as responsive repairs, will increase by CPI at 10.1%. However, rental income is capped at 7%. This will exert further budgetary pressures on the HRA for 2023/24.

Major Repairs Contribution

6.9 As per the 1 April 2017 Item 8 Determination, depreciation is to be charged to the HRA with effect from 1 April 2017 in accordance with proper accounting practices. The depreciation replaces the Major Repairs Contribution and is transferred to the Major Repairs Reserve to be used on capital works to the stock or repaying debt. HRA depreciation is calculated by dividing the total asset value of Council Dwellings by their average useful economic life. Based on the 31 March 2021 asset value, the depreciation amount is estimated to be £3,956,449 in 2023/24. The depreciation will fund the Annual Maintenance Plan to for 2023-24, including capitalised staff costs.

Sheerwater Regeneration

6.10 Under the Sheerwater Regeneration project, approximately 426 HRA dwellings will be demolished. The vacant land will be transferred to Thameswey Developments Ltd with the new replacement affordable housing dwellings owned and managed by Thameswey Housing Ltd. The financial impact of the regeneration is already significant as dwellings which become void within the red line are being held as vacant. The HRA loses the rental income from these dwellings, whilst still incurring costs to maintain and secure them.

6.11 There are now only around 90 occupied HRA dwellings within the red line. It is assumed that there will be a further 50% reduction in occupied homes (and therefore rental income) within the Sheerwater red line for the 2023-24 budget.

6.12 The financing of the Sheerwater Regeneration Project allows for a capital receipt to be made from the Project to the HRA to compensate it for the historic HRA debt relating to the demolished dwellings as land is transferred to Thameswey. A capital receipt of £6,699,297 is expected from Thameswey in 2022-23 for the land required for red, yellow and purple phases. These capital receipts will assist with funding new acquisitions and developments identified in the Investment Programme without the need for additional HRA borrowing.

Reserves and Balances

6.13 The balance on the HIP Reserve was £2,607,836 on 31 March 2022 and is forecast to have dropped to £221,477 by 31 March 2024 after transfer from reserves to HRA. This is not sustainable on an ongoing basis.

7.0 Conclusion

7.1 As detailed in the report it is estimated that the HRA will use reserves of £1,366,898 to maintain the working balance per property of £100 in 2023-24.

7.2 The Housing Revenue Account (HRA) is forecast to be significantly impacted by rising costs from energy (net £1.4 million pressure) and contractual inflation (c.£500k), which will not be adequately matched by increased rental income (due to the Government rent cap). The HRA was already facing considerable financial challenges as a result of losing homes and associated rental income to the Sheerwater regeneration project and the legacy impact of 4 years' of rent cuts.

7.3 Spending controls have been put in place with effect from 9 February 2023.

7.4 It was always intended that the HRA be compensated for £3.8 million of revenue costs it incurred in underwriting New Vision Homes' costs of developing the first proposed regeneration scheme for Sheerwater. The receipt of the £3.8 million in 2023-24 is in the process of being secured from ThamesWey and will be critical for the HRA if it is to set a balanced budget in 2024-25 and beyond. This payment will be incorporated into the 2024 ThamesWey Business plans which will presented to Council for approval later in 2023/24..

8.0 Corporate Strategy

8.1 The report sets out the draft budgets for managing and maintaining the Council's housing stock during 2023-24. Provision of housing is a key priority within the Council's Corporate Plan.

9.0 Implications

Finance and Risk

9.1 The financial implications are explicit in the report.

9.2 Risks to budgets have been identified throughout the year and will be reported in the Performance and Financial Monitoring Information booklet (the "Green Book"). Specific risks have been set out in the report.

Equalities and Human Resources

9.3 No equalities implications noted.

9.4 There are no additional human resources or training and development implications arising as a direct result of this report.

Legal

9.5 None identified at this time.

10.0 Engagement and Consultation

10.1 No public consultations have been undertaken in preparing this report.

REPORT ENDS

HOUSING REVENUE ACCOUNT

	REVISED ESTIMATE 2022/23		REVISED ESTIMATE 2023/24	
EXPENDITURE			£	
SUPERVISION & MANAGEMENT				
Estate Management		4,517,573		5,727,572
Rent Accounting/Collection		271,400		354,857
Home Support Service		799,880		773,555
Tenant Participation		54,517		62,532
Repairs Admin		713,248		885,082
Democratic Process		1,665,704		1,741,682
Transfer to harsdship fund				50,000
		8,022,322		9,595,280
DEPRECIATION		3,956,449		3,956,449
MAINTENANCE				
Day to Day Repairs	2,246,447		2,787,866	
Revenue Voids				
Planned Maintenance	373,969	2,620,415	433,850	3,221,716
Debt Management Expenses		36,000		36,000
TOTAL EXPENDITURE		**14,635,186**		**16,809,445**
INCOME				
GROSS RENTS & SERVICE CHARGES		19,322,718		20,983,724
INTEREST COUNCIL HOUSE MORTGAGES		1,150		1,150
TOTAL INCOME		**19,323,868**		**20,984,874**
NET (COST)/SURPLUS OF SERVICES		**4,688,681**		**4,175,429**
Interest Payable and Similar Charges		5,463,712		5,540,927
Amortisation of Premiums and Discounts	`	29,817		0
Revenue Contribution to Capital Outlay				0
Surplus (Deficit) for Year		**-804,848**		**-1,365,498**
WORKING BALANCE STATEMENT				
Surplus (Deficit) brought forward		339,341		337,200
Surplus (Deficit) for Year		-804,849		-1,365,498
Energy Refund To Tenants				
Interest on Working Balances		0		
Surplus (Deficit) carried forward		-465,508		-1,028,298
TRANSFER TO (FROM) RESERVES (HIP Reserve)		-802,708		-1,366,898
Surplus (Deficit) carried forward		337,200		338,600
No. of Dwellings @ 31 March		3,372		3,386
WORKING BALANCE PER PROPERTY		100		100

COUNCIL – 23 FEBRUARY 2023

INVESTMENT PROGRAMME 2022-23 TO 2026-27

Executive Summary

The Investment Programme sets out the capital and one-off investments required to deliver the Council's key strategies and objectives. The Programme includes projects where the funding and consequent revenue implications have been incorporated into the General Fund and Housing Revenue Account budgets for 2023/24 which appear elsewhere on the agenda. Further detail on these projects is also provided.

The impact of the Investment Programme on revenue, capital and reserves are included in appendices attached to this report. Inclusion in the Investment Programme does not mean a project will proceed, only that the Council plans to undertake it if resources permit.

The Covid pandemic had a considerable impact on local government finances. The pandemic resulted in an immediate, and dramatic, fall in activity and footfall severely impacting the Council's car parking revenue and affecting tenants across all of the commercial estate. It has become clear that, the economic model on which the Council's budget is based has changed.

The Council's Fit For The Future Programme of transformation and improvement is ongoing and Officers continue to work constructively with the Department of Levelling Up Housing and Communities (DLUHC) in their review of the Council's borrowing.

The above factors have been key considerations in the preparation and review of the 2023/24 Investment Programme.

Appendix 5 provides a glossary explaining the technical terms used in this report.

Recommendations

The Council is requested to:

RESOLVE That

(i) the Investment Programme 2022/23 to 2026/27 be approved subject to reports on projects where appropriate;

(ii) the proposed financing arrangements be approved; and

(iii) the Local Authority Housing Fund (LAHF) grant be accepted and used to acquire 15 properties for Afghan and Ukrainian families.

Reasons for Decision

Reason: To approve the capital resources for 2022/23 onwards considered necessary to support the Council's service plans and objectives.

The Council has the authority to determine the recommendations set out above.

Background Papers:	None.
Reporting Person:	Leigh Clarke, Finance Director Email: leigh.clarke@woking.gov.uk, Extn: 3277
Contact Person:	Mike Stevens, Deputy Financial Services Manager Email: mike.stevens@woking.gov.uk, Extn: 3622
Portfolio Holder:	Councillor Dale Roberts Email: cllrdale.roberts@woking.gov.uk
Shadow Portfolio Holder:	Councillor Kevin Davis Email: cllrkevin.davis@woking.gov.uk
Date Published:	15 February 2023

1.0 Introduction

1.1 The Investment Programme sets out the capital and one off investment necessary to support the achievement of the Council's strategies and objectives.

1.2 Appendix 5 provides a glossary explaining the technical terms used in this report.

2.0 Approach to updating the Investment Programme

2.1 The Covid pandemic had a considerable impact on local government finances. The Council was particularly affected by reductions in parking income and commercial rents. It has become clear that the economic model on which the Council's budget is based has changed.

2.2 Officers are also continuing to work constructively with the Department of Levelling Up Housing and Communities (DLUHC) in their review of the Council's borrowing.

2.3 These factors have been considered in preparing the 2023/24 Investment Programme and the programme has been largely restricted to committed and essential expenditure only.

3.0 Overview of the Investment Programme

3.1 The Investment Programme lists all the Council's projects, the summary costs of which are shown in total in Appendix 1 and in more detail in Appendices 3 and 4.

3.2 For each project a proposed source of funding is identified (for example capital receipts, grant, development contributions, borrowing or use of revenue reserves). Actual funding decisions will be taken at the end of the year to optimise use of resources. The Investment Programme in itself is not a source of funding; it is the list of projects together with a summary of the implications on the resources available.

3.3 The following appendices are attached to this report:

Appendix	Title	Description
1	IP Summary	Sets out the total funded projects in the Investment Programme.
2	Financing summary	A summary of how the General Fund and Housing Investment Programme projects will be financed.
3	Housing Investment Programme	A breakdown of the projects included in the Housing Investment Programme (HIP) where allowance will be made in the General Fund or HRA revenue budgets.
4	General Fund Projects	A list of projects included in the Investment Programme (allowance made in the General Fund budget).
4a	IT Programme	A breakdown of the IT programme line in Appendix 4.
5	Glossary	An explanation of the technical terms used in the IP.

4.0 General Fund Investment Programme

4.1 The current and committed project details are set out in Appendix 4.

4.2 Where external funding is expected towards the cost of a project this is indicated against each project in the programme. If the external funding is specific to a project, or type of project, those external resources cannot be made available to fund other Investment Programme projects.

4.3 Where the project is to be funded by revenue, this is indicated as this expenditure must be taken directly from revenue reserves in the year in which it is incurred. The Council's revenue reserves have supported the revenue budget since 2020/21 and are under significant pressure as the underlying budget gap is addressed.

5.0 Housing Investment Programme

5.1 The total Asset Management Plan budget for investment in the Council's housing stock is £3,956,449 for 2023/24. This is funded by a contribution to the Major Repairs Reserve which is the value of depreciation charged on Council Dwellings. The breakdown of the Woking Borough Council Homes Section of the Housing Investment Programme (Appendix 3) is illustrative, and priorities will be agreed during the year. The Asset Management Plan is based on stock condition surveys which will be reviewed to develop the Asset Management Strategy through the financial year.

5.2 The Mandatory Disabled Facilities Grants (DFG) item on the Housing Investment Programme is funded by a £1,338,000 grant provided as part of the Department of Health's Better Care Fund. This funding level has been confirmed up until 2025/26. The Council will provide additional discretionary grants totalling up to £110,000 in 2023/24.

Provision of New Housing

5.3 Local Authorities can retain an element of Right to Buy receipts locally to be used on one for one replacement housing. Currently these receipts can be used to fund up to 40% of the cost of the replacement housing and must be used within 5 years or passed to the Government. These funds have all been committed to new affordable housing schemes in recent years, such as the construction of 4 new social rented apartments in Rydens Way, which completed in late 2022.

5.4 The Housing Investment Programme for 2023/24 includes a new build affordable housing scheme at Bonsey Lane. A new planning application has been submitted to deliver the 7 new homes at 80% Affordable Rent levels to ensure the development is viable for the Housing Revenue Account (HRA). The Council has secured Homes England Investment Partner Status and would expect to be able to secure grant funding towards this scheme, with the balance to be funded from capital receipts.

5.5 Whilst the new homelessness hostel remains in the Investment Programme, the Council is working with York Road Project (YRP) to consider various options to deliver this scheme with reduced capital funding from the Council. This will also reflect the learning from the Covid-19 pandemic, which has fundamentally changed the way organisations respond to and provide for homelessness.

Local Authority Housing Fund (LAHF)

5.6 The Department for Levelling Up, Housing and Communities (DLUHC) is introducing a £500 million capital fund – the Local Authority Housing Fund (LAHF) – for local authorities in England to provide accommodation to families with housing needs who have arrived in the UK via Ukrainian and Afghan resettlement and relocation schemes. The Government expects this stock to become available to support wider local authority general housing and homelessness responsibilities after the immediate needs of the eligible cohort have been addressed.

5.7 Woking Borough Council has provisionally been allocated £2,392,259 LAHF grant funding to acquire 15 homes by November 2023 under this scheme (to include a minimum of 1 larger 4+ bed home to be allocated to households currently residing in bridging accommodation). The Council will be required to provide match funding, which will be provided through HRA capital receipts. The homes will be let at 80% Affordable Rents within the HRA.

5.8 As set out in the Thameswey Business Plan, Thameswey Housing (THL) intend to dispose of some residential properties during 2023. These properties are often ex-local authority homes and are likely to offer good value for money. The Council will focus on acquiring suitable properties from THL that meet the criteria for the scheme.

Sheerwater Regeneration

5.9 In February 2020 the Council approved the updated Sheerwater Regeneration project and financing arrangements. It was clear that close monitoring and further work would be required to seek to improve the financial position of the project. The Council on 30 July 2020 authorised the use of Compulsory Purchase Order (CPO) powers for the scheme.

5.10 Please see the Thameswey Business Plans elsewhere on the agenda which detail the latest position of the project and development options under available. It is proposed that funding for 2023 only be approved at this stage while the options are considered. The Sheerwater loan facilities in the Investment Programme are therefore indicative and will be updated once the review has been completed.

5.11 The original Sheerwater loan facilities approved by Council in February 2021 are shown in the table below. During the construction period Thameswey Developments Ltd (TDL) has a facility for maturity loans of up to 5 years. On sale of any properties to rent, from TDL to Thameswey Housing Ltd (THL), THL can take long term funding (50 years) for the operational period.

	Facility £m	Term	Type	Rate	Arrangement fee
Thameswey Developments Ltd (during construction)	115	Up to 5 years	Maturity	relevant PWLB rate	No
Thameswey Housing Ltd (until constuction complete)	290	Up to 5 years	Maturity	relevant PWLB rate	No
Thameswey Housing Ltd Operational	290	50 years	Annuity	relevant PWLB rate	No
Thameswey Housing Ltd Revolving Loan facility	116	Up to 30 years	Maturity	relevant PWLB rate	No
Thameswey Energy Ltd	5.25	20 years	Annuity	relevant PWLB rate	No

5.12 In order to ensure there is flexibility to take the cheapest borrowing available, the Council agreed that TDL be authorised to take long term annuity funding, up to 50 years, through its £115m facility with those loans transferring to THL as the project progresses. The total long term loans drawn by the Thameswey Group for the Sheerwater project should not exceed the long term facility of £290m previously agreed (excluding THL revolving facility and TEL facility).

5.13 The allowance for Sheerwater Social Support remains in the funded Investment Programme, recognising the critical need to support the community through this project.

6.0 Revenue Reserves

6.1 The Council has historically held a number of revenue reserves which represented funds set aside to manage the Council through its Medium Term Financial Strategy, including the town centre regeneration, and to support one off expenditure and project costs. A significant proportion of these accumulated reserves has been required to support the Council's revenue budget since 2020/21. The Medium Term Financial Strategy report, also on this agenda, sets out the continued need to utilise reserves in order to set a balanced budget.

6.2 A minimum level of reserves of £10m has been set, however forecasts show reserves falling below this level in 2024/25 and being fully used during 2025/26. The use of reserves through the Investment Programme must therefore be kept to a minimum so that they are available to assist the Council to manage through the current critical financial position.

6.3 The Investment Programme contains some projects which are of a revenue nature. In accounting terms these projects do not produce an asset and so they cannot be funded from capital sources such as capital receipts or borrowing. The cost of these projects fall on revenue sources and are included in the Investment Strategy Reserve (General Fund) and HIP Reserve (Housing Revenue Account). Details of the General Fund and HRA impacts are included in other reports on the agenda.

6.4 All of the costs relating to the Investment Programme are built into the General Fund and Housing Revenue Account estimates. However, given the ongoing pressures on revenue reserves and economic uncertainty, the Council's financial position will be considered before projects commence.

7.0 Priorities

7.1 The projects are included within the Investment Programme using the priorities established by the Capital Strategy. The use of capital resources are prioritised in the Capital Strategy as follows:

- schemes that are essential to comply with Health and Safety or security obligations;
- schemes that are essential to enable the Council to carry on its business with economy, efficiency and effectiveness, including electronic service delivery;
- schemes that are for essential maintenance of assets;
- schemes that enable the Council to further the objectives of the Corporate Strategy;
- schemes that secure or enhance the income base; and
- schemes that secure reductions in the cost base.

7.2 Prioritisation of the use of capital resources has regard to the Council's priorities, as determined through the Woking for All Strategy.

8.0 Reporting of Project Progress

8.1 The Executive receives a quarterly report of progress on projects. The report focuses on active projects and shows the project progress and assesses overall project risk as well as the total cost of projects (including costs incurred in previous years).

8.2 When a project is planned, a project mandate is prepared and these mandates are used to update the Investment Programme. Spending should only commence on a project once it has been through an authorisation process and the budget released.

8.3 Further detail on active projects is reported to the Executive through the project monitoring process.

9.0 Schemes included within the Financed Investment Programme

9.1 The Investment Programme includes the following new schemes which have been added since the Investment Programme was approved in February 2022. The items added to the programme are indicated below and further details can be found in Appendices 3 and 4.

- River Wey Flood Prevention – Byfleet
- Digital Centre of Excellence - Incubator Support Service
- Midas House - Reconfiguration of two vacant floors areas (Part 2nd and 3rd Floor)
- Decarbonisation improvement
- Woking Park Footpath Refurbishment
- St Johns Lye Road Repairs
- Old Woking Community Centre Project (Woking College)

- Rough Sleeping Accommodation Programme (RSAP) Acquisitions

Housing Infrastructure Fund (HIF)

9.2 In July 2019 the Council was awarded a £95 million grant from the Ministry of Housing, Communities and Local Government Housing Infrastructure Fund. The investment will be used to address inadequacies of the A320 Guildford Road and Victoria Arch, to improve pedestrian and cycle routes and replace the railway bridge.

9.3 The terms of the funding were agreed in early 2020 and the Council has received £34,599,697 to date. An update on this project was provided to the December Executive and it was resolved that a further update on the transport modelling, design options and funding opportunities be presented to the Executive in 2023. The project is under review and the expenditure has been maintained at the same level as in the previous investment programme pending the outcome of this review (with the estimated 2022/23 under spends slipped forward into 2023/24).

9.4 The 3 HIF items on the previous Investment Programme have been consolidated into one 'HIF Victoria Arch and Integrated South Side Works' item. The total level of expenditure and capital financing remain the same.

Local Development Framework and Local Plan

9.5 Woking Borough Council has a statutory duty to prepare, and keep up to date, a local plan, which for Woking comprises the Core Strategy (CS) Development Management Development Plan Document (DMDPD) and the Site Allocations Development Plan Document (SADPD). The Town and Country Planning (Local Planning)(England) Regulations 2012 (as amended) which came into force on 6 April 2018, requires local planning authorities to review local development documents within specified time periods. Regulation 10A (1)(a) requires that the review must be completed every five years, starting with the date of adoption.

9.6 The Core Strategy is now 10 years old. Whilst the review 5 years ago concluded that there was no need to update, the last 5 years has seen considerable change in national planning policy and there have been significant economic, and social challenges that may well have had an impact on the effectiveness of the plan policies, and the deliverability of the plan objectives. The review will need to be completed by October 2023 in order that the local plan remains up to date. Whilst some of this work can be undertaken in house, there will be a need to commission consultants on some areas, including the SHMA, viability, economic and retail needs assessments.

9.7 The SADPD (adopted in 2021) and the DMDPD (reviewed in 2021) are both still up to date and require no further work at this time.

Asset Management Plan (AMP)

9.8 Due to the impact of the pandemic the Asset Management Plan under spent by £1.914m in 2021/22. £914k of this under spend has been slipped forward a further year into 2023/24 and has been identified to be used on works to the Pool in the Park electrical sub-station (currently estimated to be between £500k to £1m). If works to the sub-station are less than forecast then this under spend may be taken as a capital saving. Other works scheduled for 2023/24 include the upgrade of the floor finishes in a number of multi storey carparks which are now representing a trip hazard or have the potential to reduce the overall life expectancy of the structure.

Decarbonisation improvement

9.9 An independent Carbon Footprint Assessment was completed in September 2022. The study improves the Council's knowledge of its footprint helping to identify key areas of focus in reaching our net zero target by 2030. Specifically, the report identifies that energy efficiency, energy demand reduction and decarbonisation of our energy networks are fundamental to this target. The Investment Programme demonstrates the ambition in this respect. Resources will need to be allocated to facilitate building-level decarbonisation pathways, feasibility analysis and costed projects to enable us to be 'bid ready' in applying for external funding opportunities to finance such carbon reduction initiatives across the corporate estate.

Victoria Square Woking Ltd (VSWL)

9.10 Victoria Place was officially opened by the Mayor of Woking Borough Council on 23rd March 2022. In December an update on the project was reported to Council which set out the cash flow requirements of VSWL and an additional loan facility of £45m, covering the funding requirement for 5 years, was approved. This allows the company to operate and become established while the Council considers future options and opportunities to leverage additional equity investment and exploit the wider economic benefits enabled by the project

9.11 The additional loan facility replaced a £58m budget previously included within the Investment Programme for the acquisition of the car park assets.

Opportunity Purchases

9.12 The previous Investment Programme included a £3m p.a. Opportunity Purchases item. The purchase of Winston Lodge as part of the Co-Plan Development and to facilitate Seymour's (current owners of Winston Lodge) relocation to Victoria Place was agreed in the Winter of 21/22 and therefore this item has been reduced to £324k and £495k (in 2022/23 and 2023/24 respectively) to reflect this.

9.13 As set out in the November MTFS report the budget for Opportunity Purchases has been removed and the budget for Housing acquisitions reduced to the minimum level considered necessary to facilitate necessary tenant moves. Due to the financial position of the Council, it is proposed that any further acquisitions under this development should either be suspended or do not progress without specific approval by the Corporate Leadership Team and Executive. No budget provision has been made for further acquisitions.

Playgrounds Improvements

9.14 The playground improvements project phase 4 has covered the refurbishment of a number of play areas over the past 16 years, with the remaining three requiring refurbishment at Horsell Moor, Oakfield and Sutton Green identified in the 2022/23 investment programme. It is proposed that the funding for these works is carried forward for completion in 2023/24.

9.15 In addition, the playground maintenance / surfacing repairs project will fund a programme of capital works covering other significant priority repair and refurbishment requirements. The proposed works will be part funded from external grant funding through the UK Shared Prosperity Fund (UKSPF), alongside borrowing. This includes approximately £44,000 external grant funding from the UKSPF in the current financial year, to cover part of the £100,000 funding agreed in the 2022/23 investment programme, and a further £150,000 grant funding from UKSPF in 2024/25.

Digital Centre of Excellence

9.16 The Council has had an ambition to see the delivery of a Digital Centre of Excellence incorporating a business support incubator and accelerator service. This ambition is set out in the adopted Economic Development Action Plan and Digital Strategy.

9.17 The objective is to support and develop new entrepreneurs, start-up and established businesses to contribute to the economic and social development of the Borough. This would include organisations that are developing technologies in the net zero carbon/ reusable and clean/ sustainable energy sectors as well as technology that is environmentally friendly based on its production and supply chains. Many highly successful and well-known companies began as start-ups that used incubators. Incubators are growing in popularity in recent years due to the many benefits that they provide to start-ups and businesses with a growth mindset.

9.18 Council officers continue to work to develop the detail of the project which Additional Restrictions Grant (ARG) has been allocated to fund. Once further details are available a full analysis of the benefits and operating costs will be brought to a future meeting of the Executive for approval.

River Wey Flood Prevention

9.19 The above project has been added to the Investment Programme as approved by the Executive as part of the March 2022 MTFS Report. The Council's contribution to the project will be made up as follows;

- The flood scheme land that is already in the Council's possession following investment programme funding for land management in Byfleet in November 2018.
- Contributions in kind.
- General Fund land maintenance costs (costed over 100 years).

Fit for the Future External Support

9.20 External support will be required to help achieve savings and drive transformation under the Fit For The Future Programme. This expenditure will be revenue and not capital. Usually revenue expenditure cannot be financed by capital resources such as borrowing or capital receipts.

9.21 On 6 February 2018 the Secretary of State issued a direction under Section 16(2)(b) of the Local Government Act 2003 and guidance under section 15(1)(a) of the Local Government Act 2003 to allow local authorities to spend capital receipts on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs/produce savings. The Fit For The Future Programme is likely to fit this criteria and therefore this item is financed by capital receipts on the Investment Programme.

9.22 The Council has a capital receipt available through the sale of Cleary Court, agreed during 2022/23. It is proposed that this receipt be used to fund the Fit for the Future Programme.

9.23 In order for a capital receipt to be used on transformation projects, Council approval is required and the Government need to be notified of the planned approach and forecast savings. The detailed proposals will be set out in the March Medium Term Financial Strategy (MTFS) paper for approval by Council before the beginning of 2023/24.

10.0 Schemes in excess of £1m

10.1 In accordance with the Notice of Motion agreed by Council on 12 July 2007 the following schemes have costs exceeding £1m, not all of which have been contractually committed:

- Capitalised Salary Costs for Projects (TMP23)
- Car Park Management System (TMP13)
- Decarbonisation for Export House and Midas House
- Decarbonisation improvement
- HIF Victoria Arch and Integrated South Side Works

- HRA Housing Developments (20191)
- HRA Property Purchases
- Loan re Greenfield School
- Loan re Dukes Court
- Loans to Thameswey Central Milton Keynes
- Mandatory Grants
- New Hostel Provision (TMP51)
- Old Woking Community Centre Project (Woking College)
- Poole Road Energy Centre – Loan to Thameswey Energy Ltd
- Provision of New Homes
- River Wey Flood Prevention - Byfleet
- Sheerwater Regeneration - Loan to TDL
- Syrian Refugee Resettlement Programme (TMP15)
- Victoria Square Phase 2 – Loan to Victoria Square Woking Ltd
- Woking Borough Council Homes (10429)

10.2 Other items in excess of £1 million include the Asset Management Plan, ICT Programme and Housing Repairs and Improvements programme which are each made up of a number of projects which vary in size.

10.3 Reports seeking approval to schemes will be made to the Executive as appropriate.

10.4 Approved loans to group companies in total exceed £1 million and are released as required, providing they are within the sums agreed in the Group Business Plans. The Council has implemented strengthened governance around its management of interests in group companies during 2022/23. This has included the development of a Shareholder Advisory Group (SAG) which has provided challenge around the Business Planning process. Enhanced drawdown processes will be introduced in the coming months to increase the scrutiny and challenge within this process.

11.0 Schemes Removed

11.1 The following schemes have been removed from the Investment Programme at this stage. These may be added back at a later date once sufficient resources are available or if it is determined that they are required;

- Celebrate Woking – moved to revenue budget
- Pool in the Park Accessibility Upgrades – resources to be identified
- Wolsey Place Refurbishment and Reconfiguration – not required
- Wolsey Place Mall Refurbishments - not required

12.0 Schemes not yet taken account of

12.1 There are a number of initiatives that have not been included in the Investment Programme as they are not yet ready for formal consideration. These include projects at the former Robin Hood and Anchor pub sites, Tennis Court Refurbishments, West Byfleet Recreation Ground Improvements, and land acquired at Egley Road. These projects will continue to be worked up and submitted to the Executive for consideration.

13.0 Release of funding

13.1 The Council's Capital Strategy sets out the arrangements for managing the initiation and approval of projects and includes a delegated arrangement for the Executive to agree new schemes which fall within the following parameters:

13.2 "Where the scheme is a new scheme the proposal will be scheduled for consideration by the Executive. The Executive will be granted delegated authority to agree schemes which can be contained within the following parameters set by the Council:

- the capital cost of each individual project does not exceed £5m;
- the aggregate capital cost of schemes approved by the Executive under this delegation does not exceed £10 million in any one financial year; and
- the cost can be contained within the authorised borrowing limits.

The setting of the Authorised and Operational borrowing limits is reserved to the Council. Where the scheme is expected to be outside of the above parameters the scheme will need the approval of the Council."

13.3 The use of this delegated authority is reported in the Green Book.

14.0 Thameswey

14.1 Updated Thameswey business plans and proposals for the Sheerwater Regeneration are reported on elsewhere on the agenda.

14.2 At this stage the Council is asked to approve a one year Business Plan while options are considered for future years. Once agreed the Investment Programme will be updated to reflect this one year approval.

14.3 Future years in the Investment Programme are indicative, based on draft 2023 Business Plan proposals and the previous approved Investment Programme. These years will be considered at a future date, inclusion in the Investment Programme does not indicate approval of the investment.

15.0 Implications

Finance and Risk

15.1 The financial implications of the Investment Programmes have been incorporated in the draft General Fund and Housing Revenue Account estimates. The Prudential Borrowing implications have been built into the Treasury Management Estimates.

15.2 Later phases of the General Fund programme, and the progression of any projects being developed, rely on the identification and receipt of other new resources to enable projects to proceed.

15.3 The project management arrangements provide for risk analysis as part of the improved control of Investment Programme projects; this seeks to minimise and manage risk.

Equalities and Human Resources

15.4 The Council has core resources to manage the Investment Programme but relies upon third party consultants to implement a number of its major projects. This is considered the most cost effective way of managing a varied programme. Greater corporate capacity is being developed through the Shareholder Advisory Group (SAG) and the Fit for the Future programme resource.

Sustainability

15.5 Projects in the Investment Programme are progressed in accordance with the Procurement Strategy, Crime and Disorder Strategy, and the Climate Change Strategy.

Legal

15.6 There are no specific legal implications arising from this report.

16.0 Engagement and Consultation

16.1 No general public consultations have been undertaken in connection with this report. The Investment Programme has been reviewed by Managers, Corporate Leadership Team and Portfolio Holders.

REPORT ENDS

INVESTMENT PROGRAMME SUMMARY
2022/23 - 2026/27

APPENDIX 1

	APPENDIX & PAGE REFERENCE	PLANNED EXPENDITURE 22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000
General Fund	Appendix 4	102,166	102,890	35,575	16,773	15,774
Housing Investment Programme	Appendix 3	89,276	100,002	95,300	100,404	12,404
Total Investment Programme		191,442	202,892	130,875	117,177	28,178

APPENDIX 2

INVESTMENT PROGRAMME SUMMARY
2022/23 - 2026/27

	FINANCING SUMMARY												
	CHARGE TO GEN. FUND (Revenue) £'000	BORROWING GENERAL FUND £'000	BORROWING HRA £'000	BORROWING TO FUND EXTERNAL LOANS £'000	CAPITAL RECEIPTS £'000	RESERVES IT RESERVE £'000	RESERVES HIP RESERVE £'000	RESERVES GENERAL RESERVE £'000	RESERVES MAJOR REPAIRS £'000	RESERVES SECTION 106 £'000	COMMUNITY FUND £'000	GRANTS & CONTRIBS £'000	TOTAL
2022/2023	326	10,099	1,067	161,413	1,239	0	396	492	3,700	639	0	12,071	191,442
2023/2024	347	20,416	500	97,300	5,423	0	348	385	3,956	550	0	73,667	202,892
2024/2025	120	4,988	500	105,100	1,846	0	0	0	3,956	50	0	14,315	130,875
2025/2026	120	3,818	500	105,500	300	0	0	0	3,956	50	1,395	1,538	117,177
2026/2027	120	3,818	500	17,100	300	0	0	0	3,956	50	796	1,538	28,178

APPENDIX 3

HOUSING INVESTMENT PROGRAMME
2022/23 - 2026/27

DETAILS OF PROJECT	Expenditure £'000 22/23 £'000	 23/24 £'000	 24/25 £'000	 25/26 £'000	 26/27 £'000	 Total	Financing £'000 Borrowing	 Contribution Grant Other	 Revenue
Provision of New Homes									
Affordable Housing - Thameswey Housing Ltd									
Provision of New Homes	32,337	22,000	32,000	17,000	6,000	109,337	109,337		
Medium Term Financial Strategy Additional Provision						0			
Total Thameswey Housing Ltd	32,337	22,000	32,000	17,000	6,000	109,337	109,337	0	0
Sheerwater Implementation Costs									
Capital Expenditure Funded By WBC Borrowing:									
Sheerwater Regeneration - Loan to TDL (During Construction)	48,383	63,000	55,000	77,000		243,383	243,383		
Project Management\Revenue Expenditure Originally Financed From The Sheerwater Regen Reserve:									
Sheerwater Regen Staff Costs	232	232				464			464
Removal Costs	18	18				36			36
Equalities Survey	18	18				36			36
Miscellaneous Costs Including Subsidy to the Doctor's Surgery & 3rd Party Legal Fees	117	117				235			235
Other Regeneration Expenditure\Additional Housing Purchases:									
Home Loss and Disturbance Payments	348	348				696			696
Total Sheerwater Implementation Costs	49,116	63,733	55,000	77,000	0	244,849	243,383	0	1,467
General Fund Housing Developments									
Hostel Feasibility (funded from revenue)						0			
New Hostel Provision (funded from capital receipts/borrowing)		500	500			1,000		1,000	
Temporary Accommodation Acquisition and Conversion	817					817	506	311	
Total General Fund Housing Developments	817	500	500	0	0	1,817	506	1,311	0
Total Non HRA Homes	82,270	86,233	87,500	94,000	6,000	356,004	353,226	1,311	1,467

HOUSING INVESTMENT PROGRAMME
2022/23 - 2026/27

APPENDIX 3

DETAILS OF PROJECT	22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000	Total	Borrowing	Contribution Grant Other	Revenue
	Expenditure £'000						**Financing £'000**		
HRA Housing Developments:									
Monument Way	5					5	4	2	
Bonsey Lane		1,396	1,396			2,791		2,791	
Corner Of Rydens Way\ Sundridge Road	615					615	431	185	
Stock Conversions						0			
HRA Property Purchases:									
HRA Market Purchases	1,000	1,000	1,000	1,000	1,000	5,000	2,633	2,367	
Local Authority Housing Fund (LAHF) Acquisitions		5,969				5,969		5,969	
Total HRA Homes	1,620	8,365	2,396	1,000	1,000	14,380	3,067	11,313	0
Total Provision of Homes	**83,890**	**94,598**	**89,896**	**95,000**	**7,000**	**370,384**	**356,294**	**12,623**	**1,467**
Renovation & Improvements									
Woking Borough Council Homes									
Council Homes AMP (Illustrative breakdown)									
Communal Works	953	953	953	953	953	4,767		4,767	
Lifecycle Dwelling Investment	948	1,204	1,204	1,204	1,204	5,763		5,763	
Disabled Adaptations/Extensions	197	197	197	197	197	983		983	
Works Arising From Cyclical Inspections	1,068	1,068	1,068	1,068	1,068	5,338		5,338	
Capitalised Responsive Enhancements	44	44	44	44	44	221		221	
Energy Reduction Programme	295	295	295	295	295	1,474		1,474	
Development Projects	29	29	29	29	29	146		146	
Fees & Consultancy	167	167	167	167	167	833		833	
Clientside Renovation & Improvements Projects									
Communal Heating and Hot Water Systems	48					48			48
Sub Total - Woking Borough Council Homes	3,748	3,956	3,956	3,956	3,956	19,572	0	19,524	48

APPENDIX 3

HOUSING INVESTMENT PROGRAMME
2022/23 - 2026/27

DETAILS OF PROJECT	Expenditure £'000 22/23 £'000	23/24 £'000	24/25 £'000	25/26 £'000	26/27 £'000	Total	Financing £'000 Borrowing	Contribution Grant Other	Revenue
Private Sector Homes									
Mandatory Grants									
Mandatory Disabled Facilities	988	988	988	988	988	4,940		4,940	
Fast Track Disabled Adaptation Grant	300	300	300	300	300	1,500		1,500	
Palliative Care/end of Life Assistance	50	50	50	50	50	250		250	
Discretionary Grants									
Discretionary Disabled Facilities Grant	80					80	80		
Disabled Facilities Top-Up Grant	50					50	50		
Moving Home Grant	20					20		20	
Safe At Home Assistance	50					50		50	
Warm At Home Assistance	100					100		100	
General Discretionary Grants		110	110	110	110	440	440		
Empty Homes Assistance						0			
Sub Total - Private Sector Homes	1,638	1,448	1,448	1,448	1,448	7,430	570	6,860	0
Total Renovation & Improvement	**5,386**	**5,404**	**5,404**	**5,404**	**5,404**	**27,002**	**570**	**26,384**	**48**
TOTAL HOUSING INVESTMENT PROGRAMME	**89,276**	**100,002**	**95,300**	**100,404**	**12,404**	**397,386**	**356,864**	**39,007**	**1,515**

INVESTMENT PROGRAMME 2022/23 - 2026/27
GENERAL FUND PROJECTS
(Finance cost included in revenue budget)

APPENDIX 4

REVENUE/ CAPITAL	PROJECT REFERENCE	DETAILS OF PROJECT	Expenditure £'000						Financing £'000		
			22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000	Total £000	Borrowing	Contribution Grant Other	Revenue
		Group/External Loans and Share Capital									
C	n/a	Loans to Thameswey Central Milton Keynes	3,100	3,300	5,500	5,500	4,100	21,500	21,500		
C	n/a	Poole Road Energy Centre - Loan to Thameswey Energy Ltd	7,615		3,600		1,000	12,215	12,215		
C	n/a	Victoria Square Phase 2 - Loan to Victoria Square Woking Ltd	66,140	9,000	9,000	6,000	6,000	96,140	96,140		
C	n/a	Loan re Greenfield School	2,838					2,838	2,838		
C	n/a	Loan re Dukes Court (funded by borrowing)	1,000					1,000	1,000		
			80,693	12,300	18,100	11,500	11,100	133,693	133,693	0	0
		Woking Borough Council									
		Place									
C	Appendix 6(a)	Asset Management Plan - Wolsey Place/Export House (funded by borrowing)	485					485	485		
C	n/a	Opportunity Purchases For Regeneration (funded by borrowing) *	324	495				819	819		
C	TMP2	Dukes Court Refurbishment (funded by borrowing) *	374					374	374		
R	TMP8	Victoria Square Financial Modelling (funded by Victoria Square Reserve)	30					30			30
R	10297	Local Development Framework and Local Plan (funded by revenue)	72	100				172			172
C	10207	Suitable Alternative Natural Green Space (SANG) Maintenance (S106 funded)	50	50	50	50	50	250		250	
C	20226	HIF Victoria Arch and Integrated South Side Works (funded from grant \ CIL \ Interim Borrowing)	6,969	81,327	93			88,389	13,947	74,442	
R	20067	Developing a Favourable Conservation Status Licence (funded from New Homes Bonus)	7					7			7
C	TMP13	Car Park Management System (funded by borrowing)	683	350				1,033	1,033		
C	10917	River Wey Flood Prevention - Byfleet (funded by grant/contribution)	280		10,500			10,780		10,780	
C	20041	Brookwood Cemetery - Grant for capital works (funded by borrowing)	100					100	100		
C	TMP15	Syrian Refugee Resettlement Programme (funded by grant)	250	250	250	250	796	1,796		1,796	
R	20234	Planet Woking (funded from revenue)	35	7				42			42
C	n/a	Economic Regeneration (funded from borrowing)	282					282	282		
C		Decarbonisation for Export House and Midas House (funded by Grant/Service Charges)	4,419	116				4,535	1,480	3,055	
C	20270	Woking Town Centre Masterplan (funded by revenue\contribution)	112					112		73	39
C	20275	Victoria Way Central Reservation (funded from contribution)		300				300		300	
C	n/a	Town Centre Help points (funded by borrowing)	110					110	110		
C	20120	Rainwater Gardens Project (funded by Grant)		280	240	345		865		865	
C	n/a	Digital Centre of Excellence - Incubator Support Service	45	12	394			451		451	
C	20272	Midas House - Reconfiguration of two vacant floors areas (Part 2nd and 3rd Floor)	300					300	300		
C	20280	Decarbonisation improvement (funded by Grant)		400	800	800		2,000		2,000	
R	n/a	Woking Park Footpath Refurbishment (funded by revenue\contribution)		40				40		15	25
R	n/a	St Johns Lye Road Repairs (funded by revenue)		15				15			15

INVESTMENT PROGRAMME 2022/23 - 2026/27
GENERAL FUND PROJECTS
(Finance cost included in revenue budget)

APPENDIX 4

REVENUE/ CAPITAL	PROJECT REFERENCE	DETAILS OF PROJECT	Expenditure £'000						Financing £'000		
			22/23 £000	23/24 £000	24/25 £000	25/26 £000	26/27 £000	Total £000	Borrowing	Contribution Grant Other	Revenue
		Communities									
C	10206	Playground Improvements Phase 4 (S106 & grant funded)		16				16	16		
C	20233	Playground Improvements - Horsell Moor (funded by borrowing)		55				55	55		
C	20233	Playground Improvements - Oakfield (funded by borrowing)		35				35	35		
C	20233	Playground Improvements - Sutton Green (funded by borrowing)		45				45	45		
C	20233	Playground maintenance / surfacing repairs (funded by borrowing\Contributions)	100	50	150			300	106	194	
C	n/a	Eastwood Leisure Centre (funded by borrowing)			100			100	100		
R	n/a	Buzz Theatre (funded by revenue)	40	20				60			60
C	20264	Old Woking Community Centre Project (Woking College) (funded from grant/contribution)	1,289	500				1,789		1,789	
C	n/a	Pool in the Park - Accessibility Upgrades (new pool hoists - funded from equipment reserve)	70					70			70
R	TMP17	Sheerwater Social Support (funded by revenue)	20	20	20	20	20	100			100
		Grounds Maintenance Retender (funded by revenue)	20	60				80			80
		Corporate Resources									
C	n/a	Asset Management Plan (funded by borrowing/revenue)	1,000	1,914	1,000	1,000	1,000	5,914	5,414		500
C	Various	IT Programme (funded by borrowing)	1,761	2,890	2,635	1,565	1,565	10,416	10,416		
C	10615	I T Infrastructure (funded by borrowing)	180	180	180	180	180	900	900		
C	20122	CCTV Infrastructure Upgrade and Formation of Town Centre Control Room (funded by borrowing/grant)	731					731	731		
C	TMP23	Capitalised salary costs for projects (funded by borrowing)	1,063	1,063	1,063	1,063	1,063	5,315	5,315		
R	n/a	Fit for the Future External Support (funded by capital receipts)	272					272		272	
			21,473	90,590	17,475	5,273	4,674	139,485	42,063	96,282	1,140
		Total	**102,166**	**102,890**	**35,575**	**16,773**	**15,774**	**273,178**	**175,756**	**96,282**	**1,140**

* Capitalisation/other mitigation of interest costs to apply

INVESTMENT PROGRAMME 2022/23 - 2026/27
GENERAL FUND PROJECTS
(Finance cost included in revenue budget)

APPENDIX 4a

REVENUE/ CAPITAL	PROJECT REF NUMBER	DETAILS OF PROJECT	22/23 £000	23/24 £000	24/25 £000	25/26 £000
		IT Programme				
		Microsoft 365	250	300	300	300
		Cyber Security investments	100	175	175	100
		Igel upgrade / replacement - Laptop upgrade assumed	360	100	100	100
		Payment Card Industry Data Security Standards	70	20	20	20
		Network Review	250	175	175	75
		WiFi Review	58	10	10	10
		Internet services for civic offices (new)	100	100	100	100
		SAN / Server Replacement		500	500	
		Customer Self Service		100	100	50
		NVH contract end ICT		100		
		Cloud for on-premise Apps	50	50	50	10
		Telephony / Unified Comms	10	150	150	50
		Video conferencing		50	50	
		ICT Servicedesk system		80	50	
		Off-site printing		50	15	
		Replacement MFDs	83			
		Reduce printing review (new for 23/24)			50	50
		Data Centre Facilities Refresh	10	30	30	30
		Mobile phone refresh	90	45	45	45
		Home Working	25	25	25	25
		IPF System Upgrade		50		
		Infrastructure Refresh Budget	100	100	100	100
		Cyber Security Ongoing refresh	80	80	90	100
		Call Secure Plus		50		
		Transformation Project - ICT Digital Transformation implementation	100	300	300	300
		Data Publishing	25			
		Town Centre WiFi		100	50	
		Web site review		150	150	100
		Total	**1,761**	**2,890**	**2,635**	**1,565**

INVESTMENT PROGRAMME - GLOSSARY OF TERMS

INVESTMENT PROGRAMME	A plan of the capital and one-off investment required to deliver the Council's key strategies and objectives. Projects/schemes will proceed only if resources permit.
CAPITAL EXPENDITURE	Expenditure that has a benefit exceeding a year (as opposed to revenue expenditure where the benefit is used up in the year).
FUNDS	Money resources needed to finance the Investment Programme. Funds will only be released to enable a project to proceed once the Chief Finance Officer is satisfied that the project is affordable and the resources are available.
REVENUE IMPLICATIONS	The ongoing costs such as maintenance and loan charges arising from capital investment.
HOUSING INVESTMENT PROGRAMME (HIP)	Planned spending on housing projects .
GENERAL FUND INVESTMENT PROGRAMME	All other projects.
CURRENT AND COMMITTED SCHEMES	Schemes which are currently underway, for which funds have been released or for which it is imperative that they proceed to achieve key objectives.
NEW PROPOSALS	Schemes for which resources have not been released and, probably, have yet to be fully scoped.
RESERVES	Money set aside to cover expenditure in the future (excluding provisions for future liabilities or losses).
IT IP RESERVE	Money set aside specifically for Information Technology schemes.
HIP RESERVE	Money set aside specifically for Housing Investment Programme (HIP) schemes.
INVESTMENT STRATEGY RESERVE	Money set aside for schemes not covered by other reserves, mainly General Fund Investment Programme schemes.
MAJOR REPAIRS RESERVE	Money set aside mainly from the Major Repairs Allowance paid annually by the Government to finance work on Council houses.
SECTION 106	Contributions received from developers as part of the Town Planning process to finance projects in the community.
BORROWING	Borrowing money from external sources in accordance approved borrowing limits and tests of affordability.
HOUSING CAPITAL RECEIPTS	Proceeds from the sale of housing assets, such as sales under Right to Buy.

GF CAPITAL RECEIPTS	Proceeds from the sale of assets other than Housing assets. No pooling is required.
GF REVENUE	Funding provided by the General Fund budget to finance one off revenue type Investment Programme projects.
COMM FUND	Community Fund – money set aside to provide financial assistance to local organisations for the provision of new or improved facilities for the benefit of the community.
GROUP COMPANY	Funding by Group Company.
PFI	Private Finance Initiative – a Government programme to bring private investment into social housing by allowing local authorities to work with a partnership of specialist organisations to build new homes or improve properties already owned by the Council.
OTHER	Funding from National Lottery, Government departments and other organisations.

COUNCIL – 23 FEBRUARY 2023

CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES

Executive Summary

In accordance with statutory provisions it is necessary for the Executive to approve the Council's Treasury Management Strategy and to make recommendations to the Council in respect of the Minimum Revenue Provision (MRP) Strategy and the Treasury Management Prudential Indicators as required under the Chartered Institute of Public Finance and Accountancy's Prudential Code.

Since 2019/20 the Council has also been required to approve a Capital Strategy and Investment Strategy. These provide detail on the Council's activities, the reasons for and types of investments undertaken and the risk exposure as a result of these decisions. The intention is to provide a comprehensive and transparent picture of the Council's position which links into the Council's overall corporate plans and objectives.

Recommendations

The Council is requested to:

RESOLVE That

(i) the Treasury Management Strategy set out in the report be approved;

(ii) the Capital and Investment Strategies for 2023/24 be approved; and

(iii) the Treasury Management Prudential Indicators set out in table 1 of Section 4 of the Treasury Management Strategy and the MRP policy set out in Appendix A be approved, subject to any changes arising from consideration of the Investment Programme and revenue budgets.

Reasons for Decision

Reason: To determine the Council's Treasury Management Strategy for 2023/24 and to adopt the Capital and Investment Strategies, Treasury Management Prudential Indicators and MRP Strategy.

The Council has the authority to determine the recommendations set out above.

Background Papers:	None.
Reporting Person:	Leigh Clarke, Finance Director Email: leigh.clarke@woking.gov.uk, Extn: 3277
Contact Person:	Neil Haskell, Business Support Manager Email: neil.haskell@woking.gov.uk, Extn: 3246 Mike Stevens, Deputy Financial Services Manager Email: mike.stevens@woking.gov.uk, Extn: 3622
Portfolio Holder:	Councillor Dale Roberts Email: cllrdale.roberts@woking.gov.uk
Shadow Portfolio Holder:	Councillor Kevin Davis Email: cllrkevin.davis@woking.gov.uk
Date Published:	15 February 2023

1.0 Introduction

1.1 Since 2019/20 the CIPFA Prudential Code for Capital Finance in Local Authorities, and new government guidance on Local Government Investments have required the publication of Capital and Investment Strategies. The government also introduced statutory guidance.

1.2 The Capital, Investment and Treasury Management strategies are presented together enabling the links to be highlighted whilst minimising duplication. A suite of appendices are included which can be referred to from any of the core strategies.

1.3 These strategies will continue to be developed further to support the understanding of the Council's capital investments and long term plans. The documents link with the Council's other long term plans and the Medium Term Financial Strategy to provide an overall picture of the Council's activity.

2.0 Capital Strategy

2.1 The Capital Strategy has a wide scope covering the Council's overall approach to capital investment. It demonstrates how the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

2.2 The purpose of the capital strategy is to give a clear and concise view of how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It includes references to elements of the Investment Strategy, Treasury Management Strategy and the Council's Investment Programme.

2.3 The Capital Strategy sets out the Council's long term approach in line with the long term nature of capital and investment decisions. There is a direct link to the Council's Local Plan, place shaping activities and other long term strategies.

2.4 Group activities and joint ventures are also included in the Capital Strategy, including the processes for ensuring effective due diligence and defining the Authority's risk appetite.

2.5 The guidance requires that proportionality, in respect of overall resources, is also considered.

3.0 Investment Strategy

3.1 The Investment Strategy provides an explanation of investment activities, explaining 'why' as well as 'what' investments are made. A range of indicators and disclosures are recommended in the guidance.

3.2 Investments held for treasury management purposes are covered by the Treasury Management Strategy (see below), with the focus of the Investment Strategy being other investments such as loans, shares and property.

3.3 Property, loans and shares are treated as capital expenditure and financed in the same way as other Investment Programme projects, with allowance made to repay any borrowing over time. However the expenditure creates an asset shown as an investment on the Council's balance sheet and so the guidance has been applied.

3.4 Whilst the Council has a significant property portfolio, these assets are not held solely for investment purposes. Each acquisition has had a strategic purpose with a direct link to Council objectives or services. Shares and Loans are also used to support the Council's objectives.

4.0 Treasury Management Strategy

4.1 Treasury Management refers to the management of cash balances through borrowing and investment. The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

4.2 The Treasury Management Strategy sets out the Council's strategy for borrowing and to prepare a strategy for setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

4.3 The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5.0 Future Developments

5.1 CIPFA published revised Treasury Management and Prudential Codes on 20th December 2021. The Treasury Management, Investment, and Capital Strategies incorporate the changes under the new codes from 2023/24 onwards. The revised codes have implications regarding;

- Additional benchmark treasury indicators.
- Clarifying what CIPFA expects a local authority to borrow for and what they do not view as appropriate (including setting a proportionate approach to commercial and service capital investment). The Prudential code confirms that an authority must not borrow to invest primarily for financial return.
- Implementation of a policy to review commercial property, with a view to divest where appropriate.
- Other changes regarding investment practices to manage risks associated with non-treasury investment, business models to support long term treasury investments, and all investments and investment income must be attributed to the purpose of either Treasury Management, Service Delivery, or Commercial Return.

5.2 The above strategies will be developed through 2023/24 to ensure compliance with the revised codes. A new liability benchmark treasury indicator will be included as part of the March Medium Term Financial Strategy (MTFS).

5.3 The Department for Levelling Up, Housing and Communities (DLUHC) issued a "Consultation on changes to the capital framework: Minimum Revenue Provision" on 30th November 2021 with a further consultation being published in June 2022.

5.4 The consultations discuss changes to how local authorities set a side MRP in relation to investments. As discussed in the Medium Term Financial Strategy and General Fund Budget report elsewhere on the agenda changes to MRP regulations could have significant financial consequences for the Council. No amended guidance\regulations have been published and the MRP policy included in these strategies is based on the existing current guidance.

5.5 The Council has commissioned an independent review of its MRP policy and application in the annual statement of accounts. The results of this review will be reported through the regular MTFS updates when available.

6.0 Strategic Asset Management Plan

6.1 The Council is developing a strategic asset management plan (SAMP). The purpose of the SAMP is to provide a framework within which the council can secure the operational and financial benefits of the corporate and investment estate. The aim is to set out the council's vision, aspirations and objectives for its land and property assets, and to outline an action plan for achieving these outcomes.

6.2 The SAMP will be used in developing and delivering the capital strategy particularly to identify cross cutting areas and themes to achieve effective asset management and to support the delivery of WBC's corporate and services aims and objectives. Finance and property teams will work in partnership to achieve this.

7.0 Chief Finance Officer

7.1 The Finance Director's Section 25 report is included as an Appendix to the MTFS report also on this agenda. This is prepared taking into account the factors set out in the Capital, Investment and Treasury Management Strategies together with the Revenue and Investment Programme budgets. The Council is in a critical financial position and requires a significant programme of transformation to align services within post pandemic income levels, reducing the unsustainable use of reserves which has supported services in recent years.

8.0 Corporate Strategy

8.1 The Capital, Investment and Treasury Management Strategies support the Council's use and prioritisation of resources in line with the Corporate Plan and Corporate Strategy.

9.0 Implications

<u>Finance and Risk</u>

9.1 The financial implications are set out in the three strategy reports.

9.2 Each strategy sets out the risks involved in the Council's activities. The new Investment Strategy and Capital strategies seek to improve transparency and understanding of the total exposure to risk and mitigating factors. Risk is also considered in every investment and capital decision and reported regularly through the Council's monthly reporting (Green Book), Medium Term Financial Strategy (MTFS) and annual budget reports.

<u>Equalities and Human Resources</u>

9.3 Training and development are covered in each of the strategy reports. Where additional needs are identified the Council will provide specific, focussed training.

9.4 No equalities implications have been identified.

<u>Legal</u>

9.5 The CIPFA codes support the provisions of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 and support strategic planning for capital and investment at a local level. The Council is required to comply with the codes.

10.0 Engagement and Consultation

10.1 There have been no specific consultations in relation to this report.

REPORT ENDS

CAPITAL STRATEGY 2023-24

1.0 Introduction

1.1 This capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services together with an overview of how associated risk is managed and the implications for future financial sustainability.

1.2 Capital expenditure is focussed on the Council's priorities and is long term investment to secure long term improvements for the community. It is linked to the Council's long term strategies and vision in developing a sustainable future for the Borough. The Council's priorities areas are:

- Decent and Affordable Housing
- Economic Development
- The Environment; and
- Health and Wellbeing

1.3 Other important areas for capital investment are where there is a Health and Safety issue identified, or a need to make improvements to the Council's assets.

2.0 Capital Expenditure and Financing

2.1 Capital expenditure is where the Council spends money on assets, such as property or equipment, which will be used for more than one year. This includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy or develop assets.

2.2 Projects which involve capital expenditure are usually included in the Council's Investment Programme which is approved annually as part of the budget process. Financing costs in the General Fund and Housing Revenue Account budgets reflect the annual costs of implementing the Investment Programme.

2.3 It is possible that revenue (operational) budgets could be used for capital purposes however, there is not sufficient flexibility within service budgets to incur significant capital spend. The Council's Investment Programme includes both capital and revenue projects. Revenue projects such as feasibility studies are shown within the Investment Programme as they are one-off in nature. There is also often flexibility in timing as projects may be deferred if funding cannot be secured. Revenue budgets comprise operational costs and income which is expected to recur each year.

Investment Programme 2023/24

2.4 In 2023/24, the Council is planning Investment Programme expenditure of £191m as summarised below:

Table 1: Investment Programme February 2023

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
General Fund	190	102	103	36	17	16
Housing (Including Council Housing)	62	89	100	95	100	12
TOTAL	252	191	203	131	117	28

2.5 The main General Fund capital projects in 2023/24 are:

- Victoria Arch and Integrated South Side Works (HIF bid) – highway improvements and replacement of Victoria Arch unlocking housing sites.
- Investment in Thameswey Central Milton Keynes and Victoria Square Woking Ltd

2.6 The Investment Programme includes annual provision for works to the Councils assets (The Asset Management Plan) and development/replacement of ICT systems.

2.7 The Housing Investment Programme (HIP) sets out the Council's housing related projects. Some of these are General Fund housing, for example relating to private sector housing provision or homelessness. Other expenditure is on the Council's own housing stock and is financed through the Housing Revenue Account (HRA). The HRA is a ring-fenced account separating the income and expenditure relating to council housing from other Council activities.

2.8 The main HIP projects in 2023/24 are:

- Provision of new homes by Thameswey Housing Ltd.
- Sheerwater Regeneration scheme – project which will improve the Sheerwater area with new housing and leisure facilities.
- Provision of new HRA properties using retained Right to Buy receipts.
- Improvement works to existing HRA properties.

2.9 Other areas of HIP spend include Disabled Facilities grants and provision of a new hostel.

<u>Investment Programme Governance</u>

2.10 Projects may be initiated by Service managers, Councillors, Corporate Leadership Team (CLT) or be the result of an external source or opportunity. A project manager is appointed and will prepare a short summary of the project for consideration by CLT. If CLT are supportive, the project manager will complete a more detailed workbook which covers the objectives of the project, the costs, funding and risks. If necessary a report will be presented to the Executive or Council to approve use of resources.

2.11 Project progress reports are prepared for the Executive and highlight any issues relating to the timescale or budget of a project as well as providing a high level update. Variations to project timescales or budgets are submitted to CLT to be considered. If necessary these will be reported to the Executive.

2.12 Some projects, due to their scale and importance to the Council, will have specific project governance assigned. For example there are Officer and Member working groups for the Sheerwater regeneration project, and a Member Oversight panel for the Victoria Square development.

2.13 Projects which have been subject to detailed consideration by the Executive or Council will also follow the project management mandate and workbook process which ensures that all the relevant information is considered.

2.14 Projects are consolidated into the Investment Programme on an annual basis and presented to the Executive/Council in budget papers. Where relevant the debt financing and repayment costs of the Investment Programme are incorporated into the General Fund and Housing Revenue Account budgets, and reflected in the Prudential Indicators approved by Council. New projects may be approved during the year subject to the impact on the revenue budget being assessed and affordable.

2.15 The Executive has authority to approve new projects up to a total of £10m in any one year, with any individual project no more than £5m. Any projects approved under this authority are reported in the Green Book during the year. Any new capital expenditure which exceeds these parameters must have full Council approval. The Council would also need to approve any changes in borrowing limits necessary to accommodate additional borrowing.

Investment Programme Financing

2.16 All projects within the Investment Programme are financed either from grants or contributions (external sources), reserves or capital receipts (internal sources) or borrowing (including leasing/Private Finance Initiative). Table 2 shows the financing of the February 2023 Investment Programme.

Table 2: Investment Programme Funding February 2023

	2021/22 Actual £m	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Borrowing	236	173	118	111	110	21
Grants & Contributions	7	12	74	14	3	2
Reserves & Capital Receipts	9	7	11	6	4	4
TOTAL	252	191	203	131	117	28

2.17 The Council must make provision for the repayment of any borrowing used to finance capital expenditure. This is normally through the annual charge to the revenue budget known as the 'minimum revenue provision' (MRP). The Council has a policy for the calculation of MRP which can be found at Appendix A.

2.18 Where borrowing has been used to advance loans, the loan repayments are set aside as MRP for the future repayment of the underlying borrowing. If borrowing has been used as a temporary funding source, capital receipts, developer contributions or grant may be applied to reduce the outstanding debt. For property acquisitions funded by borrowing, the MRP is charged on an annuity basis comparable to the principle repayments on an underlying annuity loan.

2.19 Planned set aside for the repayment of underlying Council borrowing (MRP) is shown in Table 3 below.

Table 3: MRP

	MRP (excluding loan repayments) £'000	Loan repayments set aside £'000	Total MRP £'000
2021/22 Actual	7,413	10,984	18,397
2022/23 Forecast	6,953	12,808	19,761
2023/24 Budget	7,503	12,500	20,002
2024/25 Budget	8,122	13,277	21,399
2025/26 Budget	8,573	13,252	21,825
2026/27 Budget	9,527	12,988	22,516

2.20 The Department for Levelling Up, Housing and Communities (DLUHC) issued consultations on MRP in 2021 and 2022. The consultation includes reviewing the approach of using capital receipts in lieu of MRP. The amended guidance\regulations have not yet been published. The implications of this proposal are discussed in the General Fund budget report elsewhere on the agenda.

2.21 The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces as funds are set aside to repay debt. The CFR is expected to increase by £106m during 2023/24. Based on the Council's Investment Programme the estimated CFR is as shown in Table 4 below:

Table 4: Estimate of Capital Financing Requirement (CFR)

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
General Fund Services	514	517	530	527	522	516
Council Housing (HRA)	155	156	157	157	158	158
Capital Investments	1,276	1,432	1,525	1,625	1,725	1,738
TOTAL CFR	1,944	2,105	2,211	2,309	2,405	2,412

2.22 Where opportunities arise, the Council will apply for government or other external funding to contribute towards planned Investment Programme projects. The award of grants is subject to the conditions of the grant awarding body and will often include a requirement for match funding by the Council and a repayment clause if funds are not applied in accordance with the grant terms.

2.23 In July 2019 the Council was awarded £95m from the Homes England Housing Infrastructure Fund (HIF) towards the replacement of Victoria Arch and associated highways works. The full project is expected to cost £115m, with £10m contribution from Network Rail and £10m from the Council funded by development contributions (or interim borrowing if these contributions are not received at the time of financing the scheme). As discussed in the Investment Programme report this project is currently under review.

Asset Management

2.24 To ensure that capital assets continue to be of long-term use, the Council includes an annual Asset Management Plan (AMP) allowance in the Investment Programme. This is used to improve the Council's existing assets.

2.25 If improvement works are required which cannot be met by the annual AMP budget a specific analysis will be prepared in order for the investment to be approved. Revenue budgets include allowance for day to day repairs and maintenance. Some works on commercial properties are the responsibility of the tenant. Other works may be recharged to tenants as part of the service charge either in-year or over a period of time.

2.26 The Council may invest in changes to commercial properties to secure a new tenancy or to relocate tenants to improve the offer, or diversity of services or employment space, within the Borough.

<u>Asset Disposals</u>

2.27 If an asset is not needed the Council may sell it generating a capital receipt. The capital receipt can be used for capital purposes such as to fund alternative capital investment, or to repay debt (MRP).

2.28 Repayments of capital grants, loans and investments also generate capital receipts. Where funded by borrowing the Council allocates these repayments as MRP for the repayment of the underlying debt.

2.29 When council houses are sold under the Right to Buy scheme the Council retains an element of the sale proceeds to be put towards replacement council housing. These receipts are held within the Council's capital receipts reserves but are separately identified due to the restrictions on use. If not spent within 5 years these receipts must be returned to the government with interest.

2.30 As discussed in the Medium Term Financial Strategy report, capital receipts can be used to fund transformation. Plans to use capital receipts in this way must be formally approved and submitted to the Secretary of State. An asset has been identified to be disposed of and it is proposed to use the resulting capital receipt to fund transformation projects as discussed in the report. Approval of the disposal was given by the 17 November 2022 Executive.

2.31 The Council is not actively holding assets for sale so a significant level of additional capital receipts is not expected to be available over the period of the Investment Programme. However, when opportunities arise, such as the disposal of Cleary Court approved during 2022/23, the Council will dispose of assets if it is considered optimal to the Council's financial position and vision for the Borough.

Table 5: Capital Receipts

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Asset Sales	27.0	3.5	0.0	0.0	0.0	0.0
Right to Buy Sales	3.5	1.6	1.6	1.6	1.6	1.6
Loan Repayments	11.0	12.8	12.5	13.3	13.3	13.0
TOTAL	41.4	17.9	14.1	14.9	14.9	14.6

3.0 Treasury Management

3.1 The Council's Treasury Management Strategy sets out how the Council manages cash balances. Surplus cash may be invested until required, while a shortage of cash will be met by borrowing.

3.2 The Council's reserves will be used to reduce the overall borrowing drawn down which delays the Council incurring external financing costs for capital investment. Each year the annual budget assumes that the Council draws down the total level of borrowing required to fund the

Investment Programme. Any under borrowing results in a saving against the interest cost budget.

3.3 Due to high inflation the Bank of England again increased the base rate on the 2 February 2022 to a 14 year high at 4.00%. PWLB rates have also increased significantly after the pandemic. Therefore, as discussed in the Treasury Management Report, the Council is looking to defer taking long-term borrowing and instead looking to borrow shorter (either through the PWLB or inter local authority lending).

3.4 Borrowing for long term assets is financed through long-term loans reflecting the long term life of the asset and mitigating the risk of rising interest rates. However flexibility is maintained to use short term borrowing to manage short term cash flows, to manage the timing of long term decisions and to generate in-year interest savings.

3.5 In November 2020 HM Treasury announced revised lending terms for the PWLB. The PWLB will no longer lend to any Local Authority which plans to buy investment assets primarily for yield (regardless of whether this purchase would be funded by PWLB borrowing or through other resources). Moreover, the Treasury Management and Prudential Codes were updated in December 2021 confirming the principle that an authority must not borrow to invest primarily for financial return.

3.6 The Council's Capital Programme has been reviewed by the s151 Officer and a return has been provided to the PWLB and HM Treasury which confirms that Woking complies with these new rules and is able to access PWLB Borrowing.

3.7 Borrowing and treasury investments are reported in the Council's monthly performance and financial monitoring (Green Book).

3.8 Projected levels of the Council's total outstanding debt (which comprises borrowing, PFI liabilities and leases) are shown below, compared with the capital financing requirement. Statutory guidance is that debt should remain below the CFR except in the short term. This demonstrates that borrowing is only being taken to meet capital financing needs.

Table 6: Gross Debt & Capital Financing Requirement

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Debt (including PFI & leases)	1,911	2,105	2,211	2,309	2,405	2,412
Capital Financing Requirement	1,944	2,105	2,211	2,309	2,405	2,412

Authorised and Operational borrowing limits

3.9 The Council is legally obliged to set an affordable borrowing limit known as the authorised limit each year. External debt must not exceed the authorised limit. A lower operational limit is also set which acts as a warning and requires a report to Council if breached.

3.10 The Authorised and Operational limits are set by full Council and reported on the Treasury pages of the Green Book each month so that actual borrowing can be assessed in the context of these limits.

3.11 The limits are calculated with reference to the planned Investment Programme, allowing scope for those projects funded by borrowing to proceed. When the Council approved the Victoria Square regeneration project the limits were increased to accommodate the full project cost from project commencement. This enabled flexibility to secure borrowing in at preferential rates, if available, in advance of cashflows.

3.12 The Treasury Management Strategy sets out the Authorised and Operational borrowing limits for 2023/24.

Treasury Management Strategy

3.13 Treasury Management is concerned with making investments of surplus cash and borrowing to manage delay in cash flows. Investments made for service reasons are not generally considered to be part of treasury management.

3.14 The Council's Treasury Management Strategy is to prioritise security and liquidity over yield for treasury management investments. Cash is invested securely with the Council's own bank, in diversified money market funds, or with other local authorities. The primary focus is on minimising risk rather than maximising returns.

3.15 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Finance Director and finance team who follow the Treasury Management Strategy approved by the Executive. Treasury Management practices are in place which provide day to day guidance for treasury officers. The Green Book monthly monitoring report includes details of all investment and borrowing taken in the month and shows the overall position at the month end. A Treasury Management report is presented to the Executive after the end of the year detailing the activity for the year and the Overview and Scrutiny Committee receives a mid-year report.

4.0 Investments for Service Purposes

4.1 The Council uses different mechanisms and investment structures to secure capital developments for the Borough. This includes the use of its group companies through the Thameswey group, and joint ventures for example Victoria Square Woking Ltd, and enables the Council to take a longer term view than would otherwise be possible.

4.2 Investment in shares and loans to these entities is treated as capital investment and is financed within the Council's Investment Programme. Whilst these investments are made to secure service objectives, not for profit, the Council still plans to at least break even. The margins on loans made for service purposes have provided an additional income stream for the Council and have enabled services to continue despite reductions in government funding.

4.3 During 2022/23 the Thameswey Group Business Plans have been considered by the Council's Shareholder Officer Group (SAG). A one year plan has been proposed for 2023 which enables the options requested by the SAG to be explored ahead of determining a longer term plan for the Group.

4.4 There is monthly reporting in the Green Book and a set of protocols which govern the practices of the group. Decision making for other loans and investments follows the processes for the Investment Programme.

4.5 The Council's capital programme does not include purchases for assets primarily for yield. Any commercial properties acquired are not bought purely for income but for future service opportunities or growth (for example for regeneration purposes). General Fund property purchases are treated as capital expenditure with the associated financing and capital repayment (MRP) costs included in the Council's budgets.

4.6 Any new property acquisitions will be the subject of Executive or Council approval. The ongoing revenue impact of these purchases will be presented along with the strategic reason of the purpose including details of quality of tenancies, vacant space provided, and the future opportunities the acquisition of the property will provide for the Council. The revenue impact of strategic properties acquired since 2016/17 is reported monthly in the Green Book.

5.0 Liabilities

5.1 In addition to the borrowing considered in the sections above, and the Treasury Management Strategy, the Council is committed to making future payments to cover its pension fund deficit valued at £67m at 31 March 2022.

5.2 The Council has a Private Finance Initiative (PFI) scheme which provides 224 houses at social rents for 25 years. The liability associated with the repayment of the liability through the unitary charge was assessed as £24.5m at 31 March 2022.

5.3 Decisions on incurring new discretional liabilities are taken in the same way as other Council expenditure and will be the subject of Executive/Council decisions if not covered by approved budgets.

5.4 Further details on liabilities can be found in of the Council's statement of accounts published on the Council's website.

6.0 Revenue Budget Implications

6.1 Capital expenditure is not charged directly to the revenue budget, instead the financing and capital repayment (MRP) is charged in year. The costs net of investment income are shown as net financing costs in the table below. The table compares the net financing costs to the net revenue stream (amount funded by Council Tax, business rates and Government Funding).

6.2 This indicator has increased substantially over recent years due to two factors:

- Net financing costs do not include the income generated from assets acquired or developed, for example commercial property, car park provision.
- Net revenue stream has steadily reduced through government funding cuts to government funding and restrictions on Council Tax increases

Table 7: Proportion of Financing Costs to Net Revenue Stream

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Financing Costs (£m)	16.6	15.7	18.8	19.9	19.3	19.3
Net Revenue Stream (£m)	12.6	14.2	15.9	14.5	14.8	14.6
Proportion of Net Revenue Stream	132%	111%	118%	138%	131%	133%

6.3 Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure and will extend up to 50 years into the future. The Council links the use of long term borrowing to capital expenditure where the benefits are also expected to extend into the long term. In particular spend on the transformation and regeneration of the town centre will have a long term impact and infrastructure works are hoped to attract further private investment into the Borough.

6.4 As discussed elsewhere on the agenda, the Investment Programme has been restricted to essential and committed spend only. The Finance Director is satisfied that the proposed capital programme is prudent, affordable and sustainable for 2023/24, and that the revenue impacts of the projects included have been recognised in the budget. The overall financial position of the Council is discussed in the Medium Term Financial Strategy (MTFS) and General Fund budget report and in the Section 25 report appendix to the MTFS report.

6.5 The Medium Term Financial Strategy sets out the impact and pressures on the Council over a four year period. The net cost of decisions, assessed individually, are consolidated into the next update of the MTFS.

7.0 Knowledge and Skills

7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Finance Director, Financial Services Manager and senior members of the Finance team are qualified accountants with many years' experience. The Council has a Strategic Asset Manager and Estates Management team with experience in managing properties, and valuation. The Council also has an in-house legal team led by the Director of Democratic and Legal Services (Monitoring Officer).

7.2 During 2022/23 corporate capacity has been increased through the development of the Fit for the Future project team. Further resources will be required during 2023/24 to fully establish the Shareholder Advisory Group (SAG).

7.3 External advisors and consultants are used where the Council does not have the technical knowledge, experience or skills required. They are also used to supplement the internal resource if Council staff do not have the capacity to manage the Council's requirements.

7.4 The Council supports training towards professional qualifications and for staff to attend relevant training courses for continued professional development. There is a Members' development programme and the Council has the Charter mark for Member Learning and Development. In October 2019 the Council was awarded the Investors in People Silver accreditation and the Health and Wellbeing Good Practice Award. Specific training and briefing sessions are organised on subjects or projects as needs are identified (for instance Link Group providing a member briefing in 2022/23 on interest rate assumptions in order to help inform decisions regarding the Victoria Square Woking Ltd Loan Facility).

COUNCIL – 23 FEBRUARY 2023

INVESTMENT STRATEGY REPORT 2023-24

1.0 Introduction

1.1 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report. The revised Treasury Management Code requires investments and investment income to be attributed to one of the following three purposes:

Type of Investment	**Strategy**
Treasury management; Day to day investment of surplus cash balances – Treasury Management Investments	Treasury Management Strategy
Service delivery; Loans and acquisition of shares in wholly owned companies, joint ventures and other organisations for service purposes	Investment Strategy
Commercial return; Investments held primarily for financial return with no treasury management or direct service provision purpose	Investment Strategy (The Council does not borrow to invest primarily for financial return)

2.0 Treasury Management Investments

2.1 The Council holds cash balances for day to day use, to make payments to suppliers, contractors and payroll. Balances arise as there are timing differences between Council Tax and Business Rates collected and distributed, and between other income generated and the associated service or debt management costs. The timing of long term borrowing will be determined depending on the interest rates available which may mean that funds are held for a short period before they are required or that short term borrowing is taken which is subsequently refinanced. The Council also holds reserves for future expenditure.

2.2 The consequential cash surpluses are invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £0m and £50m during the 2023/24 financial year. Higher cash balances will be held if long term borrowing rates fall and funds are secured for ongoing projects.

2.3 Cash surpluses are invested to ensure security, liquidity and some income generation from these Council resources in line with the Treasury Management Code.

2.4 Treasury Management Investments are reported each month in the Council's Performance and Financial Monitoring report, the 'Green Book', available on the Council's website.

3.0 Loans for Service purposes

3.1 The Council lends money to its subsidiary companies and joint ventures, suppliers, local businesses and charities, other local service providers, local residents and its employees to support local public services and stimulate local economic growth.

3.2 Provision of loan finance to another organisation can be an effective way for the Council to achieve its objectives whilst benefiting from the expertise or capacity of that organisation.

3.3 These loans are treated as capital expenditure and are financed by borrowing or other available resources. Where capital expenditure is funded by borrowing Minimum Revenue Provisions (MRP) are set aside for repayment of the borrowing. Loan repayments are set aside for the repayment of debt in lieu of MRP.

3.4 The Department for Levelling Up, Housing and Communities (DLUHC) issued consultations on MRP in November 2021 and June 2022. The consultation includes reviewing the approach of using capital receipts in lieu of MRP. The final regulations\guidance have not yet been published. Therefore the MRP policy has not been amended.

3.5 The most significant loans the Council has made are to the Thameswey Group (wholly owned subsidiary) and Victoria Square Woking Ltd. At 31 March 2022 the Council had made £317m of loans to Thameswey Housing to provide housing in the Borough, £84m to Thameswey Energy and Thameswey Central Milton Keynes, to further the Council's energy efficiency policies, £106m to the Thameswey group relating to the Sheerwater project, and £646m to Victoria Square Woking Ltd for the town centre regeneration project.

3.6 Other loans have been advanced to the Peacocks to enable the improvement of the shopping centre, Greenfield School, Kingfield Community Sports, and Freedom Leisure for improvements at the Pool in the Park.

3.7 The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. Loans are generally secured against assets which means the Council could take the assets in the event of default. The business case for the underlying investment is also considered before funds are loaned.

3.8 The table below sets out the loans for service purposes, as at 31 March 2022, together with commitments for loans for service purposes included in the February 2023 Investment Programme. It is considered that this remains an acceptable level given the diversification of loans advanced and the asset backed nature of loans. These total advances are the upper limits on the outstanding loans to each category of borrower approved by the Council and any additional loan advances would have to be subject to further consideration by the Council.

3.9 To facilitate the delivery of housing the Council allows for 50% of the following years Thameswey Housing approved budget to be drawn in advance. This ensures delivery of new properties is not constrained by changes in the timing of project costs.

Table 1: Loans and Loan Commitments for Service Purposes

Category of Borrower	Actual 31/03/2022 £'000	Investment Programme February 2022 2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Subsidiaries						
Thameswey Energy Ltd	9,896	7,615	-	3,600	-	1,000
Thameswey Central Milton Keynes Ltd	35,223	3,100	3,300	5,500	5,500	4,100
Thameswey Housing Ltd	269,427	32,337	22,000	32,000	17,000	6,000
Thameswey Solar Ltd	817					
Thameswey Developments Ltd (THL)	47,250					
Thameswey Developments Ltd (TEL)	38,845					
Thameswey Developments (Sheerwater)	5,000					
Thameswey Housing (Sheerwater)	90,167	48,383	63,000	55,000	77,000	-
Thameswey Developments (S/W Leisure)	10,979					
Victoria Square Woking Ltd	645,860	66,140	9,000	9,000	6,000	6,000
Rutland Woking	1,632					
Peacocks	6,350					
Greenfield School	11,262	2,838				
Freedom Leisure	1,640					
Kingfield Community Sports Centre Ltd	1,500					
Local Residents (Mortgages)	1,793					
Loan Re Wolsey Place	1,722					
Loan Re Dukes Court		1,000				
Other	201					
TOTAL	1,179,564	161,413	97,300	105,100	105,500	17,100

3.10 If loans are expected not to be repaid in full, accounting standards require the Authority to set aside a loss allowance, reflecting the likelihood of non-payment. From 2018/19 onwards the Statement of Accounts show the loan balance net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.11 The Council assesses the risk of loss before entering into, and whilst holding, service loans and undertakes further work where necessary to assess:

- who the loan is to be made to - with appropriate enquiries to fully understand the entity where the entity is not already known/associated with the Council;
- the revenue stream associated with the loan to be made;
- the loans will be secured against capital assets where possible to ensure the Council receives the assets in the event of non-repayment. Covenants or legal bonds may be taken against capital assets.

3.12 Credit ratings are not routinely used for known associated entities, but would be used for supplier loans.

<u>Environmental, Social and Governance (ESG)</u>

3.13 The CIPFA Treasury Management Code now seeks to incorporate Environment, Social and Governance (ESG) considerations into Treasury Management Practices (specifically under Treasury Management Practice 1 of the code). The code suggests the scope of what is included: “The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations.”

3.14 This is a developing area in terms of how investments should be evaluated against this requirement. However, the Council’s key objectives encapsulate ESG and it is the Council’s service objectives which determine which non-treasury investments it takes on (not the level of return).

3.15 Moreover the only treasury investments the Council is planning to make in the foreseeable future are in Money Market Funds. Money Market Funds are low volatility funds with conservative investment restrictions offering flexibility for short-term deposits. There are strict rules around portfolio diversification, transparency, and disclosure and risks around ESG are very low.

4.0 Shares for Service Purposes

4.1 The Council may invest in the shares of its subsidiaries, its suppliers, local businesses and organisations and other jointly owned public sector led activities, to support local services and stimulate local economic growth.

4.2 All investment in shares is treated as capital expenditure and is financed by available resources or borrowing. Where capital expenditure is funded by borrowing Minimum Revenue Provisions (MRP) are set aside for repayment of the borrowing which may be calculated to match asset life, or over a shorter period in line with the Council's MRP policy (Appendix A).

4.3 Shares have been used to provide subsidy into Thameswey Housing Ltd. As the shares do not have interest payable on them, the company is able to provide rents at sub market rates. The shares in Woking Necropolis and Mausoleum Ltd relate to the acquisition of the Cemetery. Whilst the cemetery business generates some income it would not be sufficient to meet financing costs associated with the purchase.

4.4 The Council has also invested in shares to support activity where the funding could otherwise have been through provision of a grant. The Municipal Bonds Agency (Local Capital Finance Company) is one example of this, where the Council has supported a sector wide initiative. The Credit Union investment is another example. In some circumstances it may be beneficial, for service and partnership reasons, to acquire an interest in the organisation as well as providing financial support.

4.5 If shares were being held as an investment, to achieve dividend income and for future sale, a fall in value whereby the initial outlay may not be recovered would be a risk. However, since the Council's investments in shares have been financed with any associated borrowing being repaid over time, or where the underlying expenditure is a long term asset, it is not considered that this is a significant risk.

Table 2: Shares for Service Purposes

Investment	Actual 2021/22 £'000	Investment Programme February 2023 2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Thameswey Ltd	31,193	No further share capital planned in Investment Programme February 2023				
Woking Necropolis & Mausoleum Ltd	6,000					
Victoria Square Ltd	14					
Local Capital Finance Company	50					
Boom Credit Union	50					
Woking Town Centre Management	1					
Kingfield Community Sports Centre Ltd	500					
TOTAL	37,808	-	-	-	-	-

4.6 The Authority assesses the risk of loss before entering into and whilst holding shares depending on the long term objective of the funding provided.

4.7 As shares are treated as capital expenditure, rather than investments for the purpose of financial income, investments in shares are not considered to be liquid in nature. That is, they cannot be readily converted back to cash through sale.

4.8 The Authority does not invest in any non-specified investment types. The government defines a non-specified Investment as a financial investment that is not a loan and does not meet the criteria to be treated as a specified investment. See Appendix D for definitions of specified and non-specified investments. Shares are treated as capital investment and therefore do not meet this definition.

5.0 Strategic Property Investments \ Commercial & Service Investments

5.1 The changes to the Treasury management and Prudential Codes (published in December 2021) require that the purpose, objectives, and management arrangements for commercial & service investments need to be defined in the Council's treasury management strategies from 2023/24 onwards.

5.2 Government guidance defines property to be an investment if it is held primarily or partially to generate a profit. The Council's Strategic Property portfolio, including assets held for future redevelopment are included in this category. However the Council does not acquire assets primarily for yield and the following paragraphs relate to the sustainability of strategic purchases made in order to meet Council service objectives such as regeneration.

5.3 The strategies recognise that the authority must not borrow to invest for the primary purpose of commercial return and new borrowing must directly and primarily relate to the functions of the authority.

5.4 In recent years the Council has invested in property if there is a strategic reason for the acquisition. Strategic property assets may be affordable to hold in the long term and may be held for a variety of reasons including:

- Proposed redevelopment of the site or surrounding area
- Future potential redevelopment of a site or surrounding area
- To influence commercial use of a site
- Consolidation of interests in a site
- To acquire part of a site for an alternative use
- To maintain a property with an existing use, or to make it available for an alternative use
- As a result of a relationship with a strategic partner, other public sector body or business within the Borough

5.5 The Council's commercial property portfolio has been acquired over time and comprises office, retail and industrial assets within Woking. The Council employs an Estates Management Team to oversee the management of these commercial properties. Where appropriate external management agencies are also appointed to manage the rental income, maintenance, and service charge arrangements of commercial units.

5.6 Since 2016/17 the Council has allocated borrowing to secure specific strategic property within the Borough and drive local economic regeneration. The financial position of these assets is reported in the Green Book. Properties are held for long term strategic purposes and are treated as capital expenditure with the financing interest and repayment costs charged to revenue budgets.

Table 3: Strategic Property acquired since 2016/17 and generating a commercial income (For financial performance see monthly Green Book reporting)

Property	Date of Acquisition	Net Income (Dec 2021) £'000	Acquisition Costs £m	Additional Investment £m	Accounts 31.3.2022 Gains or Losses £m	Accounts 31.3.2022 Value in Accounts £m
Cleary Court	2016/17	8	3.6	0.5	-1.1	2.9
Morris House	2016/17	-29	4.7	1.3	-3.6	2.3
6 Church St West	2016/17	370	11.5	0.4	-1.3	10.6
Orion Gate	2016/17	924	22.7	0.2	-1.6	21.3
Dukes Court	2017/18	2,092	71.4	0.7	-10.9	61.2
Red House	2018/19	42	6.3		-0.9	5.4
CMS House	2018/19	48	2.0		-0.9	1.1
Victoria Gate	2018/19	478	37.9	5.0	-2.3	40.6
Midas House	2018/19	-266	25.3		-4.1	21.2
Albion House	2018/19	441	28.9		-5.3	23.6
Commercial Buildings	2019/20	88	4.0		-1.4	2.7
1 Christchurch Way	2019/20	279	11.5		-1.4	10.1
Goldsworth Park Shopping Ctr	2020/21	257	17.1		-0.8	16.3
36 to 42 Commercial Way	2020/21	75	2.0		-0.2	1.8

Excludes properties purchased under the HIF Project.

5.7 Within the base commercial rents originating prior to 2016/17, the most significant assets were the Council's interests in the Wolsey Place and Peacocks shopping centres, industrial estates across the borough and town centre office buildings.

5.8 The government guidance considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Valuations vary depending on many factors including the local, national and global economic climate. For property investments the valuation is directly related to the rental income achieved, a vacant area may therefore have a significant impact on the valuation.

5.9 Whilst it is important to monitor the property valuations, the Council has treated these acquisitions as capital expenditure and appropriately funded these assets. Repayment of the costs is being provided on an annuity basis. The property assets are not being held for sale as a means to repay borrowing, the intention has been for them to be held for the long term. The Council's property portfolio, however, remains under regular review and assets will be subject to disposal where opportunities arise.

5.10 All properties are valued on an annual basis to provide a fair value for the preparation of the Council's accounts. Any impact of a change in valuation will be reported following the completion of the annual accounts.

5.11 The Council assesses the risk of loss before entering into and whilst holding property acquisitions. Consideration is given to the operational service or strategic benefit/opportunity provided by acquisition of the asset set against the risk of loss of income to service the capital expenditure. In each case the Council/Executive will receive information on the tenancies and likely income to be achieved from any vacant areas. Investment is in the context of the long term development plans and vision for Woking, and level of reserves to mitigate any economic downturn. No purchases are made for profit, all acquisitions are made in order to meet service objectives.

5.12 Property is held as a long term strategic asset and not a short term financial asset. It is funded as capital expenditure and it is not therefore being held with a view to being able to convert to cash at short notice, as a treasury investment would be. Where funding is by borrowing, the borrowing is long term to correspond with the long term nature of the asset. The Council's policy for repayment of the borrowing (MRP) can be found at Appendix A and determines that repayment is on an annuity basis for commercial property. This ensures that there is sufficient resource set aside to repay the borrowing as it becomes due. As borrowing is repaid, the debt associated with the asset reduces.

5.13 Consideration is given on an annual basis to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt, through the Council's Strategic Assets group. In 2022/23 the review of the Council's strategic property portfolio resulted in the Executive approving the disposal of a £3m property. Due to the financial position of the Council this disposal has been identified to fund transformation programmes rather than repaying debt.

6.0 Proportionality

6.1 Prior to the pandemic the Council had been able to increase service activity and support to the local community through use of the income generated from investments in group companies and strategic commercial income. Without this income, services would have had to be reduced at a time when they have been needed most as other support for the vulnerable is under pressure. The changes to the Treasury Management Code and PWLB Borrowing rules (as covered in last year's report) mean that Woking can no longer make acquisitions which could be seen as primarily for yield despite having sound strategic reasons.

6.2 Income has also supported the Council's long term redevelopment of Woking Town Centre, achieving a better offer for local people, attracting businesses and employers to the Borough and contributing towards housing needs. The long term assets driving these improvements are funded by borrowing whilst the income they generate in direct rents or investment income contribute to offsetting these costs.

6.3 Table 4 below shows the balance between expenditure planned to meet the service delivery objectives and/or place making role of the Authority, interest costs on borrowing and investment/commercial rental income.

Table 4: Proportionality of Investments

	2021/22 Actual £m	2022/23 Forecast £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Gross Service Expenditure (GSE)	70.6	67.3	66.9	67.3	69.4	70.3
Interest & Repayment (MRP) costs	54.5	54.6	62.1	65.7	67.0	67.0
Treasury Investment Income	-32.5	-38.9	-43.3	-45.8	-47.6	-47.6
Commercial Rental Income	-21.5	-20.0	-19.1	-19.1	-19.1	-19.1
(Treasury + Commerical income)/GSE	-76%	-88%	-93%	-96%	-96%	-95%

6.4 The Council had accumulated reserves to mitigate temporary reductions in rental income, and to provide time for any long term adjustment in rents to be managed. As discussed in the General Fund Budget Report elsewhere on the agenda, these reserve balances are being used at a much faster rate than anticipated. The details on presenting a balanced budget are included in the General Fund Budget Report.

6.5 The Council's borrowing has been spread over many assets with residential property as well as strategic commercial properties in different sectors (retail, office) and let to a variety of tenants across different industries. This reduced the impact of an issue with any individual tenant or type of tenant.

7.0 Capacity, Skills and Culture

7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Finance Director, Financial Services Manager and senior members of the Finance team are qualified accountants with many years' experience. The Council has a Strategic Asset Manager and Estates Management team with experience in managing properties, and valuation. The Council also has an in-house legal team led by the Director of Democratic and Legal Services (Monitoring Officer).

7.2 During 2022/23 corporate capacity has been increased through the development of the Fit for the Future project team. Further resources will be required during 2023/24 to fully establish the Shareholder Advisory Group (SAG).

7.3 External advisors and consultants are used where the Council does not have the technical knowledge, experience or skills required. They are also used to supplement the internal resource if Council staff do not have the capacity to manage the Council's requirements.

7.4 The Council supports training towards professional qualifications and for staff to attend relevant training courses for continued professional development. There is a Members' development programme and the Council has the Charter mark for Member Learning and Development. In October 2019 the Council was awarded the Investors in People Silver accreditation and the Health and Wellbeing Good Practice Award. Specific training and briefing sessions are organised on subjects or projects as needs are identified (for instance Link Group providing a member briefing in 2022/23 on interest rate assumptions in order to help inform decisions regarding the Victoria Square Woking Ltd Loan Facility).

7.5 Further training options for members will be considered through 2023/24.

8.0 Investment Indicators

8.1 The Authority has set the following quantitative indicators to provide information on the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure and funding

8.2 Total risk exposure is the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down.

Table 5: Total Investment Exposure

Total Investment Exposure	31.3.2022 Actual £m	31.3.2023 Forecast £m	31.3.2024 Forecast £m
Treasury Management including Money Market Funds and Bank balance	36	2	2
Service Investments: Loans	1138	1300	1,397
Service Investments: Shares	38	38	38
Commercial Investments: Property (at valuation)	349	349	349
TOTAL Investments	1,561	1,688	1,786

8.3 The Council is generally in an underborrowed position due to the ongoing borrowing requirement. This means that the Council's reserves and working capital balance is being used to reduce the actual borrowing taken. This has been the Council's approach for some years and using the balances in this way enables the Council to delay drawing and paying the interest costs on long term borrowing. In setting the annual revenue budget it is assumed that the underborrowing position is corrected and that long term borrowing is taken to re-instate those reserves temporarily used.

Rate of return

8.4 This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. The Strategic Property Investment target rate of return shown in table 6 has been maintained at 1.5%. This reflects the underlying lease income during 2020/21. Not all commercial lease income was received during the pandemic and Officers are still working with tenants to recover further income. No further commercial investments are planned and the rate of return is expected to increase gradually over the life of the underlying assets.

Table 6: Investment Rate of Return (net of all costs)

Investments net rate of Return	2021/22 Actual	2022/23 Forecast	2023/24 Budget
Treasury Management Investments	0.07%	1.30%	0.9%
Service Investments: Loans	0% - 2%		
Service Investments: Shares	Nil - do not expect any return on shares		
Strategic Property Investments since 2016/17 *	1.5%	1.5%	1.5%

Consideration of Other Indicators

8.5 The Capital Strategy and Treasury Management Strategy include additional focussed indicators which are not replicated here.

8.6 Monthly reporting through the Green Book enables performance to be assessed during the year and for the up to date position to be tracked. The Strategic Property performance shows the current status of assets acquired since 2016.

8.7 Consideration will be given to further performance indicators, to be included in future years, which would complement the information included in this report.

TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2023-24

1.0 Introduction

1.1 The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included as section 12); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.3 Revised reporting was required from 2019/20 onwards due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

1.4 CIPFA published the revised Treasury Management and Prudential Codes on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Authority, therefore, has to have regard to these Codes of Practice when it prepares the strategies detailed below, and also related reports during the financial year, which are presented to members for approval.

2.0 Treasury Management Strategy 2023/24

2.1 The suggested strategy for 2023/24 in respect of the following aspects of the treasury management function is based upon the Treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor. The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- borrowing rescheduling;
- the investment strategy;
- creditworthiness policy;
- policy on use of external service providers;
- the MRP strategy; and
- Council loans to Group Companies
- Liability benchmark
- Reporting to members (now quarterly)
- Environmental, social and governance (ESG)

2.2 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions.

2.3 This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2.4 The Council's reserves are set aside for specific purposes; in order to progress long term capital investment initiatives considered to be in the interests of residents where there are not sufficient reserves of capital or revenue, the Council needs to borrow. There is no absolute limit on what the Council can borrow; it can borrow what it considers it can afford to repay from its income sources such as council tax and service charges including rental income. Nevertheless the risks associated with service and commercial investments should be proportionate to their financial capacity. The new Treasury management and Prudential codes, which come into effect from 2023/24, emphasise this principal of proportionality.

3.0 Treasury Limits for 2023/24 to 2026/27

3.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. In England and Wales the Authorised Limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

3.2 The revenue consequences of capital expenditure and financing decisions have been included in the General Fund and HRA reports (elsewhere on this agenda) and the assessment of the affordability of the Council's Investment Programme is made in the context of those reports. The Investment Programme is the subject of a separate report elsewhere on this agenda. The prudential limits contained in this report are therefore informed by the proposals in those reports.

~~3.3~~ The Authorised Limit for external borrowing is to be set, on a rolling basis, for the forthcoming financial year and three successive financial years.

3.4 The Treasury limits include an allowance above the planned long term borrowing requirement for the year. This enables short term cashflow requirements to be covered and provides some flexibility to facilitate borrowing in advance for known future requirements at advantageous interest rates. The allowance is particularly important considering the potential cashflow implications of the current economic climate.

4.0 Prudential Indicators for 2022/23 to 2026/27

4.1 The prudential indicators in table 1 below are relevant for the purposes of setting an integrated treasury management strategy. Non-treasury management prudential indicators are set out in Appendix 3 to the General Fund Service Plans, Budgets and Prudential Indicators report elsewhere on this agenda.

PRUDENTIAL INDICATOR	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2025/26**
TABLE 1 - TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Authorised limit for external borrowing -					
Non - HRA					
Borrowing	£2,024,910	£2,131,592	£2,230,426	£2,282,244	£2,282,972
Other long term liabilities	£22,242	£20,989	£19,660	£18,168	£16,676
Total Non - HRA	£2,047,152	£2,152,581	£2,250,086	£2,300,412	£2,299,648
HRA					
Borrowing	£156,186	£156,686	£157,186	£157,686	£158,186
Other long term liabilities	£0	£0	£0	£0	£0
Total HRA	£156,186	£156,686	£157,186	£157,686	£158,186
Total authorised limit for external borrowing	£2,203,338	£2,309,267	£2,407,272	£2,458,098	£2,457,834
Operational boundary for external borrowing -					
Non - HRA					
Borrowing	£2,014,910	£2,121,592	£2,220,426	£2,272,244	£2,272,972
other long term liabilities	£22,242	£20,989	£19,660	£18,168	£16,676
TOTAL Non - HRA	£2,037,152	£2,142,581	£2,240,086	£2,290,412	£2,289,648
HRA					
Borrowing	£156,186	£156,686	£157,186	£157,686	£158,186
other long term liabilities	£0	£0	£0	£0	£0
Total HRA	£156,186	£156,686	£157,186	£157,686	£158,186
Total operational boundary for external borrowing	£2,193,338	£2,299,267	£2,397,272	£2,448,098	£2,447,834
Housing Revenue Account Limit on Indebtedness *	n/a	n/a	n/a	n/a	n/a
Upper limit for fixed interest rate exposure	100%	100%	100%	100%	100%
Upper limit for variable rate exposure	70%	70%	70%	70%	70%
Upper limit for total principal sums invested for over 365 days (per maturity date)	£3,000	£3,000	£3,000	£3,000	£3,000

* The Housing Revenue Account Limit on Indebtedness (the ‘Debt Cap’) was scrapped by the Chancellor in the 2018 Autumn Budget.

Maturity structure of new fixed rate borrowing during 2023/24	upper limit	lower limit
under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

PRUDENTIAL INDICATOR	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
	Estimate	Estimate	Estimate	Estimate	Estimate
Gross Borrowing : Capital Financing Requirement					
External Borrowing					
Borrowing at 1st April	£1,876,347	£2,105,076	£2,211,258	£2,308,592	£2,404,910
Expected change in borrowing	£207,740	£86,446	£79,003	£79,642	-£7,956
Other long term liabilities	£22,242	£20,989	£19,660	£18,168	£16,676
Expected change in other long term liabilities	-£1,253	-£1,253	-£1,329	-£1,492	-£1,492
Gross Borrowing at 31st March	£2,105,076	£2,211,258	£2,308,592	£2,404,910	£2,412,138
Capital Financing Requirement at 31st March *	£2,105,076	£2,211,258	£2,308,592	£2,404,910	£2,412,138
Under/(over) borrowing	£0	£0	£0	£0	£0

* The Capital Financing Requirement includes borrowing undertaken for group company activities.

4.2 Changes to the CIPFA Treasury Management Code now advise that prudential indicators should be reported quarterly. Officers will look into the most appropriate method of reporting this through 2023/24. This could be through inclusion in the new quarterly Performance and Monitoring developed for 2023/24.

4.3 The updated Codes also require the introduction of a new liability benchmark treasury indicator. The Medium Term Financial Strategy (MTFS) paper being presented to the March Executive and Council will incorporate this indicator together with updated positions on MRP, Thameswey Business Plans, and the Sheerwater Regeneration where available.

5.0 Current Treasury Position

5.1 The Council's position at 31st December 2022 is set out below.

		Principal		Ave. rate
Borrowing		£m	£m	%
Long term borrowing:				
Fixed rate funding	PWLB	1,795.9		2.65
	Market	30.0		4.48
			1,825.9	2.68
Variable rate funding	PWLB	0.0		-
	Market	0.0		-
			0.0	
Other long term liabilities (PFI)			23.5	3.73
Total long term borrowing			1,849.4	2.69
Short term borrowing			120.0	3.39
Total Borrowing			1,969.4	2.74
Investments				
External Cash deposits				
- Long term on advice of TUK		0.0		-
- Short term on advice of TUK		0.0		
			0.0	
- Short term WBC Treasury			25.6	0.02
Long term investments in Group/External Companies			1,263.8	3.12
Total Investments			1,289.4	3.06

6.0 Borrowing Requirement

	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000 Estimate	£'000 Estimate	£'000 Estimate	£'000 Estimate	£'000 Estimate
New borrowing – Non – HRA	292,307	172,215	163,936	172,297	6,728
New borrowing – HRA	1,067	500	500	500	500
TOTAL	293,374	172,715	164,436	172,797	7,228

6.1 The borrowing requirement includes borrowing for the Investment Programme and advances to group companies and joint ventures, including the Victoria Square Development.

6.2 The replacement borrowing indicates the years in which the Council's loans mature and may need replacing. Replacement borrowing may also be required when LOBOs (Lender Option Borrower Option) reach a step up date, if circumstances dictate and the Council chooses to repay the LOBO.

7.0 Prospects for interest rates

7.1 The Council has appointed Link Asset Services as treasury adviser to the Council and part of their service is to assist the Council to inform our view on interest rates. Appendix B draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates.

7.2 Link Asset Services current Bank Rate forecast for financial year ends (March) is: -

- 2022/23 – 4.25%
- 2023/24 – 4.00%
- 2024/25 – 2.75%
- 2025/26 – 2.50%

8.0 Borrowing Strategy

8.1 The Link Asset Services forecast for the PWLB new borrowing rates for maturity loans is shown in the table below. These rates take into account the certainty rate discount of 0.20% but still include the premium of 0.80% over the actual cost of borrowing.

	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Mar-25	Mar-26
Bank rate	4.25%	4.50%	4.50%	4.25%	4.00%	2.75%	2.50%
5 yr PWLB rate	4.00%	4.00%	3.90%	3.80%	3.70%	3.30%	3.10%
10 yr PWLB rate	4.20%	4.20%	4.10%	4.00%	3.90%	3.50%	3.20%
25 yr PWLB rate	4.60%	4.60%	4.40%	4.30%	4.20%	3.70%	3.40%
50 yr PWLB rate	4.30%	4.30%	4.20%	4.10%	3.90%	3.40%	3.10%

8.2 The timing of new long term borrowing will depend on the borrowing requirements (including the term of the projects being undertaken and resulting asset lives), the cost of carrying long term funding compared to short term borrowing; and the projections on interest rates. The Link forecasts above are a suitable trigger point for considering fixed rate long term borrowing during 2023/24.

8.3 Generally the Council looks to take long term borrowing (usually over 50 years) to match the economic lives of the underlying assets created by the projects the borrowing is used to finance. However, as reported in the 2022/23 Treasury Management Mid-Year review, the Council's treasury management advisors (Link Group) have advised that long-term borrowing should be deferred where possible as their expectation is for long-term rates to fall (as indicated in the forecast rates above). The Council is therefore currently taking short-term loans with a view to converting these to long-term when PWLB rates fall in future years. The treasury estimates assume that this will continue in 2023/24 and the Council has budgeted to achieve a 4% average borrowing rate in 2023/24 through taking short-term borrowing.

8.4 Variable rate borrowing is expected to be cheaper than long term borrowing but due to the volatility in interest rates and the term of the borrowing, fixed rate borrowing is the Council's preferred option. In making a decision on the borrowing term and type of loan, consideration will be given to the purpose for which the borrowing is being taken and the market conditions at that time. Where a scheme being funded is relatively short term or tied to a specific funding decision, the borrowing will normally reflect this.

8.5 When undertaking new maturity borrowing, the Council looks to spread its loan maturity profile and this strategy will continue during the year ahead. Borrowing is likely to continue to be annuity loans for significant projects which ensure a consistent payment profile over the life of the loan. The current maturity profile is shown in Appendix I.

8.6 Consideration is usually given to borrowing fixed rate market loans at 25 – 50 basis points below PWLB target rate. However, as discussed above, long-term borrowing is unlikely to be taken at the current forecast rates.

8.7 It is possible that the Municipal Bond Agency will offer loans to local authorities in the future. The Council will review the options available through the Municipal Bond Agency for possible borrowing in the future if and when information is available.

PWLB Borrowing

8.8 On 25 November 2020, the Chancellor announced the conclusion to the review of PWLB borrowing terms. The margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The new margins over gilt yields are as follows: -.

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

8.9 Officers will continue to review whether to bid for the local infrastructure rate through the Infrastructure bank. The rate available is only 20 bps less than the certainty rate (which the Council already has access to) and the cash has to be taken in one drawn down after a long application period. Therefore the 20 bps benefit could be offset by increases in interest rates and the cost of holding the funds before being spent.

Asset Lives

8.10 The length of borrowing taken will be linked to the asset lives of the underlying Council Investment Programme. Treasury management decisions, and individual loans, are not directly associated with individual assets. However, if there are significant long or short term assets being acquired or loans advanced in any year, consideration will be given to matching these asset lives/terms in the underlying borrowing secured.

8.11 In recent years, and in 2023/24, the majority of borrowing is applied to very long term assets and projects with a 50 year business case. It is likely that the majority of borrowing taken in 2023/24 will be short-term with a view to converting to 50 year annuity (matching the modelling of these projects) when rates fall.

Sensitivity of the forecast

8.12 In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios below. The Council Treasury Officers, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following approaches to changing circumstances:

- if it was felt that there was a significant risk of a sharp fall in long and short term rates, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- If it was felt that there was a significant risk of a much sharper rise in long and short term rates than currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still relatively cheap, whilst taking into account the cost of carry of the borrowing until it is required.

9.0 External Borrowing v Investments

Comparison of gross and net borrowing positions at year end	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
External Borrowing - Non HRA	1,948.89	2,054.57	2,151.41	2,247.22	2,253.95
External Borrowing - HRA	156.19	156.69	157.19	157.69	158.19
Total	2,105.08	2,211.26	2,308.59	2,404.91	2,412.14
Cash Balances	- 2.00	- 2.00	- 2.00	- 2.00	- 2.00
Net Borrowing	2,103.08	2,209.26	2,306.59	2,402.91	2,410.14

9.1 The table above shows the Council's projected net external borrowing position (calculated as gross borrowing less cash balances including short term investments). As at 31 December 2022, cash balances totalled £25.6m giving a net external borrowing of £1,942.6m.

9.2 Treasury officers will monitor the interest rate market and report any decisions in the Monthly Performance and Monitoring Information ('Green Book').

10.0 Policy on borrowing in advance of need

10.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance for known requirements will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of funds.

10.2 In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the investment programme and maturity profile of the existing portfolio which supports the need to take funding in advance of need;

- ensure the on going revenue liabilities created, and the implications for future plans and budgets have been considered, including the cost of carry of the borrowing until it is needed;

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;

- consider the merits and demerits of alternative forms of funding; and

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

11.0 Borrowing Rescheduling

11.1 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of borrowing means that PWLB to PWLB restructuring is currently much less attractive. This was compounded in October 2010 by a considerable further widening of the difference between new borrowing and repayment rates as part of the Comprehensive Spending Review, through the addition of a premium on the cost of borrowing. In particular, consideration would have to be given to the costs which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. This still remains the case despite the recent changes to the margins discussed above. However, some interest savings may still be achievable by using LOBO (Lenders Option Borrowers Option) loans and other market loans in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing.

11.2 The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings;

- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

11.1 Should market conditions indicate there is an advantage to rescheduling borrowing, Officers will call a meeting of the Treasury Management Panel to consider the proposals. Any rescheduling will be reported to the Executive in the Monthly Performance and Monitoring Information (‘Green Book’).

12.0 Annual Investment Strategy

<u>Investment Strategy</u>

12.1 The Council’s in house managed funds are mainly cash flow derived. Investments will accordingly be made with reference to cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Were there to be any core balance of funds up to £10 million available for investment over a 0-5 year period, these funds that would be managed on the advice of Tradition UK.

12.2 The Council currently holds no investments for which the remaining time to maturity is in excess of one year.

12.3 Developed economies have been open for some months now post-pandemic, but the degree to which inflation has taken root in those economies has demanded central banks tighten monetary policy dramatically compared to the ultra-low interest rates of the past decade. On the 2 February 2023 the Bank of England increased the bank rate to 4.00%. As shown in the forecast table above, the Bank Rate is expected to peak at 4.50% in mid 2023/24 and then gradually reducing to 2.50% at the end of the forecast period in 2026.

12.4 The increase in rates offers more increased returns on treasury investments. However, in the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs and therefore deposits must be short-term.

12.5 For its cash flow generated balances, the Council will seek to utilise its Lloyds business reserve account, money market funds and short-dated deposits (overnight to three months) using secure counterparties in order to benefit from the compounding of interest.

12.6 The Council will receive monthly reports on its investment activity in the Green Book, an annual monitoring report to the Overview and Scrutiny Committee and at the end of the financial year as part of its Annual Treasury Report.

Investment Policy

12.7 The Council will have regard to the DLUHC's Guidance on Local Government Investments ("the Guidance"), CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code") , and the CIPFA Treasury Management Guidance Notes 2018

12.8 The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low – the Council's investment priorities will be security first, liquidity second and then return.

12.9 The borrowing of monies purely to invest or on-lend to external parties to make a return is unlawful and this Council will not engage in such activity. This excludes lending to group companies and other organisations which is carried out in order to achieve the Council's strategic objectives.

12.10 Part of the Council's investments may be managed on the advice of Tradition UK (TUK) and will reflect TUK's views of market and the future for interest rates. Subject to the availability of funds, TUK may be asked to manage up to £10m. TUK are the only external fund manager involved in the management of the Council's funds, although no funds are held with them at the present time.

12.11 All investments of the Council's funds will comply with the Annual Investment Strategy. The arrangements between the Council and TUK additionally stipulate guidelines and duration and other limits in order to contain and control risk.

12.12 Investment instruments identified for use in the financial year are listed in Appendix D under the 'Specified' and 'Non-Specified' Investments categories (determined by level of risk). Counterparty limits will be as set through the Council's Treasury Management Practices Schedules. The limits shown are maximum levels. The Chief Finance Officer in consultation with Treasury Officers has the scope to reduce these limits (below those shown) to minimise the level of cash at risk in the light of market conditions. As Money Market Funds (MMFs) are diversified by nature and AAA rated, the Chief Finance Officer, in consultation with Treasury Officers, will vary the limits of these funds in order to manage cash flows. These limits will be updated in the Treasury Management Practices.

12.13 When the Council has funds in excess of normal limits that it is not possible or economical to invest with a suitable counterparty, these will remain on deposit with Lloyds Bank, the Council's banker.

Credit Worthiness Policy

12.14 The Council uses Fitch ratings to derive its investment criteria (used in the table Appendix D). Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. The Council is alerted to all credit rating changes on a daily basis through its use of the Link Asset Services creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

12.15 The Link Asset Services creditworthiness service uses a modelling approach with credit ratings from all three rating agencies – Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses credit watches, credit outlooks and other information in a weighted scoring system. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties and give a recommended duration for investments.

12.16 When placing investments Treasury Officers will take account of this information, although it is not followed entirely such as in the use of building societies.

12.17 Treasury officers are of the view that credit rating agencies and Link Asset Services have underestimated the level of support within the building society sector. Consequently the Council will continue to use Building Societies based on asset value and market sentiment indicating that the risk is acceptable.

12.18 This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as this would leave the Council with few financial institutions on its approved lending list. The Link Asset Services creditworthiness service does use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

12.19 The Council's credit limits have historically been set at a sufficiently high level that none of the institutions that have not been able to meet their commitments in recent times, have been on the Council's lending list, or those that have got into difficulties have received government support. Similarly none of the building societies in which the Council has invested have failed to meet their commitments. On this basis the Council will continue to use Link Asset Services' creditworthiness service, credit ratings and asset value (for building societies) for determining eligibility for the lending list. As indicated in paragraph earlier in the report, the risk appetite of the Council is low, and the priority for investment is security, followed by liquidity, then return.

<u>Country Limits</u>

12.20 The Council will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this criteria are shown in Appendix E. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

12.21 The Executive resolved in June 2016 that the UK be excluded from the sovereign rating criteria, as it is not felt that there is additional risk to undertaking investments in the UK.

12.22 Should the level of the Council's investments increase it will seek to avoid a concentration of investments in too few counterparties or countries (although a concentration in the UK is not considered to be undesirable).

13.0 Use of External Service Providers

13.1 As previously stated the Council uses Link Asset Services as its external treasury management advisors in order to acquire access to specialist skills and resources. The services provided include the following:-

- Provision of interest rate forecasts and advice on borrowing and investment strategies;
- Regular updates on economic and political changes;
- Forecasts of movements in Public Works Loan Board rates;
- Advice on debt rescheduling, funding policy, volatility and maturity profile analysis;
- Advice on investment counterparty creditworthiness;
- Provision of annual template documents and advice on the various Treasury Management reports; and
- Treasury Management training.

13.2 Although external treasury management advisors are used, responsibility for treasury management decisions remains with the Council at all times and undue reliance is not placed upon the external service provider.

14.0 MRP Policy

14.1 As required by MHCLG regulations, the Council has adopted a policy for setting aside funds for the repayment of borrowing through the Minimum Revenue Provision. Appendix A contains the policy statement.

14.2 As referred to in the overarching report the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation on MRP on 30th November 2021. Although the initial consultation has closed further revisions to the MRP guidance are expected. The MRP policy will be updated to incorporate any new requirements following the consultation.

14.3 The Council has commissioned an independent review of the MRP policy and application in its accounts. The results of this will be reported through the MTFS updates during 2023/24 and any change in policy as a result will be recommended for Council approval.

15.0 Council Loans to Group Companies

15.1 Council loans to Group Companies will continue to be structured to give a benefit to council tax payers.

15.2 The loans will be ‘eliminated’ on consolidation in to group accounts. Therefore, the prudential indicators set out in this report exclude these inter-group loans.

15.3 Where the Council finances loans to Group Companies by external borrowing, these external loans are taken account of in setting the borrowing limits. The limits set out in this report take into account the requirements set out in the approved Group Business Plans. The borrowing limits will need to be reviewed if the Council approves taking additional borrowing to fund new group company projects in the future. Borrowings by the Group Companies themselves do not count against the Council’s borrowing limits.

REPORT ENDS

Annual Minimum Revenue Provision Report and Policy Statement

Introduction

A statement on the Council's policy for setting aside funds for repayment of borrowing, its annual Minimum Revenue Provision (MRP), must be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the Guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The Guidance explains how the MRP might be determined, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

Essentially, the Guidance may only be applied to new capital expenditure relative to the period to which the annual MRP relates. This means that debt which remains outstanding in respect of earlier capital expenditure will continue to be subject to MRP at the rate of 4% per annum or 1% for share purchases. New expenditure to be financed from borrowing is recommended to be subject to MRP on the estimated useful life basis. This may either be assessed as equal annual instalments, or lower early year charges on an annuity basis, or in accordance with depreciation accounting methods.

In general it is recommended that the Council should adopt the recommendations contained within the Guidance. However, in certain cases the Guidance recommends a useful life period/MRP for expenditures which it would not be appropriate to adopt, such as in the case of long term debtors arising from loans made to group companies and other third parties. These loans will be repaid by the third parties, and the principle repayments from these loans will be set aside for the repayment of the underlying debt.

The following Policy Statement is therefore recommended for adoption.

MRP Policy Statement

The Council implemented the new MRP Guidance in 2007/08, and has assessed the Minimum Revenue Provision for 2007/08 and subsequent years in accordance with the main recommendations contained within the Guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. In particular, the Council are satisfied that the guidelines for their annual amount of MRP set out within this Policy Statement will result in their making the requisite prudent provision that is required by the Guidance.

Certain expenditures reflected within the debt liability at 31st March 2007 will under delegated powers be subject to either the uncompleted scheme or the anticipated life expectancy provisions of the asset life method.

In cases where schemes are not fully completed at the end of the financial year, expenditure on these may be deferred from any MRP charge in the subsequent year but reconsidered for MRP in a later year, subject to the date of their completion.

The spreading of the MRP charge under the estimated life period approach will be carried out in an aggregate manner. Details of individual schemes, whilst required for supporting information purposes in the year for which MRP liability is first being assessed, have no beneficial purposes thereafter. Schemes will accordingly be grouped within differing life periods where such apply.

The Council also determines that available resources for financing capital expenditure, such as capital receipts, will be applied to new expenditures in a manner that is considered appropriate in any financial year. For example, it will not be considered imprudent to apply such resources in the first instance to expenditures that have a shorter estimated lifespan.

When adopting this aspect of the recommendations the Council may treat any new capital schemes which are both commenced and finalised within the financial year as having been financed from any associated grants, S.106 monies, or similarly earmarked funds. This is however entirely at their discretion. In cases where expenditure is incurred on only part of a scheme which is not completed by the year end, any grant or similar financing resources may be either allocated to other new expenditures under delegated powers, or carried forward for MRP purposes, as necessary or appropriate.

Final decisions regarding the manner in which such resources are deemed to be allocated to schemes will be taken under delegated powers.

Where schemes require interim financing by loan, pending receipt of an alternative source of finance (for example capital receipts), no MRP charge shall be applied.

Estimated life periods will also be determined under delegated powers. For example, it is likely that new buildings or similar structures will have an estimated life, set by Asset Management, of over 70 years, as will any new land purchases. In this latter case, it is considered that the recommended life period of 50 years for land contained within the Guidance does not adequately reflect its realistic life period, which is considered to be at least as great as would be the case if a building is placed upon it. The Council are aware when approving this that the Guidance recommends only that the life period should bear some relation to that over which the asset is estimated to provide a service.

In the case of new capital expenditures which serve to add to the value of an existing capital asset, these will be estimated to have the same useful life as the asset whose value is enhanced.

To the extent that expenditures are not on the creation of an asset, and are of a type that are subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Council. However, in the case of long term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long term investments)the principle repayments will be set aside for the repayment of the underlying debt. The loans and underlying security are monitored and any issue around recoverability will require a review of the MRP. From 2009/10 the Council has made a Minimum Revenue Provision on investments in shares based on a 100 year life; the latest Guidance suggests 20 years for shares. Investments in shares tend to be long term in nature, however, going forward, borrowing applied to shares will be subject to MRP at the time length specified in the Government guidance.

Commercial properties acquired through borrowing will be subject to MRP matching the principle repayments under an indicative annuity schedule for the underlying debt. Therefore over the life of the relevant asset the MRP will be consistent with the repayment of the corresponding borrowing used to finance the purchase of the asset. This method may also be extended to individual operational assets if it is deemed more appropriate for the circumstances around that asset.

In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure, and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The determination as to which schemes shall be deemed to be financed from available resources, and those which will remain as an outstanding debt liability to be financed by borrowing or other means will be assessed under delegated powers.

INTEREST RATE FORECASTS

The data overleaf shows forecasts published by Link Asset Services and Capital Economics (an independent forecasting consultancy).

The PWLB rates and forecasts shown are at the certainty rate which is available to the Council and is a 20 basis points reduction compared to the standard published PWLB rates.

The rates used in preparing budgets and forecasts have been drawn from these diverse sources and officers' own views.

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

Link Asset Services' View on the Economic Background

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	**Eurozone**	**US**
Bank Rate	3.5%	2.0%	4.25%-4.50%
GDP	-0.2%q/q Q3 (2.4%y/y)	+0.2%q/q Q3 (2.1%y/y)	2.6% Q3 Annualised
Inflation	10.7%y/y (Nov)	10.1%y/y (Nov)	7.1%y/y (Nov)
Unemployment Rate	3.7% (Oct)	6.5% (Oct)	3.7% (Nov)

Q2 of 2022 saw UK GDP revised upwards to +0.2% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Nevertheless, CPI inflation has picked up to what should be a peak reading of 11.1% in October, although with further increases in the gas and electricity price caps pencilled in for April 2023, and the cap potentially rising from an average of £2,500 to £3,000 per household, there is still a possibility that inflation will spike higher again before dropping back slowly through 2023.

The UK unemployment rate fell to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact is that with many economic participants registered as long-term sick, the UK labour force actually shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22nd February 2022.

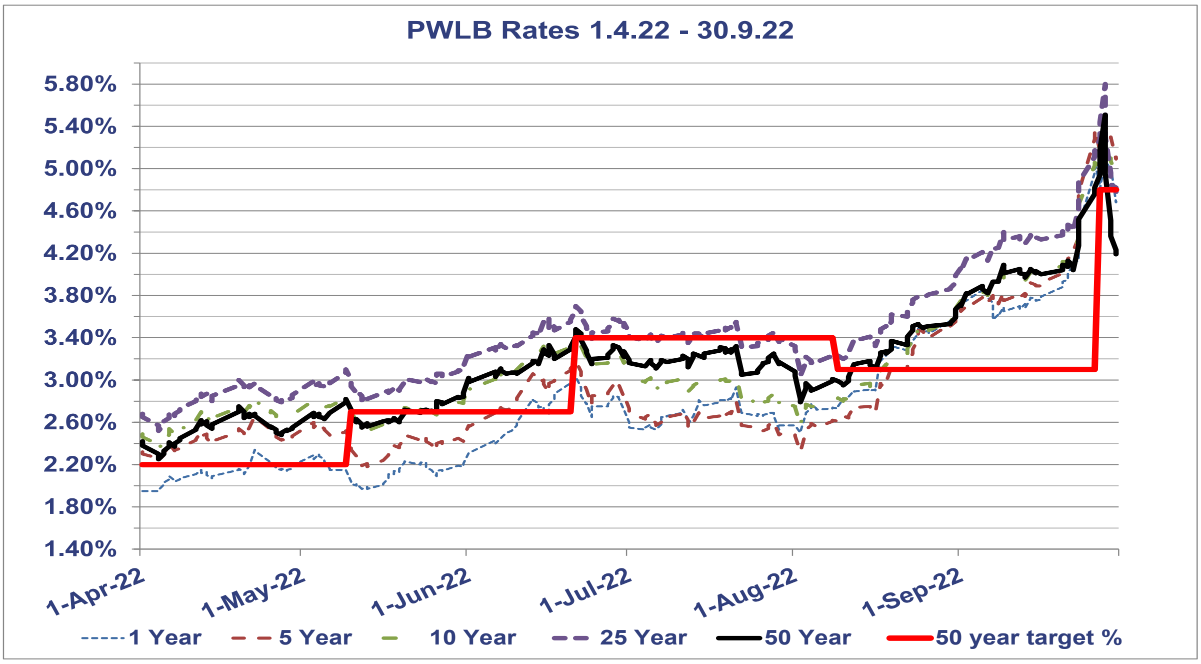
Throughout Q3 Bank Rate increased, finishing the quarter at 2.25% (an increase of 1%). Q4 has seen rates rise to 3.5% in December and the market expects Bank Rate to hit 4.5% by May 2023.

Following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of 17th November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have almost completely reversed the increases seen under the previous tenants of No10/11 Downing Street.

Globally, though, all the major economies are expected to struggle in the near term. The fall below 50 in the composite Purchasing Manager Indices for the UK, US, EZ and China all point to at least one, if not more, quarters of GDP contraction. In November, the MPC projected eight quarters of negative growth for the UK lasting throughout 2023 and 2024, but with Bank Rate set to peak at lower levels than previously priced in by the markets and the fiscal tightening deferred to some extent, it is not clear that things will be as bad as first anticipated by the Bank.

The £ has strengthened of late, recovering from a record low of $1.035, on the Monday following the Truss government’s “fiscal event”, to $1.22. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

In the table below, the rise in gilt yields, and therein PWLB rates, through the first half of 2022/23 is clear to see.



However, the peak in rates on 28th September as illustrated in the table covering April to September 2022 below, has been followed by the whole curve shifting lower. PWLB rates at the front end of the curve are generally over 1% lower now whilst the 50 years is over 1.75% lower.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.35%	5.80%	5.51%
Date	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
Average	2.81%	2.92%	3.13%	3.44%	3.17%
Spread	3.16%	3.26%	2.99%	3.28%	3.26%

After a shaky start to the year, the S&P 500 and FTSE 100 have climbed in recent weeks, albeit the former is still 17% down and the FTSE 2% up. The German DAX is 9% down for the year.

CENTRAL BANK CONCERNS – DECEMBER 2022

In December, the Fed decided to push up US rates by 0.5% to a range of 4.25% to 4.5%, whilst the MPC followed by raising Bank Rate from 3% to 3.5%, in line with market expectations. EZ rates have also increased to 2% with further tightening in the pipeline.

Having said that, the sentiment expressed in the press conferences in the US and the UK were very different. In the US, Fed Chair, Jerome Powell, stated that rates will be elevated and stay higher for longer than markets had expected. Governor Bailey, here in the UK, said the opposite and explained that the two economies are positioned very differently so you should not, therefore, expect the same policy or messaging.

Regarding UK market expectations, although they now expect Bank Rate to peak within a lower range of 4.5% - 4.75%, caution is advised as the Bank of England Quarterly Monetary Policy Reports have carried a dovish message over the course of the last year, only for the Bank to have to play catch-up as the inflationary data has proven stronger than expected.

In addition, the Bank's central message that GDP will fall for eight quarters starting with Q3 2022 may prove to be a little pessimistic. Will the £160bn excess savings accumulated by households through the Covid lockdowns provide a spending buffer for the economy – at least to a degree? Ultimately, however, it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

Specified Investments

All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria	**Use**
Debt Management Agency Deposit Facility	N/a	In-house and fund managers
Term deposits – UK government	N/a	In-house and fund managers
Term deposits – other LAs	N/a	In-house and fund managers
Funds on deposit with the Council's main banker – Lloyds Bank – no limit	N/a	In-house
Term deposits to 4m– banks *	AAA or Aaa	In-house and fund managers
Term deposits to 2m– banks *	AA- or Aa3	In-house and fund managers
Term deposits up to 4m– building societies *	with gross assets in excess of £1,000m	In-house and fund managers
Term deposits up to 2m – building societies *	with gross assets between £500m and £1,000m	In-house and fund managers
Callable deposits	As above	In-house and fund managers
Certificates of deposits issued by banks and building societies	As above	In-house and fund managers
Money Market Funds – Constant Net Asset Value	AAA	In-house
Money Market Funds – Low Volatility Net Asset Value	AAA	In-house
UK Government Gilts	AAA	Fund Managers
Gilt Funds and Bond Funds	AAA	Fund Managers
Treasury Bills	N/a	Fund Managers

* If forward deposits are made by in-house managers, the forward period plus the deal period should not exceed one year in aggregate.

Changes to investment rules were came into force on 3rd January 2018 with the introduction of the MIFID (Markets in Financial Instruments Directive) II regulations. Under the new rules, all local authorities are classified as retail counterparties, and authorities have to consider whether to opt up to professional status and for which types of investments. Some investment options are not available to retail counterparties, and as a result Woking Borough Council has opted up to professional status for three out of four of its existing money market funds (Federated, Standard Life and Deutsche). This has not been necessary for the remaining money market fund (LGIM), which would countinue to deal with retail counterparties. A view will be taken going forward on any new investments on a case by case basis and the arrangements will be regularly reviewed as appropriate.

Non-Specified Investments

At the time of placing an investment, a maximum of 35% will be held in aggregate in non-specified investments (including in-house and externally managed funds).

	Minimum Credit Criteria	**Use**	**Max % of total investments**	**Max. maturity period**
Term deposits – UK government (with maturities in excess of 1 year)	N/a	In-house and fund managers	35%	5 years
Term deposits – other LAs (with maturities in excess of 1 year)	N/a	In-house and fund managers	35%	5 years
Term deposits – banks and building societies (with maturities in excess of 1 year)	As for specified investments	In-house and fund managers	35%	5 years

Callable deposits (with maturities in excess of 1 year)	As above	In-house and fund managers	35%	5 years
Certificates of deposits issued by banks and building societies	As above	In-house and fund managers	35%	5 years
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers	35%	5 years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	35%	5 years
Bonds issued by a financial institution which is guaranteed by the UK government	N/a	In-house on a 'buy-and-hold' basis. Also for use by fund managers	35%	5 years
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers	35%	5 years
Corporate Bonds : ***the use of these investments would constitute capital expenditure***	N/a	N/a	Nil	N/a
Floating Rate Notes : ***the use of these investments would constitute capital expenditure***	N/a	N/a	Nil	N/a

Guide to Ratings

Fitch	Moodys	Standard and Poor's
Rating Levels to be used in Treasury Management		
AAA AA+ AA	Aaa Aa1 Aa2	AAA AA+ AA
Fitch's individual ratings measure an institution's intrinsic safety and soundness on a stand-alone basis, and provide an assessment of the strength of the institution's financial structure, its performance and its credit (and therefore, risk) profile. The laws and accounting practices that govern the operations, reporting and disclosure of financial information in the country in which the institution operates, would have a bearing on the assessment. These ratings are divorced entirely from considerations of external support, from either parent or the government, and are, therefore, useful indicators of credit. At present, Fitch is the only agency which explicitly states its view of the likely presence of a lender of last resort, either government or parent, with the willingness and the resources to aid a failing financial institution.	Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. In addition to commercial banks, Moody's BFSRs may also be assigned to other types of financial institutions such as multilateral development banks, government-sponsored financial institutions and national development financial institutions. BFSR's are a measure of the likelihood that a bank will require assistance from third parties such as its owners, its industry group, or official institutions. BFSR's do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations. Factors considered in the assignment of BFSR's include bank specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although BFSR's exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.	Long Term credit ratings are based, in varying degrees, on the following considerations: • Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation; • Nature of and provisions of the obligation; • Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights. Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default

Approved countries for investments

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

Approved countries for investment are based on the lowest rating from Fitch, Moody's and S&P.

Note: The UK is excluded from the minimum sovereign rating criteria (report paragraph 12.20 refers.

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as: "The management of the authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Treasury management scheme of delegation

(i) Executive

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy
- approval of/amendments to the organisation's adopted clauses and treasury management policy statement
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations

(ii) Overview and Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iii) Treasury Management Panel

- consideration of proposals to reschedule borrowing.

The treasury management role of the Section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- appointment of external service providers
- preparation of a capital strategy to include capital expenditure, capital financing and treasury management
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all investments and is in accordance with the risk appetite of the authority.
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -

- Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
- Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

LONG TERM BORROWING MATURITY PROFILE AS AT 13 FEBRUARY 2023

	PWLB	LOBO	OTHER	ALL
2022 /2023	3			3
2023 /2024	61			61
2024 /2025	26			26
2025 /2026	25			25
2026 /2027	21			21
2027 /2028	18			18
2028 /2029	18			18
2029 /2030	19			19
2030 /2031	24			24
2031 /2032	24			24
2032 /2033	20			20
2033 /2034	25			25
2034 /2035	31			31
2035 /2036	26			26
2036 /2037	27			27
2037 /2038	25			25
2038 /2039	28			28
2039 /2040	26			26
2040 /2041	29			29
2041 /2042	24			24
2042 /2043	28			28
2043 /2044	25			25
2044 /2045	26			26
2045 /2046	27			27
2046 /2047	27			27
2047 /2048	28			28
2048 /2049	28			28
2049 /2050	32			32
2050 /2051	30			30
2051 /2052	31			31

	PWLB	LOBO	OTHER	ALL
2052 /2053	35			35
2053 /2054	45			45
2054 /2055	48			48
2055 /2056	36	5		41
2056 /2057	50			50
2057 /2058	51			51
2058 /2059	71			71
2059 /2060	78			78
2060 /2061	63			63
2061 /2062	76			76
2062 /2063	47			47
2063 /2064	48			48
2064 /2065	70			70
2065 /2066	60			60
2066 /2067	92			92
2067 /2068	51			51
2068 /2069	48			48
2069 /2070	20			20
2070 /2071	16			16
2071 /2072	6			6
2072 /2073				
2073 /2074				
2074 /2075				
2075 /2076				
2076 /2077		10	10	20
2077 /2078			5	5
2078 /2079				
2079 /2080				
2080 /2081				
2081 /2082				
	1793	15	15	1823

Annuity repayments of principal are included as they are made in the relevant financial year.

COUNCIL – 23 FEBRUARY 2023

THAMESWEY BUSINESS PLANS 2023

Executive Summary

Woking is an ambitious Council, with a clear focus for its residents set out in its "Woking for All" Corporate Strategy. It has made a significant level of investment in regeneration, housing, leisure and office developments, delivered through a number of Council funded companies.

There is, however, a recognition that this level of ambition needs to be balanced with having sustainable and affordable plans. Changes in the economy, Central Government attitudes to local authority borrowing, following problems in some other local councils, and consequent changes in the regulations and accepted practice, require the Council to consider the prudence of its current approach.

Woking Borough Council has embedded best practice in its approach via a new corporate governance framework, establishing a Shareholder Advisory Group (SAG) to provide a clear focus for Members to set out policy, strategy, and control for the companies that it funds.

This year the review and approval of Thameswey business plans has been subject to additional scrutiny via this process and has also been reviewed in the context of the challenging budget and Medium Term Financial Strategy for the Council. The financial envelope that the Council provides for Thameswey business plans is a key part of ensuring that the Council itself is financially sustainable.

Recommendations

The Council is requested to:

RESOLVE That

(i) the wider Thameswey Business Plans be noted;

(ii) £70.3m of funding, required to continue delivery of Thameswey Business Plans through to the end of 2023/24, be approved with the exception of Cyan, Blue and Emerald phases, which will pause at tender stage to allow these phases to be part of the wider review of the delivery of Sheerwater;

(iii) a review period for Sheerwater phases be agreed, including the future of Cyan, Blue, Emerald and other phases, with any subsequent report back to Full Council in July; and

(iv) the wider Shareholder actions be agreed for review in 2023.

Reasons for Decision

Reason: Pausing work on Cyan, Blue, Emerald and other phases, together with wider Shareholder actions will demonstrate a more robust approach to the review and approval of Thameswey business plans, balancing ambition and affordability for Woking Borough Council

The Council has the authority to determine the recommendations set out above.

Background Papers:	Thameswey Business Plans
Reporting Person:	Joanne Mcintosh, Legal Director Email: joanne.mcintosh@woking.gov.uk
Contact Person:	Joanne Mcintosh, Legal Director Email: joanne.mcintosh@woking.gov.uk
Portfolio Holder:	Councillor Ann-Marie Barker Email: ann-marie.barker@woking.gov.uk
Shadow Portfolio Holder:	Councillor Ayesha Azad Email: Ayesha.azad@woking.gov.uk
Date Published:	15 February 2023

1.0 Introduction

1.1 Woking is an ambitious Council, with a clear focus for its residents set out in its "Woking for All" Corporate Strategy. It has made a significant level of investment in regeneration, housing, leisure and office developments, delivered through a number of Council funded companies. There is, however, a recognition that this level of ambition needs to be balanced with having sustainable and affordable plans.

1.2 There has been a clear path of work on seeking this balance between ambition and affordability:

- the Comprehensive Statement and commission by Ernst Young reported to Overview and Scrutiny in January 2022
- the Woking for All Corporate Strategy. Of particular relevance are the priority commitments relating to being a High Performing and a financially responsible council (see Appendix)
- a new framework of Corporate Governance for Council owned companies approved by Executive in July 2022, based on best practice
- a July Medium Term Financial Strategy (MTFS) report provided an update on the development of the Council's Financial Resilience Strategy, a key component of the Council's MTFS
- further updates on the MTFS during 2022 reviewing the financial sustainability of Woking Borough Council

1.3 This report follows on from the above and sets out progress on a thorough and comprehensive review of Thameswey Business Plans for 2023 alongside the Council's budget for 2023/24 that is also presented to this meeting of Full Council. It is imperative that the Council's budget for 2023 and its Medium Term Financial Strategy are set in the context of affordable plans for Thameswey.

2.0 Corporate Governance

2.1 Good corporate governance requires councils to carry out their functions in a way that demonstrates accountability, transparency, effectiveness, value, integrity, and inclusivity. The July 2022 Executive report set out the principles for the revised governance arrangements for council owned companies:

- the entity should have sufficient freedoms to achieve its objectives;
- the Council should have sufficient control to ensure that its investment is protected, appropriate returns on investment can be obtained and that the activities of the entity are aligned with the values and strategic objectives of the Council;
- the entity continues to be relevant and required (in its existing form);
- and if not, appropriate steps are taken (for example, amending constitutional documents or changing form or terminating the vehicle)

2.2 The July Executive approved a new governance framework, with a clear focus on the role of the Shareholder Representative (the Leader) and the arrangements required to support that role, based on best practice, including a Member Shareholder Advisory Group and an officer Shareholder Liaison Service to support that work. This approach clearly separates the roles of Council Directors on company boards and the Shareholder interest.

2.3 As set out in the report, one of the key documents via which the Council exercises appropriate control over its companies is via the business plan. This plan sets out the objectives of the business, how they are to be achieved and standards met, adjusted in the light of experience and changing Company Governance circumstances. It is a comprehensive analysis of the business situation at a particular point in time. It is critical that the Thameswey plans take into account changing circumstances in the economy and for Woking Borough Council over the last couple of years.

2.4 This report and the subsequent report to full Council will fulfil the requirement of reviewing and annual business plan for Thameswey, with a clear focus on financial sustainability for both the company and Woking Borough Council. This has been subject to additional challenge compared to previous yeas via the new Shareholder Liaison Service (SLS) and Shareholder Advisory Group (SAG). A key consideration here has been the level of borrowing that is sustainable in the short and medium term as well as the long term.

3.0 Council Borrowing and Financial Sustainability

3.1 To date Woking Borough Council has delivered its ambitious housing, leisure, regeneration and district energy networks though Thameswey, funded by borrowing that is repaid over long periods of up to 50 years. A number of factors have impacted on the Council's ability to afford those long-term plans and therefore now require a clear focus on the short to medium term as well:

- COVID and other negative impacts on the UK economy.
- Concerns across the local authority sector about financial sustainability in the context of continuing restrictions on Government support together with rising costs and demand for services.
- A sharper focus by Central Government the level, prudence and sustainability of local authority borrowing, particularly in the context of a number of high profile company failures at other councils. Thameswey is delivering successfully in Woking, but the overall environment requires Woking Borough Council to show additional scrutiny and prudence.
- Linked to the above concerns, there have been changes in Government and CIPFA guidance that governs the way local authority borrowing is undertaken and accounted for.

4.0 Thameswey Business Plans and Borrowing

4.1 The full activity on the Thameswey Business Plans would require a further borrowing commitment by Woking Borough Council of up to £97m to fund them for Woking Borough Council's financial year 2023/4.

4.2 In previous years the Council has agreed the full level of borrowing requested by Thameswey for the business plan period (3 years), based on long term plans of up to 50 years. In its current financial position, the Council has required additional controls and caveats on the approval of this funding. There are two phases to this:

- over the past few months running to Full Council a more rigorous challenge and scrutiny of the business plans, leading to a one year only approval of funds by Full Council.
- further work after Council to fundamentally review the most significant and costly element of the plans – the Sheerwater regeneration scheme. The key element of this will be a review of each of the phases of Sheerwater by the company and the Council during the review period to end of May. The Council will consider the policy implications of the

choices and what it then asks to company to proceed with, defer or cease. Any funding requirements on continued delivery will be reported to Full Council in July.

4.3 The intent of these actions is to ensure that a robust and careful approach is taken to further debt finance, mitigating the risk to the Council's financial position and allowing time for the Council to consider the policy implications of any rephasing of borrowing.

5.0 Thameswey Funding Proposal

5.1 In summary, the proposal for Full Council is a funding envelope of £70.3m for Thameswey that:

- allows a full appraisal of the future options for the loss making Thameswey Central Milton Keynes (TCMK), including potential market sale with minimal borrowing
- supports the rest of the Thameswey Energy Limited (TEL) plan, including Woking Borough Council support for the Heat Networks Investment Project (HNIP) that is also funded by central government and developer contributions, with no borrowing in 2023
- supports activity in the Thameswey Housing Limited (THL) business plan with the exception of some Sheerwater phases
- supports the spend required on Sheerwater to complete the phases currently on site, but pausing other phases whilst a review is undertaken by the company and the Council of the options for delivery of the Sheerwater scheme
- The cash flow needed to support debt repayments in year and the activity above.

5.2 The above results in a recommendation for funding of £70.3m to the end of 2023/24. This is lower than that to support the Business Plans in full, but it will keep the company in funds and viable to deliver whilst further work is undertaken on Sheerwater. There will be a clear monthly profile of funds for draw down from the Council. The funding required for each of the main Thameswey Companies is set out below, together with a summary for the whole Group.

Thameswey Central Milton Keynes

5.3 TCMK is a loss-making entity that requires ongoing funding from Woking Borough Council to cover its losses. A direction has been given to Thameswey to explore options for TCMK, including market sale in 2023. Although this may require a write off of debt, this is likely to be less costly than continuing with TCMK. The company has to be maintained as going concern whilst this course of action is pursued. The recommendation of this report is therefore to agree the TCMK element of the business plan, involving £4.1m of borrowing: mainly to cover previous loan interest, but also the costs of the options appraisal and £0.5m of costs for planned maintenance of the TCMK network. No margin shall be applied to the aforementioned borrowing given the financial circumstances of TCMK. If the latter is not agreed then the value of the asset for sale could reduce.

5.4 Any financial implications of the options for TCMK that impact on Woking Borough Council will be reported back for approval.

Thameswey Energy Limited

5.5 The main investment and funding issue for Woking Borough Council is the Heat Network Investment Programme (HNIP) that Thameswey has received Central Government (BEIS) loan funding support for. The size and scale of this investment is subject to further development work and this requires no funding support from Woking Borough Council in 2023. There may be financial implications of HNIP but they are in the period 2014-2032 and the business plan will not commit Woking Borough Council to further debt at this stage.

Thameswey Housing

5.6 The Thameswey Board report shows £10.8m of spend on THL not related to Sheerwater, mainly cash flow that will be subject to the monthly draw down process.

5.7 Spend on each of the Sheerwater phases in 2023/4 is:

	£m	
Purple	0.5	Complete – retention payment
Red	9.7	Due for completion mid 2023
Copper	13.3	Sales of £30.8m from Copper in 2023/24
Yellow	34.3	On site - due for completion late 2024
Cyan, Blue, Emerald	28.9	Not on site – at design and tender stage with contractors
	86.7	

5.8 Purple, Red and Copper phases have delivery costs of £23.5m but are all on site and well advanced – with significant sales income of £30.8m from Copper assumed in Thameswey's plans for 2023/4. In net terms they therefore contribute to lower borrowing, assuming sales perform, so it makes sense to complete these phases.

5.9 The phases that could be questioned are:

- Yellow with £34.3m of spend in 2023/24, but this is on site and Thameswey estimates increased costs of £5m would arise if this phase were paused. There would also be the issue of a part completed site with the attendant security and reputational issues.

- Cyan, Blue and Emerald, which are at design and tender stage, not on site. Spend is currently marginal but increases significantly during 2023, with Emerald and Cyan on site in June and Blue in October. By the first quarter of 2024 spend is £5m per month, leading to a cost of £28.9m in 2023/4. Spend up to May to cover the end of design and tender stage is approx. £1.7m.

5.10 This analysis suggests that pausing Yellow is a choice but is not recommended. However, the stage that Cyan, Blue and Emerald are at gives a rational choice to pause those phases and reduce borrowing by £28.9m whilst the wider review of Sheerwater is undertaken.

5.11 The next full Council cycle for additional funding would be approval at 20 July, so Thameswey have been directed by SAG to hold Cyan Blue and Emerald until then: £2m has been built into the assumptions below to allow some contingency on top of the £1.7m built into their cash flow to May.

Overall Funding For Thameswey

5.12 The work with Thameswey and reported to their Board was based on keeping the companies viable and operating, including borrowing to cover company interest payments on existing debt and cash flow. Information is included in the Board report in summary on these overall costs, but further work is needed on:

- Debt profile compared to assets for each current and future years of the TL main entities (linked to Woking Borough Council capital financing requirement to be approved in MTFS report)

- o Framework and profile for drawdown of funding in year (as part of monthly reporting process)

5.13 Based on the individual analysis of company costs the recommended funding envelope for the Thameswey Group is:

	Woking Borough Council 2023/24 £m	
Sheerwater	53.4	Based on pausing Cyan, Blue and Emerald
	2.0	Costs to May on Cyan, Emerald, Blue of £1.7m plus contingency
THL	10.8	Mainly cash flow (follow up work on draw down)
TCMK	4.1	Mainly cash flow and options appraisal costs of £0.4m, but £0.5m maintenance to be subject to further work as part of draw down
TEL	0	
Total	**70.3**	

6.0 Further Work Post-Council

6.1 In addition to the review of Sheerwater phases, the Shareholder Advisory Group has agreed a clear set of actions for both Thameswey and Woking Borough Council to fundamentally review a number of Thameswey activities during the year. This will, in summary, include:

- exploring alternative funding sources (loans or equity) other than Woking Borough Council borrowing
- alternative models of delivering housing other than via the company e.g. via housing associations
- review the mix of housing – social, affordable, private rented
- options for TCMK including potential market sale
- work on financial modelling, loan to asset value and asset impairment risks to complement a review by Woking Borough Council of its approach to borrowing and provision for Minimum Revenue Provision (MRP) in its MTFS
- developing the Shareholder Advisory Service's capacity and capability to undertake thorough commercial analysis of the full extent of its interests in companies

6.2 In addition, the Council will need to review the policy and financial options for the Brookwood Lye site as well as Sheerwater phasing to have a comprehensive view of any further funding for Thameswey over and above the approval at Full Council. Any further policy and financial issues for Woking Borough Council will be brought back through the appropriate governance process in year.

7.0 Implications

Finance and Risk

7.1 As set out in detail in section 5, this report recommends approval of a financial envelope for Thameswey of £70.3m for the Woking Borough Council financial year of 2023/24. Any further funding requirement for Brookwood Lye or Sheerwater phases will be reported back to Full Council.

Equalities and Human Resources

7.2 None

Legal

7.3 This report further develops the governance approach to companies owned by the Council, as agreed in July 2022 and therefore complies with the relevant legislation and best practice

8.0 Engagement and Consultation

8.1 Developing this report has been undertaken via the Shareholder Advisory Group and in conjunction with Thameswey officers

REPORT ENDS

A high performing council

A financially responsible council with sustainable and affordable plans

Ensure that affordability, financial control and delivery of value for money are embedded in how the Council conducts its business

Additional priority commitments

- Get the Council's finances under control – this is our first priority
- Consider new approaches to increase income
- Make decisions in an open and transparent way

Actions

- Work constructively with the Department for Levelling Up, Housing and Communities (DLUHC) to deliver plans for a sustainable budget and directly address the concerns the Government has about the Council's levels of debt and exposure to financial risk
- Deliver clearer and more transparent financial performance reporting through to meetings of the Council
- Seek greater leverage of private sector and market investment into Woking to enhance the economic vitality of the borough and maximise the benefit that Woking communities experience from this investment

A high performing council

Develop and strengthen strategic and financial planning and performance and risk management

Additional priority commitments

- Review the financial model used to fund council owned companies
- Get expert opinion to advise on the financial sustainability of the Council's investments into companies

Actions

- Review all council investments and set clear performance targets for the returns these investments need to provide for the Council and the borough

ThamesWey
Creating Sustainable Communities

ThamesWey Group

Business Plan 2023

Covering the period January to December 2023

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Introduction

1.1 This Business Plan sets out the ThamesWey Group's ambitions for delivery over a single year period commencing in January 2023. The Plan is written as a single document covering all the legal entities/companies to reflect the direction of travel for the Group in simplifying its structure and a recognition that both the Board and the external audience are more interested in the activity of the Group rather than the legal structures.

1.2 The plan is written to cover only a single year to reflect the Shareholder's requirement, as articulated in November 2022, to investigate substantially different approaches to the funding and delivery of the Council's objectives. These reviews will be commenced during this Plan period and will inform the 2024-2027 Plan which is intended to return to a four-year strategic plan period.

Group Purpose, History and Structure

Group Purpose and History

2.1 The Council established ThamesWey Limited (TL) in 1999 to make long-term energy and environmental project investments in support of what subsequently became the Council's Climate Change Strategy. In 2004 the company's remit was extended to include provision of affordable homes in support of the Council's Housing Strategy. In 2008 the company's remit was further extended to take forward redevelopment and economic development proposals for parts of the Borough.

2.2 Following the adoption of the Councils 'Woking 2050 Strategy' the Group has used the main strategic goals of the Strategy as its purpose:

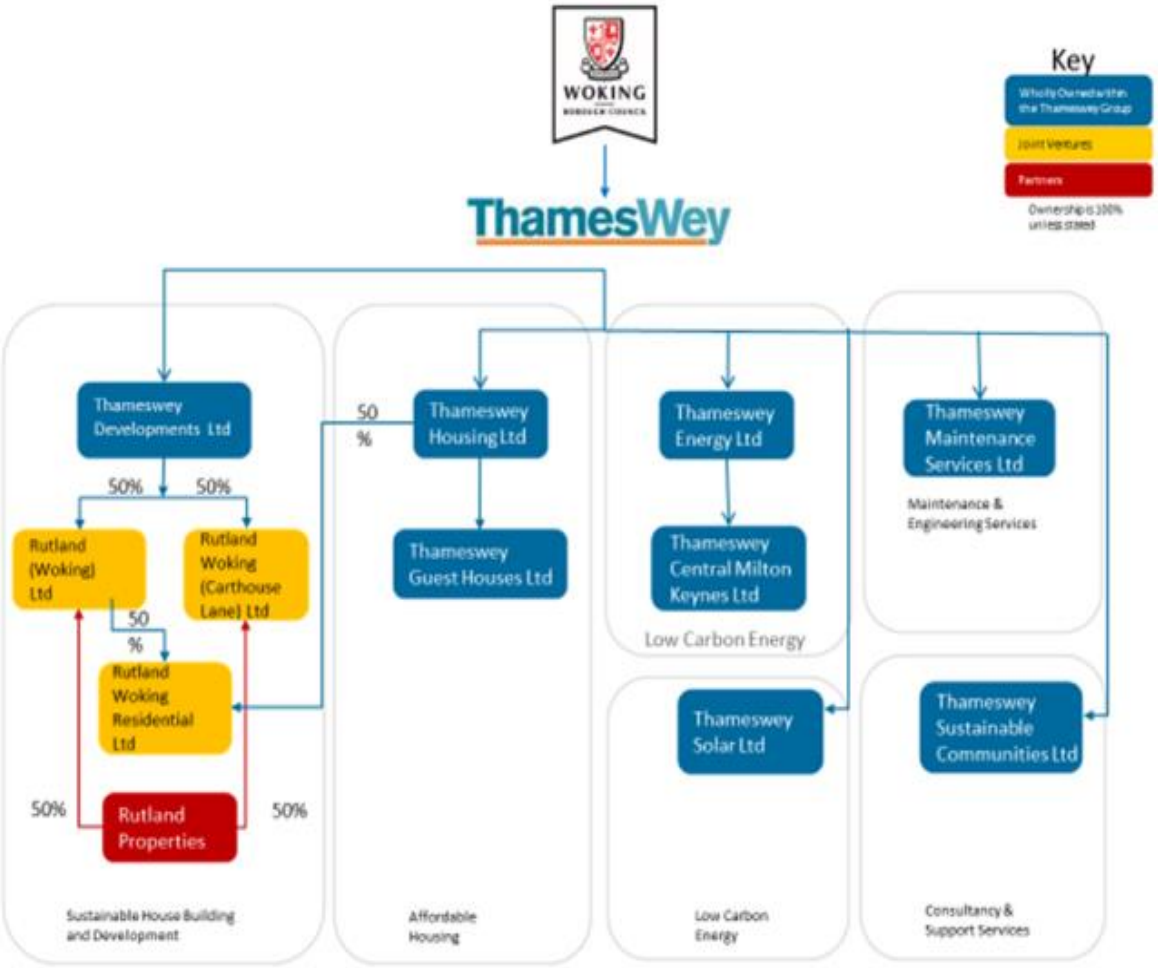
- Protect and enhance the quality of the natural environment.
- Promote the wise use of resources and conserve biodiversity.
- Deliver a built environment which is developed sustainably, meets local needs and enables the local economy to prosper.
- Prepare and adapt to the socio-economic, environmental, and demographic changes of the future.

2.3 These headline strategic objectives can be summarised as ThamesWey's purpose is 'to work towards enabling the development of sustainable communities'. The activity of the Group is also informed by the Council's commitment to become Carbon Neutral by 2030 and the 'Woking for All 2022-2027' strategy.

2.4 The four strategic headlines are underpinned by shorter term action plans and objectives setting out the focus of the Group over the next business plan cycle.

Structure

2.5 The current legal structure of the ThamesWey Group is that ThamesWey Limited (TL) is wholly owned (100%) by Woking Borough Council (WBC). TL acts as the holding company of the ThamesWey Group. The current structure is pictured below:



2.6 All of the wholly owned companies listed above are supported by ThamesWey staff who are employed in ThamesWey Sustainable Communities Ltd (TSCL).

2.7 During the course of this Business Plan period the Group aims to review the number of legal entities with the aim of improving transparency and efficiency of the operations as part of the wider review of activity as instructed by the Shareholder. This process started within the last business plan period with the merger of ThamesWey Solar into ThamesWey Energy and the commencement of closing ThamesWey Maintenance Services Limited.

2.8 The Group will take tax and corporate restructuring advice during 2023 and incorporate this into the 2024 Plan.

Achievements Since Last Business Plan

Carbon Reduction and Environmental Sustainability

3.1 During 2021 just under 3,000 tonnes of CO_2 emissions were saved through the generation and supply of low carbon heat and power to ThamesWey's networks. In addition, 311 tonnes CO_2 were saved from the generation of over 1,100 MWh of solar power.

3.2 Poole Road energy centre was completed and is on track to achieve a BREEAM 'Excellent' rating.

3.3 The Group's energy and business administration activities have been awarded ISO14001 (Environmental Management) accreditation.

3.4 Over £7m of home energy efficiency funding was secured and 718 homes benefitted from major energy efficiency improvements through ThamesWey's 'Action Surrey' Programme during 2021-2022

Housing and Development

3.5 Since the approval of the last Business Plan the Group has completed and opened the first phase of the residential offer in the Canalside regeneration of Sheerwater. The Fairfax and Murray Place block (82 units) with the associated 10 townhouses was occupied by tenants during 2022 and is a significant milestone in the development of the regeneration, as it incorporated the first market housing of the regeneration. The ability of ThamesWey to let these at modelled rates was a key risk to the scheme, especially as they were to be occupied during construction of future phases. It is good to note that occupation was achieved within the modelled assumptions. ThamesWey also commenced the development of the Copper and Red phases of the regeneration with units expected to be completed and released for occupation in 2023. The Group also commenced site preparation for the fourth phase (Yellow) and developed the design for Cyan, Emerald and Blue phases to allow market testing in early 2023.

3.6 In addition to the work at Canalside ThamesWey delivered the Cornerstone and Englefield Road developments providing 94 apartments and four townhouses respectively. Both developments have been well received by the market and have achieved rental figures in line with modelled assumptions.

3.7 As well as development which is held arms-length from the Shareholder within the Group, ThamesWey delivered two schemes directly for the Council and commenced the delivery of a third. 121 Chertsey Road and Waterman House is providing temporary accommodation for Woking Borough Council and Bonsey Lane will provide HRA affordable apartments.

3.8 ThamesWey's housing team also completed the transfer of tenants from New Vision Homes management to self-delivery by ThamesWey during the last plan period following the change in the Council's housing management contract. This significant change was achieved without a negative impact on rent collection or the customer experience.

Energy Infrastructure

3.9 Poole Road energy centre has been completed and was energised in April 2021. Almost 1km of low temperature heat network pipes have been installed linking Poole Road to a new heat distribution network which includes the entirety of Victoria Place.

3.10 A new 'Private Wire' electricity network has been built and energised via a new 6MVA primary grid connection at Board School Road. Nine HV/LV substations have been built at Victoria Square, a further new HV/LV substation at Waterman House and new switching substations installed at Dukes Court and Peacocks. As a result, Woking now has two private wire networks serving the town centre, providing greater resilience of supply to customers and the network capacity to commence the electrification of heat. Power supplies have been energised to The Marches residential towers, the Hilton hotel, retail units including Marks and Spencer and Boots, Italia Conti, Superbowl and new car parks.

3.11 THL's Cornerstone residential development has been connected to the town centre heat network and also has a 21kW solar PV array.

3.12 The first phases at Canalside are ready for connection to a new heat network to be supplied with heat-pump generated energy upon completion of the Red phase. In addition, 73kW of solar PV has been installed.

3.13 TEL successfully bid for £9.4m funding through the Government's Heat Network Investment Project (HNIP). This will fund future phases of low carbon heat generation, storage, and network extensions in the town centre, including linking the networks supplied by Victoria Way Energy Centre to Poole Road enabling further decarbonisation of heat in the town centre.

3.14 Government grant funding of £3.2m was secured in 2021 through the first phase of the Public Sector Decarbonisation Scheme (PSDS). This has enabled both Export House and Midas House to be connected to TEL's heating and cooling networks. These installations use a novel combination of networked heat generated at Poole Road coupled with locally sited water-source heat pumps. This combination of technologies has the potential to provide a lower carbon solution for other buildings in the town centre where conversion of building services to lower temperature systems is impractical.

3.15 Two new developments have connected during the last 18 months in Milton Keynes. These comprise the Moxy Hotel which is now supplied with heat and power by TCMK, and Packaged Living's 'Aubrey Place' scheme where 294 build to rent apartments are now supplied with heat. These are the first new connections since 2010.

Corporate

3.16 During the last Plan period ThamesWey successfully restructured its employee establishment to reflect the current business challenges faced by the Group. We also rationalised the office portfolio following the opening of Poole Road as the new main office with all Woking based staff moving to Poole Road as their main place of work. In parallel we have successfully introduced hybrid working patterns across the workforce where appropriate.

3.17 Following a tender process the group audit function transferred in 2021 from Hamlyn's to Menzies. Menzies are a mid-tier full-service accountancy firm delivering a complete range of accounting and tax compliance services. The scale of Thameswey required a move to a larger audit practice which offered a broader service range. The transition to Menzies has also delivered a fresh approach for the group and updates to previous practises are underway. For 2021 audit emphasis has been placed on balance sheet due diligence. During 2022 the audit approach will be confirmed and is expected to reduce the reliance of year end auditing and focus year end checks earlier within the calendar year.

Carbon Reduction Strategy and ISO14001

4.1 Since 2021 the Group has engaged with BSI (the British Standards Institution) on implementing an Environmental Management Scheme with the objective of achieving accreditation to ISO14001. This accreditation is internationally recognised as a best practice 'kite mark' for managing both strategic and day-to-day business activity in an environmentally positive way and will assist in reducing our carbon footprint. The Group was awarded this certification for its energy and business administration activities businesses in September 2022 and will be seeking the same accreditation for ThamesWey Housing in 2023.

4.2 In 2019, the Group set out a carbon reduction strategy that explored how ThamesWey could become carbon neutral by 2030. The report used dynamic modelling to show the greenhouse gas emission trajectories of three business activity pathways. This was updated in 2020 using an improved model and identified the priority actions for the business plan period.

4.3 An updated carbon reduction report is appended to this Business Plan which summarises the latest modelling of carbon emissions arising from ThamesWey activities through to 2030 (Appendix 3). The modelling follows the same methods employed by the Council's consultants (Anthesis) in producing its carbon foot-printing assessment earlier in the year and assesses the impacts of several different growth scenarios for energy supply to the town centre and also the potential impact of TCMK being removed from the Group at the end of 2023.

Governance Structure

5.1 In addition to the desire by our Shareholder to simplify the company structure, the Council has also determined a desire to refresh the Governance Structure of the Group. In the previous Plan period ThamesWey company Boards were made up of three classes of Directors: Officer Directors, Independent Directors, and Councillor Directors. All classes were nominated for appointment by Woking Borough Council as sole Shareholder.

5.2 Since the current structure of the Board was codified there have been a number of widely reported failures of Local Authority owned companies, notably within the energy trading sector. While the companies involved had very different business models to ThamesWey the impact of their failure has led all Local Authorities to look again at their Governance Models. At the same time, two national reports were published setting out perceived good practice for the governance of Council owned companies (LLGC – Code of Governance for Local Authority Interests in Companies 2018 and Local Partnerships – Local Authority Company Review Guidance 2021). Both reports emphasised the importance of the Council as shareholder of any Company having improved knowledge of its Companies' activity. Recent CiPFA guidance has also highlighted the need for a more informed Shareholder role.

5.3 The Council as Shareholder has therefore changed the Governance structure of ThamesWey along with all other Council owned entities for this plan period. The immediate impact on the Group is that the Board membership has changed to reduce the classes of director to two, with Council appointed Officers and Independent class of directors remaining. This places an increased requirement on the remaining classes of Director to engage in the Group activity and ThamesWey will work with the Shareholder to agree the skill sets of the independent class of directors and jointly recruit to vacancies in early 2023.

5.4 Following on from the reduction in Group Board Directors the Council intends to set up a separate advisory shareholder body called the Shareholder Advisory Group (SAG) as a Council committee in order to discuss company activities and strategic direction. The link between this committee and the Group Board will be provided by the Shareholder Representative who will be the Leader of the Council and will attend Group Board meetings in an observer role. The Shareholder representative will ensure the Shareholder (WBC) view is reflected in the Group Board activity and that the Shareholder is fully aware of this activity.

5.5 To service this new advisory committee the Council will employ a new team, called the Shareholder Liaison Service, to ensure there are appropriate service contracts between the Group and the

Council and the necessary paperwork is maintained. This enhancement will be a welcome opportunity to ensure that the contractual relationships between the Group and its owners are codified in a timely manner.

5.6 As part of the proposed Governance changes the Council will no longer provide services to the Group on a gratis basis. Therefore, as mentioned in previous business plans the Group will need to ensure that it has adequate support capacity available to ensure it is appropriately advised and ensure sufficient funding is available to do so. Where the Council has appropriate skills and capacity the default will be to continue to use the current services subject to a check on value for money. During this Plan period ThamesWey will look to widen the support it currently receives from existing suppliers and service providers.

Shareholder Directions

6.1 The Shareholder met in November 2022 under the new governance regime outlined above to consider a draft Business Plan proposed by the ThamesWey Board for the period 2023-2026. Following the meeting the Shareholder issued a Direction that ThamesWey reflect a number of points in its Business Plan and agreed that a single year plan was more appropriate given the context of the Direction.

6.2 The majority of the Directions are to 'explore' ideas which has driven the need to only have a single year business plan as the outcome of this exploration will have a significant impact on the future direction and viability of the Group and therefore the articulated Business Plan. Section 7 and onwards in this Plan are drafted based on the following Shareholder Directions:

- That a margin on the cost of borrowing continues to be applied to ThamesWey Housing Limited (excluding Sheerwater Regeneration costs) and ThamesWey Energy Limited in favour of the Shareholder.
- That the Group explores opportunities for commercial funding of future borrowing and reports back to the Shareholder on the options available.
- That the Group explores the introduction of equity into the capital structure of the companies through disposal of housing assets and/or the introduction of a joint venture investor.
- That the Group explores a different mix of social, affordable, and private rented accommodation within the Canalside regeneration of Sheerwater.
- That the Group explores underwriting £3.8m of NVH costs earlier than originally modelled.
- That the Group explores underwriting Housing Revenue Account void costs.
- That the Group takes ThamesWey Central Milton Keynes Ltd. to the market for open sale with any subsequent loan impairment managed within the Group.
- That the Group explores the market value of ThamesWey Energy Limited and the potential for sale or joint equity investment.

Group Opportunities and Business Development

7.1 The following paragraphs outline the strategic direction that the Group will focus on during the business plan period taking on board the Shareholder directions listed in section 6. A more detailed list of operational activities aimed to be delivered during the Plan period are set out in Appendix 1.

Wider Residential Offer

7.2 During the course of the business plan the Group will continue to look to deliver the Sheerwater Scheme via TDL and THL. In addition the Brookwood Lye project will be submitted to the planning authority. The Group also owns two other potential development sites of scale, the Concorde and Griffin House site in Woking town centre and Knaphill High Street which have been assumed to be developed during the following plan period post 2023.

7.3 The Group will continue to ensure its residential offer is located only within the 30-minute commute from Woking Station geographical boundary and during the Plan period will aim to increase the Group's stock of family size houses to balance the recent skew to apartments. The Group's aim is to have a balanced portfolio of property sizes, styles, and locations to mitigate the exposure to different property markets.

7.4 Following a review with our Shareholder the Group intends to focus on two areas over the plan period regarding the wider residential offer. Firstly, to focus residential provision on its key client group comprising residents who cannot access social or open market dwellings due to their financial standing (the 'Intermediate' market). As such the Group will not progress any plans to become a Registered Provider (RP) during this plan period and, with the exception of Canalside/Sheerwater, will not concentrate on social equivalent housing provision which will be progressed by the Shareholder via alternative routes. The second area of focus will be to identify residential property which can be disposed of within the current portfolio and commence a process of property disposal to reduce the overall gearing of the residential portfolio. The main aim is not to reduce the overall residential offer but to increase the equity position.

7.5 During the Plan period the rental yield from ThamesWey property will be reviewed, this will also inform the portfolio disposal plan identified in paragraph 7.4. Following the Government announcement that the CPI+1 rental structure for Social Rents will be capped at 7% ThamesWey will apply this capped rate to our social equivalent rents and look to achieve the same increase across the rest of our residential portfolio when rent reviews are due.

Enhancement of Residential Services

7.6 During the Plan period the Group will look to enhance the current service it provides to our tenants in a cost-effective way with a focus on three areas; Refurbishment Standards; Management Processes; and Asset Management, all the while maintaining our current high level of customer service. This review will be informed by a customer consultation exercise that has been carried out across all our tenants to inform the development of our services and the work on decarbonisation priorities. The consultation exercise was completed in December 2022 and highlighted a very high overall level of satisfaction and confidence in the services provided to all ThamesWey tenants irrespective of tenure or location. However, it did identify a few areas where this high baseline could be improved regarding grounds maintenance and keeping residents updated particularly on the progress of any interaction with ThamesWey. These areas will form the focus on the service improvement review during 2023.

7.7 A review of our refurbishment standards applied to new acquisitions and voids upon tenant change will be carried out during early 2023 to ensure they still provide value for money and contribute towards the Group's environmental standards. The base case economic model for THL includes an assumed expenditure of £1M per annum on improvements in environmental standards.

Currently all property is refurbished to a similar high standard irrespective of the price point of the property. The aim is to reduce ongoing maintenance costs, protect the asset, improve environmental performance and to make the property let quicker. The review will also look to assess and record if the refurbishment is seeing the achievement of these objectives and if there should be a formal set of 'standards' in the same way as applied to new build ThamesWey stock as part of the construction contract with the aim of ensuring refurbishment is cost effective.

7.8 ThamesWey has invested in Housing Management (PEX) and Asset Management (QFM) systems over the last plan period and the deployment of the systems has been rolled out across the teams. However, there is still scope to maximise their usage and to enhance self-delivery and automation. For example, in response to the customer consultation exercise, the potential will be investigated for residents to order 'additional services' such as cleaning via the portal and an automated customer update process. During the Plan period there will be a focus on ensuring the systems are used to their maximum potential including, if required, acquiring later updates of the existing systems.

7.9 In parallel with system improvements the wider asset management and cyclical maintenance of property will be an area of focus, including the potential to incorporate a greater level of environmental enhancement during cyclical maintenance schemes. As part of this review the long-term financial assumptions used to budget for property maintenance will be reassessed. This work will also influence the set-up of a Residents Management Company for the Canalside area which will be a requirement of the non-adopted nature of large areas of the estate. As the developer, ThamesWey would need to set up the Company as part of the conveyancing process but the company would be owned by all the property owners on the estate, not be part of the Group.

Residential Developments

7.10 During the Plan period the Group will not look to identify any additional residential development opportunities as the overall strategic review mandated by the Shareholder needs to be resolved before any additional commitment to expenditure is identified. The Group will look to continue the delivery of the two main sites already identified: Canalside and Brookwood Lye Road although this may involve an increased focus on disposal rather than build. Should a specific project be identified by the Shareholder to be progressed on a contract basis by ThamesWey, (such as Bonsey Lane or potentially Egley Road), these will be brought to the Board for individual approval outside of the Plan. As such, no additional development sites have been built into the economic model underpinning this Business Plan.

7.11 The Canalside project to regenerate Sheerwater will continue to be delivered during the Plan period. The expectation is to have delivered the Red and Copper Phases during this Plan period and be on site for Yellow and, following a market exercise in early 2023, Emerald phases. Cyan and Blue phases will be tendered during the Plan period and it is expected that site preparation will have been commenced. In addition, a planning application to modify the Orange and Blue phases will be submitted to improve the cost effectiveness of their delivery. As part of this delivery, we will work with the Shareholder, including local Ward Members, to address the Council's Supplementary Priority 22/23 to 'develop Sheerwater to schedule, while minimising the levels of disruption as far as possible to local residents and businesses.'

7.12 In line with the Shareholders Directions, outlined in section 6 of this Plan, in parallel with the market tenders of Cyan, Emerald and Blue phases ThamesWey will investigate, along with the Shareholder, if a third party could take over the delivery of the scheme from ThamesWey. This is likely to be a Housing Association although larger commercial developers and land agents will also be approached to see if they would be interested in taking the scheme forward.

7.13 Brookwood Lye Road is a low-rise development centred around the previous nursery site near Brookwood Crossroads. The site has been subject to several schemes influenced by the multiple landholdings and planning policy requirements for Gypsy and Traveller sites on the adjoining land.

Development on the ThamesWey owned section of the land has been previously blocked by a lease in favour of the neighbouring occupiers. There is an option that this lease could be surrendered in return for the transfer of a parcel of land, but this is subject to Shareholder agreement and will be reviewed in early 2023. It is hoped to achieve planning consent for the site in 2023. The site will then be reviewed with the Shareholder to see if disposal to the market is appropriate or if the development could be commercially funded. This market exercise will mean it is unlikely that physical development would be commenced until the next Business Plan period commencing in 2024.

Energy Generation and Supply

7.14 During 2023 Victoria Square is expected to reach full network demand and the focus of TEL's activity in the town centre will be on optimising supply efficiency to its customers along with new commercial customers at Export House and Midas House and the installation of CHP generating capacity at Poole Road.

7.15 TEL will develop its new energy plant and distribution networks at Sheerwater and commence generation of low carbon energy to customers at Canalside during 2023. This is a notable development as it is the first large scale ThamesWey network based upon heat pumps as the primary energy source. The cost of this new infrastructure has been built into the Sheerwater development cost. This will contribute towards the Group's aim of reducing its carbon footprint and will also help inform the strategy for expansion and decarbonisation of energy supplied through TEL's existing town centre networks.

7.16 New connection prospects for TCMK include redevelopment of aging New Town building stock to provide new higher density residential schemes that are coming forwards in the east and central districts of central Milton Keynes. Milton Keynes Council (MKC) and its development arm (MKDP) are continuing to promote a new university campus on its land in central Milton Keynes adjacent to TCMK's heat network. MKC is also engaging with TCMK over plans to develop major new extensions to the heat network with the objectives of connecting MK University Hospital and the Open University campus to the south of central Milton Keynes. Milton Keynes Council also wishes to connect its energy from waste facility to the north of the city centre to supply renewable heat to customers and TCMK will continue to work with Milton Keynes Council to develop a proposal for partnering to enable this. However, while these opportunities have the potential to create additional value for TCMK, the Shareholder's Direction during this Plan is for the primary focus to be the appointment of an Agent and taking TCMK to market for disposal. The intention is to have a validated commercial offer for the Board and Shareholder to consider by the end of the Plan period for the disposal of TCMK. IT should be noted that based on soft market testing during 2022 it is unlikely that any commercial offer will cover the existing Shareholder investment within TCMK.

Carbon reduction of primary generation

7.17 ThamesWey is committed to supporting the Council in delivering its Carbon Reduction commitments by 2030 and includes its output as part of this commitment. As such during the plan period ThamesWey will aim to decarbonise its primary energy production, moving to heat pumps where possible (as in the case of Canalside, Export House and Midas House). A decarbonisation scheme for TEL is included within the HNIP scheme capital expenditure of £19.2M and the initial stages of this investment are included within this Plan period, although the majority will be within the next Plan period.

7.18 There is currently no decarbonisation plan for the existing infrastructure for TCMK within the business plan period and given the Shareholder Direction to dispose of the company this will be dealt with by the new owners under their own strategic priorities.

7.19 During the Business Plan period TEL will commence pre-construction design for chilled and hot water interconnectors to link its original networks in the east of the town centre to the new lower temperature heat and chilled water networks supplied by the DCC and Poole Road respectively. Work will also continue on feasibility appraisal of alternative sources of lower carbon and renewable heat generation including exploiting emerging technologies and new funding opportunities to decarbonise.

Energy Delivery Model

7.20 The Group will continue to consider alternative structures for energy delivery to allow continued expansion of TEL whilst migrating to lower carbon energy systems. Novel approaches to delivering energy are emerging (such as 'Heat as a Service') and external funding from the European Union Horizon programme was sought as part of a consortium bid to pilot alternative delivery models. Unfortunately, this bid was unsuccessful, but the learning acquired and new partnerships established through the application process will help TEL develop and adapt its delivery models as the UK accelerates progress towards zero carbon heat.

7.21 The sharp increases in energy prices as a result of the current 'energy crisis', has improved profits but has also placed greater demands on the Energy Customer Services team to provide more frequently updated information on energy tariffs and offer support to customers at risk of debt. The frequency of domestic tariff changes has been altered to track more frequent changes by Ofgem in the domestic energy price caps. The Credit Control function in the team was strengthened earlier in 2022 and to date, the level of debt has not risen significantly although the full impact of the most significant rises in domestic tariffs on 1 October has yet to be seen. Additional resource is also in place to assist in providing regular communication with customers about the various support mechanisms introduced in the Energy Prices Act, to explain the qualifying criteria and the timing of energy bill relief payments. In addition, energy tariffs for commercial customers at Victoria Square have been amended to reflect the current extreme volatility of commodity prices. This amendment moves the tariff structure away from indexation based primarily on wholesale gas prices and prevents absolute margin charges significantly outstripping operating costs purely due to a disproportionate movement in the base price of gas.

7.22 The Group will continue to ensure it aligns its business processes with industry best practice standards for consumer protection in anticipation of a new regulatory framework for heat supply in England that government intends to introduce in 2024.

Home Energy and Sustainability Assistance

7.23 The Group will continue to provide advice and practical assistance to homeowners and businesses who wish to reduce their energy consumption, carbon emissions and fuel bills. The Group's 'Action Surrey' energy advice programme has established itself as the county's primary delivery agency for grant aid, enabling low income and able-to-pay households to benefit from 'whole house retrofit' programmes of home energy efficiency improvements. Following a successful competitive tender in summer 2022, ThamesWey was awarded the contract by Surrey County Council for Action Surrey to be the delivery partner for a five-year programme of work promoting home energy efficiency grants and other related schemes throughout the county. ThamesWey will continue to seek to stimulate growth in the local supply chain for energy efficiency home improvements and build on its experience to deliver future phases of government funded schemes alongside its established home energy advice service for all Surrey residents irrespective of income or tenure.

7.24 The Action Surrey programme of work will also allow ThamesWey to develop a 'Social Value Fund' to provide additionality by helping to fund initiatives that do not qualify for support within current Government funded schemes. It is proposed that commercial home energy efficiency providers awarded work, following referral by Action Surrey, will be required to contribute 1% of their contract value to a social fund which would be administered by ThamesWey. Detailed proposals for the scope of this Fund, including options for it to be applied to other ThamesWey activities, will be presented to the Board for adoption during early 2023. During 2023 this could generate up to £70,000 of contributions from the Action Surrey element of activity alone.

Management Information

7.25 During the Plan period the Group will focus on developing improved management information for both internal use and communication to the Board and Stakeholders. It is clear from the Governance Review background papers that Stakeholders need to improve their understanding of activity of the Group and clearer information on the performance of the Group, both operationally and financially, will contribute to that process. The current monthly reporting and Green Book information will be reviewed, in discussion with the new Shareholder Liaison Service when it is appointed, to ensure it provides a clearer summary of activity and work will continue developing ThamesWey's Annual Report charting progress against environmental sustainability targets. This management information will also be needed to support the market offer exercise the Shareholder has mandated during this Plan period.

7.26 In addition, the use of the Groups management information systems (PEX, ISTA and QFM) will be reviewed to ensure that as many data sets can be analysed and reported on automatically as possible to avoid the need for double handling data with the associated risk of error. A particular focus will be production of management information on rent levels and property valuations both of which have been highlighted in 2022 as requiring significant staff input to collate under existing processes.

7.27 The Group will also be subject to increased financial reporting to Government as part of the external grant support to the district energy networks (HNIP), Public Sector Decarbonisation Scheme and Green Home Local Authority Delivery ('LAD') insulation schemes, along with further compliance reporting required as a result of heat regulation, all of which will benefit from increased automation where possible to minimise the burden of reporting.

Corporate

7.28 Over the Plan period the Group will need to review its staffing establishment again to reflect the new challenges it faces. This will have to commence immediately the Plan is adopted and be continually reviewed. The initial focus will be on a finance and housing management capacity increase reflecting the two areas of most significant challenge within the Group, particularly with the market offer exercises proposed during the Plan period.

7.29 The management accounting and business modelling capabilities of the finance team will need to increase to reflect the scale of scenario planning required by the Group and the enhanced Shareholder and auditor reporting requirements. In addition the housing management capacity of the Group will need to grow to reflect the increase in residential property held within the group and the extra housing management demands presented by the social-equivalent rent tenancies within Canalside. Both of these growth areas are reflected in the economic models and establishment reflected in the TSCL budgets. Due to the risk presented to the Group and Shareholder by under-resourcing in these key delivery areas recruitment will continue during the Plan period irrespective of the disposal and market testing exercises mandated by the Shareholder.

Risks and Challenges

Funding

8.1 The Group has previously agreed loan funding per business entity from the Shareholder, which is explained within the finance section, however there is underlying interest rate inflation risk during the business plan period.

8.2 To mitigate risk the business can lock in interest rates at the time of the loan being drawn. During Poole Road development long term loans were taken to benefit the business from low interest rates. To date Sheerwater has also benefitted from taking long term loans, however as the debt transitions towards peak debt, loans have been modelled as short term to allow the benefit of open market house sales to reduce long term debt. At the end of the Sheerwater development remaining short-term debt is modelled to be converted to long term debt to avoid the Group being exposed to refinancing risk. These model assumptions will be reviewed during the Plan period as part of the exploration of external funding and disposal of the Sheerwater regeneration project to a third party as mandated by the Shareholder Directions. Non-Sheerwater project debt will be assessed at the point required to ascertain favourable interest options and external sources of funding, alongside cashflow funding debt.

8.3 TEL secured HNIP loan funding with a favourable interest rate of 0.01% for the extension of the town centre heat networks and new lower carbon generating plant. Repayment of the loan commences once sufficient revenue is generated to fund repayments with a long stop date of 7 years from grant award in March 2022. Alternatively, the loan may be repaid in full if it is not expended. The business will continue to seek government funding for future projects (including the Green Heat Networks Fund and Public Sector Decarbonisation Scheme) although this is likely to be in subsequent Plan periods.

8.4 In line with the Shareholder Direction set out in Section 6 the Group will explore external funding sources, other than PWLB funding from the Shareholder, to progress future investment in ThamesWey activity and assets during the Plan period. Any offer would be presented to the Board for approval prior to acceptance. In addition, all borrowing from the Shareholder, with the exception of that identified for the Canalside Regeneration and short-term funding for TCMK, will have a premium applied to it above the cost of the Shareholder's borrowing. This is different to the draft Business Plan proposal approved by the Board in November 2022 and reflects the Shareholder Direction outlined in Section 6. This premium is currently 1.5% for housing investment and refinancing and 1% for energy investment and refinancing. For housing investment this equates to £87 per annum on the average rent demand for 2023.There is no effect in TEL for 2023 as there is no borrowing requirement during the year.

Inflation

8.5 Inflation has been flat for several years, however recent rises during 2022 driven by the Ukraine war and Covid-related supply chain difficulties are expected to continue, notably in energy, construction, and employment costs. The cost of energy and general volatility in the energy market are significant factors for the Group. The Group could be impacted significantly by cost inflation increases and in areas where there could be a difficulty to pass on inflation, could suffer margin erosion. To mitigate the risk the following actions are being taken:

- Fixed price build contracts for housing developments.
- Changing domestic energy customer contracts from annual fixed tariffs to align with shorter energy price cap intervals set by Ofgem

- Utilising the opportunity to change energy supply agreements in line with decarbonisation and time-of-use pricing mechanisms.

- Indexing energy charges for commercial customers against wholesale commodity charges for energy.

- Taking opportunities where they arise to benefit from exceptionally high electricity market prices by forward fixing the costs of gas and sales of power exported to the grid.

- Enhanced focus on debt collection to maximise working capital.

- Increase structured procurement to increase synergies across the Group and review current contracts to maximise retendering exercise financial benefits.

- Ensuring rental rates keep track with the market and inflation.

Organisational and Contractor Capacity

8.6 Organisational capacity will become an increasingly significant risk during the Plan period due to the risk of staff turnover arising from the uncertainty caused by the Shareholder mandated reviews of activity and funding. The labour market is currently very challenging, and recruitment has been difficult. The review of governance by the Shareholder will also increase the reporting demands on the Group, even if just for the short term, as the new governance arrangements bed in.

8.7 A significant resource challenge within the Group is the capacity to deliver timely financial modelling and scenario planning. During the initial stages of the Plan period the Group will need to invest in management accounting capability to enable greater resilience in economic modelling capacity and financial business planning. This is particularly important to facilitate engagement with the market on funding and asset disposal. This challenge has been highlighted in the Shareholder review by Ernst and Young who have recognised it is an area requiring investment.

8.8 The recruitment challenge is further enhanced by current inflationary pressures and the financial capacity of the Group to pay market wages. During this Plan period the Group will continue with a review commenced in 2022 to assess its employment offer, with a particular focus on non-salary elements, to see if its attractiveness in the market can be improved and retention of existing staff enhanced. This work will be delivered in consultation with the Board's remuneration panel. The Group will also seek to improve recruitment through clearer communication of the benefits of working for ThamesWey.

8.9 The capacity challenge within the Group is also mirrored in the external environment with supply chain contractors finding it increasingly difficult to maintain staff numbers and procure services and materials within reasonable timescales. In order to mitigate this risk ThamesWey will look to continue to partner with key suppliers to support robust supply chains while at the same time ensuring that open procurement processes are in place to test the market and ensure value for money. Whilst the UK economy expected to enter a recession in early 2023, current supply chain inflationary pressures are likely to be maintained in the plan period.

Legislative Changes in the Residential Sector

8.10 There are likely to be two areas of significant change to the regulatory environment which will have an impact on the Group's residential activities. The first being proposed changes in Building Regulations and fire safety requirements affecting residential construction that will introduce additional activity and potentially cost as part of the construction process. ThamesWey has introduced a number of the proposed enhancements into its existing standards for construction already and therefore it is hoped that the full impact once the legislation is introduced will be mitigated.

8.11 The other proposed change is the Government reform of tenancies which is planned to remove section 21 notices among other changes. This could have a significant effect on ThamesWey should it be implemented as fault would need to be proved in all cases. It is likely this will require additional capacity in terms of legal representation and housing officers in addition to an increase in the bad debt provision. Once the details are released the Group will need to adapt during the early part of this Plan period.

Introduction of a Regulated Heat Market, Heat Zoning and Energy Bill Relief Schemes

8.12 Government consulted in 2020 on introducing a market framework for heat and confirmed its intentions for heat to be a regulated source of energy when it announced its Energy Security Bill in May 2022. Government's response to the consultation prioritises the introduction of consumer protection measures (possibly including a price cap for heat) and the appointment of Ofgem as Regulator with enforcement powers. In addition, heat network operators will be given greater rights and powers as licensed statutory undertakers and the industry will benefit from the adoption of consistent technical standards. Further detail on the form of regulation is awaited with the target date for implementation being 2024 and it will therefore be integrated into the next Business Plan period.

8.13 A regulated heat market will be accompanied by government proposals to introduce heat network zoning. This is intended to provide a stimulus to heat networks as a low carbon source of energy by removing barriers to development and expansion of networks by designating zones where heat networks will have statutory recognition as a default low carbon source of heat and embedding this in planning for new development. This should help to reduce the risk of developers in Milton Keynes or Woking successfully arguing for an exemption from connecting to a network.

8.14 In October 2022 the Energy Prices Act received Royal Assent. The Act was introduced as emergency legislation to provide a number of government interventions to limit energy price rises for businesses and domestic consumers. These comprise the Energy Price Guarantee (EPG) which places a cap on energy charges for domestic customers, the Energy Bill Relief Scheme (EBRS) which sets non-domestic price caps, and the Alternative Fuels Payment (AFP) top up payments available to domestic consumers on heat networks. These measures are in addition to the Energy Bills Support Scheme (EBSS) which will provide £400 credit to every domestic energy customer account. Whilst this package of financial relief is welcome, the mechanisms by which these measures will be made available to customers on heat and private wire networks are still being developed by Government and in the short term some customers are likely to experience increased financial hardship. Furthermore, whilst TEL and TCMK are expected to qualify for the EBRS, there is uncertainty over the duration of the various schemes (beyond April 2022). As a result there is a risk that failure to adequately align intervention measures may result in heat suppliers being required to set charges to customers at EPG tariff level without benefitting from EBRS caps on the costs of gas and electricity.

ThamesWey Central Milton Keynes Limited

8.15 As highlighted to the Shareholder in 2018 and again in 2022 the economic model/business plan behind TCMK has not performed as hoped for due to the 2007 recession delaying connected load and the interest margin applied to the company borrowing. The impact of these challenges has meant the company will not be able to pay back its borrowing within the modelled period (up to 2078). This challenge has been highlighted again by the 2022 Ernst and Young review of the Shareholder's investment strategy and Medium-Term Financial Strategy

8.16 Following a review of the draft Business Plan during 2022 and a soft market test the Shareholder has instructed ThamesWey to formally offer TCMK to the market during 2023. ThamesWey will continue to maintain and operate the company during this market exercise and will present the results to the Board and Shareholder by the end of the year. As part of this process the Shareholder has instructed that a third-party agent/advisor be commissioned to manage the market offer.

Investment Strategy

9.1 The current debt profile of the Shareholder, Woking Borough Council, has been highlighted recently and this is a key driver of the Business Plan activity. The new political administration introduced a key priority to ensure ‘a sustainable medium term financial strategy’ and the Department for Levelling Up, Housing and Communities (DLUHC) has commenced a review of local authorities' approach to prudential borrowing including the level of borrowing Woking has taken. These two factors combined mean that during the Plan period funding from the Shareholder will be harder to access and the Shareholder will look to reduce its overall debt position.

9.2 The financial position of the Shareholder and the subsequent Shareholder Directions to ‘explore’ the opportunities for external investment will be supplemented by a review of assets to identify opportunities to dispose of assets, particularly residential property and development sites, in order to lower the total Group borrowing.

Group Financial Highlights

10.1 The group currently includes 9 entities and 3 joint ventures. During the business plan period the joint ventures with Rutland Properties Ltd are expected to cease to trade and be wound up. During the previous business plan period TSL and TMSL ceased trading and consolidated trading activities within the group, these entities will be wound up. The process is being supported by external professional guidance.

10.2 Following the initial consolidation of the group, further activity is expected to consolidate entities further and advice will be sought during the business plan period. However, until a final decision is made in relation to the ultimate structure, the following entities have financial budgets prepared for them – TSCL, THL, TGHL, TDL, TEL & TCMK for 2023.

10.3 Currently 2021 accounts are being audited by Menzies, at the end of this process the audit adjustments will be reflected in 2021 accounts. This activity will affect 2022 opening balances, and subsequently 2023 opening balances. For this reason the financial data included in the appendices reflects this business plan period only. The information will be updated to include historical trading prior to executive sign off in March 2023.

Entity Trading Summary

ThamesWey Limited

10.4 TL will continue to be non-trading holding company of the Group.

ThamesWey Sustainable Communities Ltd

10.5 TSCL will continue to support a wide energy and housing offering with increased reporting a market engagement over the Plan period. This is likely to result in increasing recharges to group companies for staffing and business overheads during 2023. The structure is expected to increase in headcount during 2023 to 77 FTE.

10.6 Action Surrey schemes relating to LAD 1 & 2 and Sustainable Warmth are excluded from the detailed financial statements to aid understanding of the underlying business. Staff employed are excluded from headcount as they are project funded contracted team members.

10.7 During 2021 TSCL acquired the office element of Poole Road as a fixed asset and an associated element of the loan required to acquire the site from TDL. The impact on the accounts can be seen with interest costs being incurred, fixed asset value increasing and a long-term loan. The transaction straddled 2021 year-end which resulted in the asset being live in 2021 and the loan being advanced in 2022.

10.8 Profit & loss Account, balance sheet and cashflow are included within Appendix 2

ThamesWey Housing Ltd

10.9 THL will progress with Sheerwater development and a formal review is scheduled for the end of 2023 with the Shareholder to assess the scheme to date. At that point, the scheme is expected to have delivered 241 homes (33%), with completion expected in 2029 which is after the current business plan period. During the Plan period ThamesWey will work with the Shareholder to 'explore', as per the November Shareholder Direction, disposal of parts of the regeneration scheme to third-parties to complete as opposed to ThamesWey.

10.10 Should the scheme continue to be developed by ThamesWey it is currently forecast to deliver a total of 1,040 properties based on the existing consented scheme, of which 349 (33%) will be sold on the open market and 691 (67%) will be retained. Of the retained properties 441 (64%) will be affordable rent and 250 (36%) open market rent.

10.11 THL will not purchase street properties during this business plan period as the focus will be on identifying asset disposal rather than new acquisition.

10.12 THL will submit a planning application for the Brookwood Lye scheme.

10.13 To improve energy efficiency THL is expected to spend £1M in energy related property renovations during the business plan period.

10.14 Investment properties are expected to increase to £421M (excluding revaluation) by the end of 2023, and rental income is expected to increase to £16.3M. Property numbers will increase to 1,206.

10.15 The increase in assets and revenues has a corresponding impact on the cost of managing the portfolio. The majority of overheads are stepped as property numbers increase and relate to insurance, staff costs, property repairs and maintenance costs.

10.16 Due to the high investment in properties over the last few years, THL requires cashflow funding to meet its debt repayments during 2023 totalling £7M.

10.17 Operating profit increases from £9.1M to £10.0M between 2022 and 2023.

10.18 Loans at the end of 2022 are expected to total £456M, during 2023, debt of £8M will be repaid and additional debt funding required of £87M. The outstanding debt at 31st December 2023 is expected to be £535M.

10.19 Investment property valuation is calculated using the Land Registry House price index for the South East. Property prices have increased over the last five years by an average of 5.4% in the South East region. The long-term business model assumes a level of investment property inflation due to house price inflation. This is important for THL to ensure that the balance sheet remains positive and the outstanding loans are supported by investment property revaluations. The model assumes 1.4% (prudent base case), this assumption is less than the 5.4% indicator and gives reassurance that if required THL can repay debts from the sale of investment properties. By 2028 house price growth at 1.4% will outstrip the debt by £13M.

10.20 WBC use a similar approach for investment property indexation within Victoria Square development, the current view by WBC is 2% annual growth. The 2% assumed by WBC is below the current performance of the south East at 5.4%, although above THL prudent assumption of 1.4%. If the property prices were to rise by 2% as opposed to 1.4% the house price growth would outstrip the debt in 2028 by £29M.

10.21 Table 1 summarises the growth in house prices between 2017 and 2022.

	Flat	Terraced	Semi-Detached	All Property Types
Dec 2017	£205K	£267K	£339K	£320K
Aug 2022	£235K	£344K	£442K	£406K
Price Increase	£30K	£77K	£103K	£86K
Average Inflation	2.9%	5.7%	6.0%	5.4%

TABLE 1 : South East Property Inflation

10.22 The base case illustrates peak debt will occur in 2044, peaking at £798M, assuming the investment properties grow at 1.4% the value will exceed the debt from 2028 onwards. However this depends on the course of action adopted by the Shareholder in the next business plan period.

10.23 Profit & Loss Account, balance sheet and cashflow are included within appendix 2

ThamesWey Guest Houses Ltd

10.24 During 2021 occupancy was 81% and a similar trend is continuing to date into 2022. The financial benefit of TGHL is transferred to WBC in the form of a volume rebate. However due to 121 Chertsey Road being sold at a discount a rebate wasn't generated in 2021. A rebate is budgeted going forwards at a level of £40K per year from 2022.

10.25 Maybury Lodge is funded by an annuity loan from THL, the balance outstanding as at December 2023 is £0.8M, interest is paid to THL at a rate of 5%.

10.26 Profit & Loss Account, balance sheet and cashflow are included within Appendix 2.

ThamesWey Developments Ltd

10.27 TDL will continue to offer development services to the business during the business plan period. The key projects being Sheerwater redevelopment, and TEL energy HNIP scheme redevelopment.

10.28 TDL is funded by a margin generated on development projects and rental income from commercial assets. The financial benefit of Sheerwater is capped at £5M, equivalent to circa 0.8% of services. Non-Sheerwater projects generate a cost-plus margin to TDL of up to 4%.

10.29 TDL invoices the relevant ThamesWey entity monthly for work completed. The result is the level of Work in Progress in TDL is minimal in relation to part completed contracts.

10.30 TDL currently owns commercial assets which generate an income. Table 2 summarises the assets TDL holds and the intention during the business plan period.

Table 2 – TDL Commercial Assets

Site	Plan
Harrington Place Commercial, Woking	Hold Long Term
20, High Street. Woking	Hold until WBC redevelop
Camp Road Commercial, Farnborough	Hold Long Term
Griffin & Concorde House, Woking	TBC once Master Plan is confirmed
12-18 Knaphill High Street, Knaphill	Hold until redevelopment
Poole Road Freehold, Woking	Hold Long Term

10.31 TDL has also acquired sites for redevelopment including Brookwood Lye. Cornerstone was acquired by TDL and has been sold to THL as the development completed during 2022.

10.32 TSCL is carrying out a techno/economic study on a potential solar farm on behalf of WBC. Subject to feasibility, TDL may take this forward to delivery.

10.33 Revenue for 2023 relates to Sheerwater income, generating 0.8% gross margin. Rental income for 2023 is £508K.

10.34 Profit & Loss Account, balance sheet and cashflow are included within appendix 2.

ThamesWey Energy Ltd

10.35 During the business plan period TEL will complete the installation of CHP generating capacity at Poole Road. Work will also continue to progress network expansion and decarbonisation of energy supply funded by the HNIP loan which TEL received in 2022.

10.36 Funding via PSDS has secured a grant for connection of Midas House and Export House to TEL's district heat and cooling networks. The grant funding is being supported by a WBC contribution of up £1.3m as a top up to the grant.

10.37 Within the base case, revenue is expected to generate £8.8M in 2023, although the Government's Energy Bill Relief Scheme (EBRS) will impact this depending on its longevity throughout 2023.

10.38 Within the business plan period of 2023 debt will reduce from £50.5M to £49.4M, due to annuity loan repayments. No additional loans are expected to be required from WBC during 2023.

10.39 Within the business plan long-term financing of TEL will reach peak debt in 2026, although this is heavily dependent on the HNIP scheme.

10.40 Profit & Loss Account, balance sheet and cashflow are included within appendix 2.

ThamesWey Central Milton Keynes

10.41 The base model has been prepared assuming TCMK will be sold at the end of 2023. During 2023 the business will engage a third party to progress the sale.

10.42 The borrowing relates to 2023 only, TCMK debt will increase from £35.9M in 2022 to £37.8M in 2023. Additional funding of £3.3M is required to fund interest payments, capital repayments and engine servicing.

10.43 Profit & Loss Account, balance sheet and cashflow are included within appendix 2.

Funding

10.44 During the business plan period debt funding via PWLB will continue to be required for THL, TEL and TCMK. The remaining business entities do not require funding. Short term funding to TDL will be via TEL/THL dependant on the ultimate project asset owner.

10.45 Following the Shareholder review of the draft business plan and the subsequent Shareholder Instruction the economic models include loan margin above the cost of WBC borrowing and loan arrangement fees. The group engages in a combination of funding arrangements, including long- and short-term loans, based on annuity and bullet loans.

10.46 Funding flexibility can be achieved by Thameswey business within a framework, allowing the business to benefit from short / long term loans based on business requirements.

10.47 Table 3 summarises THL funding available up to £806.4M. The table summarises funding commitment from MTFS between 2016 and 2020 of £430M. Sheerwater peak debt is £347.4M (agreed November 2020), and additional funding of £29M interest cover for the period 2020 to 2023.

Table 3 – MTFS Funding

Funding	**Year**	**Amount £(M)**
MTFS	2016	£250
MTFS	2018	£50
MTFS	2020	£130
Sheerwater (Peak Debt)	2017-2021	£347.4
Business Plan – Interest cover	2020 - 2023	£29.0
TOTAL	**2016-2023**	**£806.4**

10.48 Currently the group has not identified sufficient projects to spend the available funds allocated to THL from the MTFS, and during this plan period has no intention to commit to new projects, while the reviews identified elsewhere in the plan are progressed.

10.49 Funding requirements for THL is forecast to total £79M, in addition TDL will require £1M for interest funding and residential planning application for Brookwood Lye. Funding is broken down into key elements per year within Table 4, total £80M, of which £11M is cashflow funding.

Table 4 – THL/TDL funding Requirements 2023

	2023	**Cashflow Funding to cover Debt Repayments**
Sheerwater	£71M	£3M
Improvements in Energy Efficiency	£1M	£0M
TDL Project Cashflow Funding	£1M	£1M
Cashflow Funding	£7M	£7M
Total Borrowing	**£80M**	**£11M**

10.50 There is no additional funding required for 2023 from WBC for TEL. Funding for TEL base case has been agreed during 2021 which was outside the business plan process. The funding required by TEL during the current business plan period relates solely to the HNIP scheme of network extensions and main plant decarbonisation, the loan from HNIP has already been advanced and will be spent prior to WBC funding being required. Assuming the full scheme progresses, the funding required from WBC totals £4.6M, of which £3.6M is supported by Capital expenditure in the network and £1M is cashflow funding. The expected timescale of requirement is 2024-2032 which extends past the end of this business plan period. Poole Road funding has already been drawn in 2022 due to the delay in receipt of VSWL funds. Funding for Sheerwater energy centre has been agreed as part of the Sheerwater scheme totalling £5M and will be provided to TEL via a grant from THL.

10.51 Funding for TCMK base case is expected to total £3.4M for 2023.

Table 5 – TCMK Funding Requirements 2023.

Year	£(M)
2023	£3.4M
TOTAL	£3.4M

10.52 The total borrowing requested by Thameswey for 2023 is consolidated in Table 6. The total funding required is £83.4M, of which Sheerwater is £71M, underlying THL is £8M, TDL is £1M and TCMK is £3.4M. The funding is broken down to include investment funding of £69.5M, and interest funding of £13.9M.

Table 6 – Consolidated borrowing for Thameswey Group for 2023.

£M	**Investment Funding**	**Cashflow Funding to cover Debt Repayments**	Total Funding Required by Entity
THL 2023-2026	£69M	£11M	£80M
TEL 2023-2026	£0.0M	£0.0M	£0.0M
TCMK 2023 only	£0.5M	£2.9M	£3.4M
Total	**£69.5M**	**£13.9M**	**£83.4M**

Group Benefits to Woking Community (Social Economic and Environmental)

11.1 The ThamesWey group contributes financially towards the Borough in other ways including:

- Loan Margin paid to WBC for 2022 is expected to be £7.3M
- WBC charges TL £10,000 per annum for use of its Trademark
- THL pays ground rent for middle walk flats to WBC
- Office Rents and NNDR for office and commercial space £60K

11.2 Non - Financial Benefits to WBC

- Carbon dioxide emission savings
- Assisting WBC in delivering objectives of its Climate Change strategy
- Delivering key redevelopment projects such as Canalside and PSDS office heating retrofit schemes which would not be commercially viable
- Supporting WBC in techno economic models including a proposed solar farm project
- Providing new low-cost housing opportunities to residents

Group Requests for Council Approval

12.1 This Business Plan's requests are summarised below:

12.2 Core Funding Requests

- THL interest funding of £11M
- TCMK borrowing of £3.4M for capital expenditure and interest funding

12.3 Governance Requests

- Clarity of Sheerwater 'mid- project review' timetable and content
- Authority from the Shareholder to Dissolve Rutland entities
- Authority from the Shareholder to progress consolidation of ThamesWey Entities
- WBC revisits the available funds for THL.
- External sale of TCMK
- Sheerwater scheme to reduce delivery from 1,142 units to 1,040 units
- Sheerwater contract between TDL and WBC for the refurbishment of 54 low rise residential units in Forsyth, Devonshire, Dartmouth & Loder.
- Sheerwater increase social equivalent rents with affordable rents for all phases except Purple and Red.
- WBC to confirm with Housing Infrastructure Fund to ensure the grant award of £9.4M is not impacted by the reduced scheme

Appendix 1:

Energy Efficiency and Community Carbon Reduction Priorities for 2023

TSCL (Action Surrey)

- Delivering the Government funded Sustainable Warmth program across Surrey for homeowners and residential social landlords' tenants

Energy Generation and Supply Priorities for 2023

TEL

- Installation of new CHP co-generation plant at Poole Road energy centre
- Commence initial design work on extension of the heat and cooling distribution networks to supply new developments throughout the town centre (including EcoWorld's redevelopment of Goldsworth Road for implementation post 2023)
- Commence work design on increasing energy storage and 'dispatchable' distributed storage and generation
- Development of the Sheerwater Canalside energy network
- Explore the market opportunities for disposal of/or joint venture investment into TEL.
- Commence work on planning the interconnection of district heat and cooling networks in the town centre to enable the phased decommissioning of Victoria Way energy centre to commence in the Business Plan period 2026-2030.

TCMK

- Submission of funding bid to Green Heat Networks Fund to support extension and decarbonisation of the heat network
- Appoint an agent for the market offer of TCMK and take to the market for disposal.

Residential and Asset Management Priorities for the Period 2023

TDL

- Set up of a Residents Management Company for Canalside to cover communal assets in the sold areas of the new Canalside estate.
- Continue with the delivery of Canalside/Sheerwater Regeneration with a focus on delivery of Red, Yellow and Copper Phases and commencement of Cyan, Emerald and Blue Phases.
- Working with the Shareholder identify opportunities for the delivery of the Canalside/Sheerwater Regeneration project by a third party.
- Submit a planning application for the revised residential development on Brookwood Lye Road
- Assist WBC with the development/disposal of the Egley Road site and subject to Rutland approval the Robin Hood site.

THL

- Develop the use of QFM system to improve the roll out of the new Asset Management Plan.
- Set up and deliver a new valuation process for residential assets as agreed with the Auditors.
- Review the THL offer to residents following analysis of the customer satisfaction survey
- Disposal of the first market units in Copper phase of Canalside.
- Review the void standard to ensure that it provides value for money and addresses decarbonisation.
- Identify opportunities for disposal of residential assets to increase equity within the company.
- Launch refreshed EYDS scheme.

TSCL (Asset team)

- Review of FM contracts and planned maintenance schedules

Corporate Priorities for the Period 2023

TSCL (all areas)

- Develop and implement a new suite of key performance metrics to improve reporting of activity to management, the Board and Shareholder.
- Increase the economic modelling capacity of the Group.
- Complete the 'virtualisation' of all servers to improve resilience.
- Roll out of year 2 actions for ISO1400.

Appendix 2:

Profit and Loss Budget 2023

	TL	TSCL	TEL	TCMK	TDL	THL	TGHL
Turnover	81,260	4,908,336	8,817,024	7,894,249	80,606,390	16,340,405	381,579
Cost of Sales	10,000	3,867,412	6,631,154	**6,061,043**	79,538,765	2,550,145	105,000
Gross profit/(loss)	**71,260**	**1,040,924**	**2,185,870**	**1,833,206**	**1,067,625**	**13,790,260**	**276,579**
GP% of Turnover	*88%*	*21%*	*25%*	*23%*	*1%*	*84%*	*72%*
Overheads	61,590	830,662	1,226,988	995,676	87,051	2,329,538	101,088
EBITDA	**9,670**	**210,262**	**958,882**	**837,530**	**980,574**	**11,460,722**	**175,491**
Depreciation	3,380	141,174	1,354,262	915,798	17,302	1,523,196	22,316
Grants Amortised	4,785		722,993	284,591	0	62,639	0
Operating Profit/(Loss)	**1,505**	**69,088**	**327,613**	**206,323**	**963,272**	**10,000,165**	**153,175**
Finance Costs	(69)	64,166	1,738,499	2,210,312	714,710	19,574,205	42,433
Tax	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	0	60,000
Profit/(Loss) After Tax	**1,574**	**4,922**	**(1,410,886)**	**(2,003,989)**	**248,562**	**(9,574,040)**	**50,742**

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Balance Sheet Budget 2023

	TL	TSCL	TEL	TCMK	TDL	THL	TGHL
Tangible Fixed Assets	12,463	2,146,256	54,183,606	14,754,601	21,302,378	440,439,522	1,342,022
Long Term Investments	31,993,541	0	0	0	99,727	3,530,831	0
Current Assets	244,655	488,338	8,096,774	2,663,512	29,492,209	121,117,127	621,338
Current Liabilities	32,094	392,496	1,879,665	2,609,118	584,454	14,732,466	214,122
Net Current Assets	**212,561**	**95,842**	**6,217,109**	**54,394**	**28,907,755**	**106,384,661**	**407,216**
Long Term Assets	127,287	0	0	0	0	0	0
Long Term Liabilities	0	1,930,528	66,010,210	42,300,220	46,160,045	542,395,901	799,687
Net Total Assets	**32,345,852**	**311,570**	**(5,609,495)**	**(27,491,225)**	**4,149,815**	**7,959,113**	**949,551**
Share Capital	31,193,231	250,000	6,233,138	1,110,000	10,001	24,490,000	360,000
P&L	1,152,621	61,570	(11,842,633)	(28,601,225)	4,139,814	(16,530,887)	589,551
Capital & Reserves	**32,345,852**	**311,570**	**(5,609,495)**	**(27,491,225)**	**4,149,815**	**7,959,113**	**949,551**

Cash Flow Budget 2023

	TL	TSCL	TEL	TCMK	TDL	THL	TGHL
Net cash from Operating Activities	9,465	185,104	958,882	837,530	786,897	2,482,804	175,458
Net Cash from Investing Activities	0	(35,000)	(2,150,000)	(500,000)	780,959	(61,213,318)	(10,000)
Net Cash from Financing Activities	69	(80,230)	(820,176)	(438,950)	264,212	59,153,281	(171,284)
Net Cash Inflow/(Outflow)	**9,534**	**69,874**	**(2,011,294)**	**(101,420)**	**1,832,068**	**422,767**	**(5,826)**
Cash at the Beginning of the Period	144,463	65,923	4,963,209	201,420	256,248	1,814,071	593,943
Cash at the End of the Period	153,997	135,797	2,951,915	100,000	2,088,316	2,236,838	588,117

Appendix 3

ThamesWey Group Carbon Emissions

1. Modelling of CO_2 emissions

1.1. This report summarises updated modelling of CO_2 emissions associated with ThamesWey group activities and is provided as a background paper to the Business Plan. Its purposes are to enable the impact on emissions arising from activity proposed in the Plan to be understood, to quantify the sensitivity of emissions levels to different growth scenarios for Group activities in order to inform the mitigation actions required to achieve 'net zero' carbon by 2030, and to provide an indication of comparative costs for offsetting residual emissions.

1.2. The modelling focuses on the principal areas of business activity that result in significant emissions:

- Woking town centre energy infrastructure
- TCMK energy infrastructure
- Canalside energy infrastructure

1.3. The report also provides a short commentary on opportunities to increase renewable energy generation in locations away from the above areas of activity as part of a net zero carbon mitigation plan.

1.4. For convenience, references in this report to 'emissions', 'carbon' and 'CO_2' all relate to carbon dioxide and other global warming gases. Quantities of emissions are expressed using the widely adopted standard of measurement *CO_2 equivalent emissions (kgCO2e*).

2. Modelling parameters

2.1. Consultants Anthesis were commissioned by Woking Brough Council to carry out an independent assessment of the Council's carbon footprint in autumn 2022. A synopsis of the points relevant to ThamesWey activities is included in Annex 1.

2.2. Whilst Anthesis assumed a static level of Council activity, this paper builds on their report by considering various scenarios for future levels of growth in ThamesWey's activities and the associated greenhouse gas (GHG) emissions.

2.3. The reporting boundaries defined in the Anthesis report have been used in this update report. As a result, this excludes THL properties that are not connected to the Woking town centre heat network. However, emissions associated with Canalside dwellings have been included as they are connected to a heat network that is now operational.

2.4. The GHG emission factors and calculation methodology used by Anthesis has been followed in this update. This is also consistent with modelling of the Group's emissions previously reported to the Board.

2.5. Sources of emissions unrelated to energy infrastructure are included for completeness (such as commuting, fleet vehicles, water consumption) but these contribute less than 0.01% of overall Group emissions.

2.6. The carbon emissions from use of electricity can be reported as either 'gross emissions' or 'net emissions'. Gross emissions comprise the CO_2 emissions directly produced from the generation of power. Net emissions take into account any recognised form of offsetting used to compensate for the gross emissions. Best practice for carbon reporting is to dual report both gross and net emissions and this practice has been applied in this report.

3. Modelled scenarios

3.1. The modelling covers the ten-year timespan from the present until 2032. This provides trajectories beyond the 2030 target date for net zero and enables estimation of the quantum of residual emissions anticipated beyond 2030 that will require other measures (e.g., offsetting) to be adopted.

3.2. Seven scenarios have been modelled for future growth in Woking Town Centre energy infrastructure:

A – Limited growth scenario: the new heat network (installed in 2020 to connect Poole Road to Victoria Square) serves Victoria Square, PSDS[1] sites (Export House and Midas House) and the proposed EcoWorld development. A 1.5MW gas-fired CHP is installed at Poole Road in 2023. The new network interconnects with the TEL's original heat and cooling networks supplied by Victoria Way energy centre, which is decommissioned in phases from 2026 onwards whereafter all customers currently supplied by the 'old' network are supplied from Poole Road. No other major new connections are included.

B – HNIP Lite A[2]: Base scenario plus the HNIP development sites north of the railway line. A 1.5MW air source heat pump (ASHP) is added to the CHP in 2026 to meet new loads connected to the network

C – HNIP Lite B: As above, but also with HNIP sites south of the railway line developed to half the density anticipated in the HNIP. An additional 1MW of ASHP is needed to meet the higher energy demand, likely by 2028. scheme

D – WBC Draft Masterplan: Base scenario plus all development sites identified in the Draft Masterplan within reasonable proximity of the heat network. A 1.5MW ASHP is added in 2026 and another smaller ASHP is needed from 2028.

E – High ambition Masterplan: As scenario D but the CHP is retired at the end of 2029 and is replaced by a second 1.5MW ASHP by 2030.

F – High ambition Masterplan North: As scenario E but only development sites north of the railway line are supplied by the energy network. It is likely that one ASHP could be a smaller 1MW unit in this reduced demand scenario.

G – Original HNIP scenario: Connecting to town centre development sites anticipated at the time of the bid. 3MW of CHP added in 2022 and operating throughout the modelling period. A 1.5MW ASHP is added in 2024 and a second is added in 2029.

Private wire electricity and cooling demands are consistent across all scenarios.

3.3. For TCMK the following scenarios have been modelled:

- No change scenario – Generation equipment and energy demands unchanged.
- Decarbonisation scenario – Decarbonisation of network: new heat demands supplied from 2025 onwards with low-carbon generators and all gas-fired CHP facilities retired before 2030. Technology solution is agnostic but assumed carbon intensity equivalent to high temperature heat pump.

3.4. Canalside energy infrastructure:

[1] Public Sector Decarbonisation Scheme funding the connection of Midas House and Export House to TEL's heat and cooling networks

[2] The HNIP Lite A & B scenarios reference previous financial modelling scenarios for alternative development scenarios presented to the Board in March 2022.

- The scheme under construction is the only scenario modelled. This comprises Gas boiler heat only in 2022, air-source heat pumps added in 2023 as planned which become lead heat source. Energy loads in Canalside increase to full build-out by 2028.

4. Model outputs – Woking town centre

4.1. Greenhouse gas emissions across Woking town centre energy infrastructure scenarios A-D are broadly similar. Scenarios E-F diverge from the others in 2030 as the CHP is retired from base load production.

4.2. Scenario G has highest emissions as there are two 1.5MW CHP units in this scenario, which are still used

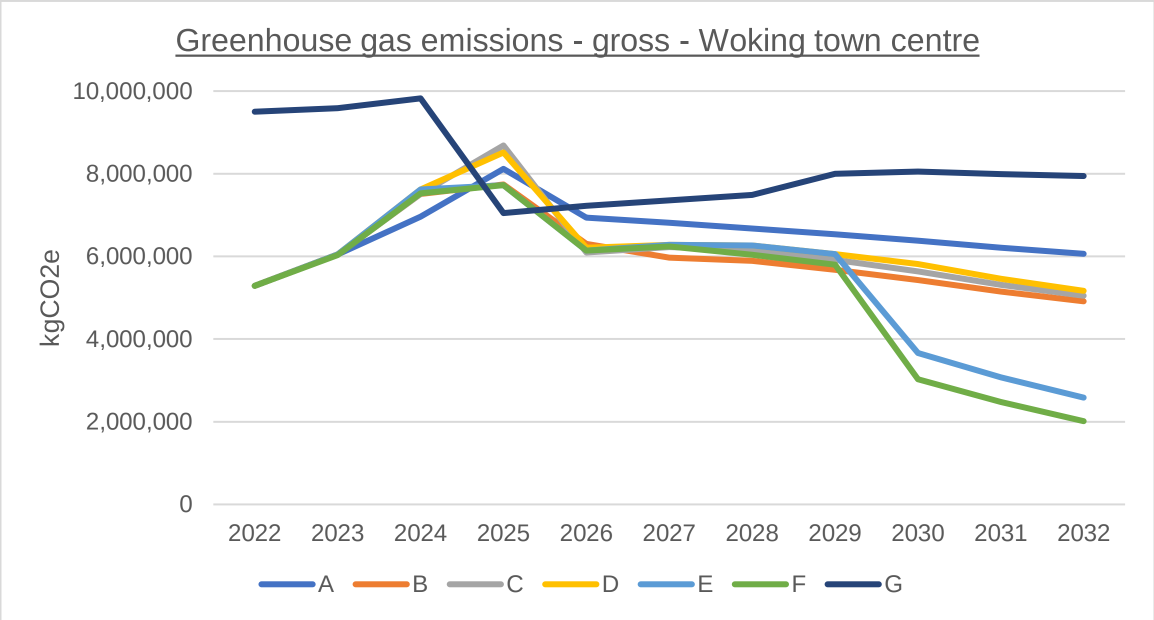

Figure 1: Gross (location-based) GHG emissions from Woking energy infrastructure

for base load and significant power generation in 2032.

4.3. The power import contracts for TEL and TCMK have comprised 100% 'green' electricity since 2019. This is procured through a combination of the grid supplier purchasing renewable energy and along with a quantity of Renewable Energy Guarantee of Origin (REGO) certificates for the balance of 'brown' (fossil carbon generated) power. The greenhouse gas (GHG) protocol 'market-based method' for calculating carbon emissions permits imported electricity backed by REGOs to be reported as 'net zero' carbon. When this is applied to the Woking town centre energy scenarios (Figure 2), the net emissions for scenarios E and F are near zero, with the only residual emissions from a small amount of backup boiler heat (550 tonnes in E, 150 tonnes in F). The Anthesis report has treated electricity in this way for 2021. However, Anthesis' projection for 2030 did not assume REGO-backed contracts because ThamesWey's current electricity energy import contracts only extend to 2024, and therefore do not provide longer term assurance of this supply.

4.4. Scenario G has the highest residual emissions in 2030 of 7,300 tonnes, followed by A with 5,000 tonnes, B-D have 3,400 tonnes whereas E & F emit only 100-550 tonnes. The cost to offset these emissions in 2030 at £38/tonne ranges from £277,000 in scenario G to just £4,000 in scenario F. Offset cost is estimated to double between 2030 and 2050[3].

[3] The cost of carbon offsets follows assumptions in the Anthesis independent carbon foot-printing report.

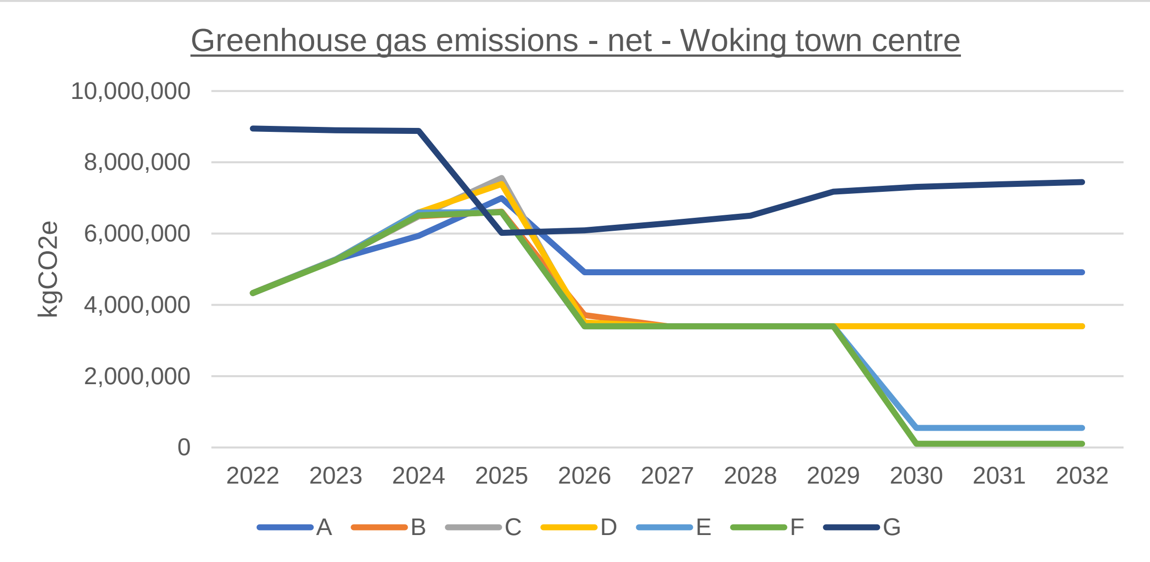

Figure 2: Net emissions for each scenario of Woking town centre energy infrastructure. Scenarios B & C are masked by D as the values are near identical.

4.5. Whilst emissions vary between scenarios, there is a more significant difference in the amount of heat supplied to customers across the scenarios. All scenarios show growth, though heat generation in the higher growth scenarios (D, E & G) is double that of the limited growth scenario (A) in 2030. Scenario G has the highest heat demand by a small margin.

4.6. Coolth generation assets and private wire customers create a significant electricity demand, growing to approximately 17,000 MWh by the mid-2020s. With electrically powered ASHPs the demand increased substantially. In scenarios E&F where the CHP is retired, loss of this self-generated electricity means even more power must be imported from the national grid. This equates to more than six times the quantity of

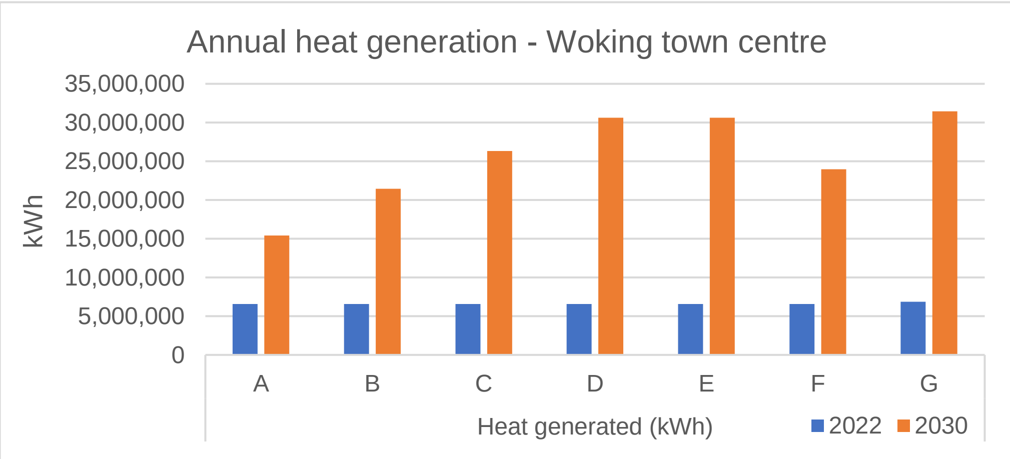

Figure 3: Comparison of heat generated in each scenario in 2022 and 2030

imported grid electricity required in 2030 compared to 2022.

4.7. The electricity Distribution Network Operator, UK Power Networks (UKPN) has reaffirmed the significant constraints facing the local electricity network infrastructure. UKPN stated that there is no capacity to meet new demand in the West Weybridge 132kV line which supplies Woking town centre, presenting a potential barrier to the Council's strategic growth and decarbonisation objectives.

4.8. ThamesWey's investment in future resilience through securing a 6MVA connection to the national grid (at Board School Road), combined with the private wire electricity infrastructure, thermal storage and heat distribution networks, will help to meet the future energy demands. However, further work will be required to establish whether the peak electricity demand in scenarios E and F require significant further investment in local energy infrastructure to meet the increase in demand.

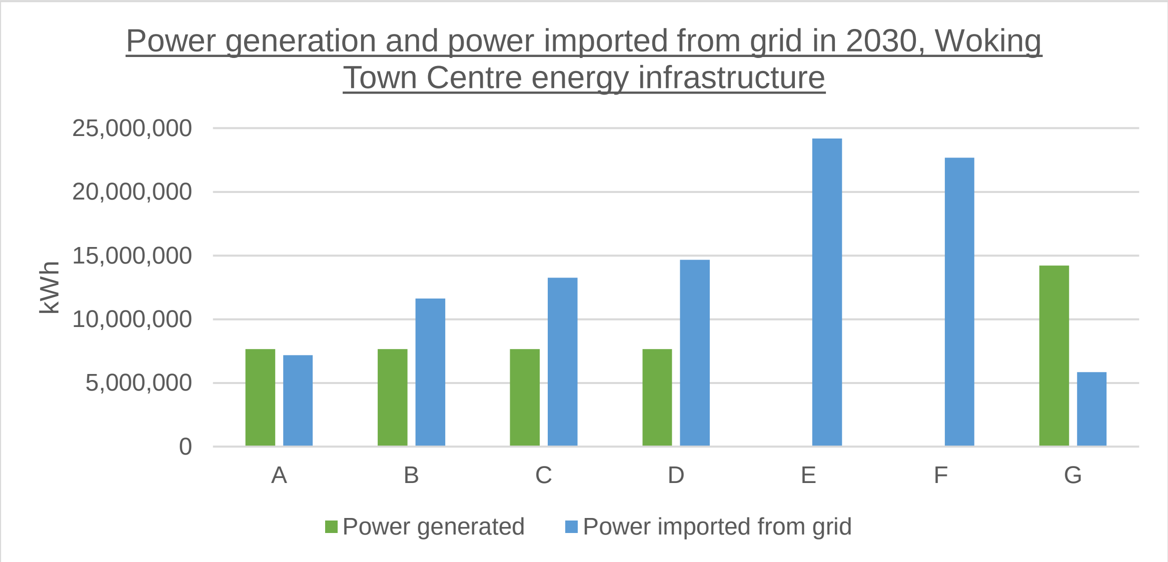

Figure 4: Comparison of power generated and imported from the grid in Woking town centre.

5. Model outputs - Milton Keynes

5.1. Today, the decentralised energy network in Milton Keynes generates and supplies roughly three times as much energy compared to the Woking networks. The potential for growth in Central Milton Keynes (CMK) is also significant due to the number and size of development sites that exist.

5.2. A number of routes to decarbonisation exist. An initial decarbonisation study for TCMK was carried out by Carbon Descent Consultants in 2020 which focused on the use of heat pumps to replace the CHP engines by 2030. A rise in gross emissions in this decarbonisation scenario occurs due to an increase in total heat supplied as a result of new customers joining the network. This additional heat load is met form heat pumps, whilst the existing baseload of heat is supplied by the existing gas boiler and CHP assets which continue to generate the same energy as in previous years (figures 5 and 6).

5.3. After the CHP assets are retired a small amount of boiler heat remains but to meet private wire demands and to supply the heat pumps, over 33GWh of power is required annually – roughly 50% more than is required in Woking town centre annually in the same high carbon reduction ambition scenario.

5.4. An alternative option that may be available to TCMK is to distribute heat generated by an energy-from-waste (EfW) facility owned by Milton Keynes Council (MKC), which combusts waste to generate electricity MKC has recently concluded a government funded project to assess the feasibility of using TCMK's network to distribute the waste heat from its EfW plant. The study concluded this proposal has potential to make significant contribution to decarbonisation of heat supply within central Milton Keynes and should be taken forward to detailed design stage.

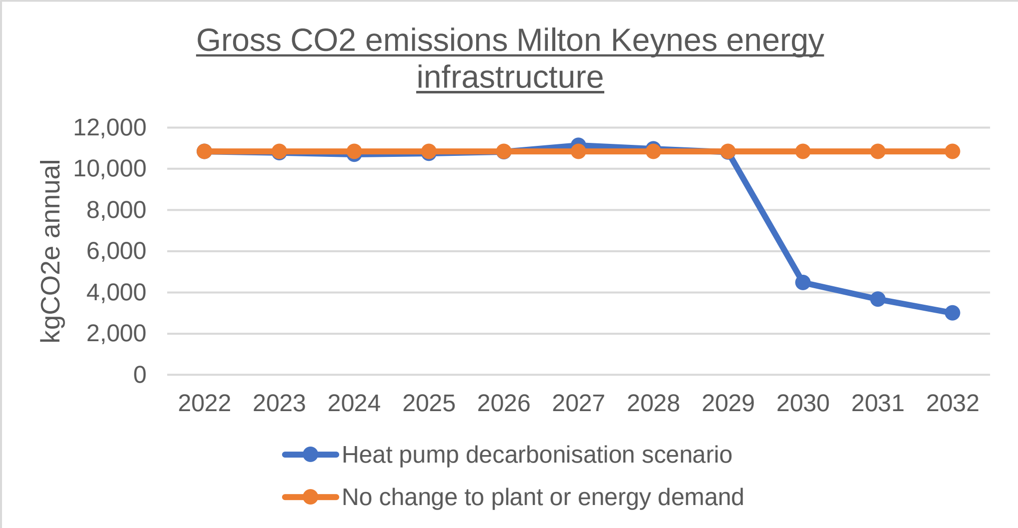

Figure 5: Gross annual GHG emissions from Milton Keynes energy infrastructure.

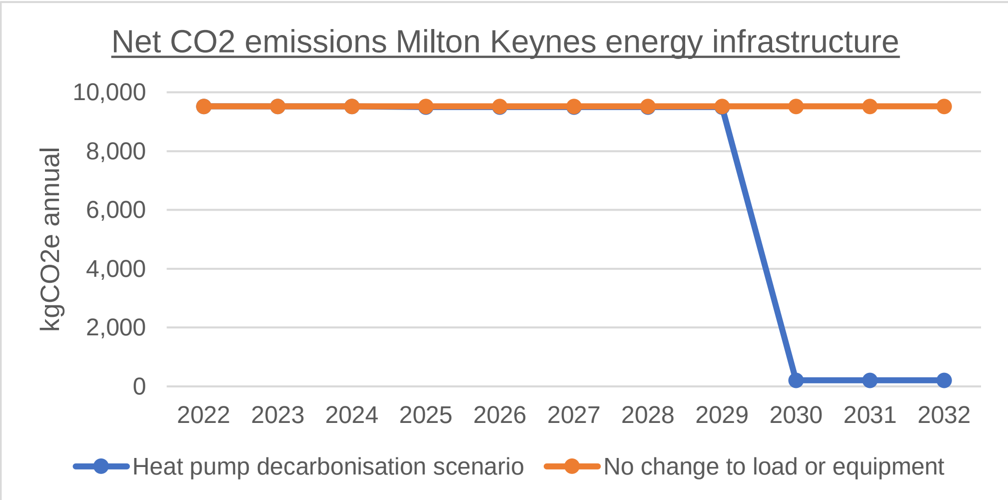

Figure 6: Net annual GHG emissions from Milton Keynes energy infrastructure.

6. Model outputs - Canalside

6.1. The air-source heat pumps at the Canalside energy centre are due to be operational in 2023. Since this network will be low carbon from this point, no additional decarbonisation scenarios are modelled (on the assumption that REGO-backed electricity will be used).

6.2. Figure 7 shows the projected GHG emissions from the Canalside network in gross and net terms.

6.3. The rise in gross emissions up to 2028 reflects estimated growth in heat demand as the phases of regeneration are completed, whereafter emissions decline as grid decarbonisation reduced gross emissions.

6.4. The Canalside network is the smallest by far in terms of heat load. The emissions are therefore significantly smaller in scale than the other town centre networks.

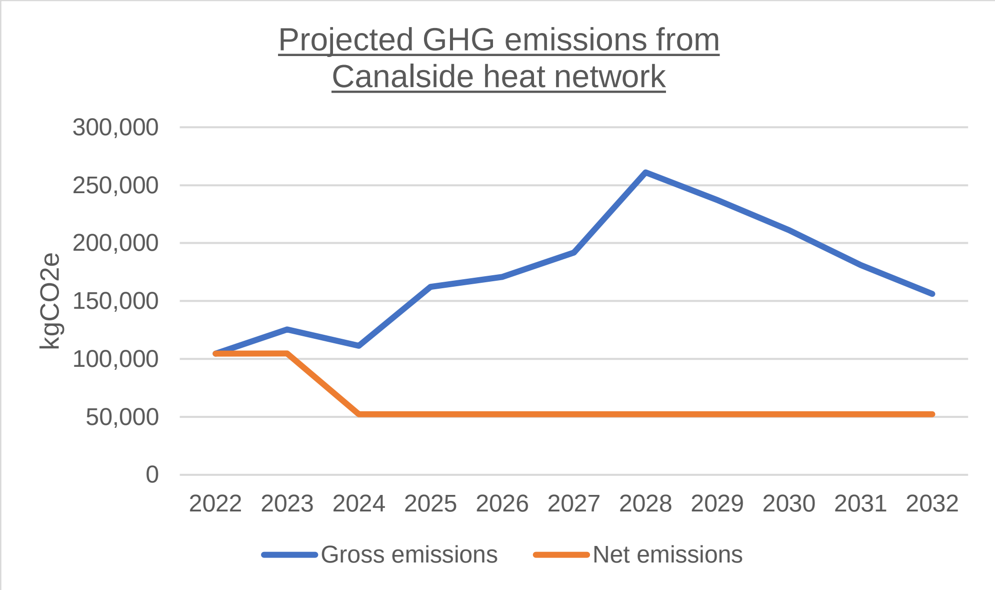

Figure 7: Projected gross and net emissions from the Canalside heat network

7. Group level emissions

7.1. The Group level projection of emissions, combining all energy networks and minor sources of emissions, is driven by the projections of the two largest energy networks. This is presented in Figure 8 (gross emissions) and Figure 9 (net emissions).

7.2. The Milton Keynes 'decarbonisation scenario' is applied to scenarios E & F reflecting the combined highest ambition carbon reduction pathway. All other scenarios use the 'no change' Milton Keynes scenario.

7.3. Group level annual costs for carbon offsetting, in scenario F are £13,000, compared to £525,000 in scenarios A-D. These figures both assume REGOs are also claimed.

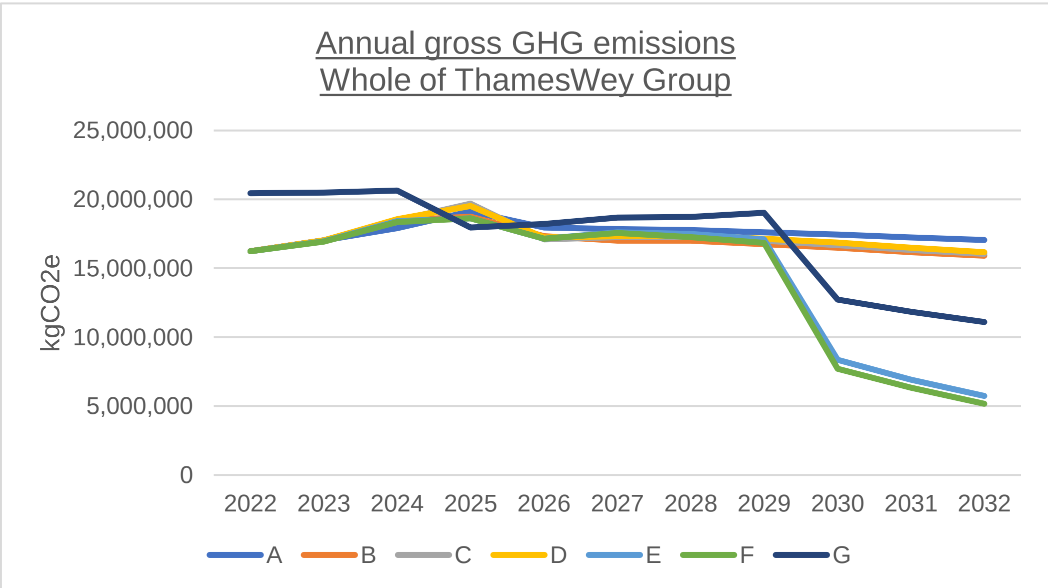

Figure 8: Group level emissions 2022 to 2032 - gross values.

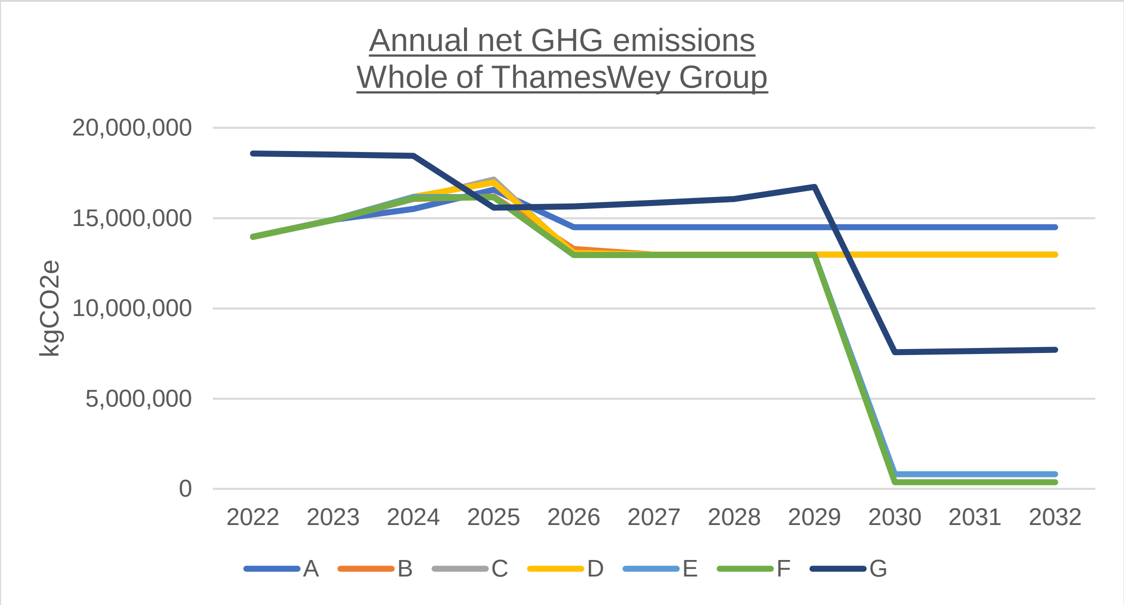

Figure 9 6: Group level emissions 2022 to 2032 - net values.

7.4. Figures 10 and 11 show ThamesWey Group emissions with TCMK excluded from 2024 onwards.

7.5. Group level annual costs for carbon offsetting with TCMK excluded in scenario F are £6,000 compared to £131,000 in scenarios A-D. These figures both assume REGOs are also claimed.

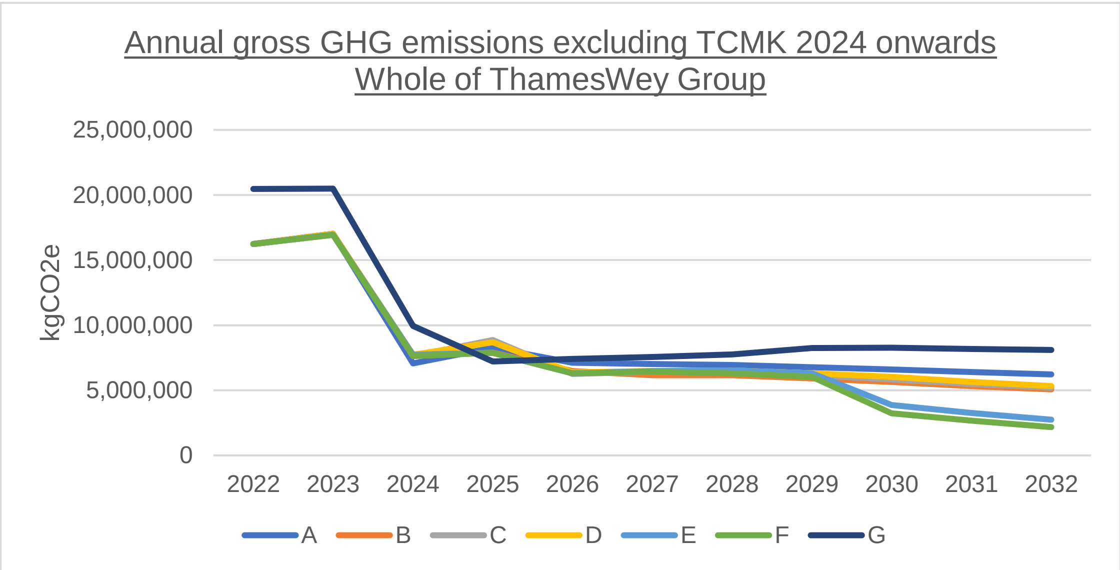

Figure 10: Gross Group level emissions 2022 to 2032 (excluding TCMK from 2024 onwards).

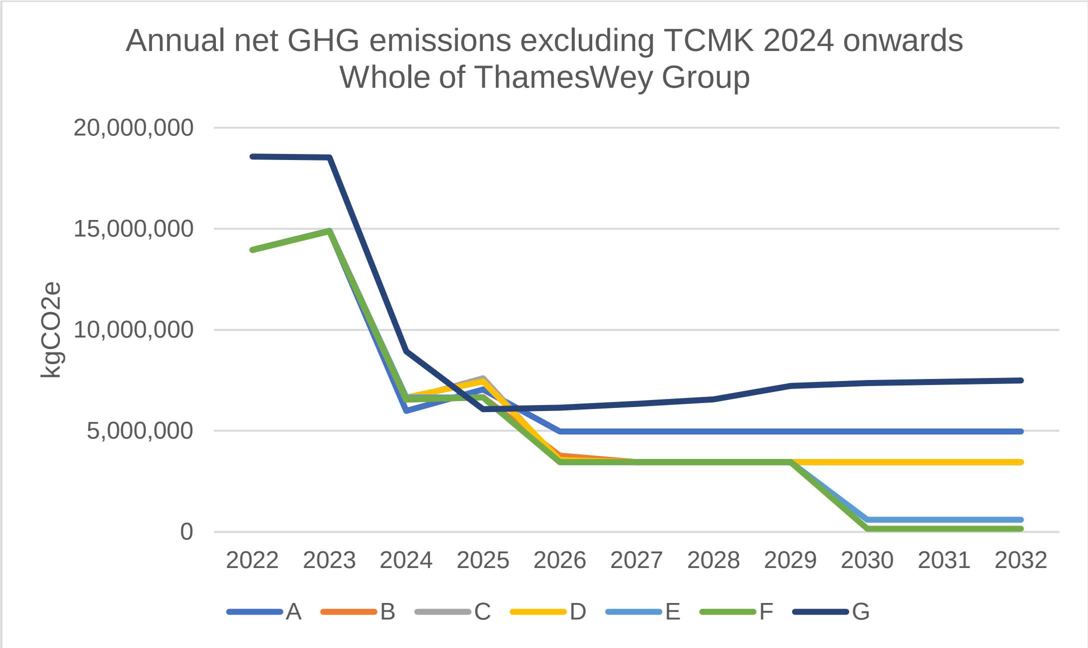

Figure 11: Net Group level emissions 2022 to 2032 (excluding TCMK from 2024 onwards).

8. Other approaches to decarbonisation

8.1. Opportunities to generate renewable electricity could be sought to provide a more robust claim of carbon neutrality, compared to claiming renewable supply via REGOs. This could take the form of large-scale renewable electricity generation, of which numerous opportunities exist in Woking Borough.

8.2. For example, UKPN have initially confirmed 6MW of solar can be connected in the area around Worplesdon railway station where the Council owns sufficient land to host this amount of ground-mounted solar. This would be sufficient to supply a quarter of the electricity requirement in 2030 for Woking town centre energy infrastructure under the high ambition scenario F.

8.3. Elsewhere in the Borough, roof-mounted solar can contribute to providing a robust carbon neutrality claim. ThamesWey already own 2MW of roof mounted solar, generating 1.2GWh per year, which can be expanded and the oldest (almost 20 years old) sites refreshed to further support carbon neutrality.

8.4. The renewable power generated through projects of this scale are typically provided to an end-user via a licensed grid-supplier and Power Purchase Agreement (PPA). ThamesWey's decentralised energy network in Woking town centre can support this decarbonisation by providing a single point of integration for the PPA to benefit numerous Council assets and across heat, power and cooling.

9. Drivers, influences and other considerations

9.1. In general, the timing, scale and nature of new developments in Woking town centre and Central Milton Keynes will have a significant influence on the energy network emissions.

9.2. The government has indicated that new connections to heat networks under the forthcoming building regulations overhaul (in 2025) could require installation of new low-carbon plant. This may require an ASHP to be incorporated whilst existing equipment has capacity to supply the new sites.

9.3. Retiring the Poole Road CHP plant from baseload production after seven years (in scenarios E & F) would be significantly before its end of useful economic life and would have significant financial impact. However, it is envisaged it would continue to play a role in meeting back-up or peak power production to ensure security of energy supply to the town centre if local supply constraints worsen.

9.4. In 2030, other low carbon sources of energy may be available to replace combustion equipment, such as hydrogen, biogases or waste products. Since their availability, cost and carbon intensity is unknown, they have not been modelled. Heat pumps are therefore assumed to be the only low carbon heat source in this modelling.

9.5. Building fabric efficiency is assumed to be unchanged and new building stock is assumed to perform equivalent to new stock in 2022. Improvements to efficiency would reduce the overall heat required and associated GHG emissions.

Annex 1 - Summary of scenarios modelled

Scenario	Woking town centre	Milton Keynes	Canalside	De minimis sources
A	Limited growth scenario	No further growth scenario, same plant and customers as today	Energy growth as regeneration reaches full build out, heat pump led scheme from 2023	Remaining diesel vehicles replaced with electric equivalents. Emission from commuting, water and other very minor sources stay consistent.
B	HNIP 'Lite' A – 1.5MW CHP plus heat pump in 2026			
C	HNIP 'Lite' B – 1.5MW CHP plus heat pumps in 2026			
D	All draft masterplan sites – 1.5MW CHP plus heat pump in 2026			
E	High carbon ambition all draft masterplan sites – Second heat pump replaces the CHP by 2030	Decarbonisation scenario with heat pumps – new customers added from 2025 supplied by heat pumps. More heat pumps added in 2030 to replace CHPs.		
F	High carbon ambition only north of railway draft masterplan sites – Second heat pump replaces the CHP by 2030			
G	Original HNIP development sites – 3MW CHP and heat pump added in 2024 and 2029.	No further growth scenario, same plant and customers as today		

Annex 2 – Extracts from Anthesis report for WBC most relevant to ThamesWey

Commentary and analysis:

- Electricity and gas used by ThamesWey to supply energy services to the Council and other customers, contributes >80% of the Council's emission footprint.
- The energy "infrastructure is technology-agnostic, meaning that it can be supplied using a range of source fuels".
- Assuming no network growth, Anthesis calculated gross emissions in 2030 from the energy networks to be 2,232,000 kgCO_2e, a reduction of 85%.
- "If the council sources 100% of its electricity demand from renewable sources (such as through renewable energy guarantees of origin (REGOs), the achieved reduction along the High Ambition pathway for the energy centres effectively rises to 100%."

Summary recommendations (p.37)

- "Allocate council resources and define actions that lead to the decarbonisation of the energy networks, given their significance to the footprint"

This is a crucially important conclusion. ThamesWey can support the Council to understand and implement the actions that lead to the decarbonisation of the energy networks, recognising that this is a complex subject that relevant Officers will not be familiar with. Workshops and other educational pieces with key colleagues in Planning, Asset Management, and other departments could support the Council to take this recommendation.

Conclusions (p.45)

- "Remain open and flexible to existing and innovative funding"

Over the last 2 years ThamesWey has been successful in several decarbonisation funding programmes – a common feature of all is short notice announcement and deadlines. ThamesWey can continue to take these opportunities with sufficient support from the Council.

ThamesWey Ltd, The Energy Centre, 9 Poole Road, Woking, Surrey GU21 6DY
Tel: 01483 749040   www.thamesweygroup.co.uk