

COMPREHENSIVE STATEMENT

Executive Summary

The Council commissioned a full, independent and comprehensive review of all the assets and liabilities of the Council and all companies of which it has an interest as a component part of the Medium-Term Financial Strategy and integrated service and financial planning.

This report provides the independent Comprehensive Statement and a response to Observations and Risks highlighted in the statement.

1. OVERVIEW

- 1.1 Woking Borough Council is an ambitious and forward-thinking Local Authority that has made significant investment into regeneration of the borough through residential, retail, office and leisure activity. In addition, the Council has invested to acquire commercial estate that brings significant income back to the council in order to enhance the services delivered to support the communities of Woking.
- 1.2 This level of ambition requires, and has taken, a bold 50-year vision and investment plan for the borough. The Council has committed, to this investment plan in areas where it can secure long-term improvements. The ambition recognises that it comes with a degree of risk and requires a high level of support in the short-term in order to build up sustainable operations that support the delivery of regeneration outcomes.
- 1.3 In support of the position the Council has taken, it has developed an integrated service and financial planning approach through the Medium-Term Financial Strategy (MTFS); the development of a Corporate Plan (and hierarchy of planning) and a Community Engagement programme that is targeting developing and maintaining effective connections between the Council and its communities.

2. RESOLVE OF COUNCIL / NOTICE OF MOTION

- 2.1 At the meeting of Council on 29th July 2021, it approved the MTFS report and within this agreed for an independent comprehensive assessment of the Council's assets and liabilities as part of aligning the Fit for the Future Programme with the Council's accounts position.
- 2.2 At the same meeting a Notice of Motion was presented by Councillor Barker. Councillor Azad moved an amendment to this, which was considered and agreed.
- 2.3 The following Notice of Motion then formed the basis of the independently commissioned review to satisfy both the Notice of Motion and resolve in the MTFS report.

"This council calls for a full, independent and comprehensive review of all the assets and liabilities of Woking Borough Council; and all companies in which it has an interest whether by means of shareholding (however large or small) or any other means of influencing the activities of said company. The report is to contain a comprehensive Statement identifying, amongst other things:

- o An independent reviewer's assessment of the current net realizable value of each of the assets*
- o Full details of all borrowings including their terms and conditions*
- o Full details of outstanding contractual obligations involving future income to be received and future expenditure to be incurred*
- o Details of any fixed or floating charges on any assets*
- o Full details of any grants, loans or other contracts which contain performance conditions which, if not met, would incur financial penalties for the Council or any of its*

companies. Council officers should work with the Chair of the Overview & Scrutiny Committee to appoint an appropriate independent reviewer

The reviewer must:

- o Be allowed full and unfettered access to all the documents and information required*
- o Provide monthly progress reports to the Overview and Scrutiny Committee.*
- o Complete the review and the full report by the end of December 2021.”*

3. MEDIUM TERM FINANCIAL STRATEGY (MTFS)

3.1 Through 2021 the Council has been reporting on its Medium-Term Financial Strategy (MTFS) which can be referenced in the MTFS reports to the following meetings of the Executive:

25th March 2021 <http://mg-intranet/ieListDocuments.aspx?CId=165&MId=951>

15th July 2021 <http://mg-intranet/ieListDocuments.aspx?CId=165&MId=1196>

7th October 2021 <http://mg-intranet/ieListDocuments.aspx?CId=165&MId=1198>

18th November 2021 <http://mg-intranet/mgCalendarMonthView.aspx?XXR=0&M=11&DD=2021&ACT=Go>

3.2 The MTFS has recognised key financial challenges and opportunities, in the short (1 year) to medium (5 years) terms, facing the Council. Addressing these informs the strategic financial planning for the Council. The following bullet points are extracts of the key issues that have been expressly referenced in the MTFS reporting and financial strategy through the year. They reflect the specific macro and micro economic and financial performance factors that are being managed through the integrated service and financial planning approach and the developing Fit for the Future programme:

- The Chartered Institute of Public Finance Accountants produce an index of Financial Resilience to support Local Authority good financial management. Of particular note and relevance for Woking Borough Council are:
 - comparably high levels of borrowing and interest payments to support our investment and regeneration programmes
 - a strong financial position in respect of the level and sustainability of reserves and the ratio of fees and charges to service expenditure

It is this reliance on alternative income sources, seen by the index as a strength, which has increased the financial pressure during the pandemic as income has been downwardly affected.

- The financial position of the Council is significantly reliant on income from car parking and commercial rents contributing some £8m and £22m towards the Council's total income. This income has been used to fund a wide range of services for the communities of Woking that would not be possible to fund if this income was not generated.

There has been a significant loss of this income in 2020/21 and the first two quarters of 2021/22. Whilst it can be assumed that this income will recover over time, it may take some time before pre-Covid income levels are achieved. A full recovery is assumed to extend beyond the four years of this MTFS. On this basis, a prudent approach is required that secures savings in the short and medium term to reduce and remove the need to deplete reserves.

- The 2021/22 budget and forecasts to 2024/25 set out in the March 2021 MTFS assumed the use of almost £25m of revenue reserves to support the provision of services. This requirement to use reserves is significantly due to the forecast reduction in income and returns from investments in the Woking economy. While the general economy is expected to slowly recover from the pandemic, the performance of specific sectors will need to be monitored in order to inform our forecasts for returns from our current assets and opportunities for our future Investment Programme.

The use of reserves as forecast would leave the Council with minimal balances left at the end of the forecast period, and with a budget deficit still to be met. This report identifies a minimum level of reserves that needs to be in place at the end of this period in order to ensure that the Council's finances are in a robust position, that there is an appropriate provision for the management of risks and ability to invest further into service modernisation and opportunities that support economic and social regeneration for the benefit of the communities of Woking.

- To drive out and maximise the benefits from investments and ensure that the Council remains a lean, efficient and digitally modern Council, it has established a Fit for the Future Programme, which brings together both existing plans and activity and introduces a coordinated programme of change.

The key components of the programme are being developed in order to bring forward areas of search for efficiencies and savings which will enable the Council to manage its resources over the medium term and align these to the priority outcomes identified in the corporate plan.

Bringing this together into a programme of activity will require some additional investment on an "invest to save" basis to ensure we have the required business and performance intelligence and access to best practice.

Additional resource is required in the initial key areas of transformation and digital; community engagement; commercial and finance business partnering. For 2021/22 this will be managed within the current approach to managing staffing budgets and establishment. Beyond the current financial years any requirement for additional resource will be incorporated into the MTFS process which will align priorities with the resources available. It is recommended that a £500k budget is established to enable external resources to be made available to support these programmes. Where possible the Council will fund this through use of 'Flexible use of Capital Receipts' which allows income from the sale of property to be applied to transformation activities.

- A review is being commissioned for the governance of Victoria Square to ensure the Council can transition its client management focus from the development and build phase to operation and delivery phase. In addition, the strategic interface between the Council

and Thamesway is being developed to reflect the changes the Council is making to corporate and integrated service and financial planning.

- 3.3 The Comprehensive Statement, commissioned through the Notice of Motion, needs to be considered in the context of the regeneration vision that the Council has for the Borough and the role the Council has taken in the delivery of this vision through being the key investor.

4. COMMISSIONED REVIEWS

- 4.1 The reporting on the MTFs to Executive has highlighted that the Council has established a significant performance reset over 2021/22 through the emerging Fit for the Future programme.

This is in order to establish a framework to oversee the delivery of efficiencies while continuing to place communities at the core of decision-making through extensive community engagement plans. In addition, the programme seeks to deliver a modern way of working that is in tune with the priorities of residents and the opportunities the Borough offers.

- 4.2 An overview of the approach to the performance reset can be found in the MTFs report to the Executive on 7th October 2021 <http://mg-intranet/ieListDocuments.aspx?CId=165&MId=1198>. The key elements of the approach incorporate:

- New Corporate Plan
- Review of Governance
- Project Management Assurance
- Risk Management Strategy
- Community Engagement
- Strengthening the role of O+S
- Workforce engagement
- Digital and Transformation
- Strengthening Partnership Working
- **Financial Review and Insight**

As a component part of the Fit for the Future Programme and approach to providing a performance reset, the Council wanted both a comprehensive understanding and assessment of current performance and strategic insights to inform the financial strategies of the Council.

- 4.4 The Council is entrepreneurial and commercially orientated and has made significant commitment and investment into assets and activity within the borough in order to support:
- regeneration.
 - the supply of quality and affordable homes.
 - economic development; and
 - Council financial independency and resilience.

4.5 Following a competitive tender process, the independent consultants Ernst Young (EY) were commissioned to undertake 2 (two) pieces of financial review:

- A Comprehensive Statement that addresses the requirements of the Notice of Motion (see section 2 of this report above)
- A series of Financial Review and Insights –The purpose of these is to bring independently researched insights into:
 - Socio economic factors that influence medium – long term financial strategies
 - Current financial performance benchmarking
 - Indicators of financial resilience

4.6 This report covers the Comprehensive Statement which will form part of the MTFS, General Fund, Service Plans, Budgets and Prudential Indicators 2022-23 report to the 3rd February 2022 meeting of the Executive.

4.7 The series of Financial Review and Insights are in the process of being drafted and will be used to inform the Medium-Term Financial Strategy beyond 2022/23. The Insights are a joint and collaborative endeavour as they incorporate the vision and strategy work produced by the Council alongside independent market insight and benchmarking from EY, to inform what the areas of risk and opportunity for the Council are. The Insights should both challenge and validate the Councils approach, recognising the challenges and opportunities in the short, medium and long term. The Insights are targeted to be complete in order to inform the MTFS report to 24th March 2022 meeting of the Executive.

5. COMPREHENSIVE STATEMENT

5.1 Attached at Appendices 1 and 2 to this report is:

Appendix 1 Comprehensive Statement – Member Briefing

Appendix 2 Comprehensive Statement Report

5.2 These appendices have been independently produced by the consultants EY.

5.3 Comprehensive Statement – Response

5.3.1 Overview:

We would initially like to express our thanks to EY and specifically the lead consultants on this work for their due diligence and for both the wider Local Government experience and national economic insights that they were able to bring.

As the Comprehensive Statement review is on the current state of finances and financial performance of the Council, as largely reported through published accounts, it was pleasing to see that the Comprehensive Statement – Member Briefing did not highlight any individual **key statements** of fact or **observations** that were surprising to the Council.

The Comprehensive Statement represents the financial matters of the Council arising from the decisions the Council has taken to pursue the regeneration vision for the

Borough, undertake the key investment role to drive this regeneration with purpose and generate additional income sources for the Council that both enable it to support the regeneration activity and enhance the level of service provision to the communities of Woking.

However, whilst the Comprehensive Statement may not have highlighted any new individual statements of fact, it does provide significant added value and benefit for the Council and emphasises a number of issues that the Council should give increased focus and attention to. In this context the Comprehensive Statement:

- Provides assurance around the Council's asset valuations approach and short-term cash and investment positions
- Recognises the Council's regeneration focus and the alignment of financial strategies to this
- By bringing the Asset Position; Borrowing Position; Financial Interests and Contractual Obligations together in one focused statement it gives additional insights that should be recognised and used to develop strategic financial priorities
- Provides insight that is relevant for the Council's Fit for the Future Programme and specifically the need for the Council to move with greater pace and certainty around:
 - Adopting a stronger strategic approach to the management of assets
 - Development of its commercial and strategic finance capacity and expertise in order to drive out the returns from our investments.
 - Completing the review of Governance of Companies, the strategic alignment between the Council and Thamesway group and the intelligent client capability retained within the Council. This review should address the specific risks highlighted for Thamesway Energy Limited (TEL) and Thamesway Milton Keynes Limited (TCMK)
 - Strengthening the oversight of Town Centre management including the strategic management of the assets
 - Continuing to develop and strengthen the Medium and Long-Term Financial Strategy and the strategic management of reserves within this

5.3.2 Asset Position

Reflections:

The Council does have a net asset position (assets valued greater than liabilities) underpinned by reasonable asset accounting policies and sufficient useable reserves in the short term to manage financial shocks

The Council's assets are exposed to conditions in the retail and office market and as one would expect given the prevailing impacts of the pandemic, the balance sheet value of assets has expectedly been valued down. This revaluation is at a point in time, is a snapshot rather than a narrative, and is due to reductions in commercial rent income in the valuation year.

The Council has made provision for reduced commercial rent income, as has been reported through the MTFS and referenced in section 3 of this report and the reserves strategy has been established to respond to our forecasts of the implications of the downturn in the economy over the MTFS period.

5.3.3 Borrowing Position

Reflections:

The Council has a high level of borrowing (3rd highest local authority) as a result of the role it has taken to invest in the regeneration of Woking. The Treasury Management costs of this borrowing have a significant impact on the General Fund which means that there is a high dependency on the wider office and retail economy and the performance of assets and companies the Council has invested in to meet loan servicing costs. This represents a large proportion of the Council's General Fund budget that is a fixed cost.

The Council's borrowing has been for regeneration and inside the Woking Borough. It has not taken borrowing for investments outside of the Borough or simply for commercial return. Borrowing has been undertaken through PWLB and at attractive fixed term rates which secure against future interest rate movements.

There are no covenants on the Council's assets and borrowing.

5.3.4 Financial Interests

Reflections:

The Council's investments into companies are for long-term benefit over short-term gain. The companies exist to support the regeneration priorities of the borough and this recognises that they operate with an expectation that they make lower commercial margins. Success is measured more by the benefits they deliver for the communities of Woking rather than pure company financial performance. This can be seen in the company ratio analysis on page 24 and the following pages of the Comprehensive Statement report. It also needs to be recognised that Thamesway TDL develops assets for the other Thamesway companies and works to lower agreed margins to reflect this group relationship.

What follows this strategy for regeneration is a focus on companies' medium to long term business plans with the short-term positions being managed through the Council's wider MTFS and Investment Programme.

This strategy, however, does require stronger Council oversight and governance of company performance. The company financial viability assessment ratios undertaken by EY highlights that in the short term, for all material investments, there is sufficient turnover to meet short term loan repayments. It equally highlights the impact of making investment for the long term over short term gain as can be seen by the losses recorded in the latest statement of accounts.

The risks in the medium term associated with Thamesway Central Milton Keynes (TCMK) require a specific joint response between the Council and Thamesway that is over and above the overall oversight of the Council's borrowing and financial interest positions.

The Council has appropriate diversification of short-term investments ensuring it is not overexposed to risk and had sufficient funds to meet its cashflow requirements

5.3.5 Contractual Obligations

Reflections:

The Council has appropriate systems in place to ensure that grants are administered appropriately, and reimbursements are correct.

- 5.4 The table below provides an initial response to the **key statements** and **observations** in the Comprehensive Statement - Member Briefing and areas of **challenge** and **risk** highlighted within the Comprehensive Statement Report.

Section 5.3.1 of this report highlights the areas where the Council will give an increased focus and attention to arising from the Comprehensive Statement work. These are highlighted in bold in the table below.

Where the **key statements** and **observations** provide assurance and affirmation of the Councils current position and approach, these are received without specifically acknowledging or responding to them within this response to the Comprehensive Statement..

Comprehensive Statement

Key Issue or Risk	Current Approach and Plans	Actions following the Statement
<p>There is a Risk that commercial properties continue to be devalued as a result of reductions in commercial rent income, this would dilute the councils balance sheet. Where this does occur, the council need to consider whether continued revaluations indicate a need to reassess asset use to meet regeneration objectives.</p>	<p>There is an asset management strategy that is in development and a review of the Property Services Operating Model underway.</p> <p>The Fit for the Future programme has identified a need to develop the commercial management capacity and capability in the Council and how we are organised.</p> <p>The Councils significant investment holding of retail and office estate does support its role in regeneration as it is able, through an asset management strategy, to strategically review how these assets contribute to the priorities of the borough.</p>	<p>The delivery of the asset management strategy will be escalated as a key project, reporting to CLT as the Corporate Programme Board, alongside a quarterly report on the performance of retail and office assets.</p> <p>Given its significant asset holdings in the town centre, the asset management strategy will need to be guided by a clear vision and strategy for the town centre that is informed by up-to-date market insight and intelligence. This will enable the council to maximise the use of its assets to get a balance between financial return and place making outcomes.</p> <p>The Risk is accepted and will be considered through the Council's Risk Management Policy to determine risk treatment and further mitigations</p>
<p>A sizeable investment asset portfolio that is highly exposed to conditions in the Retail and Office market</p>	<p>The Medium-Term Financial Strategy recognises the dependency on income from the commercial estate and has a financial strategy to manage this over the next 4 years.</p> <p>The reserves strategy has been reviewed and is under continual review through the MTFs. The strategy is underpinning our response to managing the impact of the economy as well as responding to risks in delivering the Councils business and providing some capacity to invest in transformational change</p>	<p>The Council will develop a vision and strategy for the Town Centre.</p> <p>Given its significant asset holdings in the town centre, the asset management strategy will need to be guided by a clear vision and strategy for the town centre that is informed by up-to-date market insight and intelligence. This will enable the council to maximise the use of its assets to get a balance between financial return and place making outcomes (repeated – see action above)</p>

Comprehensive Statement

	<p>Management of the asset portfolio and the markets these operate in is part of the asset management strategy referred to above</p> <p>A review of the governance of Victoria Square is underway and will report, with recommendations, to the Executive.</p>	<p>Completion of the commissioned review on the governance of Victoria Square in order to identify the most effective approach to the management of the assets to secure the financial and place making interests of the Council.</p> <p>Following this governance review the council will adopt the required changes to develop its commercial and strategic finance capacity and expertise across its whole asset portfolio and investments in order to deliver on the required outcomes for the borough</p>
<p>There is a risk that the high proportionate level of debt payments the council incurs compared to Net Service Expenditure, will reduce the Council's financial resilience in the medium to long term. These commitments reduce budgetary flexibility in the event of volatility.</p>	<p>The Medium-Term Financial Strategy recognises the high level of fixed costs in the general fund that is required to services the costs of borrowing and has a reserves strategy that is informed by an assessment of service and financial risk.</p> <p>There is an asset management strategy that is in development which includes an asset disposal policy. In the short term there is no requirement to sell assets in order to reduce the costs of borrowing.</p>	<p>Continue to strengthen the Council's Medium and Long-Term Financial Strategy</p> <p>Be a strong voice in the public sector for the role of Local Government in delivering on regeneration ambitions and recognition of this role in making sources of funding available to Councils.</p> <p>The delivery of the asset management strategy will be escalated as a key project, reporting to CLT as the Corporate Programme Board, alongside a quarterly report on the performance of retail and office assets (Repeated – see action above)</p> <p>The Risk is accepted and will be considered through the Council's Risk Management Policy to determine risk treatment and further mitigations</p>

Comprehensive Statement

<p>There is a risk that the current level of WBC's existing borrowing will reduce appetite and capacity to borrow to fund infrastructure in the future</p>	<p>The Council's strategy is for borrowing to support regeneration and has been targeted to the areas of greatest regeneration need which is housing and the town centre as the economic hub for the borough. This investment by its nature is future focussed and has accounted for the likely significant demand for Council intervention.</p> <p>The borrowing and investments made by the Council are intended to operate as a catalyst and lever for private sector investment into the borough which will further enhance the regeneration activity and outcomes.</p> <p>The Council takes a strong partnership role to lever benefits for Surrey and the Borough. We are working in partnership with the Surrey District and Boroughs and County Council to develop a Surrey 2050 Place Ambition.</p>	<p>Continue to strengthen the Council's Medium and Long-Term Financial Strategy (Repeated – see action above)</p> <p>Be a strong voice in the public sector for the role of Local Government in delivering on regeneration ambitions and recognition of this role in making sources of funding available to Councils (Repeated – see action above)</p> <p>Given its significant asset holdings in the town centre, the asset management strategy will need to be guided by a clear vision and strategy for the town centre that is informed by up-to-date market insight and intelligence. This will enable the council to maximise the use of its assets to get a balance between financial return and place making outcomes (Repeated – see action above)</p>
<p>There is a risk that the regulatory landscape or market conditions change. This would provide an immediate risk to the Council, or impact WBC's ability to finance or refinance.</p>	<p>The Council has a risk management policy that has been reviewed in 2021 as part of the Fit for the Future change programme. This policy is in place in order to actively assess and strategically manage risk.</p>	<p>The Risk is accepted and will be considered through the Council's Risk Management Policy to determine risk treatment and further mitigations</p>
<p>There is a medium-long term risk that Thamesway Central Milton Keynes could become insolvent</p>	<p>The company analysis in the report uses the Cabinet Office playbook which is a framework for evaluating commercial operations framework. It is important to recognise that the Thamesway Group was established as a wholly owned subsidiary of the Council to fulfil the</p>	<p>The Council will undertake a review of the Strategic alignment between the Council and the Thamesway group</p>

Comprehensive Statement

	<p>objectives of the Council addressing need which would not be met by the private sector.</p> <p>The report recognises that the Companies in which the Council have invested in have differing strategic purposes and are in different phases of maturity, meaning the relationship with the Council is not just a contractual one. It also notes that the companies are currently immature and are expected to make losses in the short-term, with the business plans being long-term in nature.</p>	<p>A specific review of the Thamesway Central Milton Keynes (TCMK) and Thamesway Energy Limited Business Plans will be commissioned</p>
<p>It is recommended the Council shares the analysis with Companies and requests a management response.</p>		<p>Agree with the recommendation. This will be incorporated into the review of the strategic alignment between the Council and Thamesway group, highlighted above, as an early output</p>

