<u>Investment through Group Companies and Joint Ventures</u>

5.7 When the Council invests through the company structure, the Council is operating as the provider of loan finance and as a shareholder (100% for Thameswey Ltd, 48% for Victoria Square Woking Ltd). These roles enable to the Council to control the use of funds and to ensure the company activity is in line with Council objectives.

5.8 Managing long term projects through the company structure enables a longer term outlook to be taken, with initial losses recognised and accepted, as part of the capital investment, to generate benefits over time. The Council could not directly incur the losses which would recognised as an immediate charge to revenue reserves. As the entity ultimately responsible to residents for future planning and investment in the Borough it is appropriate for the Council to take a long term outlook.

5.9 The business models spread the costs of the investment over the life of the assets and, in some, also take some benefits over the life of the assets in the form of a margin to the Council. This reflects the need to match costs and benefits for taxpayers over time.

5.10 It would not be appropriate for the cost of the assets to fall to residents today when the assets would then be available to the residents of the future to use at no cost. In making this assessment it is important that the full costs of the maintaining the assets over time are recognised and that the length of the business plans and associated assets lives are appropriate.

5.11 The relationship between the Council and the company is shown below:

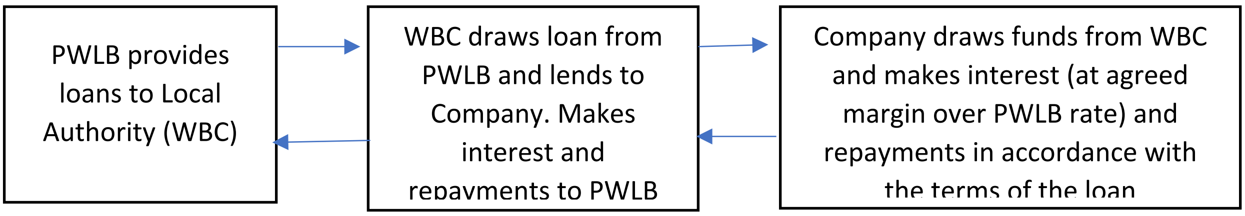


*Figure 1*

5.12 Loans secured from the PWLB have been mostly annuity loans which repay the interest and capital over the life of the loan in equal instalments each 6 months. At the start of the loan the instalment is mostly interest, over time this proportion changes and a greater amount is capital repayment. Appendix 5A shows an indicative 50 year annuity schedule. This debt structure balances the need for long term financing, matching the long term nature of the business plans, with the need to repay the underlying debt in a way which doesn't expose the Council to either excessive risk of repayments all in one year, or of holding cash balances on which a return would need to be sought. However, it will not perfectly match operating cash flows and there will be a need for refinancing and, for some projects, a revolving facility which enables the financing risk to be reduced as loans are taken over a longer period of time.

5.13 For company loans on an annuity basis the principal repayments are held on the Council's balance sheet within Capital Receipts, they are not included as income in the revenue budget. PWLB principal repayments are also a balance sheet item, not included in the revenue budget. The repayments are funded from MRP, company loan repayments, or refinancing of the debt (in the same way a short term loan may be refinanced as long term).