

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 a number of problems in other local councils and consequent changes in the regulations and accepted practice, require the Council to consider the prudence of its current approach.

The 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 Executive is requested to:

RESOLVE That

- (i) the report be noted; and
- (ii) a further report will be made to Full Council at its meeting on 23 February 2023 on:
 - a) the level of funding required to continue a proposed level of Thameswey activity from within the Business Plans;
 - b) to note the wider Thameswey Business Plans;
 - c) to agree the review period for Sheerwater phases; and
 - d) to agree the wider Shareholder actions for review in 2023.

Reasons for Decision

Reason: Further work is required before Full Council via the Shareholder Advisory Group on a more robust approach to the review and approval of Thameswey Business Plans to balance ambition and affordability for Woking Borough Council.

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

Background Papers: None.

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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 Committee 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 1)
 - 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 the 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 MTFS report that was reported to Executive on 19 January 2023. It is imperative that the Council’s budget for 2023 and MTFS 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 the company 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 the Council over the last couple of years.
- 2.4 This report and the subsequent report to Full Council will fulfil the requirement of reviewing the annual business plan for Thameswey, with a clear focus on financial sustainability for both the company and the Council. This has been subject to additional challenge compared to previous years through 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 the Council has delivered its ambitious housing, leisure, regeneration and district energy networks through 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 the 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 2023

- 4.1 The full activity on the Thameswey Business Plans would require a further borrowing commitment by the Council of up to £83m to fund them.
- 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 will require additional controls and caveats on the approval of this funding. There will be two phases to this:
- over the past few months and 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 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.

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 rephrasing of borrowing.

5.0 Proposal for Full Council

5.1 In summary, the further work to bring to Full Council will support a proposal 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 in 2023
- supports the rest of the Thameswey Energy Limited (TEL) plan, including 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 Sheerwater, which accounts for the vast majority of the £83m funding requirement in the business plans
- supports the spend required on Sheerwater to meet contractual and other obligations whilst a review is undertaken by the company and the Council of the other phases of Sheerwater. This may then necessitate a pause on some phases or further in year approval of funds
- The cash flow needed to support debt repayments in year and the activity above

5.2 The above will result in a recommendation for funding that will be lower than that to support the Business Plans in full, but it will keep the company in funds and viable whilst further work is undertaken on Sheerwater. There will be a clear monthly profile of funds for draw down from the Council.

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 the 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 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 the 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 within the same timescale as Sheerwater phasing to have a comprehensive view of any further funding for Thameswey over and above the approval at Full Council.

7.0 Implications

Finance and Risk

- 7.1 None directly, but this report provides an update on ensuring a prudent approach to the financial envelope for Thamesway Business Plans.

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 Thamesway 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