

## 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:** Thamesway Business Plans

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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 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 Thamesway 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 Thamesway.

### 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 years 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 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 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 rephrasing 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:

	<b>£m</b>	
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
	<b>86.7</b>	

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)

- 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:

<b>Woking Borough Council 2023/24</b>		
		<b>£m</b>
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	
<b>Total</b>	<b>70.3</b>	

## **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 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