

INVESTMENT STRATEGY 2024-25

1.0 Introduction and scope

- 1.1 The Local Government Act 2003 and supporting regulations require the Council to ‘have regard to’ CIPFA’s Prudential Code and Treasury Management Code, and to Government Investment Guidance. The Codes and the Guidance all expect authorities to approve an annual Investment Strategy as part of the budget setting process.
- 1.2 CIPFA revised the Treasury Management and Prudential Codes in 2021. The main focus of the revisions was to strengthen the codes’ requirements relating to the affordability, proportionality and funding of service and commercial investments. The Government Investment Guidance was issued in 2018 and covers risk management, governance and risk indicators among other things.
- 1.3 The Public Works Loans Board (PWLB), as the Government lender to local authorities, has also strengthened its lending criteria and will not lend to authorities who plan to make investments mainly for yield.
- 1.4 The revised Treasury Management Code requires investments and investment income to be considered in three categories, relating to the investment purposes:

Purpose of Investment	Application in Woking
<p>Treasury management investments:</p> <p>These are held as part of treasury management activity, e.g. managing cashflows or resulting from a borrowing strategy.</p>	<p>The Council’s treasury investments are relatively small, and are considered in the Treasury Management Strategy report.</p>
<p>Service investments:</p> <p>These are taken or held primarily as a direct part of delivering service objectives, e.g. regeneration.</p>	<p>Materially all the Council’s non-treasury investments were acquired to support services. These include the Strategic Property portfolio, but mainly comprise the Council’s very large investments in the ThamesWey Group and Victoria Square Woking Ltd which are now in serious financial difficulty.</p>
<p>Commercial investments:</p> <p>These are taken or held primarily for financial return rather than as a part of direct service delivery.</p>	<p>The Council previously maintained that its strategic property portfolio was not a commercial investment and not primarily for yield, but was for regeneration purposes. They are however commercial investments by nature and rely on yield to meet associated borrowing costs. These investments are being reviewed as part of an asset rationalisation and debt reduction plan.</p>

- 1.5 This report addresses the latter two categories, i.e. all the Council's service and commercial investments (which are sometimes collectively called 'non-treasury' investments).
- 1.6 The report includes local investment indicators and limits as required by the Guidance and the Codes.

2.0 Context: Investments and the Council's financial position

- 2.1 The Council currently has loan and share investments of £1.39 billion (at cost as at 31st December 2023), predominantly in the ThamesWey Group and Victoria Square Woking Ltd (VSWL), which were largely made from 2016 onwards. It also has a Strategic Property Portfolio of commercial properties in Woking with an estimated value of £222m. These were almost entirely purchased by borrowing, giving Woking by far the highest debt per head of population of any local authority in the UK.
- 2.2 The Council's annual budget in February 2023 stated that the Council was 'in the territory of a Section 114 notice, due to the possibility of revenue expenditure exceeding available resources. The reasons included the very high levels of borrowing taken largely to fund investments; the risk of falling investment values becoming lower than loan balances; investment business plans requiring support for many years; and the risk of much higher Minimum Revenue Provision charges (MRP) being required in relation to investments.
- 2.3 The Government's External Assurance review of May 2023 concluded that the Council's historic investment and borrowing decisions were disproportionate to its ability to manage complex commercial activity, and that the Council lacked the commercial skills and capacity to identify a longer term strategy to resolve its commercial arrangements. There was insufficient regard to the level of risk the Council was being exposed to, and the borrowing and investment had not been proportionate or prudent. The current value of assets had been estimated to be well below the associated borrowing.
- 2.4 The Section 114 notice by the Council's then Interim Director of Finance dated 7 June 2023 made it clear that the Council's Investment Strategy had resulted in unaffordable borrowing; inadequate steps to repay that borrowing; and high values of irrecoverable investments. MRP charges in relation to investments have been understated. ThamesWey and VSWL were not able to make interest payments to the Council on their loans from their earnings, resulting in a loss of interest income to the Council of around £43m per annum in 2023/24 and £46m in 2024/25. This income to the Council had been fully utilised to meet the associated borrowing costs.
- 2.5 In response to this, the Council has developed an Improvement and Recovery Plan, as required by the Secretary of State through their Best Value Intervention. The Commercial Theme in the Plan is to develop a long term commercial strategy and as part of this an asset strategy in order to reduce investment risks to a proportionate size; obtain the best financial outcome for the public purse in relation to the failed investments; and to use sale proceeds to repay part of the Council's loan debt. The use of the proceeds will be via a Debt Reduction Plan explained further in the Treasury Management Strategy.
- 2.6 The work involved to identify the way forward for investments under the Commercial Theme is progressing. The assessment of the situation and the appropriate actions will become clearer and develop over 2024/25 for delivery from 2025/26. This Investment Strategy report summarises the current high level strategy, which will be reported on further as specific proposals come forward. There is further borrowing for investment in 2024/25 of £78m in order to complete projects that are currently in construction. This investment is being made in order to prevent further loss in the value of assets of circa £200m and therefore deliver best value from any future sale. No further investments are anticipated.

3.0 Strategic objectives for the investment portfolios

- 3.1 The original objectives for the non-treasury investment portfolios were two fold: to support service delivery particularly in regeneration, housing and sustainable energy; and to earn a financial surplus to support the funding of the Council generally and avoid cuts in spending and services.
- 3.2 The financial status of the ThamesWey and VSWL investments has made the second of the above objectives undeliverable (see 3.1 above). The Improvement and Recovery Plan sets out the following objectives for all the Council’s non-treasury investments:
- Rationalise the assets held in order to reduce the £2bn debt WBC holds and make sufficient provision for the repayment of that debt;
 - Consider the future of the commercial ventures, particularly VSWL and the ThamesWey Group, in the way that best protects the public purse;
 - Ensure all the building blocks are in place to deliver sound commercial governance and financial management and to deliver the scale of organisational change required.

Given these objectives, the Investment Strategy set out below is predominantly a transitional one of investment review and rationalisation before a more stable long term position is reached.

4.0 Current investments: Shares and loans

Tables 1 and 2 below show the Council’s shares and loans respectively (at purchase cost):

Table 1: Loans and Loan Commitments for Service Purposes

Category of Borrower	Actual 31/03/2023 £'000	Capital Programme February 2023				
		2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Subsidiaries						
Thameswey Energy Ltd	47,984					
Thameswey Central Milton Keynes Ltd	36,725					
Thameswey Housing Ltd	637,995					
Thameswey Solar Ltd	725					
Thameswey Housing (Sheerwater)	150,175	54,878	24,598	264		
Thameswey Developments (S/W Leisure)	1,095					
Victoria Square Woking Ltd	701,867	25,172				
Rutland Woking	1,665					
Greenfield School	13,345					
Freedom Leisure	1,607					
Kingfield Community Sports Centre Ltd	1,500					
Local Residents (Mortgages)	1,469					
Loan Re Wolsey Place	1,688					
Other	176					
TOTAL	1,598,016	80,050	24,598	264	-	-

Table 2: Shares for Service Purposes

Investment	Actual	Capital Programme February 2024				
	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Thameswey Ltd	31,193	No further share capital planned in Capital Programme February 2024				
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	-	-	-	-	-

- 4.1 The amounts shown above in 2023/24 and 2024/25 largely represent the balance of the £78m of investment described in paragraph 2.6 above.
- 4.2 The most significant loans the Council has made are to the ThamesWey Group (wholly owned subsidiary) and Victoria Square Woking Ltd. At 31 December 2023 the Council had made £338m of loans to ThamesWey Housing to provide housing in the Borough, £85m to ThamesWey Energy and ThamesWey Central Milton Keynes, to further the Council's energy efficiency policies, £195m to the ThamesWey group relating to the Sheerwater project, and £713m to Victoria Square Woking Ltd for the town centre regeneration project.
- 4.3 The latest audited accounts for ThamesWey and VSWL report they are balance sheet insolvent showing the value of Fixed Assets being materially below their Current Liabilities. The Companies are preparing Business Plans for 2024/25 and strategic divestment cases for each of their lines of business in order to identify the best options for reducing the Councils debt whilst providing the best value for money return.
- 4.4 Other loans have been advanced to Greenfield School, Kingfield Community Sports, and Freedom Leisure for improvements at the Pool in the Park.
- 4.5 The interest receivable from Council owned companies (Victoria Square and ThamesWey) is around £46m annum. The Council companies make positive earnings before interest payments, taxation, depreciation and amortization (EBITDA) but they are not earning enough to meet their full interest and principal payment liabilities. Interest payments have been suspended so far this year as part of the work with Commissioners and Government, which clearly has a large potential effect on the Council's finances. The reason for the suspension is that the companies are unable to fund the payments now that the Council's revolving loan arrangements with them have ended as part of the s114 notice in June. The suspended sums for 2023/24 and 2024/25 have been included in the Capitalisation Directive from Government as an interim solution.
- 4.6 The wider asset disposal strategy and debt reduction plan allows the Victoria Square scheme and phases of the ThamesWey Group's Sheerwater scheme to be completed in order to maximise asset values and avoid additional costs. The final treatment of the suspended costs will be part of the overall solution to the crystallisation of the £1.2billion deficit that the s114 notice flagged.

5.0 Current investments: Strategic Commercial Properties

- 5.1 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. External management agencies

are also appointed to manage the rental income, maintenance, and service charge arrangements of commercial units. A significant proportion of the estate has been acquired, through PWLB borrowing, since 2016.

- 5.2 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.
- 5.3 All commercial 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.
- 5.4 The Council has previously reported the commercial income performance of its commercial estate through its performance management report (green book). This reporting has however not been sufficiently cognisant of the true costs of ownership and a forecast for voids based on the profile of lease agreements. Profit and Loss accounts are now being developed for all commercial assets and an asset management system will be implemented in 2024/25 in order to maintain asset conditions and performance. Like the investment in companies, the property portfolio overall does deliver earnings before interest, depreciation and amortisation, it does not however provide sufficient earnings to service the financing costs. The operational impact of managing the loss of income from voids alongside the associated increase in costs to the landlord (council) for service charges and business rates has a significant impact on the Council's General Fund and has required a down turn of c£7m in trading performance to be recognised in the Council's 2024/25 budget.

6.0 Revenue account impact, proportionality and risk appetite

- 6.1 The following table shows budgeted income from service investments, taking account of the loss of interest from ThamesWey and VSWL:

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Interest and dividends from Thameswey and VSWL	0	0	0	0	0
Other interest and dividends	0.7	0.7	0.7	0.7	0.7
Strategic Property portfolio*	10.8	6.7	10.5	11.6	12
Total net income	11.5	7.4	11.2	12.3	12.7
nb Suspended interest from Thameswey and VSWL	43.8	46.3	46.0	45.9	45.9

* Net income before staffing and financing costs

- 6.2 The prudential indicators compare this with an authority's net revenue budget, to help assess the impact of income loss in relation to the Council's general resources:

Prudential indicator: investment income as a % of the Council’s net revenues

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
net income from non-treasury investments	11.5	7.4	11.2	12.3	12.7
Net revenue budget	16.1	19.0	19.0	19.0	19.0
investment income as a % of net revenue budget	71.5%	39.0%	59.0%	64.8%	66.9%
analysis	Investment income excluding the suspended Group company interest is still significant risk to the Council, and is under review by the Commercial workstream				
objective	to keep investments within a level where a plausible loss of income could be managed without major disruption to services.				

6.3 The Council accepts the conclusion of the External Assurance Review (paragraph 2.3 above) that the level of investment reflected in the tables above were disproportionate to the financial capacity of the Council to manage the investment risks. This is particularly so because the investments were almost entirely purchased using borrowed money, resulting in a fixed liability and interest cost compared with an uncertain asset value and investment income.

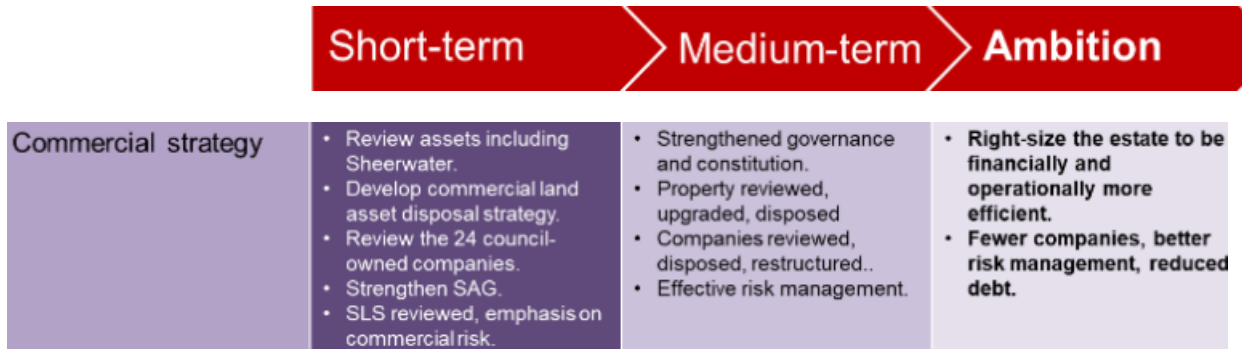
7.0 Proposed Investment Strategy

7.1 The Council recognises that its investments and debt are neither proportionate nor affordable as recommended by CIPFA’s Prudential Code. The latest update of the Prudential Code recommends that borrowing authorities should carry out a disinvestment review of their existing commercial investments with a view to netting down debt and investments. It is a key objective for the Council to reduce its investment risks to a level where, as advised by the 2021 CIPFA Prudential Code, ‘any plausible investment losses could be absorbed in budgets or reserves without unmanageable detriment to local services and the level of resources available to the organisation’ (Prudential Code para E17). The Council’s risk appetite going forward is therefore very low, and it is expected that the great majority or all of its investments will be sold to help reduce its debt and recover its financial position.

7.2 The Council’s investment strategy for its non-treasury investments including commercial property is set out in the Commercial Theme of the Improvement and Recovery Plan. The aim of the Commercial Theme is to generate greater yields from retained assets, generate optimum capital receipts from disposal of assets that are surplus to the Council’s requirements, and use the sale proceeds to repay debt. The focus of this is a major review of the company-owned assets and the Council-owned assets to determine how a significant asset rationalisation can be delivered, taking account of valuations.

7.3 The Council has established a set of principles to underpin a debt reduction plan. These principles are included in the Treasury Management Report that is being reported separately to this meeting of the Council.

7.4 This is a challenging agenda with short, medium and longer term phases:



7.5 Appendix 1 sets out the Commercial Theme’s Action Plan. The key to this is the development of a medium term commercial strategy with a review of each of the 24 Council owned companies, including strategic options for the ThamesWey Group, VSWL and the commercial properties.

7.6 The last nine months has seen substantial progress in the asset rationalisation work, including production and approval of the business plans for completing ThamesWey and VSWL projects to achieve good financial value, and the production of a Commercial Protocol to manage relationships between the Council and its companies.

7.7 The next period will see the completion of a prioritised assets disposal plan which will account for the urgent need to reduce the levels of debt whilst achieving value for money for the assets sold. The approach to disinvesting from the commercial property portfolio is to establish a programme of enablers to equip the Council to deliver a managed programme of disinvestment and debt reduction involving opportunistic sales through 2024 and a managed reduction of investment through sales or other equity investment to reduce the Council’s loan book over a managed period from 2025. A key driver will be ensuring assets are disposed of at the maximum value for the public purse.

7.8 A programme of asset disposals for the next three years, supporting the approach highlighted in 7.6 above, is underway. At the date of this report there are c£40m of asset disposals that are either under offer or in the hands of solicitors and a further £18m in the pipeline of being prepared for market and disposal in 2024/25.

7.9 The managed approach to reducing the Council’s investments and loans that is being adopted and progressed through 2024 incorporates the following:

- Undertake market appraisals of the key Council commercial assets.
- Implementation of an asset management system to oversee a strategic asset management approach to the management of the Council’s estate.
- Implementation of a Shareholder Executive overseeing the performance of Council owned companies.
- Strengthening Company Boards Non-Executive membership and relevant sector knowledge and experience.
- Development of strategic through to full business cases for all company lines of business that will identify the best approach to reducing the levels of debt whilst achieving value for money for the public purse.

Future investment expenditure

- 7.10 There is further borrowing for investment in 2024/25 of £78m in order to complete projects that are currently in construction. This investment is being made in order to prevent further loss in the value of assets of circa £200m and therefore deliver best value from any future sale. (as noted in section 2.6 above). The Council is able to access PWLB borrowing for this investment following the development of business cases which supported the investment case. Whilst these projects inevitably carry investment risk, their primary purpose is to protect the Council by reducing losses on disposal and improving the value to the public purse from the investment exit strategy set out in this report.
- 7.11 No further proposals for non-treasury investments are introduced in this Budget and MTFS. This is in line with the Capital Principles set out in the July 2023 MTFS and maintained in the Capital Strategy in this suite of Budget reports. Tables 1 and 2 above therefore represent the Council’s non-treasury investment limits which the Council must set in line with the Government Investment Guidance:

Investment indicator: non-treasury investment limits

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Shares (at cost)	37.8	37.8	37.8	37.8	37.8
Loans (at cost)	1,363.6	1,388.2	1,388.5	1,388.5	1,388.5
Commercial property (valuation 31.3.2023)	224.9	224.9	224.9	224.9	224.9
total limit	1,626.3	1,650.9	1,651.2	1,651.2	1,651.2
analysis	The Council's investment purchases have been disproportionate, especially in its Group companies. The limit has been maintained at current levels pending decisions about future investment reductions.				
objective	to substantially reduce the level of investments over the medium term, to reduce investment exposure and repay debt.				

- 7.12 This Investment Strategy represents a transitional position, and is expected to develop significantly over the next year and more. It will continue to be led and developed through the Improvement and Recovery Plan’s Commercial workstream for the foreseeable future, until a sustainable and affordable position is reached.

8.0 Risk management in the transitional period

- 8.1 A risk management framework has been put in place covering the whole of the Improvement and Recovery Plan, including the non-treasury investments dealt with in the Commercial Theme.
- 8.2 Risks will be identified and managed by the Commercial Theme working group. Risks requiring escalation will be reported and captured in the wider programme risk register, and shared with the Executive as part of quarterly programme updates.
- 8.3 Key risk areas which are covered include the level of resources available to support the work programme; the pace of change required and the pressures on staffing, morale and retention; and the Council’s reliance on external resources for delivery.

9.0 Capacity, Skills and Culture

- 9.1 The Council recognises that when the major investments in the ThamesWey Group and VSWL were made, it did not access sufficient expertise, either in house or externally, to plan or manage such investments. Expert advice has now been brought into the Council through experienced consultants. In particular, a commercially experienced property specialist has been brought in to lead the development and implementation of the rationalisation strategy and subsequent disposal programme.
- 9.2 Due to the size and complexity of the Investment Strategy and the Improvement and Recovery Plan, it currently has a dependency on consultants and contractors to support their delivery. Medium term plans to establish the in house capability and capacity required to deliver and sustain a trued up work programme are in place.
- 9.3 The Improvement and Recovery Plan has an Organisation and Service Design workstream that is leading on Organisational Development which incorporates the management of strategic change, learning and development, recruitment and retention and succession planning. The Improvement and Recovery Plan, through this workstream, will establish the plans and activity to transition from the current resourcing model to a stabilised council that has the retained skills, capability and capacity to manage its business and deliver the strategic priorities of the Council.
- 9.4 The Council has implemented a commercial protocol and company governance framework that are being integrated into core competencies of managers and associated learning and development events, like contract management skills, are being developed and rolled out. The Council is equally reviewing its committee structure and developing Member briefings and training to reflect how the Council will undertake its business and activities going forward.
- 9.5 An example of Member briefing is when Link Group provided a Member briefing in 2022/23 on interest rate assumptions in order to help inform decisions regarding the Victoria Square Woking Ltd Loan Facility. General Treasury Management training is provided as part of the annual Member training sessions.
- 9.6 The investment strategy is also a key part of discussions with the Commissioners and DLUHC.

10.0 Governance

- 10.1 The Council's internal governance relating to capital and investment decision-making and management is summarised in the Capital Strategy elsewhere in this suite of Budget reports.
- 10.2 The IRP's Commercial Theme, which covers non-treasury investments, has a governance structure accountable to Members and to the Commissioners. Progress on the Commercial Action Plan will be monitored monthly, including milestones, management of risks, issues and dependencies. Councillors will have oversight of progress through formal quarterly reporting to Council. Commissioners will be providing six-monthly reports to the Secretary of State on the implementation of the Council's progress.
- 10.3 Part of the Commercial Workstream Action Plan is to implement a governance framework for each company, and within the council. This is a key step which needs to precede future major decisions of the companies in implementing this Strategy.
- 10.4 A Commercial and Financial Governance Board has been established. This sits bi-weekly to review, challenge and approve or reject all future commercial activity. The board comprises senior officers and Commissioners from commercial and financial disciplines. This ensures that commercial decisions made are not only assessed for risk, affordability and benefit but

also for their impact on debt reduction and in support of the Council setting a balanced budget over time. The Board has overseen some key improvements to governance in relation to the Council companies, including:

- Removal of Council Officers from directorships of Council owned companies, in particular Victoria Square Woking Limited and ThamesWey Group. This removes significant conflict of interest when instructing companies to take appropriate steps to reduce further commercial risk to the Council;
- Challenge and review of proposed decisions relating to commercial activity;
- A Companies' Governance Framework has been adopted which sets out how the Council will interact with the companies as client and shareholder. It sets out a process for developing and agreeing business plans and a reporting framework that will produce critical information for each company that the Council will need to review, understand, and respond to appropriately.

10.5 Overview and Scrutiny Committee's remit includes the Council's investments, and regular reporting is expected.

APPENDIX A: COMMERCIAL WORKSTREAM (EXTRACT FROM THE IMPROVEMENT AND RECOVERY PLAN)

Commercial workstream action plan

The actions set out below are designed to ensure all the building blocks are in place to deliver the recovery plan priorities at the required pace and scale.

Workstream	Workstream aim	Actions	Due
Commercial strategy and governance	Develop a long-term commercial strategy	<ul style="list-style-type: none"> Taking into account the commissioners' directions and council's high level strategic aims, draft first outline version of the commercial strategy, including Subsidy Act requirements. Distribute draft to key stakeholders for feedback. Taking into account feedback, produce final draft of strategy. 	September
	Implement appropriate governance framework for each company and within the council	<ul style="list-style-type: none"> Assess each company against the council's Companies Governance Handbook and UK Corporate Governance Code (including risk, conflicts of interest, business planning and board effectiveness) and ensure compliance. Review current governance arrangements within the council, including Subsidy Act obligations, to ensure they are fit for purpose. Implement a Commercial Governance Board to ensure all commercial decisions taken by officers, or put to the Executive, are founded on high quality, complete information with clear rationale and evidenced recommendations. 	October
	Review the 24 council-owned companies	<ul style="list-style-type: none"> With reference to the relative size, assets held and risk, prioritise company reviews. Assess the each company's contribution to, and alignment with, the council's key strategic outcomes. Evaluate the companies' performance against best value requirements. Make recommendations for each company based on 'hold, invest or dispose'. 	January 2024
ThamesWey and subsidiaries	Develop strategic options for the TW Group	<ul style="list-style-type: none"> Define and commission high level financial, tax and legal advice to help inform strategic options. Generate a longlist of disposal/refinancing options. Establish an options review team with stakeholders (company boards and DLUHC). 	October
Victoria Square Woking Ltd.	Develop strategic options for VSWL	<ul style="list-style-type: none"> Establish WBC baseline for loan repayments position for VSWL loans. Generate a long list of disposal/refinancing options. Options need high level financial, tax and legal implications to be set out clearly with appropriate external advice. 	July November

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Workstream	Workstream aim	Actions	Due
Resourcing, requests and data room	Ensure resourcing and information requirements are in place, including skills and capacity for a profit centre approach to asset management	<ul style="list-style-type: none"> • In tandem with the commercial strategy, propose resourcing requirements to operate the strategy, and meet governance requirements effectively. • Assessment of existing commercial asset information, and creation of rectification plan as required to ensure complete asset information is available. • Following the identification of strategic options for the council's wider commercial estate, propose resourcing requirements to manage these appropriately based on sector norms through benchmarking vs performance. 	<p>September</p> <p>January 2024</p> <p>April 2024</p>
Commercial estate and commercial options	Develop strategic options for the council's wider commercial estate	<ul style="list-style-type: none"> • Analysis of contribution (and potential contribution) of each asset to the council's strategic aims, including the commercial strategy, financial, social, environmental and local economic terms. • Analysis of revenue and capital impacts of disposal, development or repurposing. • Create subsequent options for each asset. • Make recommendations for each asset based on 'keep, hold or dispose'. 	<p>April 2024</p>