

## THAMESWEY CENTRAL MILTON KEYNES LIMITED OFFER TO MARKET

### Executive Summary

The Council's current adopted Business Plan for ThamesWey includes a commitment to appraise future options for ThamesWey Central Milton Keynes (TCMK), including potential market sale. This report summarises progress to date on engagement with the investor market to understand the appetite for acquisition of TCMK, the outcome of an exercise inviting expressions of interest in by potential investors, and the next steps towards inviting offers from the market for the business.

### Recommendations

The Executive is requested to:

#### **RESOLVE That**

ThamesWey be authorised to proceed to the next step of inviting offers (Best and Final Offer) from prospective bidders for the acquisition of ThamesWey Central Milton Keynes (TCMK).

### Reasons for Decision

Reason: In pursuance of the Council's adopted Business Plan for ThamesWey.

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

<b>Background Papers:</b>	None.
<b>Reporting Person:</b>	Kevin Foster, Strategic Director of Corporate Resources Email: Kevin.Foster@woking.gov.uk, Extn: 3070
<b>Contact Person:</b>	Kevin Foster, Strategic Director of Corporate Resources Email: Kevin.Foster@woking.gov.uk, Extn: 3070
<b>Portfolio Holder:</b>	Councillor Ann-Marie Barker Email: cllrann-marie.barker@woking.gov.uk
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**ThamesWey Central Milton Keynes Limited offer to market**

## ThamesWey Central Milton Keynes Limited offer to market

### 1.0 Introduction

- 1.1 At its meeting on 23 February 2023 Council noted the ThamesWey Business Plan 2023. The Business Plan included action in 2023 to appraise future options for ThamesWey Central Milton Keynes (TCMK), including potential market sale.
- 1.2 Whilst TCMK does deliver positive earnings before interest payments, taxation and depreciation charges, it cannot currently afford to service its historic debts and therefore requires ongoing funding from Woking Borough Council to cover overall losses. A direction has been given to ThamesWey to explore options for TCMK, including market sale in 2023. The company has to be maintained as going concern whilst this course of action is pursued.
- 1.3 The Council has reviewed the medium-term financial forecast provided by TCMK with a view to understanding if there is potential for meaningful improvement to the company's capacity to repay its debts over the medium to long term.
- 1.4 At the present time there is no expected opportunity to enlarge the company's customer base. Notably, the plots of land within the boundaries of the historic Project Development Agreement remain undeveloped. As such there is no greater certainty of how the existing TCMK network fits with Milton Keynes City Council wider plans for expansion of district heating. In addition, medium-term risks that the recent DESNZ grant awarded to a new provider, Milton Keynes Energy Limited, have brought a significant competitor into the local Milton Keynes market.
- 1.5 In addition to the absence of growth opportunities, there is a longer term threat that within the next decade the company will lose its ability to generate revenue from gas powered electricity sales (via its current Combined Heat and Power engines). This remains a fundamental business threat. In that scenario the company would need to change its operating model to become a distributor as opposed to generator of power. This would provide increased uncertainty that the company will be able to address its debt commitments to the Council in the long term. In the same timeframe there is also the risk of customer loss when current supply contracts are due for renewal from 2033 onwards.
- 1.6 Given the lack of opportunity for improvement, and presence of strategic business threats, the Council has chosen to explore the option of a business sale. By doing so, the Council will at least achieve certainty of its overall residual debt exposure. Strategically, the TCMK business does not provide direct benefits to the residents of Woking Borough, and a full review of the environmental and equality implications will be undertaken if a business sale is proposed following the outcome of the competitive process.
- 1.7 Amberside Advisors Limited (AAL) were appointed by ThamesWey in March 2023 following a competitive exercise to provide expert advice on the potential market for sale of TCMK. AAL have a strong track record in UK energy sector disposal and acquisitions and are included in the panel of experts that advise Department of Energy Security and Net Zero on government support for heat networks.
- 1.8 AAL's appointment was based on two stages of work together named 'Project DENO' (District Energy Network Options). Stage 1 comprised a financial review of TCMK, its business model, advice on the market appetite for this asset class and a soft market test. The results of this work were considered by ThamesWey Limited Board in June 2023 and AAL were given the go-ahead to proceed to Stage 2 comprising offering TCMK to the market with a view to attracting offers for the business, and ultimately a preferred bidder's offer for consideration by the ThamesWey Limited Board and Woking Borough Council as Shareholder by the end of the calendar year.
- 1.9 The ThamesWey Ltd Board have approved the Information Memorandum for issue to prospective purchasers of TCMK and, subject to the Executive's approval, will proceed to the next steps for sale which is to move to the Best and Final Offer (BAFO) stage.

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1.10 It is important to note that by issuing the Information Memorandum and moving to Best and Final Offer neither ThamesWey Limited nor Woking Borough Council are obligated to complete the transaction to sell ThamesWey Milton Keynes Limited or its assets. Following this exercise the Council as Shareholder may upon consideration of any binding offer choose an alternative course of action.

### 2.0 Progress to date

2.1 Close consultation between AAL and ThamesWey Officers has been maintained throughout the project with weekly briefings and regular workshops held to maintain momentum. As a result good progress has been made on the market offer exercise.

2.2 A 'teaser' proposal was prepared by AAL setting out a summary of TCMK, its principal assets and supply contracts, operating costs and revenues, and potential opportunities for growth. This was issued by AAL on 26th July 2023 to a wide range of investors covering a range of backgrounds including infrastructure investors (both domestic and overseas), major energy service companies, private equity firms and known district energy players in the UK market. The response to the teaser was largely positive and investors that attended the Q&A sessions signalled a good level of interest in the opportunity to acquire TCMK.

2.3 Experience from similar market offers has demonstrated the value of providing a robust vendor's model that enables prospective bidders to understand the fundamentals of the business and apply their own risk and opportunity valuations to it. AAL have provided a vendor's model for TCMK in consultation with ThamesWey Officers.

2.4 An engineering consultancy was appointed to prepare a vendor's technical due diligence report on TCMK's energy centre plant and equipment, heat and power distribution infrastructure, asset maintenance and service records, plant life cycle and operational information.

2.5 ThamesWey's lawyers (Clyde and Co) were appointed to provide legal advice throughout the next steps including matters relating to the process, warranties and warranty limitations, drafting of sale and purchase agreement and negotiations with bidders, disclosure letter and supporting documentation.

2.6 An Information Memorandum (IM) was prepared by Amberside which will be the central document in the pack of information provided to potential bidders and is to be sent to all investors that have expressed an interest in submitting a bid. The IM covers matters such as:

- Key investment highlights
- Commercial overview
- Financial summaries
- Operating position
- Strategic opportunities
- Organisation of the company
- Timeline and Advisors

2.7 A vendor's pack comprising the IM will be sent to prospective bidders along with the vendor's model, the technical due diligence report and a process letter setting out timelines and procedure for submitting non-binding offers through to binding offers and financial close.

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### 3.0 Next Steps

- 3.1 The process to potentially sell ThamesWey Central Milton Keynes (TCMK) has been under review prior to the next stage to enter into Best and Final Offer for sale.
- 3.2 This review has included independent review from Local Partnerships who have been providing support to the Council funded through the Local Government Association and internal review through the Council's commercial service. The reviews have recommended progressing to the Best and Final Offer Stage in order to seek a proposal that supports the Council reducing its debts whilst also delivering the best value outcomes for the public purse.
- 3.3 The review is also highlighting that the Council now requires greater visibility of the commercial process and negotiations and therefore arrangements are being put in place to enable this to take place.
- 3.4 TCMK has been requested, by the Council, to bring the Council's commercial consultants, Ethical Commercial, into the confidentiality agreement and to share all of the relevant details and bidder submissions. This will allow the implications mentioned previously to be thoroughly assessed and an informed recommendation brought back to the Shareholder Executive Committee, in pursuit of the commercial aim set out by the Commissioners, to release the Council from unaffordable commitments and secure the best possible value for the public purse.
- 3.5 Subject to approval by the Executive, the vendor's pack of information will be sent to prospective bidders with submission of binding offers expected in late May / early June 2024 to support a proposal to Council in July 2024.

### 4.0 Corporate Strategy

- 4.1 Divestment of Council investment into TCMK is part of the Council's Improvement and Recovery Plan and supports the strategic aim of the rationalisation of assets and investments in order to reduce debt and deliver value for money for the public purse.

### 5.0 Implications

#### Finance and Risk

- 5.1 The costs of this market exercise have been built into the approved ThamesWey budgets.
- 5.2 There is a risk that there will not be any market interest following the issue of the IM however, from the soft market testing this is not considered to be a likely outcome.

#### Equalities and Human Resources

- 5.3 None at this stage.

#### Legal

- 5.4 None at this stage.

### 6.0 Engagement and Consultation

- 6.1 This report follows consideration by ThamesWey Limited Board and its support for progressing with the offer to market as proposed.

REPORT ENDS