



# Comprehensive Statement Final Report

Woking Borough Council

January 2022





EY LLP

1 More London Place  
London SE1 2AF

ey.com

## Woking Borough Council - Comprehensive Statement

Dear Leigh Clarke,

In accordance with the Comprehensive Statement scoping document of October 2021 and confirmation of requirements for Woking Borough Council ("the Authority"), we have prepared this report.

### Purpose of our report and restrictions on its use

This report has been developed based upon data and information provided by the Authority. The report was prepared on your instructions for the purposes of providing a Comprehensive Statement on the Council's Assets, Borrowing, Financial Interests and Contractual Obligations.

The report is to be used by the Council in responding to the recent Notice of Motion, this Report should not be quoted, referred to or shown to any other parties unless so required by court order or a regulatory authority, without our prior consent in writing.

The Report may not have considered issues relevant to any third parties. Any such use that third parties may choose to make of the Report is entirely at their own risk and we assume no responsibility whatsoever in relation to this. The Report should not be provided to any third parties without our prior approval and without them recognising in writing that we assume no responsibility or liability whatsoever to them in respect of the contents of our deliverables.

The information has been considered correct at the time of the Report. We have not sought to verify the accuracy of the Management information or the explanations provided by these individuals. Activities may have taken place since the date of the conversations with Management which are not reflected in the Report.

Our work has been limited in scope and time and we stress that a more detailed review may reveal issues that this review has not. If you would like to clarify any aspect of this Report or discuss other related matters, please do not hesitate to contact us.

Yours Faithfully,

Darra Singh

Senior Partner, Government and Infrastructure

## Scope Restrictions

The analysis presented in this report reflects information as presented within the latest versions of documents that have been shared with EY. It is noted that in many of these documents, the position presented is specific to a moment in time and is therefore subject to future change. It is also noted that we have not challenged or reviewed the appropriateness of figures presented within the documents but have instead look to identify potential financial risks that exist within the Councils financial position.

The reflections provided in this report present a view at a given moment in time and it is noted that statements and financial resilience risks could change across an ever uncertain and fast changing environment.

EY were not restricted in their enquires with the Council. The report is based on information that received until 17<sup>th</sup> December 2021.

## Disclaimer

This document should not be relied upon by any other person than Woking Borough Council. The information contained within these slides represents known information as at the date of preparation based on the sources identified, however it is acknowledged that this information is subject to change.

EY disclaims all liability for all costs, loss, damage and liability arising from or relating to or in any way connected with the provision of these slides to any party. Any commercial decisions taken by you are not within the scope of our duty of care and in making such decisions you should take into account the limitations of our discussion and other factors, commercial and otherwise, of which you should be aware of from other sources

# 1. Comprehensive Statement

# Comprehensive Statement - Summary

## Introduction

Within this section a comprehensive and independent assessment of key financial matters for the Council is presented in line with the Notice of Motion structure requested by Councillors . The report covers;

1. The Council's Asset Position
2. The Council's Borrowing Position
3. The Council's Investment Position (including an assessment of the financial resilience of the individual companies)
4. The Council's Contractual Obligations

This analysis has employed the following core datapoints received from the Council and associated Companies;

- Statement of Accounts as at March 2021
- August 2021 Financial Reporting and Monitoring Review
- Council's Medium Term Financial Strategy
- Detailed Breakdowns of Assets, Borrowing, Investments and Grants provided by the Council at October 2021.

### Statement of Motion (29 July 2021)

*"The council calls for a full, independent, and comprehensive review of all the assets and liabilities of Woking Borough Council; and all companies in which it has an interest whether by means of shareholding (however large or small) or any other means of influencing the activities of said company. The report is to contain a Comprehensive Statement identifying, amongst other things:*

*An independent reviewer's assessment of the current net realisable value of each of the assets*

1. *Full details of all borrowings including their terms and conditions*
2. *Full details of outstanding contractual obligations involving future income to be received and future expenditure to be incurred*
3. *Details of any fixed or floating charges on any assets*
4. *Full details of any grants, loans or other contracts which contain performance conditions which, if not met, would incur financial penalties for the Council or any of its companies. "*

# Comprehensive Statement – The Council's Asset Position

## Introduction

Within this section we have assessed WBC's asset position, employing a number of resources, namely:

- The Council's fixed asset register at 31<sup>st</sup> March 2021
- The revaluation report provided to the Council by WHE Chartered Surveyors
- HRA stock valuation at 31<sup>st</sup> March 2021

The resources noted above were provided by Woking Borough Council, we have not sought to verify accuracy or validate representations made by management in interpretation of the data.

The following focus areas have been reviewed;

1. An overview of the fixed asset position
2. The movement in the assets held over the financial year
3. The revaluation of assets (with a particular focus on the revaluation of investment properties)
4. An analysis of the assets held by sector including the key risks to the Council of holding assets within an individual sector
5. An assessment of the land and buildings held by the Council
6. A statement of the charges held against assets

A summary of our key statements in the section is provided below, this outlines the significant observations and risks we noted during our assessment.

### Key Statements:

- At the latest year end (31<sup>st</sup> March 2021), WBC had net assets of £142m made up of £1.99bn of assets and £1.85bn of liabilities.
- At 31<sup>st</sup> March 2021, £953m of assets related to illiquid long term financial interests in companies.
- At 31<sup>st</sup> March 2021, WBC fixed assets were valued at £889m.

### Key Statements (Continued):

- WBC's asset base increased by £2.6m between year-end 2020 and 2021.
- WBC's Investment Property portfolio is primarily composed of Office, Retail and Land (representing 81% of the Portfolio).
- WBC Investment Properties were revalued downward by £43m (12%) in FY20/21.
- WBC have £112.8m worth of Current Assets on the Balance Sheet as at the 1<sup>st</sup> April 2021; comprised of £98.2m (87%) of current debtors and cash and cash equivalents of £14.6m (13%).
- WBC have £142.9m in reserves on their balance sheet as at the 1<sup>st</sup> April 2021; comprised of £112.9m (79%) of useable reserves and £30.0m (21%) of unusable reserves.
- WBC have no fixed or floating charges over any of its assets.

### Observations:

- Woking Borough Council's application of Asset Accounting Policies are reasonable.
- WBC have a sizeable investment asset portfolio that is highly exposed to conditions in the Retail and Office market.
- In the short-term WBC useable reserves are sufficient to manage financial shocks.

### Risks:

- There is a risk that Commercial Properties continue to be devalued, as a result of reductions in commercial rent income, this would dilute the Council's Balance Sheet. Where this does occur, the Council need to consider whether continued revaluations indicate a need to reassess asset use to meet regeneration objectives.

# Comprehensive Statement - The Council's Asset Position

## Asset Position - Overview

- At 31<sup>st</sup> March 2021 the Council had net assets of £143.0m made up of £1.99bn in assets and £1.85bn in liabilities.
- £953m of the assets related to long-term financial interests in companies and a further £37.8m in shareholdings, held to help meet Council priorities. Further analysis has been performed on this balance in section three of the statement.
- The remaining £1.04bn of assets largely relate to a combination of fixed assets, short term debtors and cash.

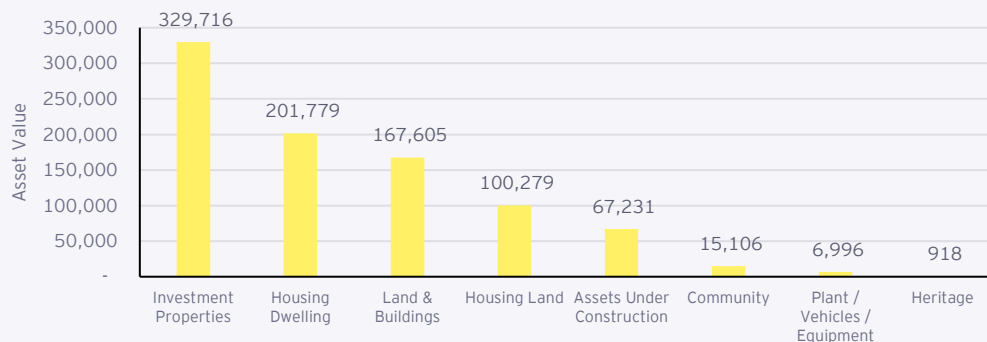


**Asset Position:** Woking Borough Council have fixed assets worth £889m on their balance sheet as at the 1<sup>st</sup> April 2021.

## Fixed Asset Position - Overview

- The total net book value of Council fixed assets was £889m across 3,886 separate asset lines, of which 3,341 relate to housing stock.
- The largest category of assets by value are the Council's investment properties, which have a net book value of £330m as at the end of the 2020/21 financial year, representing 37% of the Council's asset base.
- Other significant elements of the Council's asset base are Housing Dwellings that have a net book value of £202m (23%), Land and Buildings that have a net book value of £167m (19%) and Housing Land that has a net book value of £100m (11%).

**Figure 1 - Fixed Asset Breakdown - By Asset Type - £'000**



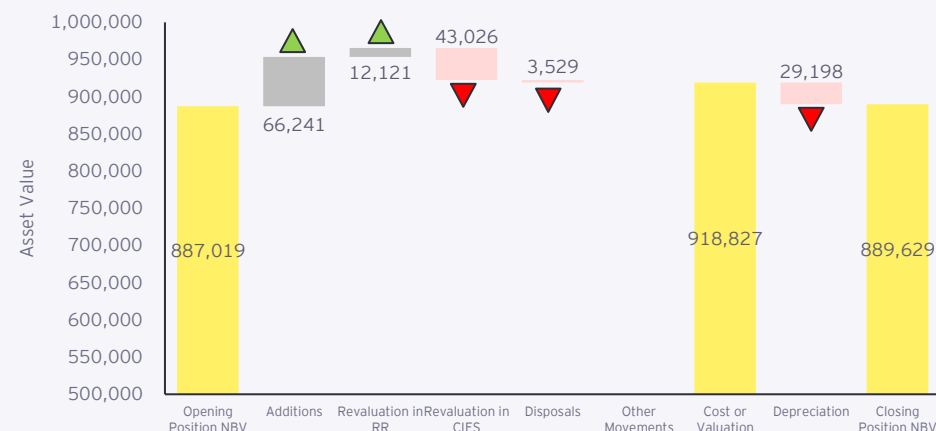
## Fixed Asset Position - Movement in value



**Movement in assets:** The Council's asset base grew by £2.6m between 2020 and 2021

- This net movement incorporates several variables; £66m worth of additions occurring in-year, predominately Assets Under Construction and Investment Properties. Revaluation gains were recorded against Housing Dwelling and Land and Land and Buildings totalling £12.1m.

**Figure 2 - Fixed Asset Breakdown - Movement in Position 2020-21- £'000**



- These amounts were offset by £29m of depreciation, £3.5m worth of disposals and a £43m revaluation of the Council's investment properties.
- The breakdown of movements varied by asset type, with additions concentrated within the classifications Assets under Construction and Investment Properties. This was offset by a downward revaluation in the value of Investment Properties.
- We have summarised the position against each asset type below, as well as summarising the accounting method utilised for valuation by Woking Borough Council.

## Comprehensive Statement – The Council's Asset Position

### Investment Properties

- **Value:** The net book value of investment properties at the year end was £330m across 65 separate asset lines. £186m of this total relates to Strategic Investment Properties, held by the Council as part of the regeneration agenda.
- **Movement:** The value has decreased by £32m (8.8%) in the year, largely due to £25m of additions offset by a reduction in the value of £43.6m. There was also a significant reclassification of investment properties into assets under construction. These related to the Triangle Site which has been demolished as part of the Council's programme to deliver highways improvements.
- **Accounting Policy:** Investment Properties and Assets Held For Sale are revalued annually by RICS qualified valuers. The assets are valued at Fair Value. This is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

### Housing Dwellings

- **Value:** Woking Borough Council have Housing Dwelling assets with a net book value of £202m.
- **Movement:** The asset classification has increased by £11m (5.8%) in the year. This position was largely comprised of £10.9m worth of additions and revaluations of £6.2m, offset by disposals of £2.3m and annual costs of depreciation of £3.7m
- **Accounting Policy:** Valuations for Council Dwelling related assets have been carried out by the Council's Estate Management Section. Properties regarded by the authority as operational have been valued on a Current Value Basis. The latest valuations have been completed at 31 March 2021.

### Housing Land

- **Value:** Woking Borough Council have Housing land assets with a net book value of £100m.
- **Movement:** The investment property asset classification has increased by £5.5m (5.9%) between 1st April 2020 and 1st April 2021. This position was a result of revaluation increases of £5.5m on Housing Land.
- **Accounting Policy:** Land is included in the balance sheet at existing use value

where there is an active market for the asset. Where there is no active market, or the valuation is for a specialised asset, Depreciated Replacement Cost is used.

### Land and Building

- **Value:** The Council has 136 separate asset lines within the Land and Building classification, which had a net book value of £167m at 1st April 2021.
- **Movement:** The land and building asset classification has decreased by £771k (0.5%) 1st April 2020 and 1st April 2021. This position was largely comprised of £8.1m worth of additions, offset by depreciation of £5.3m and a movement of assets to assets under construction of £2.9m.
- **Accounting Policy:** Buildings are included in the balance sheet at existing use value where there is an active market for the asset. Revaluations of material fixed assets are carried out annually with all other fixed assets on a rolling five year programme by RICS qualified valuers.

### Assets Under Construction

- **Value:** Woking Borough Council has 26 separate asset lines within the Assets Under Construction classification, which had a net book value of £67m at the year end.
- **Movement:** The Assets Under Construction classification has increased by £35m (110.3%) between 1st April 2020 and 1st April 2021. There were £19m worth of additions to this classification, of which £15.7m relates to movements from Investment Properties and Land and Buildings.
- **Accounting Policy:** Non-operational assets are included in the balance sheet at cost.

### Plant, Vehicles and Equipment

- **Value:** Woking Borough Council had 292 separate asset lines within the Plant, Vehicles and Equipment classification, which had a net book value of £6.9m at 1st April 2021.
- **Movement:** Against the Plant, Vehicles and Equipment classification, there were additions of £2.1m (22.9%) in year, which related to 17 asset lines
- **Accounting Policy:** PPE is included in the balance sheet at existing use value where there is an active market for the asset.



## Comprehensive Statement – The Council's Asset Position

### Fixed Asset Position – Movement in value (continued)

#### Community Assets

- **Value:** Woking Borough Council had 24 separate asset lines within the Community Assets classification, which had a net book value of £15.1m at 1st April 2021.
- **Movement:** The Community Assets classification had no movement year on year.
- **Accounting Policy:** Community assets are included in the balance sheet at historical cost.

#### Heritage Assets

- **Value:** Woking Borough Council had 27 separate asset lines within the Community Assets classification, which had a net book value of £918k at 1st April 2021.
- **Movement:** The Heritage assets classification had no movement year on year.
- **Accounting Policy:** Heritage assets are included in the balance sheet at their insurance valuation where available. Where no such valuation is available, then historic cost is used in the first instance, otherwise an estimate of the asset's value is made.



**Movement to Assets Under Construction:** £15.7m of assets were reclassified from Land and Buildings and Investment Properties to Assets Under Construction of which most of these related to the Housing Infrastructure Fund. This is reflective of Woking's investment approach within the borough, with assets redeveloped to help the Council meet its regeneration ambitions.

### Asset Revaluations



**Revaluation losses:** The Council had a downward revaluation of £43m on its Investment Properties, this position was driven both by the Council's plans to demolish assets within this classification and as a result of rental incomes losses related to these assets.

- The movement of the fixed asset base included a total downward revaluation of £30m against WBC assets.
- This was largely made up of a £43m downwards revaluation of the investment property assets, which was partially offset by an increase in the value of Council housing and dwelling of £12m.
- **Accounting Policy:** Material Assets held for use are revalued annually with all other fixed assets revalued every five years on a rolling basis, with assets held for investment purposes revalued annually in line with the Council's accounting policy and the CIPFA guidance. The revaluation takes place by an independent organisation (WHE Chartered Surveyors). Property regarded as operational has been valued on a Current Value Basis and investment properties and assets held for sale are valued at Fair Value.
- Given the downward movement for asset valuations only relates to Investment Property, the focus of our analysis is on the Investment Property portfolio, identifying the key drivers in this downward revaluation by property and related sector.

### Investment Property Revaluation



**Revaluation losses:** Revaluations occurred against 48 of the Council's investment properties, ranging between £2m positive revaluations to a £15.8m drop.

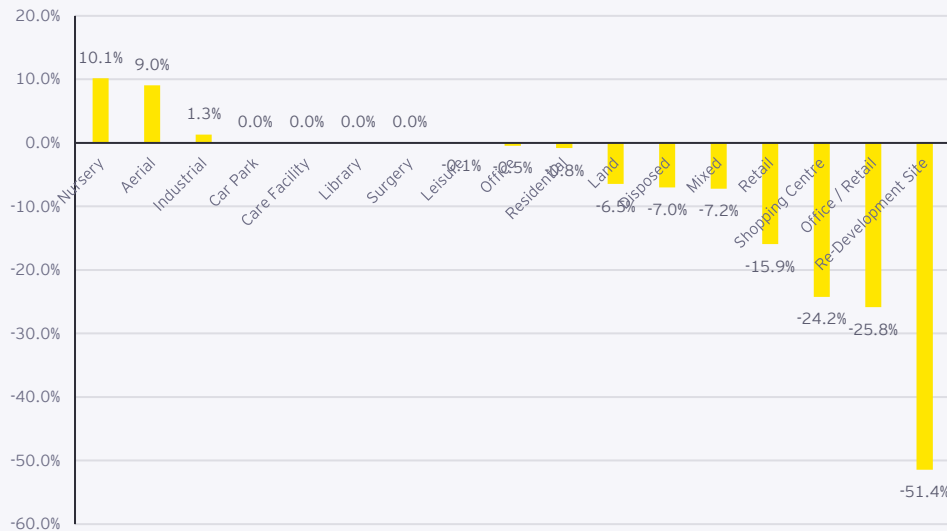
- Across the assets revalued, the net position was a £43.6m revaluation downwards, which reflected a drop of 12% in the assets value.

## Comprehensive Statement – The Council's Asset Position

### Investment Property Revaluation (Continued)

- As demonstrated in figure 3, the largest downward revaluations occurred for Redevelopment Site (51.4%), Office/Retail (25.8%), Shopping Centres (24.2%) and Retail (15.9%) properties.

**Figure 3 – Investment Properties – Revaluation Percentage**



- The large revaluation reflected within redevelopment site, reflects the intent to demolish Triangle Site Properties, rather than broader market trends.

- Across the identified sub-classifications there are emergent sector trends that are likely to further influence the value of the Council's asset base over the medium-term. These are explored in greater detail in the next section.
- On an individual asset level, the largest percentage decreases in asset value were for 1 Connaught Road (£328k and 58.2%), Triangle Site Properties (£8.4m and 51.4%), 63 to 75 Commercial Way (£1.4m and 34.1%), 74 Victoria Road (£59k and 27.5%), Albion House (£7.5m and 25.8%) and Wolsey Place (£15.8m and 18.0%).
- Detail from revaluation report conducted by Wilks, Head & Eve has been utilised to identify whether specific risks exist for any of the material asset movements and to identify whether these movements represent a material concern to the Council's financial resilience.

### Wolsey Place

- Wolsey Place relates to one of the two shopping centres within Woking.
- The investment property was revalued downward by £15m (18%) in year, with the asset reducing from £87m to £72m.
- This revaluation makes up the majority (36%) of the total revaluation in the year against investment properties.
- The valuers rationale on the downward revaluation states the retail climate had significantly softened as a result of the pandemic. This reflects the broader trend of 2020, with retail sales decreasing by 1.9% when compared with 2019, the largest fall in year on record.<sup>1</sup> for example particularly large decreases for clothing stores were experienced (25.1% drop); often found within shopping centres.
- Analysis of the investment properties asset register suggests Woking Borough Council have spent a total of £91.1m on this asset, however its current valuation is only £72.3m, reflecting a 22.3% loss in value. The current value of the asset is therefore significantly below the acquisition value of the asset.

1. <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/december2020>

## Comprehensive Statement – The Council's Asset Position

### Investment Property Revaluation (continued)



**Wolsey Place:** The downward revaluation in Wolsey Place, reflects both a significant portion of the assets value and a significant portion of the Council's investment property asset base. This affects in year resilience, due to the reduced income and if repeated has longer-term impacts on the value of the Councils asset base.

#### Triangle Site

- The Triangle Site relates to former residential and office space that has been purchased to redevelop as part of Housing Infrastructure Fund, which is grant funded.
- The site was revalued downwards by £8.4m (51.4%), with the asset reducing from £16.2m to £7.7m.
- The valuers rationale for revaluation was the majority of the site being demolished in the year.
- Our analysis of the investment properties asset register suggests Woking Borough Council have spent a total of £16.2m on this asset, with the current value of £7.9m significantly below this value. It is noted however this asset has been moved to Assets Under Construction to reflect current use of the asset.

#### Albion House

- Albion House is a large office with retail on the ground floor.
- The site was revalued downwards by £7.5m (25.8%), with the asset reducing from £28.9m to £21.4m.
- The revaluation of the property relates to the rent concessions of 50% over the first two quarters of 2021 due to the impacts of Covid-19.
- Income related to this asset reduced from £1.3m in 2019/20 to £865k in 2020/21, reflecting the impact of these concessions Council income.
- Analysis of the investment properties asset register suggests Woking Borough Council have spent a total of £29.9m on this asset, with the current value of

£21.4m significantly below this value.

#### Peacocks Centre

- The Council have a financial interest in the Peacocks Centre, which is a major shopping centre in Woking.
- The value of this interest was revalued downwards by £4.4m in the year, however there was also £4.1m of enhancements.
- This downwards revaluation is again due to reduced rents in the year following the effects of Covid-19. From the commercial rent position, it is noted that income for 'Peacocks - General' reduced from £1m during 2019/20 to £832k during 2020/21, this reflects an 18% reduction in income, reflecting the challenging market the site operates within during the financial year.
- Our analysis of the investment properties asset register suggests Woking Borough Council have spent a total of £14.8m on this asset, with the current value of £12.9m, reflecting the current revaluation of this asset.

#### Dukes Court

- Dukes Court is a multi-let office building which was revalued downwards by £3.9m (7.2%) in the year, with the asset reducing from £54.9m to £51.4m.
- Within the revaluation report there is no further detail provided on the grounds for revaluation. It is therefore difficult to produce an assessment on whether the reduction in value is due to market conditions and the implications this may have for the future value of the property.
- From the commercial rents position, it is noted that income related this asset fell from £4.6m in 2019/20 to £4.2m during 2020/21, a fall in income of 8%. This suggests that the downward revaluation likely relates to reduced income received against this asset.
- Our analysis of the investment properties asset register suggests Woking Borough Council have spent a total of £73.9m on this asset, with the current value of £51.4m significantly below this value.

## Comprehensive Statement – The Council's Asset Position

### Sector Analysis

- To help analyse key challenges across the Council's asset portfolio, a review was undertaken on the sub-classifications of assets where possible within Woking's portfolio to identify key trends.

### Investment Properties

**Figure 4 – Investment Properties – Sub Classification Breakdown**

Asset Sub-Classification	Value as at 31/03/2021	Percentage of Portfolio
Office	113,380,200	34.4%
Retail	96,896,968	29.4%
Land	57,489,126	17.4%
Office/Retail	21,418,100	6.5%
Shopping Centre	13,437,008	4.1%
Industrial	12,959,500	3.9%
Mixed Use	7,452,340	2.3%
Development Purchases\Residential leases to external organisations	3,382,998	1.0%
Surgery	1,215,716	0.4%
Nursery	834,700	0.3%
Leisure	457,400	0.1%
Library	385,400	0.1%
Car Park	191,900	0.1%
Aerial	189,200	0.1%
Care Facility	25,000	0.0%

1. <https://www.cbre.co.uk/research-and-reports/UK-Market-Outlook-Midyear-Review-2021>

2. <https://www.google.com/covid19/mobility/>

3. <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/december2020>



**Asset Portfolio:** The Council's commercial property portfolio is predominately made up of Office space, Retail space and Land, with these three sub-classifications making up 81.2% of the Council's portfolio value.

- To assess potential market trends against the key sub-classifications within the Council's commercial property portfolio, we have reviewed key real estate market trends to identify potential risks. This analysis is presented below.

#### a. Offices

- CBRE forecast that rental income for office space will have declined by 5.3% in the UK in 2021.<sup>1</sup> Moreover, this reduction in rents is forecast to contribute towards a 2.2% drop in value of office buildings<sup>1</sup>.
- This trend reflects changing patterns in the way people work, as the ability to work remotely has significantly shifted since the pandemic. Google Mobility Reports demonstrate that activity at workplaces, has stabilised at 30% below pre-pandemic levels in Woking in 2021<sup>2</sup>, supporting this changing pattern.
- Going forward, CBRE estimates the underlying demand for UK office spaces to fall by 9% over the next 3 years – a significant risk to Woking given the size of it's office portfolio.

#### b. Retail

- Rents from retail activities were 8.5% lower in Q3 2021 than the same time period in 2019.
- This trends illustrates the rapid growth and scale of online retailers which have made the retail sector more competitive than the pre-pandemic years. The convenience of online shopping and delivery places significant pressure on in-store retailers to attract customers and generate sufficient revenues to stay in business. Total online retailing increased by 46.1%<sup>3</sup> in 2020 compared to 2019 reflecting this trend.
- Given that retail properties account for almost 30% of the Council's investment property portfolio, lower retail rents pose a risk to this sub-classification of assets.



## Comprehensive Statement – The Council's Asset Position

### Sector Analysis (Continued)

#### b. Retail (continued)

- Nevertheless, some recovery has already been observed – the number of new retail leasing deals from Q1-Q3 in 2021 is 28.4% higher than over the same period in 2020<sup>1</sup>.

#### c. Shopping Centres

- According to Local Data Company, there was a UK net store decline of 11,319<sup>1</sup> stores during 2020, reflecting the difficult environment for retail space. The result of these declines will be reduced income for shopping centres.
- Furthermore, there has been a significant reduction in trading activity for shopping centres, with estimates that £350m of UK shopping centres were traded in 2020 compared to a ten-year average of £3bn<sup>2</sup>. This important to note for the Council as transactional data informs appraisers valuations.
- It is likely that further challenges will come for the sector once government related Covid support discontinues and there could be further revaluations downwards if further reductions in rental income occur.
- Given that retail properties account for almost 30% of the Council's investment property portfolio, lower retail rents pose a risk to this sub-classification of assets.

#### d. Residential

- For investment properties it is noted residential devaluations will not be as detrimental to WBC's total value of its investment properties, as it currently accounts for a small portion of the portfolio. However, the sector analysis below should be considered with regard to WBC's holdings in ThamesWey Housing Ltd and Victoria Square Woking Ltd.
- In Q1 of 2021 alone, total investment in residential real estate was worth £771m in the UK<sup>3</sup>.
- This represents the rapid increase in demand for residential properties during the pandemic as stay-at-home and work-from-home initiatives increased people's time spent at home. Subsequently, the excess demand for housing has resulted in a forecast of UK house prices to rise by 5.9% by the end of 2021.

- Furthermore, investments in build-to-rent properties is expected to reach £4.2bn in the country by the end of 2021.

### Land and Buildings



**Asset Portfolio:** The Council's Land and Building portfolio is predominately made up of Car Parks, Leisure Centres, Office Space and assets recognised under the PFI arrangement with these four sub-classifications making up 80.5% of the Council's portfolio value.

- To identify potential risks across the Council's operational asset base, a review of each sub-classification of assets within the Land and Building category has been conducted. Car Park and Leisure Centre income streams were affected during the pandemic, resulting in reduced demand, this risks the future valuation of these assets over the medium term.
- A similar challenge may exist across the Council's office space, with the pandemic resulting in significant shifts to homeworking, as working patterns normalise, there is the potential that the Council will have reduced need for office space.
- The sub-classification 'PFI' reflects the leases for homes the Council leases to Thames Valley Housing Association. The value reflects the net present value of future cash flows from these homes.
- Across the Council's operational asset base there may therefore be opportunities for consolidation or disposal, helping fund elements of the Council's regeneration programme in the future.
- The Council does not currently have a published asset management strategy and it is therefore difficult to ascertain how the Council intends to employ the asset base over the medium-term.



**Reduced service use:** There is the potential that across the Council's operational assets, changes to societal behaviour resulting from the pandemic will reduce demand and therefore requirements across key elements of the Council asset base. This will potentially offer the Council opportunities to consolidate its asset base helping generate capital receipts.

1. [https://www.savills.co.uk/research\\_articles/229130/313386-0](https://www.savills.co.uk/research_articles/229130/313386-0)

2. <https://www3.rics.org/uk/en/modus/built-environment/commercial-real-estate/has-covid-19-changed-how-retail-space-is-valued-forever-.html>

3. <https://www.cbre.co.uk/research-and-reports/UK-Market-Outlook-Midyear-Review-2021>

## Comprehensive Statement – The Council's Asset Position

**Figure 5 – Land and Buildings – Sub-Classification Breakdown**

Asset Sub-Classification	Value as at 31/03/2021	Percentage of Portfolio
Car Park	45,133,149	26.9%
Leisure Centres & Pool	39,776,200	23.7%
PFI	28,051,496	16.7%
Office	21,890,764	13.1%
Centres	10,864,408	6.5%
Pavilion	4,711,660	2.8%
Temporary Accommodation	4,063,839	2.4%
Depot	3,142,685	1.9%
Garage	3,010,465	1.8%
Miscellaneous Building*	2,537,844	1.5%
Miscellaneous Site*	1,565,388	0.9%
Land Site	828,805	0.5%
Bridge	716,320	0.4%
Burial Ground	658,693	0.4%
Public Conveniences	489,884	0.3%
Recycling Centre	80,000	0.0%
Bowls Club	58,879	0.0%
Recreation Site	24,400	0.0%
Museum	30	0.0%

\*Titles as reflected within asset register

### Charges on Assets

At October 2021, 98% of the loans held by the Council were held with the PWLB. In the event of default, these loans are automatically secured on the revenues of the Council rather than by reference to specific assets or collateral. Therefore HM Treasury will not refuse an application if satisfied that it conforms to the policy framework governing its lending arrangements.

It was stated by Leigh Clarke the Finance Director and Section 151 Officer that:

*'I confirm that there are no fixed or floating charges over any of the Council's assets.'*

The assets held by the Council are therefore wholly owned and are not used as security against any loans taken out by the Council. Therefore on their sale, the Council would be eligible for all funds.

# Comprehensive Statement – The Council's Borrowing Position

## Introduction

Within this section an assessment has been conducted on WBC borrowing position. In order to analyse the position, the following have been reviewed :

- The latest Statement of Accounts – 1<sup>st</sup> April 2021
- The latest Financial Performance and Monitoring Review at August 2021
- A detailed breakdown of the borrowing position at October 2021

The resources noted above were provided by Woking Borough Council, we have not sought to verify accuracy or validate representations made by management in interpretation of the data.

The following areas are reviewed:

1. An overview of the borrowing position held by Woking Borough Council
2. The payback period of the loans held by the Council
3. A statement on the covenants held against the borrowing
4. An analysis of the interest rates associated with the borrowing and any potential future risks

A summary of our key statements in the section below, this outlines the significant observations and risks we noted during our assessment.

### Key Statements:

- As at October 2021 WBC borrowing totals £1.84bn; £65m in Short-term Borrowing, and £1.77bn Long-term Borrowing.
- 98% of WBC Debt Portfolio is held by the Public Works Loan Board, and therefore subject to HMT Borrowing Conditions.
- 98% or £1.80bn of the Debt Portfolio is at Fixed Rates; ranging from 0.06% to 4.85%. The remaining 2% relates to LOBO's which are variable in nature, although the Council could refinance with Fixed Rate borrowing at a charge if required.
- The Average Interest Rate of Loans secured in 2021 by WBC was 1.62%.
- Debt and interest payments total £580m between 2022 and 2030; annual repayments range from £60.7m to £74.3m.

### Key Statements (continued)

- Debt has been secured on a long-term basis; repayment peaks are notable in 2057 (£101m) and 2066 (£94.1m)
- WBC's external debt as a proportion of the authorised prudential limit was 90% as at August 2021. This delta facilitates further borrowing of £214.9m.
- The Annual Interest Payable Expenses as a Proportion of net Service Expenditure for WBC is 135%.
- WBC have no covenants on their borrowing position, in the event of default, PWLB loans are secured on Council revenues rather than specific assets or collateral.

### Observations:

- WBC holds the third largest outstanding debt balance of Local Authorities across the UK.
- WBC long-term, fixed rate borrowing strategy, undertaken at low interest rates, reduces exposure to volatility in the finance market.
- Debt Repayment is dependent on Residential, Office, Retail and Energy Markets that are currently facing turbulence.

### Risks:

- There is a risk that the high proportionate level of debt payments the council incurs compared to Net Service Expenditure, will reduce the Council's financial resilience in the medium to long term. These commitments reduce budgetary flexibility in the event of volatility.
- There is a risk that the current level of WBC's existing borrowing will reduce appetite and capacity to borrow to fund infrastructure in the future.
- There is a risk the regulatory landscape or market conditions change. This would provide an immediate cost to the Council, or impact WBC's ability to finance or refinance.

## Comprehensive Statement – The Council's Borrowing Position

### Borrowing Position – Overview



**Borrowing Position:** Woking Borough Council have borrowing worth £1.84bn on their balance sheet as at the 1<sup>st</sup> November 2021.

- At October 2021, Woking Borough Council had £1.84bn of borrowing split across both short term and long term loans.
- **Movement:** This has increased by 32% between March 2020 and October 2021 from £1.39bn, with a peak in August 2021 of £1.92bn.
- The Council's debt profile is primarily long term, and sourced from the Public Works Loan Board (PWLB); a discounted Public Sector source available to major local authorities to finance of capital projects.

**Figure 6 – Borrowing Movement £'000**

Borrowing	March 2020 £'000	March 2021 £'000	August 2021 £'000	October 2021 £'000
Short Term Borrowing	87,000	207,200	162,000	65,000
Long Term Borrowing	1,299,600	1,483,000	1,755,000	1,773,031
<b>Total</b>	<b>1,387,000</b>	<b>1,483,200</b>	<b>1,917,000</b>	<b>1,838,031</b>

- Woking Borough Council take loans to fund long-term investments that intend to secure long-term improvements in the Woking community. These projects link to the Council's long-term vision for the area and focus on developing a sustainable future for the borough.
- At October 2021, 98% of the loans held by the Council were held with the PWLB and are all a combination of fixed maturities and annuities.

### Accounting Policy

- Borrowing is recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the loan. They are initially measured at fair value and are carried at their amortised cost.
- Annual charges are made to the CIES for interest payable and are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

- For most of the borrowing that the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest.
- The Council is obliged to set an affordable borrowing limit each year which cannot be exceeded. The limits are calculated with reference to the planned Investment Programme.



**Prudential Indicators:** At the latest financial performance and monitoring update in August 2021, the Council's level of external debt as a proportion of the authorised prudential limit was 90%.

### Borrowing Position – Payback Period

- **Approach:** To assess the future implications of this borrowing position, an assessment of payback period of the loans held was completed. In considering the annual repayments required, annuity and maturity loans were differentiated to consider the principal repayment dates. There are peaks in certain years caused by the principal amounts on maturity loans being due for repayment.
- Demonstrated overleaf in figure 7, the current payback period of Woking's loans run until at least 2077. This is due to the majority of loans with the PWLB being 50 year loans.
- The Council has utilised short-term borrowing to help reduce interest rate payments while rates were more favourable in advance of PWLB rates being reduced by 1% in November 2020. The reduction in short term borrowing from March 2021 to October 2021 of £142.2m reflects the Council replacing short-term borrowing with long-term borrowing at the PWLB at reduced rates,

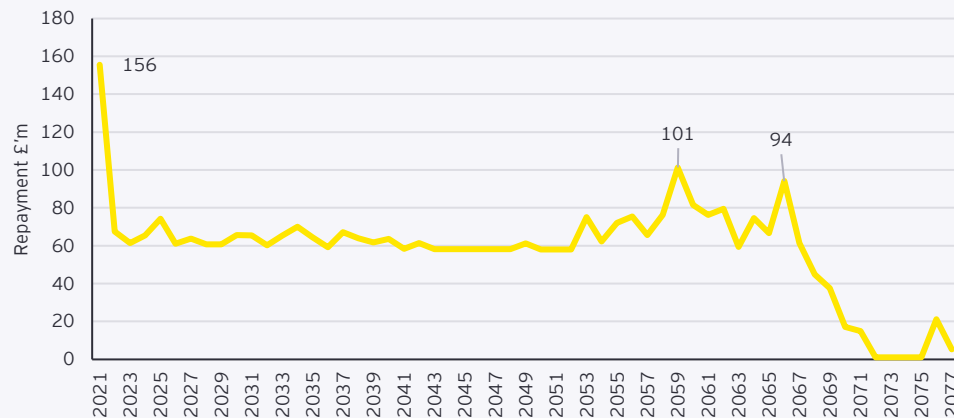


## Comprehensive Statement – The Council's Borrowing Position

### Borrowing Position – Payback Period (continued)

- This loan profile states the Council will face large spikes in 2059 when maturity loans expire for 50 year PWLB Borrowing as a result of the HRA, and 2066 where c.£100m is due as 50 year PWLB Loans drawn in 2017 mature.

**Figure 7 – Payback Period £'m**



- Given the nature of the Council's loan profile, financial resilience risks are predominately concentrated in the long-term time horizon. This risk is driven by the ability of the Council's investment position to help service these loans, with the performance of the group companies integral to Council's ability to payback debt.



**Payback Period:** The loans held by the Council are long term with significant repayments due between 2057 and 2066.

### Borrowing Position – Covenants

- 98% of the loans are held with the PWLB, the covenants follow the guidance provided by HM treasury.
- In the event of default, these loans are automatically secured on the revenues of the Council rather than by reference to specific assets or collateral. Therefore HM Treasury will not refuse an application based on the assets held

by the Council, as long as it is satisfied that the borrowing conforms to the policy framework governing its lending arrangements.

### Borrowing Position – Interest Rates

- From the detailed breakdown of borrowing provided by the Council it is noted 98% of the loans held are with the PWLB and all of the loans currently held by the Council have fixed interest rates.
- Fixed interest rates on borrowing protects the Council against future rate movements on the current borrowing.
- In November 2020, PWLB rates returned to previous values, reducing by 1%, restoring them as the cheaper alternative to commercial borrowing. This, coupled with the reduced regulations around covenants makes PWLB borrowing a lower risk option for the Council.
- The average interest rate has gradually fallen since around 2013, reflecting market interest rates.
  - Average interest rate of loans taken out in 2004: **4.77%**
  - Average interest rate of loans taken out in 2021: **1.96%**

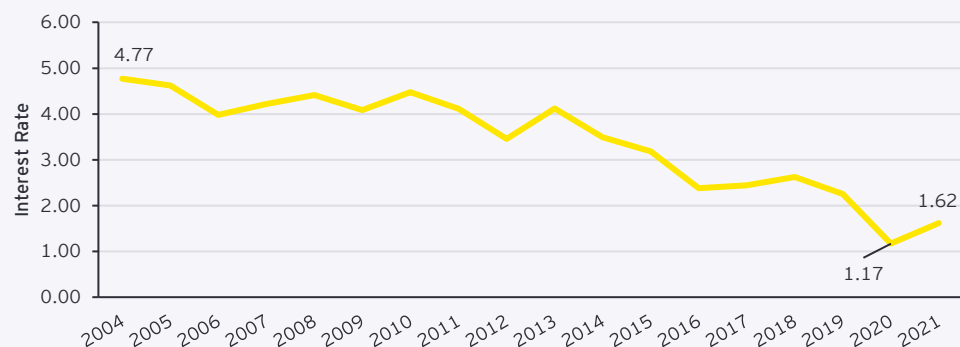


**Interest Rates:** All current loans held by the Council have fixed interest rates and will therefore not be susceptible to future interest rate movements.

## Comprehensive Statement – The Council's Borrowing Position

### Borrowing Position - Interest Rates (continued)

**Figure 8 – Average Interest Rates on Woking Borough Council Debt**



- While the Council has benefitted from reduced interest rates on PWLB loans over the past 10 years, the market outlook is for increased interest rates in order to tackle rising inflation caused by the recovery from the pandemic.
- Changes to interest rates in the medium to long-term will be passed onto the Council's group companies where there is future borrowing and could therefore reduce the financial viability of these companies. This could reduce recoverability rates of the Council's loan position with these companies.
- Based on the borrowing position during 2020/21, the interest payable expense was £40.9m. This expense as a proportion of the net cost of services is 135%. These figures do not take into account the future borrowing requirements and any new loans taken out in the medium to long term. Furthermore, it includes a higher net cost of services related to expenditure rises and income losses from the pandemic.
- This figure reflects gross interest payments, however it is noted that the Council's net interest position is significantly better.
- The expense as a proportion of net cost of services is larger than the average figure for UK Councils. Taking figures from the MHCLG Local Authority

Revenue Expenditure and Financing Data we note the UK average to be 3.4%,

- Data taken from the Department for Levelling Up, Housing and Communities highlights Woking Borough Council had the third largest outstanding borrowing across the UK<sup>1</sup> in 2021.
- This level of debt is a risk for the Council; it is in mind that the Council's investment strategy is to fund the regeneration of the town, which requires significant investment and therefore equally significant borrowing.



**Interest Payable:** The current gross interest payable expense as a proportion of net service expenditure is 135%. This is significantly greater than the UK average of 3.4%.

1. Live tables on local government finance - GOV.UK ([www.gov.uk](http://www.gov.uk))

# Comprehensive Statement – The Council's Financial Interests

## Introduction

Within this section the financial interests held by WBC have been reviewed, as stated in the Financial Accounts, and financial interests held within companies. This has employed the following datapoints, namely:

- The latest Statement of Accounts - 1<sup>st</sup> April 2021
- The Statement of Accounts for related companies - date ranges from 31<sup>st</sup> December 2019 to 31<sup>st</sup> December 2020
- The latest Financial Performance and Monitoring Review at August 2021

The resources noted above were provided by Woking Borough Council, we have not sought to verify accuracy or validate representations made by management in interpretation of the data.

Over the next few pages, the following subsections are described;

1. Current investment position
2. Current treasury position
3. Long-term Investments
4. Council's group companies.

A summary of our key statements in the section to the right, this outlines the significant observations and risks we noted during our assessment.

## Key Statements:

- WBC investments total £1.15bn as of October 2021; £1.09bn of long-term investments to JV's or Group Companies, £38m in Share Capitalisations and £18m to External Organisations.
- Between March 2020 and October 2021, WBC made £363m worth of loans to its Joint Venture and Group companies.
- ThamesWey Housing Ltd have a net asset position of £30.2m.
- Woking Necropolis and Mausoleum have a net asset position of £3.9m.
- ThamesWey Development Ltd have a net asset position of £2.9m.
- ThamesWey Energy Ltd have a net liability position of £321k indicating liabilities of the company are greater than its assets.
- Victoria Square Ltd have a negative net asset position of £11.5m indicating liabilities of the company are greater than its assets.
- ThamesWey Central Milton Keynes Ltd have a negative net asset value of £20.9m, indicating liabilities of the company are greater than its assets.
- WBC received £28m of interest income from Long-term Investments in 2020/21.

## Observations:

- WBC have shifted from an equity to a capital loan model to fund companies.
- For those companies where the Council has a material loan investment (1% of total investment value), there is sufficient turnover to meet short-term debt repayments.
- The solvency of ThamesWey Milton Keynes Ltd is at material risk.

## Risks:

- There is a medium to long-term risk ThamesWey Central Milton Keynes could become insolvent. If realised this would require further investment, a restructuring of financing or a significant write-off of capital investment (£34.4m) for WBC. This would potentially impact WBC's own capacity to service debt related to TCMK Ltd.
- There is no comment on the net liability position for Victoria Square Limited, as they are yet to begin trading.

## Comprehensive Statement - The Council's Financial Interests

### Current Investment Position - Overview



**Investment Position:** As at October 2021, the Council had £1.1bn worth of loans to long-term debtors.

- WBC's investment strategy reflects the strategic priorities of the Council. One of the principal elements of the Council's investment strategy are the loans that the Council makes for service purposes. These consist of the Council lending money to its subsidiary companies, joint ventures, suppliers, local businesses, charities, other local service providers and targeted mortgages to local residents. WBC also provides low value Travel loans to employees.
- The investments held by the Council are all long term in nature and mainly relate to investments or shareholdings in companies.
- **Movement:** As demonstrated in Figure 9, the value of long-term investments that the Council has increased from £792m in March 2020 to £1,148m by October 2021.

**Figure 9 - Investment Composition £'000**

Investments	March 2020 £'000	March 2021 £'000	August 2021 £'000	October 2021 £'000
Long Term Investments to JV's/ Group Companies	729,966	980,046	1,069,124	1,093,049
Long Term Investments to external organisations	24,596	25,387	17,184	17,516
Share Capitalisations	37,808	37,808	37,808	37,808
<b>Total</b>	<b>792,370</b>	<b>1,043,241</b>	<b>1,124,116</b>	<b>1,148,373</b>

- As demonstrated within this position 95% of the Council's long-term investment position relates to long-term investments into its Joint Ventures and Group Companies. With 2% relating to long-term investments in external organisations and 3% related to share capitalisations.

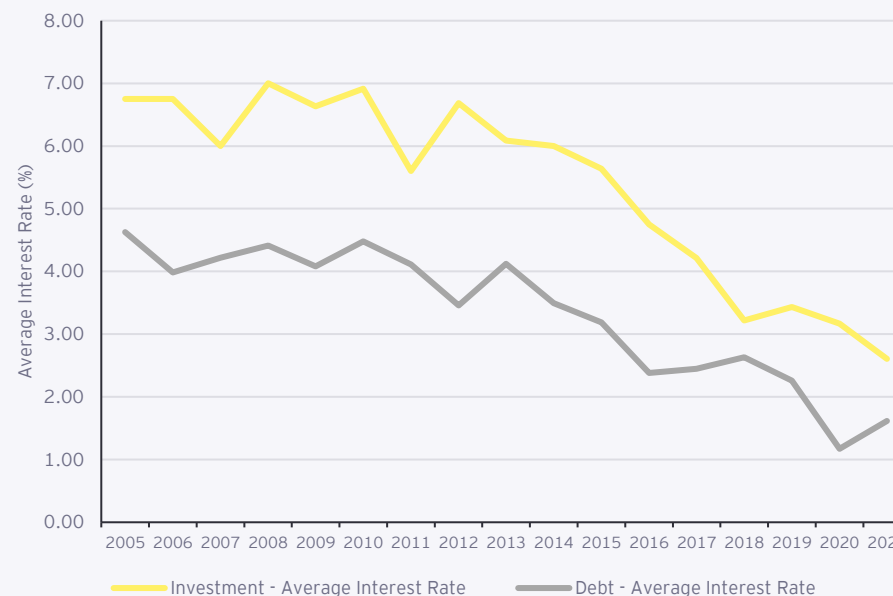
### Current Investment Position - Interest Rate Position



**Investment Income:** The Council received £28m of income from these investments in the 2020/21 financial year.

- **Movement:** The total income from investments in the year to March 2021 was around £28m, this is a 9% increase in the year from £25m in March 2020.
- The investment income is largely driven by the interest paid on the loans from group companies. The interest charged by the Council follows the PWLB trend and has therefore decreased over time.
- As demonstrated in Figure 10, the average interest rate across investments, has moved in line with the debt position, with the average interest rate achieved across investments remaining above the rate paid on debt. This demonstrates how interest received from investments protects the debt position against changes in interest rates.

**Figure 10 - Average Interest Rate - Debt Position vs Investment Position**





## Comprehensive Statement – The Council's Financial Interests

### Current Investment Position - Interest Rate Position (Continued)

- The average rate of return across the investment portfolio is presented below, with the rate of return from investment income demonstrated below less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

**Figure 11 – Investment rate of return (net of all costs)**

Investment	2019/20 Actual	2020/21 Forecast	2021/22 Budget
Treasury Management Investments	0.41%	0.15%	0.9%
Service Investments: Loans		0.00-2.00%	
Service Investments: Shares	Nil - Do not expect any return on shares		
Strategic Property Investments since 2016/17	2.00%	1.60%	1.60%

### Current Treasury Management Position



**Money Market Position:** The Council had £26.15m of liquid funds as at the 26<sup>th</sup> November 2021, with £22m invested in Money Market Funds. The Council were within acceptable credit limits across all these funds.

- The Council's treasury management approach is stated within the Treasury Management Strategy, which outlines how the Council makes investments of surplus cash and borrowing to manage delays in cash flows.
- Woking Borough Council's Treasury Management Strategy is to prioritise security and liquidity over yield for treasury management investments.
- Cash is invested securely with the Council's own bank, in diversified money market funds, or with other local authorities. The primary focus is on minimising risk rather than maximising returns.
- Decisions on treasury management investment and borrowing are made daily and are delegated to the Finance Director and finance team who follow the Treasury Management Strategy approved by the Executive. Treasury Management practices are in place which provide day to day guidance for treasury officers.

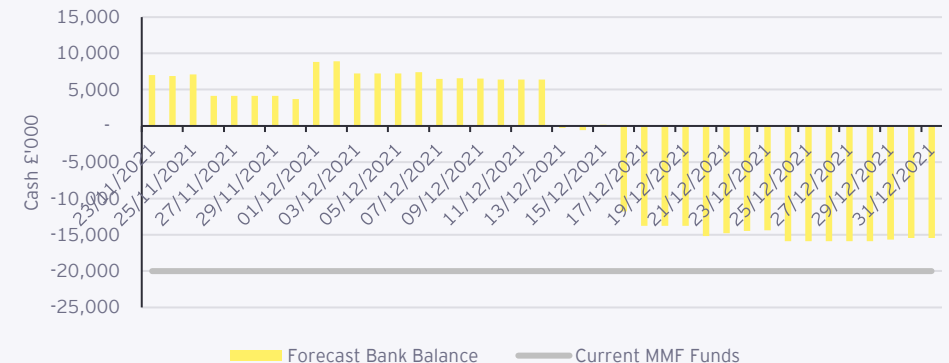
- As at the 26th November 2021, the Council had £22m invested within Money Market Funds and £4.15m in the Council's banking facility with Lloyds.
- As demonstrated In Figure 12, the Council are significantly below any credit limits with any of the Money Market Fund facilities, thus ensuring that they are not overexposed to risk and ensuring appropriate diversification of short-term investments.

**Figure 12 – Money Market Fund Balances – 26<sup>th</sup> November 2021 – £'m**

Counter Party	Credit Limit	Investments Outstanding	Limit Available
Deutsche Asset & Wealth Management	50	2	48
Standard Life Liquidity Fund	30	0	30
LGIM Liquidity Funds	50	0	50
Federated Investors UK	70	20	50
<b>Total</b>	<b>200</b>	<b>22</b>	<b>178</b>

- It is important that the Council maintains short-term balances to meet its cash flow requirements, as displayed in Figure 13, the Council currently has sufficient balances in short-term money market funds to meet its cash flow requirements between the 23rd November and the 31st December. Based on the cash flow requirements provided to us by the Council, the Council's banking position will move from £7m as at the 23<sup>rd</sup> November 2021 to -£15.5m at the 31<sup>st</sup> December 2021, a movement of £22.5m. To meet this position the Council will draw on money from its money market funds.

**Figure 13 – Forecast Cash Flow 23.11.2021 to 31.12.2021 – £'000**



## Comprehensive Statement – The Council's Financial Interests

### Current Treasury Management Position (Continued)

- The Council will also conduct both short and long-term borrowing to meet its cash flow requirements as necessary.



**Cash Position:** The Council have sufficient short-term balances to meet their forecast cash flow obligations. With the sum of balances in Money Market funds and the bank, being greater than cash flow requirements over the next month.

### Long-Term Investments



**Financial Interests:** The Council have £1.1bn of investments as at October 2021. £1bn of this position reflects, long-term investments in group companies or joint ventures, £17m are loans to external organisations and £37m are share capitalisations.

- The Council's investment position largely reflects the loans that the Council provides to its subsidiaries as a method of helping the Council achieve its strategic objectives, while benefitting from the expertise or capacity of the organisation it finances.
- When providing loan finance the primary risk is the borrower will be unable to repay. The Council's loans to subsidiaries are secured against the subsidiaries assets, which while complex and subject to market conditions, mean the Council would take ownership of assets in the event of default.
- The EY assessment of Companies adopts a viability methodology recommended by the Cabinet Office.
- Focus has been placed on the larger Council investments, as default would have significant impact on the Council's financial resilience.
- The Council's investment position is demonstrated in Figure 14, which shows the total investment position as at the latest Statement of Accounts date (March 2021) and the current assessment date (October 2021). The total value of investments held at October 2021 is £1.1bn.

**Figure 14 – Council's Investment Position – March to October 2021 – £'000**

Counter Party	March 2021 £'000	October 2021 £'000
Long Term Investments in Group Companies/ Joint Ventures		
ThamesWey Energy Limited (TEL)	13,117	15,815
ThamesWey Housing Limited (THL)	244,116	260,779
ThamesWey Housing Limited (Sheerwater)	69,408	83,342
ThamesWey Developments Limited (THL)	47,250	47,250
ThamesWey Developments Limited (Sheerwater)	5,000	5,000
ThamesWey Developments Limited (Sheerwater Leisure Centre)	9,800	10,800
ThamesWey Developments Limited (for TEL)	28,225	28,005
ThamesWey Central Milton Keynes Ltd	33,391	34,425
ThamesWey Solar Ltd	993	906
Rutland (Woking) Ltd	1,665	1,665
Victoria Square Ltd	527,082	605,061
Long Term Loans to External Organisations		
Peacocks Centre	6,350	6,350
Woking Hospice	9,256	-
A&B Menswear	101	101
Woking Football Club	75	75
Freedom Leisure	1,705	1,673
Greenfield School	6,400	6,400
Wolsey Place	-	1,417
Kingfield Community Sports Centre Ltd	1,500	1,500
Share Capitalisations		
ThamesWey Limited	31,193	31,193
Woking Necropolis and Mausoleum Limited	6,000	6,000
Woking Town Centre Management	1	1
Victoria Square Woking Ltd	14	14
Municipal Bonds Agency	50	50
SurreySave Credit Union	50	50
Kingfield Community Sports Centre Ltd	500	500
<b>Total</b>	<b>1,043,242</b>	<b>1,148,373</b>

## Comprehensive Statement – The Council's Financial Interests

### Long-Term Investments (Continued)

- The largest investment held at October 2021 was £605m with Victoria Square Woking Ltd, this represents over 50% of the total investment held. Woking Borough Council hold a joint venture with Moyallen Holdings Ltd in Victoria Square Woking Ltd. With Moyallen being the ultimate parent company. The Council also hold £14k of shares in Victoria Square Woking Ltd. The investment relates to the construction of the town centre development.
- A further £486m is held within ThamesWey Group Companies. These are wholly owned by the Council. The Council also hold £31.2m of shares in ThamesWey Limited.
- Shares have been used to provide subsidy into ThamesWey Housing Ltd. As the shares do not have interest payable on them, the company is able to provide rents at sub market rates.
- The shares in Woking Necropolis and Mausoleum Ltd relate to the acquisition of the Cemetery. Whilst the cemetery business generates some income it would not be sufficient to meet financing costs associated with the purchase.
- The Council do not hold shares as an investment to achieve dividend income or for future sales and instead view the shares as capital expenditure rather than investments for financial income. The investments in shares are not considered liquid in nature, and the Council assesses the risk of loss before entering into and whilst holding shares depending on the long-term objective of the funding provided.
- The shares held by the Council have not been revalued in the Statement of Accounts since their acquisition.

### Council's Group Companies

- A financial assessment of material investments, those greater than £7m, has been performed given that each of these investments amount to more than 1% of the total investment balance.
- This assessment has utilised the Cabinet Office Financial Viability Model, which provides a point in time assessment of Companies, relevant for Public Sector bodies considering entering into contract with third parties.
- Additionally the three largest shareholdings have been reviewed. Our analysis utilises a number of key ratios which present the financial health of a company at a point in time, and indicate potential risk.
- The analysis has focussed on the following metrics;
  1. **Short-Term Turnover Ratio (Turnover/Current Loans)** - Across the Companies position, an assessment of turnover has been completed against the amount of current loans outstanding. This analysis is intended to demonstrate whether each company has sufficient turnover to service short-term loans. Where this number is less than one it would reflect a financial risk to the company.
  2. **Medium Turnover Ratio (Projected Five Year Turnover/Medium Term Loans)**: Across the Companies position, an assessment of the medium-term turnover has been completed based on current turnover levels. This amount has been compared to loans outstanding in the medium term. This analysis is intended to demonstrate whether each company has sufficient turnover to service medium-term loans. Where this number is less than one it would reflect a financial risk to the company.
  3. **Operating Margin (EBIT/Turnover)**: The operating margin measures the proportion of revenues that remain after deducting operating expenses of the company. A higher ratio would normally suggest that the entity's business is more sustainable and able to withstand any change in the business and financial circumstances. Whereas, a lower ratio could raise doubts over the sustainability of the business to withstand financial shocks.
  4. **Net Profit/Loss**: Is the difference between gross revenue and expenses of a business. If the difference is positive it's net profit, if the difference is negative it's a net loss.

## Comprehensive Statement – The Council's Financial Interests

### Council's Group Companies (Continued)

5. **Free Cash Flow to Debt (Net Operating Cash/Debt Minus Cash):** This ratio demonstrates the portion of the companies debt that could be repaid in one year if all cash flow was used to service debt. A high ratio would normally indicate that other things being equal, that an entity is better able to pay back its debt and take on more debt if necessary. Whereas a lower ratio may raise doubts about a companies ability to service its existing debt.
6. **Net Debt to EBITDA Ratio (Debt Minus Cash/Gross Profit):** This ratio demonstrates how many years it would take the company to repay net debt if EBITDA remained constant and was used in full to repay financial debt. A low ratio would normally indicate, other things being equal, that an entity is better able to pay back its debt and/or may be able to take on more debt if necessary. A high ratio may raise doubts over the companies ability to service its existing debt.
7. **Net Interest Paid Cover (EBIT/Interest Payable):** This position demonstrates how many times an organisation can cover its annual interest payments out of available earnings. This measure provides an indication of the companies solvency. A higher number would indicate that the company is in a better position to service its debt related payments. Whereas, a lower figure may indicate that the company might find it more difficult to service its debt related payments.
8. **Acid Ratio (Current Assets Minus Inventory/Current Liabilities):** The acid ratio measures a companies ability to use its cash or other assets to meet short-term liabilities that are falling due. A higher ratio, would normally indicate that a company can more easily meet its liabilities as they fall due. A lower ratio may raise concerns over the ability of a company to meet its liabilities.
9. **Net Asset Value (Total Assets Minus Total Liabilities):** The net asset value of the company measures all of the company's assets minus all of its liabilities. The value provides an overall view of the company's solvency, with a positive value suggesting the company is more solvent. A negative value may suggest that in the event of deterioration the company may be less solvent. A further assessment of each of the companies net asset positions has also been explored, taking into consideration a breakdown of the values by current/non-current.
  - The results of our analysis on the Council's group companies is summarised overleaf. The benchmarking is a point in time exercise, utilising the latest available statement of accounts related to December 2020.
  - The Cabinet Office playbook advises when assessing the results of the ratio analysis that any Red Flag would be sufficient to exclude a participant from a contracting exercise or warrant further work with the counterparty to evidence their financial performance. Where a Company has multiple red flags, it is recommended the Council shares the analysis with Companies and requests a management response.
  - Important context to consider when evaluating the results of the benchmarking include:
    - In many cases the Council is forecasting company losses in the short-term, reflecting the long-term nature of the Business Plans or the Development being undertaken.
    - The Companies have differing strategic purposes and are in different phases of maturity, meaning the relationship with the Council is not just a contractual one.



## Comprehensive Statement – The Council's Financial Interests

**Figure 15 – Company Financial Viability Assessment – Results (£'000)**

Company	Short-Term Turnover Ratio (1 Year)	Medium-Term Turnover Ratio (5 Years)*	Operating Margin (%)	Net Profit/Loss £'000	Free Cash Flow to Net Debt (%)	Net Debt to EBITDA Ratio	Net Interest Paid Cover	Acid Ratio	Net Asset (-Liabilities) Value £'000
ThamesWey Energy Limited (TEL)	1.97	4.89	10%	-357	Note 1	27.0	0.49	0.1	-321
ThamesWey Housing Limited (THL)	248.17	1.03	52%	-6,174		55.8	0.40	0.3	30,194
ThamesWey Developments Limited (TDL)	2.50	19.52	3%	2,350		44.0	4.56	1.9	2,940
ThamesWey Central Milton Keynes Ltd	2.25	2.42	2%	-1,830		28.9	0.02	0.6	- 20,931
ThamesWey Consolidated Position	1.42	Note 3	12%	-6,155		40.5	0.54	0.9	12,340
Victoria Square Ltd	Note 2			-19	Note 2		-0.9	1.2	-11,491
Woking Necropolis and Mausoleum	4.68	Note 3	31%	-278	10%	1.96	6,473	1.3	3,958

### Key

Turnover Ratio	Less than 1	Between 1 and 2	Greater than 2
Operating Margin	Less than 10%	N/A	Greater than 10%
Net Profit/Loss	Less than 0	N/A	Greater than 0
Free Cash Flow to Net Debt	Less than 5%	Between 5% and 15%	Greater than 15%
Net Debt to EBITDA Ratio	Greater than 3.5	Between 2.5 and 3.5	Greater than 2.5
Net Interest Paid Cover	Less than 3	Between 3 and 4.5	Greater than 4.5
Acid Ratio	Less than 0.8	Between 0.8 and 1	Greater than 1
Net Asset Value	Greater than 0	N/A	Greater than 0

**Note 1:** The net operating cashflow for these companies is negative so the ratio cannot be performed.

**Note 2:** The company generated no revenue in the year so the ratio analysis cannot be performed.

**Note 3:** The companies financial statements did not provide a medium term breakdown of loans outstanding so the ratio analysis cannot be performed.

\* Estimated figure using current year revenue

## Comprehensive Statement – The Council's Financial Interests

### ThamesWey Energy Limited (TEL)

ThamesWey Energy aims to provide a long term strategy of sustainable energy infrastructure investment both within the borough of Woking and elsewhere. The company achieves this through its generation, distribution and supply of sustainable, low carbon and renewable energy to public, commercial and private domestic customers in the borough.

At 31<sup>st</sup> December 2020, TEL owed £15.2m to Woking Borough Council of which 12% is due within one year, 23% is due within five years and the remaining 65% is due after five years. The borrowing is charged at an annual interest rate of between 2.23% and 5.5%.

**a. Short-Term Turnover Ratio (1 Year):** The short-term turnover ratio highlights TEL can service their annual borrowing 1.97 times in the current year.

2020 Revenue	Loans Due in 2021	Turnover Ratio
3,518,511	1,782,576	1.97

**b. Medium-Term Turnover Ratio (5 Years):** Using a multiplier of five on the current year revenue, TEL are able to service their five year debt 4.89 times..

5 Year Revenue	Loans Due to 2026	5 Year Turnover Ratio
17,592,555	3,596,518	4.89

**c. Operating Margin:** Operating margin is 10%

Operating Profit	Revenue	Operating Margin
340,239	3,518,511	10%

**d. Net Profit/Loss:** The company is making a net loss of £357k which is largely caused by the large interest payments made on loans.

**e. Free Cash Flow to Net Debt :** It has not been possible to calculate operating margin given the company has negative net operating cash flow.

**f. Net Debt to EBITDA:** The ratio highlights net debt is 27 times EBITDA in the year.

Net Debt	EBITDA	Ratio
43,987,800	1,627,600	27.0

**g. Net Interest Paid Cover:** The ratio of EBIT to interest payable charges is 0.49.

Operating Profit	Net Interest Paid	Net Interest Paid Cover
340,239	698,312	0.49

**h. Acid Ratio:** The ratio of current assets to current liabilities is 0.1.

Current Assets (minus inventory)	Current Liabilities	Ratio
4,140,476	36,780,304	0.1

**i. Net Asset Value:** Net liabilities are negative and highlights the business is unlikely to be sustainable in the event of any deterioration of performance.

Total Assets	Total Liabilities	Net Liabilities
47,710,356	48,030,929	-320,573

### Observations

ThamesWey Energy Limited has a strong operating margin; however there are risks around it's ability to service debt and the company has a negative net liability position. The length of loan profile provided to the Company should be explored as the Company holds a Net Debt to EBITDA ratio of 27; in the event earnings were redirected to repay debt this would take 27 years at current earnings rates. Additionally the Current Liabilities for the Company (due in one year) rose significantly for the Company between 19/20 and 20/21; presenting a liquidity risk.

## Comprehensive Statement – The Council's Financial Interests

### Company Breakdown

#### ThamesWey Housing Limited (THL)

ThamesWey Housing was established to support the Council Housing and Economic Development Strategies through the provision of additional residential accommodation of all types. It has an objective to provide affordable homes to those who, due to their circumstances, are unable to access open market provision but are also unlikely to be able to access social rented accommodation.

At 31<sup>st</sup> December 2020, THL owed £304m to Woking Borough Council of which 0.01% is due within one year, 13% is due within five years and the remaining 87% is due after five years.

The borrowing is charged at an annual interest rate of between 1.8% and 7%.

**a. Short-Term Turnover Ratio (1 Year):** The short-term turnover ratio highlights THL can service their annual borrowing 248 times in the current year.

2020 Revenue	Loans Due in 2021	Turnover Ratio
8,165,103	32,901	248.17

**b. Medium-Term Turnover Ratio (5 Years):** Using a multiplier of five on the current year revenue, TEL are able to service their five year debt 1.03 times.

5 Year Revenue*	Loans Due to 2026	5 Year Turnover Ratio
40,825,515	39,710,269	1.03

*\*As a development company, the company has volatile in-year revenues meaning the five year revenue forecast should be treated as highly indicative.*

Operating Profit	Revenue	Operating Margin
4,212,334	8,165,103	52%

**c. Operating Margin:** Operating margin is 52% for THL.

**d. Net Profit/Loss :** The company is making a net loss of £6,174k which is largely caused by the large interest payments made on loans.

**e. Free Cash Flow to Net Debt:** It has not been possible to calculate operating margin given the company has negative net operating cash flow.

**f. Net Debt to EBITDA :** The ratio highlights net debt is 55.8 times EBITDA in the year.

Net Debt	EBITDA	Ratio
338,787,332	6,074,098	55.8

**g. Net Interest Paid Cover:** The ratio of EBIT to interest payable charges is 0.40.

Operating Profit	Net Interest Paid	Net Interest Paid Cover
4,212,334	10,498,040	0.40

**h. Acid Ratio:** The ratio of current assets to current liabilities is 0.3 due to the value of loans due within one year.

Current Assets (minus inventory)	Current Liabilities	Ratio
10,405,455	35,073,699	0.3

**i. Net Asset Value:** assets are positive and highlights the business is likely to be sustainable in the event of any deterioration of performance.

Total Assets	Total Liabilities	Net Assets
380,144,703	349,950,582	30,194,121

### Observations

ThamesWey Housing Limited holds a positive Net Asset position despite making a net loss in 2020 which reflects the expectations of losses within the Business Plan. The Company Short-term turnover ratio benefits from a low forecast Loan Repayment in 2021, however over the Medium Term revenues are under pressure from Debt repayment. The Acid Ratio could present a risk and cashflow forecast should be evaluated, although it is noted there is £87m of WIP as at the Balance Sheet date that could offer mitigation providing developments are completed in 2021.

## Comprehensive Statement – The Council's Financial Interests

### Company Breakdown

#### ThamesWey Developments Limited (TDL)

ThamesWey Developments function as a property developer. They develop both commercial and residential schemes which further the Council's ambitions. Our first major scheme was the Hoe Valley Scheme.

At 31<sup>st</sup> December 2020, TDL owed £94m to Woking Borough Council of which 37% is due within one year, 24% is due within five years and the remaining 39% is due after five years.

The borrowing is charged at an annual interest rate of between 2% and 4%.

**a. Short-Term Turnover Ratio (1 Year) :** The short-term turnover ratio highlights TDL can service their annual borrowing 2.5 times in the current year.

2020 Revenue	Loans Due in 2021	Turnover Ratio
87,735,886	35,093,503	2.5

**b. Medium-Term Turnover Ratio (5 Years):** Using a multiplier of five on the current year revenue, TDL are able to service their five year debt 19.52 times.

5 Year Revenue	Loans Due to 2026	5 Year Turnover Ratio
438,679,430	22,473,199	19.52

**c. Operating Margin:** Operating margin is 3% for TDL.

Operating Profit	Revenue	Operating Margin
2,705,369	87,735,886	3%

**d. Net Profit/Loss :** The company is making a net profit of £2,350k caused by stable revenue in the year.

**e. Free Cash Flow to Net Debt:** It has not been possible to calculate operating margin given the company has negative net operating cash flow.

**f. Net Debt to EBITDA:** The ratio highlights net debt is 44.0 times EBITDA in the year.

Net Debt	EBITDA	Ratio
100,436,107	2,280,167	44.0

**g. Net Interest Paid Cover:** The ratio of EBIT to interest payable charges is 4.56.

Operating Profit	Net Interest Paid	Net Interest Paid Cover
2,705,369	357,964	4.56

**h. Acid Ratio:** The ratio of current assets to current liabilities is 1.9.

Current Assets (minus inventory)	Current Liabilities	Ratio
80,915,629	43,287,764	1.9

**i. Net Asset Value:** Net assets are positive and highlights the business is likely to be sustainable in the event of any deterioration of performance.

Total Assets	Total Liabilities	Net Assets
107,450,589	104,510,363	2,940,230

### Observations

ThamesWey Developments demonstrates a positive net assets position and turnover ratios providing confidence in solvency. The operating margins of the Company are thin; however given sales typically take place within the group, namely to ThamesWey Housing Limited this operating margin is intended and presents a lower risk to the Council.

## Comprehensive Statement – The Council's Financial Interests

### Company Breakdown

#### ThamesWey Central Milton Keynes Ltd (TCMK)

ThamesWey Central Milton Keynes (TCMK) was set up as a subsidiary of ThamesWey Energy Ltd and owns and operates an Energy Station in Central Milton Keynes. TCMK was established to build and operate a Combined Heat and Power station to deliver district heating and a private wire network in the central business district in Milton Keynes.

At 31<sup>st</sup> December 2020, TCMK owed £33m to Woking Borough Council of which 4% is due within one year, 17% is due within five years and the remaining 79% is due after five years.

The borrowing is charged at an annual interest rate of between 4% and 7%.

**a. Short-Term Turnover Ratio (1 Year) :** The short-term turnover ratio highlights TCMK can service their annual borrowing 2.25 times in the current year.

2020 Revenue	Loans Due in 2021	Turnover Ratio
2,738,753	1,216,097	2.25

**b. Medium-Term Turnover Ratio (5 Years):** Using a multiplier of five on the current year revenue, TCMK's are able to service their five year debt 2.42 times.

5 Year Revenue	Loans Due to 2026	5 Year Turnover Ratio
13,693,765	5,653,180	2.42

**c. Operating Margin:** Operating margin is 3% for TCMK.

Operating Profit	Revenue	Operating Margin
43,901	2,738,753	2%

**d. Net Profit/Loss :** The company is making a net loss of £1,830k which is largely caused by the large interest payments made on loans.

**e. Free Cash Flow to Net Debt:** It has not been possible to calculate operating

margin given the company has negative net operating cash flow.

**f. Net Debt to EBITDA :** The ratio highlights net debt is 28.9 times EBITDA in the year.

Net Debt	EBITDA	Ratio
33,527,338	1,160,196	28.9

**g. Net Interest Paid Cover:** The ratio of EBIT to interest payable charges is 0.02 highlighting very high interest costs, as well as low operating profit in the year.

Operating Profit	Net Interest Paid	Net Interest Paid Cover
43,901	1,874,003	0.02

**h. Acid Ratio:** The ratio of current assets to current liabilities is 0.6 highlighting the business has a relatively low value of short term assets in comparison to the debts.

Current Assets (minus inventory)	Current Liabilities	Ratio
1,134,134	1,976,583	0.6

**i. Net Asset Value :** Net assets are negative due to the large loans held.

Total Assets	Total Liabilities	Net Liabilities
18,213,910	39,145,222	- 20,931,312

### Observations

The Ratios evidence the Going Concern risk raised by the Auditors on TCMK; it is in a negative net asset position, has thin operating margins and made a significant loss in it's accounts of £1.8m in 2020. The Company currently exhibits below threshold performance on Liquidity through the Acid Ratio, and Net Debt to EBITDA.



## Comprehensive Statement – The Council's Financial Interests

### Company Breakdown

#### ThamesWey Consolidated Position

ThamesWey Ltd was incorporated to make long-term energy and environmental project investments in support of what subsequently became the Council's Climate Change Strategy. In 2004 the company's remit was extended to include provision of affordable homes in support of the Council's Housing Strategy. In 2008 the company's remit was further extended to take forward redevelopment proposals for parts of the Borough.

At 31<sup>st</sup> December 2020, the Group owed £456m to Woking Borough Council of which 9% is due within one year and the remaining 91% is due after five years.

The borrowing is charged at an annual interest rate of between 3% and 7%.

**a. Short-Term Turnover Ratio (1 Year):** The short-term turnover ratio highlights is 1.42 in the current year.

2020 Revenue	Loans Due in 2021	Turnover Ratio
61,597,116	43,236,459	1.42

**b. Medium-Term Turnover Ratio (5 Years):** No split provided

**c. Operating Margin:** Operating margin is 12% for ThamesWey.

Operating Profit	Loans Due to 2026	Operating Margin
7,283,990	61,597,116	12%

**d. Net Profit/Loss:** The company is making a net loss of £6,155k which is largely caused by the large interest payments made on loans.

**e. Free Cash Flow to Net Debt:** It has not been possible to calculate operating margin given the company has negative net operating cash flow.

**f. Net Debt to EBITDA:** The ratio highlights net debt is 40.5 times EBITDA in the year.

Net Debt	EBITDA	Ratio
494,190,795	12,196,934	40.5

**g. Net Interest Paid Cover:** The ratio of EBIT to interest payable charges is 0.54.

Operating Profit	Net Interest Paid	Net Interest Paid Cover
7,283,990	13,549,179	0.54

**h. Acid Ratio:** The ratio of current assets to current liabilities is 0.9 highlighting the business has slightly more liquid assets in comparison to debts.

Current Assets (minus inventory)	Current Liabilities	Ratio
79,033,379	89,640,331	0.9

**i. Net Asset Value:** Net assets are positive.

Total Assets	Total Liabilities	Net Assets
534,448,862	522,108,519	12,340,343

### Observations

The Group position demonstrates a positive net asset value, and strong operating margin providing confidence on solvency at the Group level despite the loss made in 2020 of £6.1m. The Group holds significant debt, and the profile of the loans provided by the Council should be considered in light of a Net Debt Ratio of 41. Finally, the Acid Ratio at Group level is flagged Amber; this aggregate view of current liquidity is best reviewed at the individual company levels where risks do exist.

This analyses has been conducted by removing intra-company transactions, hence the difference between the individual Companies and Consolidated position.

## Comprehensive Statement – The Council's Financial Interests

### Company Breakdown

#### Woking Necropolis and Mausoleum (WNM Ltd)

The principal activity of the group is the provision of burial and funeral services and the maintenance of Brookwood Cemetery

At 31<sup>st</sup> December 2020, the Group owed £335k to Woking Borough Council of which 100% is due after more than one year.

**a. Short-Term Turnover Ratio (1 Year) :** The short-term turnover ratio highlights Woking Necropolis and Mausoleum are able to service their annual borrowing c5 times over in the current year.

2020 Revenue	Loans Due in 2021	Turnover Ratio
910,703	194,502	4.68

**b. Medium-Term Turnover Ratio (5 Years):** No split provided

**c. Operating Margin:** Operating margin is 31% for Woking Necropolis and Mausoleum.

Operating Profit	Revenue	Operating Margin
278,357	910,703	31%

**d. Free Cash Flow to Net Debt:** Net operating cash flow is 10% of net debt highlighting 10% of net debt could be covered by current year cash flows.

Net Operating Cash	Net Debt	Ratio
109,090	1,072,273	10%

**e. Net Profit/Loss:** The company is making a net loss of £278k which is largely caused by the large administrative expenses.

**f. Net Debt to EBITDA:** The ratio highlights net debt is 2 times EBITDA in the year.

Net Debt	EBITDA	Ratio
1,072,273	546,352	1.96

**g. Net Interest Paid Cover:** The ratio of EBIT to interest payable charges is 6,473.

Operating Profit	Net Interest Paid	Net Interest Paid Cover
278,357	43	6,473

**h. Acid Ratio:** The ratio of current assets to current liabilities is 1.3.

Current Assets (minus inventory)	Current Liabilities	Ratio
260,769	194,502	1.3

**i. Net Asset Value :** Net assets are positive.

Total Assets	Total Liabilities	Net Assets
5,222,810	1,264,758	3,958,052

### Observations

As an operational trading company WNM has a positive Net Assets position, and operating margin of 31%. Evaluating these ratios the Company is in a robust financial position, with Amber flags in relation to Net Debt levels which warrant monitoring rather than immediate action or response.

## Comprehensive Statement – The Council's Financial Interests

### Company Breakdown

#### Victoria Square Woking (VSWL)

The principal activity of the company is that of an ongoing redevelopment project on land to the west side of the existing Peacocks Centre and Wolsey Place Shopping Centre in Woking.

At 31<sup>st</sup> December 2020, VSWL owed £497m to Woking Borough Council of which 0.3% is due within one year and the remaining 99.7% is due after more than one year.

**a. Short-Term Turnover Ratio (1 Year):** It has not been possible to calculate short term turnover ratio given the company has generated no revenue in the year.

**b. Medium-Term Turnover Ratio (5 Years) :** It has not been possible to calculate medium term turnover ratio given the company has generated no revenue in the year.

**c. Operating Margin:** It has not been possible to calculate operating margin given the company has generated no revenue in the year.

**d. Free Cash Flow to Net Debt:** It has not been possible to calculate operating margin given the company has not provided a cash flow.

**e. Net Debt to EBITDA:** It has not been possible to calculate operating margin given the company has nil gross profit in the year.

**f. Net Profit/Loss :** The company is making a net loss of £19k which is largely caused by the large interest payments made on loans.

**g. Net Interest Paid Cover:** The ratio of EBIT to interest payable charges is -0.9 highlighting very low interest costs which is expected given the development stage of the company.

Operating Loss	Net Interest Paid	Net Interest Paid Cover
-9,877	9,332	-0.9

**h. Acid Ratio:** The ratio of current assets to current liabilities is 1.2.

Current Assets (minus inventory)	Current Liabilities	Ratio
17,845,288	15,059,760	1.2

**i. Net Asset Value:** Net assets are negative.

Total Assets	Total Liabilities	Net Liabilities
498,917,689	510,408,982	-11,491,293

### Observations

As Victoria Square is yet to become operational, the financial ratio assessment is more limited. The Company is in a negative net asset position, and holds a significant Debt value (£497m) owed to the Council.

## Comprehensive Statement – The Council's Financial Interests

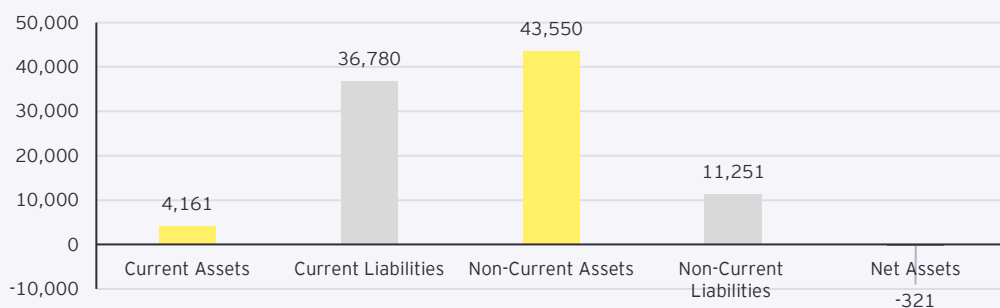
### Companies Net Asset Position

The net assets of each of the companies has been assessed further in this section. Each graph highlights the companies current and non-current assets and liabilities, as well as the overall net asset position.

#### 1. ThamesWey Energy Limited (TEL)

- The net assets in TEL highlights the company holds a significantly large value (£43.5m) of non-current assets largely relating to plant and machinery and assets under construction.
- The value of current liabilities is also significant at £36.8m, this is made up of loan amounts due to Woking Borough Council within the next year.
- The overall net liability position of the company is -£321k.

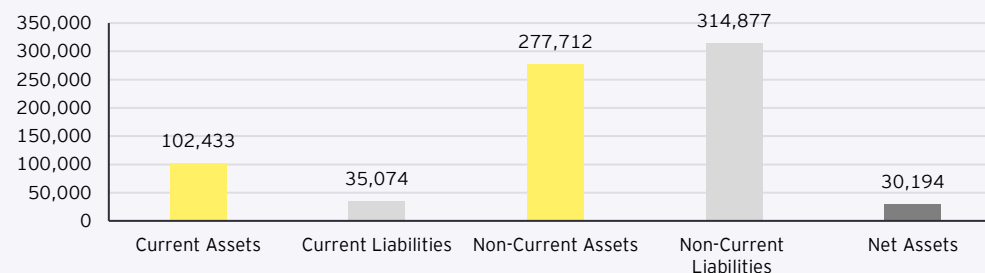
**Figure 16 – ThamesWey Energy Limited – Net Asset Position (£'000)**



#### 2. ThamesWey Housing Limited (THL)

- The net asset position in THL highlights the company holds a significant amount of non-current liabilities £314.9m, this is made up of loan amounts due to Woking Borough Council after one year.
- This is offset by a large value (£277.7m) of non-current assets largely relating to investment properties held.
- The overall net asset position of the company is £30.2m

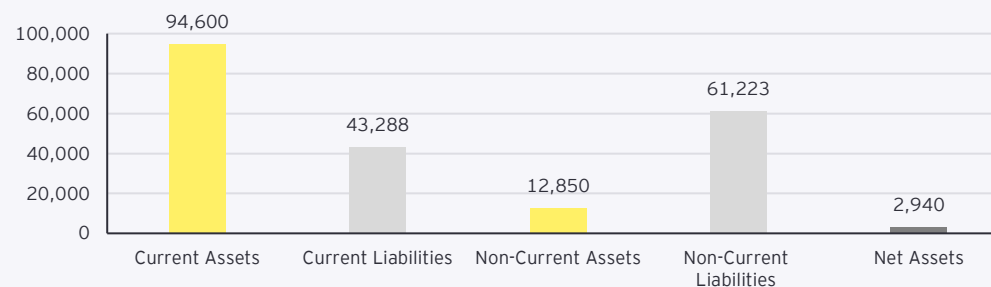
**Figure 17 – ThamesWey Housing Limited – Net Asset Position (£'000)**



#### 3. ThamesWey Developments Limited (TDL)

- The net assets in TDL highlights the company holds a significantly large value (£94.6m) of current assets largely relating to 'amounts recoverable on contract' sitting within the debtors balance.
- The value of both current and non-current liabilities is also significant at £43.3 and £61.2m respectively, this is made up of loan amounts due to Woking Borough Council.
- The overall net asset position of the company is £2.9m.

**Figure 18 – ThamesWey Developments Limited – Net Asset Position (£'000)**



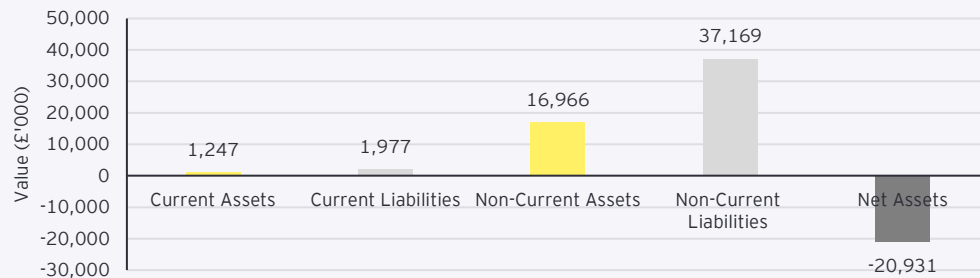
# Comprehensive Statement - The Council's Financial Interests

## Companies Net Asset Position (continued)

### 4. ThamesWey Central Milton Keynes (TCMK)

- The net assets in TCMK highlights the company holds a significantly large value (£31.8m) of non-current liabilities largely relating to loan amounts due to Woking Borough Council.
- The value of non-current assets is also significant at £17.0m, this is made up of plant and machinery, as well as a substantial holding of buildings.
- The company is in a net liability position of £20.9m.

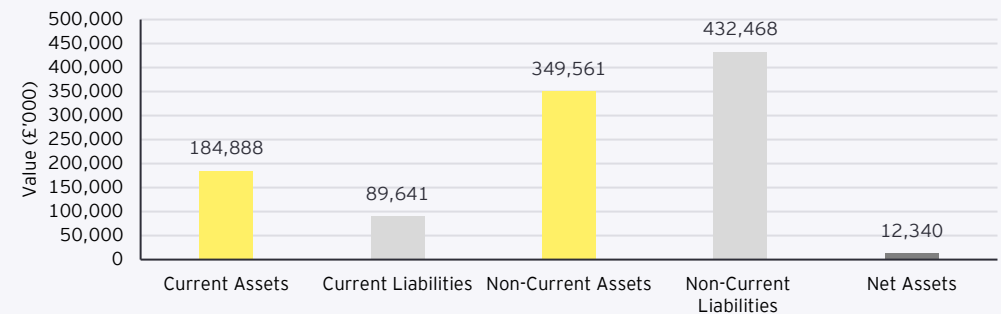
**Figure 19 - ThamesWey Central Milton Keynes - Net Asset Position (£'000)**



### 5. ThamesWey Group

- The net liabilities in the Group highlights the company holds a significantly large value £432m of non-current liabilities largely relating to loan amounts due to Woking Borough Council.
- The Group also holds a large value of non-current assets, making up £349.6m, this is mostly comprised of investment property which makes up £252.6m of the total non-current assets.
- The overall net asset position of the company is £12.3m

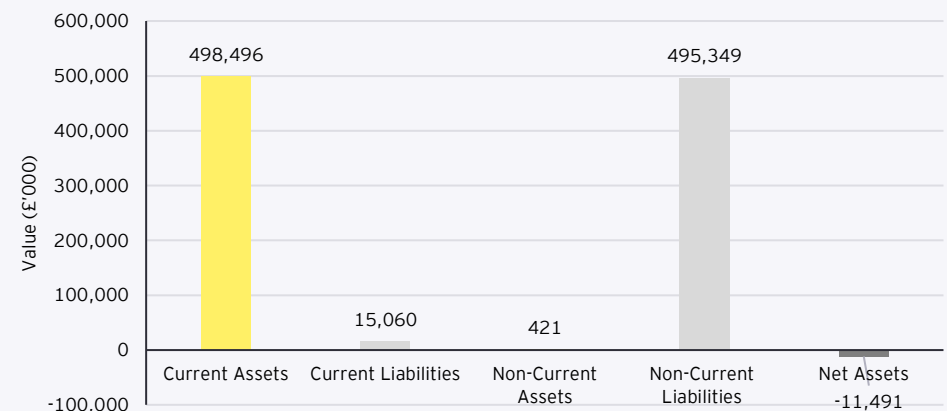
**Figure 20 - ThamesWey Group Limited - Net Asset Position (£'000)**



### 6. Victoria Square Woking Limited (VSWL)

- The net assets in VSWL highlights the company holds a significantly large value (£498.5m) of non-current assets largely relating to inventories and work in progress (WIP) held for the redevelopment project.
- The value of non-current liabilities is similarly significant at £495.3m, this is made up of loan amounts due to Woking Borough Council.
- Victoria Square is in an overall net liability position of £11.5m.

**Figure 21 - Victoria Square Woking Limited - Net Asset Position (£'000)**





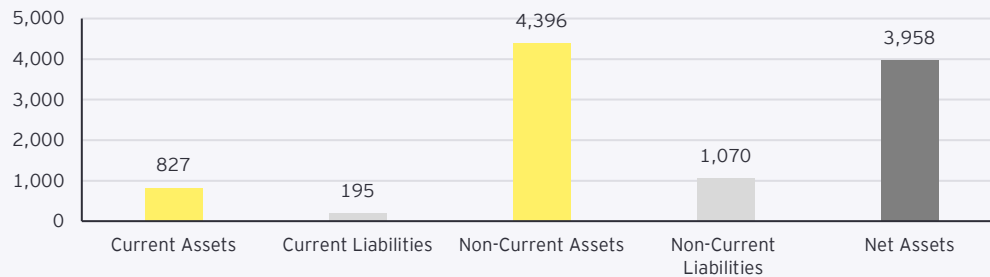
## Comprehensive Statement – The Council's Financial Interests

### Companies Net Asset Position (continued)

#### 7. Woking Necropolis and Mausoleum

- The net assets in Woking Necropolis and Mausoleum highlights the company holds a significantly large value (£4.4m) of non-current assets largely relating to freehold property.
- The value of non-current liabilities is also significant at £1.1m, this is made up of both loans to group undertakings, as well as provisions for liabilities.
- The overall net asset position of the company is £4.0m

**Figure 22 – Woking Necropolis and Mausoleum – Net Asset Position (£'000)**



## Comprehensive Statement – The Council's Contractual Obligations

### Introduction

Within this section the contractual obligations held by Woking Borough Council are assessed, and grant position as per the statement of accounts. This review has included:

- The latest Statement of Accounts – 1<sup>st</sup> April 2021
- A breakdown of grants received in the year to date; split by capital and revenue grants
- A breakdown of the Council's contract register in the year

The resources noted above were provided by Woking Borough Council, we have not sought to verify accuracy or validate representations made by management in interpretation of the data.

The following subsections are shown;

1. A general overview of the grant position
2. The accounting policy for grants (as per CIPFA)
3. A detailed overview of the capital grants received
4. A detailed overview of the revenue grants received
5. An overview of the contractual obligations held by the Council

A summary of our key statements in the section to the right, this outlines the significant observations and risks we noted during our assessment.

### Key Statements:

- WBC hold a total of £7.9m in outstanding Capital Grants at October 2021.
- WBC have received a total of £29.2m from Homes England related to work at Triangle Site, with £1.55m received in the current year.
- WBC have received a total of £9.4m from Homes England related to work as part of the Sheerwater leisure centre.
- WBC have received a total of £3.1m in grants from BEIS relating to a heat decarbonisation scheme.
- Revenue grants received by WBC in 2020/21 were £47m to date.
- WBC have medium-term contractual obligations of £89.5m.
- WBC have long-term contractual obligations of £39.6m

### Observations:

- WBC have specific contractual obligations relating to grants received from Homes England.
- WBC have appropriate systems in place to ensure that revenue grants are administered appropriately, and the grant reimbursements are correct.

## Comprehensive Statement – The Council's Contractual Obligations

### Contractual Obligations – General Overview

- The Council receives grants for several purposes, including to support Government policy, encourage certain outcomes and behaviours, and to provide financial stability.
- The Council receive two types of Grants; capital grants which are used to purchase or develop assets with the aim of having a wider community benefit, and revenue grants, which are used for expenditure which does not result in a lasting asset.

### Accounting Policy for Grants

- Grants for revenue expenditure are accounted for as a credit to the the CIES in same period as the expenditure to which they relate.
- Where a grant is received to purchase a fixed asset and any conditions have not been met, the grant is credited to the 'capital grants received in advance' liability account in the Balance Sheet.
- When the conditions have been met, or if there are no conditions, the grant is recognised in the CIES. The grant is held in the 'capital grants unapplied' reserve in the Balance Sheet until the expenditure is incurred, when it is transferred into the capital adjustment account.

### Capital Grants

- At 31<sup>st</sup> March 2021, Woking Borough Council had £6.32m in remaining capital grants. During the year the Council received a further £1.62m taking the total capital grant balance at 1<sup>st</sup> December 2021 to £7.94m.
- Of the £7.49m outstanding balance, £0.9m relates to capital grants unapplied. These are therefore recorded in reserves within the balance sheet.
- £5.4m relates to capital grants received in advance, these are recorded as a liability in the balance sheet given the conditions are yet to be met by the Council.
- £1.7m relates to grants received during 2021/22, which reflects the fact that capital financing is undertaken at year end and therefore capital

commitments against grants received have not been worked through

- An assessment of the largest grants received by the Council has been performed in the next section. A materiality threshold of £1m has been used to determine which grants to test.

**Figure 23 – Capital Grant Position – £'000**

Grants	Balance £'000
<b>Capital Grants Unapplied</b>	<b>985</b>
LPSA2	318
SCC Raingarden	10
Community Housing Fund	15
FSSD Park Improvements	16
Disabled Facilities Grant	579
Free Swimming	17
Mortgage Rescue	30
<b>Capital Grants Received in Advance</b>	<b>5,338</b>
SCC Lakeview Cycling Legacy Grant	1
Armed Forces Covenant Grant	8
Heritage Brookwood Cemetery	20
Homes England (Triangle)	2,154
Decarbonisation Scheme	3,149
Personalisation and Prevention	7
<b>Received in 2021/22</b>	<b>1,619</b>
Homes England (Triangle)	1,552
Homes England (OWILS)	493
Homes England (121 Chertsey Road)	104
Football Foundation 3G Woking College	(380)
London Marathon CT 3G Woking College	(150)
Horsell Amenity Fund	(1)
<b>Total</b>	<b>7,942</b>

# Comprehensive Statement – The Council's Contractual Obligations

## Contractual Obligations – Capital Grants (continued)

### Homes England Grant

- The Council have received a total of £43m in capital grants relating to Homes England with £2m received in the current year.
- Homes England entrusts the grant recipients with a public service obligation to provide and facilitate the provision of affordable homes in England for persons failed by market housing.
- Woking Borough Council have applied for grants from Homes England in relation to the projects such as Sheerwater Regeneration and HIF. This is the Council's regeneration project to transform the centre of Sheerwater into a sustainable community and attractive new neighbourhood.
- The project funding is subject to monitoring and evaluation across a number of milestones stated in the funding agreements.
- The Council must meet the conditions set out within the agreement in order to receive (and retain) the grant funding. The conditions include various stipulations including the progress of infrastructure against milestones, housing units started and completed and wider benefits achieved.

### Decarbonisation Scheme

- This grant relates to funding to assist the Council in decarbonising heat from the Department of Business, Energy and Industrial Strategy (BEIS).
- The grant is to be used to connect two large office buildings to a new low carbon district heating and cooling network within Woking.
- Within the documentation provided it is noted that the grant is conditional upon specific requirements, including, providing a full risk register, firm pricing, energy savings calculations and evidence to support electricity costs.
- The grant also requires, amongst other things, monitoring reports to be provided monthly highlighting the status of the projects, project spend and any risks impacting project delivery.

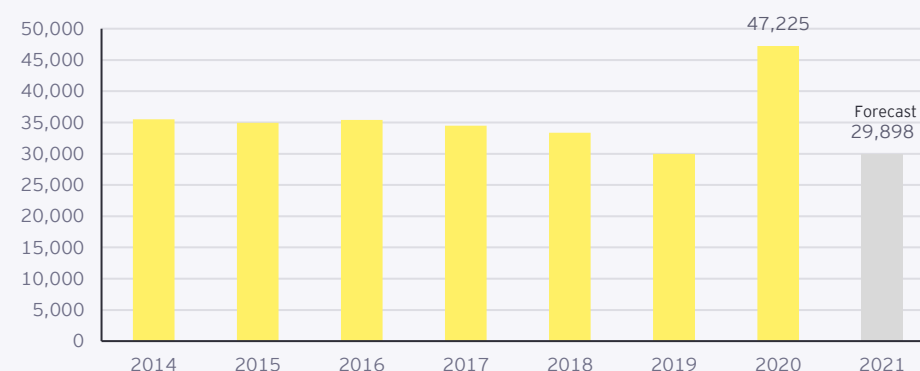
## Revenue Grants



**Revenue Grants:** Woking Borough Council received £22.4m in revenue grants in the year. This is a decrease of 53% on the prior year.

- The graph highlights the Council has received a total of £22.4m in revenue grants in the current year to date. The data used relates to November 2021, representing nine months of the financial year, an extrapolated figure for the full year would be £29m.
- The spike in the graph in 2020 shows the current year grant income is a significant decrease of 53% from the prior year where the Council received £47m in grant income, even using the extrapolated figure it is noted the value of grants received in 2020 were much larger. This is due to the impacts of Covid-19 and the grants received by the Council in support of this.

**Figure 24 – Grant Income by Year -£'000**



- There were five grants received in the year that were over £1m, we have extracted these in the table in figure 25. Two of these related to Covid specific grants, the total of which sums to £7.3m, making up 32% of the total grant income received.

## Comprehensive Statement – The Council's Contractual Obligations

### Revenue Grants (continued)

**Figure 25 – Revenue Grants Above Investigation Threshold**

Grant	Amount (£'000)
Rent Allowance Benefit Subsidy	6,629
Rent Rebates Benefit Subsidy	4,437
Sources of Finance PFI Credit	1,457
Sources of Finance Expanded Retail Relief	5,906
Sources of Finance Covid NDR Relief Additional Grant	1,459
Other	2,538
<b>Total</b>	<b>22,426</b>

- We have assessed each of these grants to determine if there are any risks of the Council not meeting the obligations, leading to a negative impact on revenue.

### Rent Allowance Benefit Subsidy & Rent Rebates Benefit Subsidy

- The rent allowance and rent rebates received relate to housing benefits which are paid out by the Council on behalf of Central Government. The grants seen in the table above relate to reimbursements of these housing benefit payments and are claimed by the completion of subsidy forms.
- The Council has systems in place to ensure the benefit payments are administered appropriately and the grant reimbursements are correct.

### Source of Finance PFI Credit

- The PFI credit is a payment to the Council each year across a twenty-five year period in respect of a completed housing PFI scheme. The properties under the scheme are managed by a housing association.
- The land is being provided by the Council for free under a 125 year lease, over which period Woking will retain nomination rights (even after the 25 year term of the contract); the rent levels will remain at social housing levels in accordance with the S106 Agreement. Units built provide social housing to people on the Woking's Housing Register throughout the 125 years.

- MTVH manage and maintain the properties for the remaining 100 years after the end of the UC payments, providing housing for the Council's nominations. It is only after the 125 year lease terminates that the houses revert back to the Council.

### Sources of Finance Expanded Retail Relief and Covid NDR Relief Additional Grant

- These grants are paid to the Council by Central Government in respect of reliefs ('discounts') granted on business rates to businesses.
- The figures in the final accounts each year are based on the final 'claim' form for the year (the NNDR3 form)
- The Council has systems in place to ensure the business rates are collected appropriately and the grant reimbursements are correct.



## Comprehensive Statement – The Council's Contractual Obligations

### Contract position

- According to the Council's contract register the Council had 158 live contracts as at 31st October 2021. The value of these contracts was £237.6m.
- Of the 158 contracts Woking had with suppliers, 9 had a total contract value of over £1m. Of these contracts, the 3 with the highest value were with:
  1. **Woking Housing Partnership Ltd** - A £96.0m contract spanning 60 months. The contract sits within Housing and relates to the provision of housing management, repairs and planned maintenance. (3 months remaining)
  2. **Skanska Rashleigh Weatherfoil Ltd** - A £40.0m contract spanning 120 months. The contract sits within Building Services and relates to "integrated facilities management services for all council commercial properties". (1 year and 10 months remaining)
  3. **Evolution** - A £36.5m contract spanning 300 months. The contract sits within Housing and relates to "the provision of 224 new homes for letting at social rent levels" under the PFI Housing Contract. (18 years remaining)
- As demonstrated in Figure 26, the majority of the Council's contracts are due to expire in 2022, demonstrating that the Council do not have significant contractual obligations beyond the short-term time period.
- For 2023, there are £64.1m worth of contracts due to expire, indicating that the Council do have contractual obligations in the medium-term relating to these contracts. The most significant of these contracts are;
  1. **Skanska Rashleigh Weatherfoil Ltd** - Integrated facilities management services for all Council commercial properties - £40m
  2. **Serco** - Grounds Maintenance and Street Cleansing Service - £20m
- For 2025, there are £23.7m worth of contracts due to expire, indicating that the Council do have contractual obligations in the medium-term relating to these contracts. The most significant of these contracts are;
  1. **Kier Construction** - Development of 58 new sheltered housing units in Old Woking - £15m
  2. **Freedom Leisure** - Manage the Leisure Centres and facilities in Woking Borough. - £8m

- For 2039, there is £36m worth of contracts due to expire, indicating that the Council have contractual obligations in the long-term. This contract relates to;

1. **Evolution** - To provide 224 new homes for letting at social rent levels under the PFI Housing Contract - £36.5m (As above).



**Medium-Term Obligations:** Woking Borough Council have £89.5m worth of contractual obligations in the medium-term.



**Long-Term Obligations:** Woking Borough Council have £39.6m worth of contractual obligations in the medium-term.

**Figure 26 – Contract Maturity by Year - £'m**

