Some of the contents of this report have been redacted due to commercial sensitivity.

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Dear Secretary of State,

Since taking up our appointment in May of this year, we believe Woking Borough Council (the Council) is in the earliest stages of resolving the complex financial and commercial arrangements and much more remains to be done.

You have asked for a report within three months, six months and thereafter at six-monthly intervals. This is our first report following your Directions.

Executive Summary

The Council is in a very difficult financial position due to previous investment decisions and a lack of rigorous recordkeeping and governance. The scale of the challenge for the Council should not be underestimated. The Council carries £1.9bn of debt which it is not in a position to repay. There are unfinished investment-based regeneration developments which the Council does not have the funds to complete.

Since the start of the intervention, more detail has emerged about the financial situation and the Council and commissioners' sense is that there could be more to come. The revenue gap for 2024/25 has widened from the initial forecast, including a further analysis of the capital financing charges. The latest 2023/24 budget monitoring has identified an increasing projected overspend in year to date, due to corporate financing costs, further underperformance of commercial assets and overruns in some departmental budgets. The Housing Revenue Account (HRA) has been found to be further in deficit. There is a significant lack of data required to enable due diligence on many of the council assets in order to produce a meaningful asset strategy and thus enable any subsequent due diligence processes. Furthermore, pressures on the organisation will continue to grow in the next six months as difficult financial decisions will need to be made by the Council to mitigate this whole situation.

The Council is aware of these emerging difficulties and is keen to resolve all the issues and is aware at all times of the potential impact on residents and the best value outcomes to be achieved.

Commissioners have found that members and officers at Woking BC have been very cooperative, open and transparent which has helped in the early days of intervention. The Council is open to advice and support, commissioners are listened to.

The Council has produced an improvement and recovery plan which is supported by commissioners. The plan outlines four key themes; financial resilience, work on a commercial strategy including the role of companies, organisational redesign (encompassing the Council's 'Fit For The Future' programme, which includes the identification of savings and related reduction in the Council's headcount), and governance and assurance. The Improvement and Recovery Plan and its first report on progress was approved by full council on 22 August 2023.

The Council was already in the process of reviewing services to identify a range of savings to assist in moving the Council towards a sustainable financial position, addressing the gaps in its revenue budget. Alongside work on its service offer, it has continued with an organisational transformation process. Work has begun to rationalise the Council's assets to assist with reducing its debt, whilst securing the best possible value for the public purse. Although there are timelines for delivery, these activities are yet to be delivered and hard decisions are still to be taken. The gap in the current revenue budget has increased in-year.

Work is still underway to understand the whole extent of the implications of the financial situation although this picture is now crystallizing and expected to be much more clearly understood by September. During the period since the Directions were made, the Council's Section 151 Officer issued a Section 114 notice, on 7 June. This does not represent a deterioration over this period; rather, it was an anticipated crystallisation of the depth of the financial challenge the Council is facing. The Council remains in a serious position in terms of its outstanding debt on which the Council will need to work closely with Government in order to find a long-term solution. Final Accounts have not been closed since 2018/19, so the Council has no baseline to work from. Commissioners are engaging with audit bodies and the Department for Levelling up, Housing and Communities (DLUHC) on a solution. Once the Council's financial position is clarified, savings the Council can achieve through staffing and service reductions will not themselves be sufficient to deliver a balanced budget, as the scale of the capital financing costs associated with the commercial and regeneration activity cannot be contained within the resources reasonably available to the Council, and the Council will need to engage in talks with Government about support.

There is still much to do, and some issues will take a long time to resolve. The asset rationalisation strategy is in its infancy and despite recent best efforts there is a need to update financial systems and reporting mechanisms. The position of the wholly owned council companies and joint ventures is being evaluated and this is not a straightforward task. The Council savings plan is clear, yet savings are only to be realised in September 2023 and February 2024. The role of scrutiny is to be reviewed and the area of governance surrounding the Council Companies remains as work in progress.

Background

In the external assurance review of the Council, we set out that Woking Borough Council is the most indebted local authority relative to its size in the UK, with borrowing (£1.8bn at 31 March, as reported in the Council's S114 notice) compared to a net budget of £24m. The Council's historic investment and borrowing decisions are disproportionate to its ability to manage complex commercial activity and the Council lacks the commercial skills and capacity to identify a longer-term strategy to resolve its commercial arrangements. We reported that it was "difficult to conclude the Council has complied historically with accounting best practice and the Prudential Framework".

The Council's leadership team, working with a political administration elected in 2022, are making efforts with the support of the Commissioners to deal with these significant issues to provide financial stability for the future of Woking.

On 7 June, the Council's Section 151 officer issued a Section 114 notice, setting out the range of financial challenges facing Woking Borough Council. It concluded that "there is no prospect that the Council will balance its budget in 2023/24, 2024/25 or the successive years without external intervention on a very large scale."

In her response to the Section 114 Notice (a statutory requirement), the Council's Chief Executive made a number of recommendations, including a programme of savings to bridge the budget gap in 2024/25, the development of an asset disposal strategy to sit alongside a commercial strategy for the borough, and approaching central government to explore the prospect of financial support. These recommendations were passed unanimously by the Council at the Extraordinary Council meeting held on 20 June 2023.

Directions requirements

The Directions require the Council to prepare and agree an Improvement and Recovery Plan, drawing on the contents and recommendations of the External Assurance Review which we carried out during the spring, and which was published alongside the Directions on 25 May 2023. In particular, the Directions required that the plan contain a number of components. These are set out in the table under 'Success Measures', below.

Aims of the intervention

The aims of the intervention, in line with the Directions, are to:

- address the complex and interrelated set of financial and commercial challenges that the Council is facing, managing the financial and commercial activity required to achieve sustainable revenue and capital budgets, a reduced debt position and a compliant Housing Revenue Account
- support the Council's organisational transformation and changes to its operational model required to ensure that it has a sustainable revenue budget; to provide for an operating model and service offer appropriate for a council of this size, taking account of its income and the needs of the communities it serves; and to ensure it has the skills and capacity required to deliver that offer
- develop organisational capacity, governance systems and an organisational culture in which the Council is compliant with relevant rules, guidance and good practice; in which staff are empowered to perform well and effective strategic thinking, challenge and risk management are the norm amongst officers and members and in which members are supported to make effective decisions; and in which the Council is securing continuous improvement in everything it does, having regard to a combination of economy, efficiency and effectiveness (meeting the 'best value' duty).

Success measures

In line with the various specific elements of the Directions and with the aims set out above, we have identified the following success measures for the intervention as a whole.

Component of the Directions (Directions, Annex A, 1)	**Related success measure**
a. An action plan to achieve financial sustainability and to identify and close any short and long-term budget gaps across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan.	1. The Council has a balanced revenue budget and a sustainable Medium Term Financial Strategy.
b. An action plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable.	2. The Council's capital, investment and treasury management strategies are sustainable.
c. A strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs.	3. The Council's debt position has been improved.

d. An action plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority. An updated minimum revenue provision (MRP) policy in line with all relevant rules and guidelines.	4. The Council's functions are operating in line with the appropriate rules, guidance and good practice. 5. The Council has a compliant Housing Revenue Account.
e. An action plan to reconfigure the Authority's services commensurate with the Authority's available financial resources.	6. The Council has a service offer which is shaped by a focus on its residents and customers and responsiveness to their needs and demands and which is affordable and sustainable, articulated as part of a wider corporate plan.
f. A plan to ensure that the Authority has sufficient skills, capabilities and capacity to deliver the Improvement and Recovery Plan, within a robust officer structure, including appropriate commercial expertise and capacity.	7. The structure of the Council is proportionate to that service offer and to the wider corporate plan and is designed in such a way as to deliver the objectives of that plan.
g. An action plan to strengthen the Authority's financial and commercial functions, and to secure improvements in risk management and governance.	8. The Council has ensured that there are effective governance, risk management and scrutiny arrangements and functions in place for council decisions, that members and officers demonstrate that they understand and respect their roles in council business, and that decisions are taken on the basis of appropriate evidence and analysis.
h. A plan to secure value for money during any exit from the Authority's arrangements with its companies, and the revolving lending arrangements between them, including a plan on how to mitigate associated risks and an appropriate timescale for doing so.	9. The Council's remaining assets and commercial interests following a programme of exit are appropriate to the Council's size, in line with the corporate plan and the service offer it articulates, and sustainable with reference to its medium term financial strategy.
i. Actions to secure continuous improvement in all services.	10. The Council has demonstrated that it is focused on continuously improving in all areas and has robust processes in place to collect and analyse data on its delivery, and to manage its performance effectively, and has developed an organisational culture, at all levels, where staff are enabled and empowered to constructively challenge and improve ways of working.
	11. All the recommended actions from the External Assurance review and other actions identified as part of the Improvement and Recovery Plan have been progressed, or a concrete plan is in place to action them. 12. The Council has considered properly and decided as to whether to move to a four yearly electoral cycle.

We will return to these success measures in future reports as the basis for assessing the progress the Council has made.

Description of report and annexes

The following sets out the **immediate priorities** Commissioners set for the Council and the progress made on these and assesses in more detail the progress the Council has made under each of the four major themes of its Improvement and Recovery Plan: **financial recovery**, **organisational redesign**, **commercial issues** and **governance**; and sets out overall **next steps**.

We attach at **Annex A** the Chief Executive's letter to us setting out the Council's first report to Commissioners; at **Annex B** the Council's Improvement and Recovery Plan; at **Annex C** the Council's own assessment of its progress so far which was presented to the council on 22 August; and at **Annex D** the Chief Executive's related position statement to the Council.

Immediate priorities

In the short term, we identified five early priorities for the Council in response to the immediate issues the Council was facing at the start of the intervention. These were:

- **managing the council's borrowing**, in particular to understand the cashflows for council companies and to establish a strong working relationship with DLUHC and HM Treasury (HMT)
  The Council's cashflow borrowing requirement has been unclear and subject to frequent changes, with requests for borrowing being made, at times, with very short notice.
- **developing the business case(s) for any 'invest to save' borrowing**, including a robust methodology for appraising savings and identifying links with capital receipts.
  The Council has to quickly determine whether any further capital investment would be needed to maximise the value of assets, and hence the potential reduction of debt through an asset rationalization strategy.
- **developing the revenue budget** for 2024/25 including identifying savings through the Fit For The Future programme (which is now rolled into the Improvement and Recovery Plan).
  The Council is facing the need to make cuts of at least £11m to its 'business as usual' revenue budget for 2024/25. This is in addition to addressing the very large deficit in the Council's general fund balance and charges to the revenue account arising from the Council's previous incorrect approach to minimum revenue provision for its borrowing and related prior period adjustments. It should be noted that the gap is likely to be higher than £11m with rising capital financing costs for managing the existing levels of debt and as the position on the budget becomes clearer. The need to make significant service cuts implied the need to carry out consultation on changes to services with local people over the Autumn.
- **developing the Council's Improvement and Recovery Plan**
  This is a central requirement of the Directions imposed by the Secretary of State
- **reviewing the Council's assets** including identifying options for a rationalization strategy
  Data on the Council's assets is incomplete, and in some cases missing. An improved understanding is required in order to construct a robust asset rationalization strategy. The Council continues, at present, to deal with the assets of the companies separately from the Council's investment and operational portfolios. Until the overall view of assets is brought together in one place within a commercial strategy then this may affect how benefit is maximised from disposals for the public purse. The Council's recovery work to date had been focused with separate workstreams and it was important to realign internal governance processes to incorporate the key issues of financial recovery, commercial strategy (including companies) and the organisational redesign process.

Early progress on immediate priorities

The Council and commissioners have established a structured engagement with DLUHC and HMT regarding borrowing to replace repayment of loans. Previous weakness in financial and commercial processes mean there is still work to do with regards to the accuracy and clarity of financial information.

Business cases for potential 'invest to save' funding for some of the Council's unfinished regeneration investments are being developed with the help of commissioners. This is in order to facilitate an exit strategy.

The Council has established a Financial Control Panel. Under the Section 114 notice, the Panel, which meets twice a week, is considering any council requests for spending (of more than £500). The Panel is saving the Council money, in the region of 33% per month from capital and revenue expenditure and is having a positive effect on the need for service heads to justify any expenditure. The process for the operation of the panel is under review and is developing. At the same time, however, the Council has identified a significant overspend on the 23/24 budget in its Q1 monitoring (this period predates the existence of the Financial Control Panel), and corrective action will be required to address this.

The foundations of a new Medium Term Financial Strategy (MTFS) identified the savings the Council needs to make to balance its "business as usual" budget for 2024/25. There is progress against the existing savings target of £11m, with £4.4m of developed proposals and £4.4m scoped out for consideration. A £2.2m gap remains with a target of further savings to identify of £4m to mitigate the risk of under-delivery. This remains work in progress and difficult decisions on service delivery will be required for 2024/25 and subsequent years. This will be a big test for the Council as historically it has not been used to making significant service delivery efficiencies.

The Council has developed an Improvement and Recovery Plan (IRP) with full engagement and support from commissioners. The plan sets out four themes along with its associated governance arrangements, now streamlined into one governance process. The first meeting of the Improvement and Recovery Board (IRB), attended by commissioners, has taken place. The IRP has been presented to full council on 22nd August and has been adopted unanimously at council. The Council scrutiny function is also involved in the development of the plan.

Work reviewing council assets is underway, but detailed valuations and related evidence is not yet in place in many cases. The process of compiling a comprehensive adequate asset register is in progress and will be essential in the next phase of work. Commissioners have been helping to develop a model for coordinated asset rationalisation as the current piecemeal process is not fit for purpose to deliver the strategy.

With the help of commissioners in some cases, additional resources have been brought in to carry out additional review work and help to accelerate planning and delivery. These partners include Surrey County Council; Ethical Commercial; CIPFA; the Centre for Governance and Scrutiny, LGA and Local Partnerships.

The Fit For The Future (FFTF) programme has developed and the first phase of staffing restructuring and reductions is now underway. The consultation period has started with decisions being made in September to realise in year savings where possible. Discussions are taking place with potential delivery partners for some of the Council discretionary services. This has been approached in a thorough, professional manner with engagement of commissioners, staff and unions. (The Fit For The Future programme, which encompasses budget savings, efficiencies and changes to service delivery and the work to deliver related staffing reductions, has now been rolled into the wider Improvement and Recovery Plan.) There is much work to do.

The Council's plan

The Council's Improvement and Recovery Plan is still in its infancy. The first iteration of the plan and progress reporting was passed by the Council on 22 August.

The plan has a robust design. There is a transparent relationship between the components of the plan and the requirements placed on the Council in the Directions. It is governed by an officer board, supported by working groups to drive progress on each of its four themes (financial recovery, organisational redesign, commercial issues and governance and assurance). Each action has a named owner. Councillors will receive regular progress reports through both the Overview and Scrutiny Committee and the Council's Executive.

Programme and risk management functions are being put in place to support the delivery of the plan, although these are not yet fully established and embedded.

Financial recovery

The financial deficit is currently being reviewed and will be re-stated in early September. However, it is unlikely to materially change and is more likely to increase than decrease. The 2025/26 figure is a recurrent amount. The ongoing deficit reported excludes the impact on the capital financing budget of both reduced levels of borrowing related to future commercial and regeneration activity, but significantly the reduction in income from the suspension of principal and interest payments from the two main companies, as it was assumed these costs would have to be charged to the companies at some point. The position in the table below is as per the S114 notice. Work is being carried out to refresh this for the September Medium Term Financial Plan (MTFP) and it will be updated over the next month as the plans in these areas become clearer.

	2023/24 £m	2024/25 £m	2025/26+ £m
Total Deficit	1,200	138	118

The two key issues are the extent to which Minimum Revenue Provisions (MRP) has been undercharged and the Loan Impairment.

MRP

Insufficient monies have been set aside for the repayment of debt. The Council's debt totals £1.9bn as of 31 March 2023 and work commissioned by the Council states that the Minimum Revenue Provision appears to have been under calculated since 2007/08.

- To correct the historic under provision will require prior period adjustments which total £218m.
- Additional charges will be required worth £95m in 2023/24 and an average in the region of £75m going forward.

The estimates have been prepared on a prudent basis and further work has been commissioned by the Council to update the figures for the end of August.

Impairment of Loans

£1.3bn of the debt has been for loans to companies owned by the Council, principally Victoria Square Woking Limited (VSWL) and Thameswey Group Limited (TL). The balance will be made up of historic borrowing to support the capital and regeneration programme.

Work led by the Section 151 function, CIPFA and other specialists has estimated that up to c£160m of PWLB loans have been used for revenue purposes including the payment of interest to the Council (and thence to PWLB) for which a corrective charge may be required. This has been included in the deficit figure expressed in the table.

The value of the assets which the loans are funding are significantly lower than the totality of the loans advanced for their development. [Content redacted due to commercial sensitivity.] It has been difficult to arrive at a reliable impairment position due to the absence of up-to-date red book valuations, audits and some other incomplete records. The majority of this is for VSWL but it also includes amounts for Thameswey and two other commercial loans. This leads to the Council needing to consider making provision for a large tranche of debt and the accounting treatment for this will need to be agreed.

Other Issues

The deficit also includes an allowance to correct the understated repairs and maintenance budget. This is based on a standard formula for the requirement based on the scale of property held. This will need to be validated as part of the asset workstream and further evidence will need to be provided to substantiate it or reduce it.

No allowance is made for a 'business as usual' budget gap. Ideally this will be dealt with as part of the MTFP but there is a risk the full savings/cuts required will not be achieved. Whilst good progress is being made on the delivery of savings, the risk of under-delivery is real; of the savings of c£8.4m in the 2023/24 budget, the percentage of savings projected to be missed is at least 8% with a further 44% likely to be only partially achieved. The surplus of savings to be identified for 2024/25 (£1.8m of £12.8m in total) is around 14% of the total savings sought. It is difficult for any local authority to reduce its cost base by the required 25% in one year and the lack of detail behind all of the savings options means there is a risk that this will not be achieved. The Council will have to work hard to ensure the savings are delivered at pace with mitigation measures identified for potential underachievement.

Further work is required to unpick the position on the capital financing budget and there is a lack of clear working papers underpinning assumptions made on future lending and payments receivable from commercial and regeneration activities. Principal and interest payments from the two main companies are currently deferred which will be a further pressure on the revenue budget which is estimated to be in the region of £22.8m per annum. This is not included in the deficit in the S114 statement. The position is further complicated by the impact of the required debt impairment and how this should be accounted for.

The financial position on the revenue budget is as follows:

- The draft Quarter One monitoring report suggested an overspend for 2023/24 in the region of £6.3m on a net budget of £25.3m. The position is worsening as the position on the rental budget and on the capital financing budget becomes clearer. Corrective action will be required to address this as part of the measures set out in the IRP.
- As there are no reserves available, the budget for 2024/25 will need to be balanced from within the resources available requiring as a minimum, £11m of cuts and savings. To date, £4.4m are relatively well developed, £4.4m have been scoped and a gap of £2.2m remains. A target of £4m has been adopted to identify further measures to balance the budget. In some cases, the process

of identifying savings for 2024/25 and beyond has been hampered by the absence of robust management information on which to base proposals and of clear risk assessments and risk mitigation strategies relating to the proposals considered.
- This above does not include provision for MRP or the debt charges that are unlikely to be repaid and it will not be possible to meet these costs from within the resources available to the Council. The combined costs for MRP, capital financing charges and if the potential asset management costs are included, could be in the region of £150m to £160m per annum.

The Improvement and Recovery Plan includes the following priorities to improve the financial position:
- An action plan to achieve financial sustainability and to identify and close any short and long-term budget gaps across the period of its medium-term financial strategy (MTFS), including a robust multi-year savings plan.
- An action plan to ensure the Authority's capital, investment and treasury management strategies are sustainable and affordable.
- A strict debt reduction plan, demonstrating how overall capital financing requirement and external borrowing will be reduced over a realistic but expedient timescale, reducing debt servicing costs.
- An action plan to ensure the Authority is complying with all relevant rules and guidelines relating to the financial management of the Authority. An updated minimum revenue provision (MRP) policy in line with all relevant rules and guidelines.

The above is in the context of very poor record keeping and financial coding with significant concerns about the quality of the financial information available.

Finance Workplan

To underpin the above, a finance workplan has had to be developed by the interim S151 Officer, with support from CIPFA and oversight from Commissioners, to ensure the basics are in place. This forms part of the Improvement and Recovery Plan and includes:

Strengthening the capacity within the finance function – Most of the pre-existing senior finance staff have left and the interim S151 Officer has built a strong interim finance structure and brought in some additional support from CIPFA. Some gaps still remain although the most notable of these, the lack of a technically skilled chief accountant, which had been filled but only on a short term contract. The interim S151 leaves for another role at the end of August with the Appointment Panel for his successor held on the 9 August, and the new interim 151 ratified by full council on 22nd August. The appointee has the full support of commissioners. It will be a priority to maintain continuity within the finance function. For the medium- to longer-term discussions are being held with other local authorities around the capacity for shared services.

Assurance and Expenditure Controls – A lot of progress has been made to tighten governance and decision making. A weekly expenditure control panel is in place and is having some impact on reducing spend, with an estimated reduction in monthly revenue and capital expenditure of 33%. The impact of the panel is being reviewed and a commissioner attends each meeting.

In addition, the Annual Governance Statement has been drafted and an assessment against the Financial Management Code drafted. These documents are scheduled to be completed in August and will then inform further changes to the finance function and governance required. A Commercial Board is being established in August. This has been set up by the Finance Commissioner, but it is intended that this will be chaired by a member of CLT after the first full meeting in August. The Board will have oversight of all commercial decision making and commissioners will be in attendance.

Borrowing and Cashflow – the Council have suspended their capital programme apart from urgent health and safety and regulatory works, with payments only being made to companies and joint ventures to cover contractually committed capital expenditure. Investment required to complete contracted schemes will be the subject of separate business cases to DLUHC. This has significantly reduced the need to borrow, but as with most local authorities, the Council's loan book contains a mixture of short- and long-term debt with a number of short-term loans with other local authorities, driven in part by the uncertainty over interest rate trends. Due to the Council's financial position, it is not currently possible to access borrowing from other local authorities which has led to a reliance on access to PWLB. The rising capital financing costs are putting pressure on the capital financing budget which will overspend in 2023/24. Establishing a clear process with DLUHC to schedule borrowing requests and give confidence in cashflow management has been an early priority and an agreed process is now in place between DLUHC, Commissioners and the Woking S151 Officer.

The Council is still working to develop accurate records of their loan book and to rebuild the financial records so an accurate capital financing budget can be prepared. With the suspension of the revolving loan facility with the external companies, the need to borrow has substantially reduced. However, to ensure the companies remain solvent, the repayment of principal and interest has been suspended leaving a potential annual revenue shortfall of c£22.8m. This figure will need to be confirmed and will form part of the revised budget deficit. This is on top of the likely in year deficit on the current treasury management activities.

An urgent area of focus for Commissioners is the exit route from the major commercial and regeneration activities.

Annual Accounts and crystallisation of deficit – to meet statutory reporting requirements and deliver updated MRP policy – The Council have been unable to complete the 2022/23 draft accounts, with the first draft scheduled for September. To complete all of the quality assurance and due diligence could take until December. Senior council finance staff have left and there has been a loss of organisational memory. This, coupled with significant issues with the accuracy and quality of the financial ledger and outdated historic accounting practices, has made preparing the draft accounts much harder than expected. Additional support is being provided from CIPFA and the recent appointment of a chief accountant should assist.

This raises significant concerns about the quality of the historic accounts. The last audited accounts are from 2018/19. External audit work has not progressed due, in part, to concerns about the quality of the information for the Thameswey accounts which are consolidated into the Council accounts. Given the issues that have been uncovered with the quality of the ledger and with record keeping, commissioners believe it will be very difficult to give confidence that the historic draft accounts give a true and fair view. The finance team are under pressure to complete a significant volume of work and effort would be best placed in completing an accurate set of 2022/23 accounts. An approach to the audit of the historic accounts will need to be agreed with DLUHC and audit bodies.

The financial deficit outlined earlier is based on detailed work with CIPFA and other advisors to calculate provisional impairment and MRP figures. These figures will need to be updated in line with the final accounts work. Whilst they have been prepared on a prudent basis there is a risk that the impairment position will have worsened. As part of the work an updated MRP policy is being produced for September, which will then lead to revised Capital and Treasury Management Strategies as part of the 2024/25 suite of budget reports. Updated MRP figures will be available in September.

With the update of the deficit figure the position on the capital financing budget will also be included.

The work above, along with the assessment against the Financial Management Code, will ensure that the Council is complying with all relevant rules and guidelines relating to the financial management of the Authority and an updated MRP policy is produced.

Reduction of the level of outstanding debt – this workstream is covered elsewhere in this report. The finance team are closely involved in this work.

Delivery of MTFP and Savings – A revised Medium Term Financial Strategy (MTFS) was produced for the Executive and was endorsed by the Executive on 13 July. An updated MTFS will be going to Executive and Council in September.

Financial Reporting – historic budget monitoring reports were of limited value to budget holders or to decision makers in understanding the financial position of the Council. An overly complex system of internal recharges made the budget information difficult to understand and there has not been a culture of strong financial management and budget holders were not enabled to manage their budgets. Due to the challenges with the financial information and ledger, the 2022/23 Financial Outturn Report has not been completed and is due in mid-August. This is less than ideal but reflects the scale of the task the finance team face.

The quarter one monitoring report has been completed and will go to Executive in September. This is in a revised format and is the first monitoring report seen that provides understandable financial information and a forecast year end position. Whilst the in-year financial position is concerning, this is a significant step forward.

Delivery of a balanced Housing Revenue Account (HRA) and 30 year Business Plan – An updated HRA report was taken to July Executive. The HRA is facing an in-year deficit of £1.5m with further work to be carried out to confirm the position which is likely to worsen rather than improve. Assurance will also be required that all recharges to and from the HRA are substantiated and correct. The HRA is not financially sustainable in its current position and work is being undertaken to develop a recovery plan. The required 30 year business plan is not in place and is currently being developed. A Housing Accountant has been appointed to support this work but it is likely to be December before it is completed. A clear action plan to address the issues in the HRA and to enable the plan to be developed is now required.

Summary of Progress & Next Steps – financial recovery

In short, the financial challenges facing the Council remain significant, but progress is being made:

- Plans are now in place to ensure that the revenue budget is sustainable and affordable although with the 'business as usual' budget gap widening, further work will be required. The test will be in ensuring the plans for reducing expenditure can be delivered. This will not deliver a balanced budget as the scale of the capital financing costs associated with the commercial and regeneration activity cannot be contained within the resources reasonably available to the Council.
- The above does not cover the financial costs from the Council's capital, investment and treasury management strategies. Whilst good progress has been made in reducing capital spend and the need to borrow, the corrective action required to correct MRP and reset the capital financing budget with the reduced interest and principal repayments that will be forthcoming, will lead to a financial pressure that cannot be met from within the resources available to the Council.
- Work has started on an asset rationalisation plan and to exit the commercial and regeneration activities as detailed in subsequent sections of this report. It is too soon for this to have had an impact on the level of debt and realising these plans will be an area of focus for the next period of intervention.

- Clear plans are in place and steps have been taken to ensure the Council is complying with all relevant rules and guidelines relating to the financial management of the Council, including for MRP.

Priorities for the next phase of intervention will include:

- Ensuring the planned budget savings are delivered to deliver a balanced 'business as usual' revenue budget (setting aside the costs of borrowing and the need to bring the general fund back into balance) within 2023/24 and in future years. This includes identifying plans for the £4m target still to be identified and in year mitigating actions for 2023/24
- It will need to be ensured that the work on the Recovery Plan, new staffing structure, savings and consultation plans are integrated and align.
- Concluding this phase of the work to ensure that the finance function and practices are fit for the future. This will include the delivery of the revised Capital and Treasury Management strategies and polices as part of the suite of budget reports and ensuring a full set of accurate and quality assured 2022/23 final accounts are in place.
- Embedding a strong culture of financial management within the authority
- Confirming the audit arrangements for the financial accounts.
- The development and delivery of a balanced HRA and 30-year business plan.
- Developing a clear set of plans on how the asset rationalisation work will reduce the level of debt held and for the exit of the commercial and regeneration activities. This must include ensuring that all of the appropriate asset records and valuations are in place.
- Discussions with government on the requirements for support that will enable a balanced budget for 2024/25 to be delivered.

Organisational redesign

The Council's staffing restructuring process was established as part of the Fit For The Future programme in response to the urgent need to make cost savings in the Council's 2024/25 budget. This programme is planned to reduce the Council's headcount by about 60 FTE. This amounts to around 18% of the Council's workforce.

Support for staff throughout this process is in place, with contractors providing occupational health and employee assistance and wellbeing services. There is a constructive relationship with union representatives in relation to the process. There are challenging timescales for the two phases of the process, the first covering those managers who report to the strategic directors, and the second covering the remainder of the staff.

The process is now part way through the first phase, which should complete by December. In early September, LGA will discuss with the Council's CLT the findings of its review of the current organisational structures, and in mid-September those teams which are definitely in scope of the first phase of reductions will be identified and the staff informed.

The second phase will take place after that and is scheduled to be completed by the end of March next year. That deadline is subject to a decision point by full council on the process, to be taken in September 2023.

The process is projected to achieve savings of £2.4m in staffing costs and a further £1.3m in related supplier costs. Redundancy costs are being met through capital receipts flexibility for this financial year.

There will be a need for the CLT/strategic director structure to reflect the changing shape of the organisation, relating to the revised service offer which the Council is currently developing as part of the Fit For The Future programme.

It is important that the restructure can reflect the vision of the Council for the next five years. In that respect, the Council has committed to refreshing the corporate plan, *Woking for All*.

There are some areas where the External Assurance Review identified that there is a need to increase capacity, including in particular the Council's finance, legal and commercial functions, where there a number of vacant posts/posts filled by interim appointments.

In other areas, over time there may be a need to change the mix of skills in the organisation to respond to different stages of the Council's transformation and improvement journey. There is not at this point a concerted plan to do that. The Council does not currently have an adopted people strategy with plans to address these challenges, though the scoping work for that has begun.

There is a need to manage resident engagement through the process of changes to, and likely reductions in, services, such that residents and businesses understand the changed nature of their relationship to the Council – characterized more as a partnership and less in terms of dependency.
The first phase of engagement with residents and businesses on service redesign is underway and has generated a large response – over 8,000 responses. The second phase is due to start in the Autumn. The specific budget savings planned will need to be carefully managed and effort will be required to ensure reach across all communities and demographics within Woking in any subsequent consultations relating to specific service reductions. A further area of focus will need to be to ensure equality impact assessments are carried out on the proposed policy and service delivery changes.

Commercial issues

The strategy that will bring all WBC commercial activities together remains in a development stage as current contractual, regeneration and company arrangements are closely examined. As commissioners investigate each area a sense of the complexities of the Council's activities continues to emerge. There are many dependencies between the Council's owned companies and joint ventures, its external suppliers and partners and its internal departments meaning that any actions taken have consequential effect elsewhere. This is particularly evident between the Improvement and Recovery Plan (IRP) themes and the inter-relationship between finance and commercial activities. This relationship has led to the urgent formation of a commercial governance board as a central element of the IRP. This will give greater scrutiny over the commercial decision making. The commercial governance board terms of reference are described in more detail later in this report.

Commercial Strategy Development

The development of the Council's overall commercial strategy is being jointly led by the S151 officer and the Strategic Director – Corporate Resources. They are supported by trusted consultants, Ethical Commercial who have provided expert advice to councils with similar financial and commercial challenges including Slough Borough Council, Nottingham City Council and Thurrock Council. The strategy will focus on bringing together all council commercial activities under one clear plan. The stated vision for this being: *"To release the Council from unaffordable commitments, whilst protecting the public purse and optimizing the value of existing assets and rationalising."*

This vision is based on having:

- A full understanding of the activities of all council owned companies and joint ventures, and a plan to absolve the Council of these arrangements.

- A full understanding of all council owned property interests, whether freehold ownership, leasehold or leased.
- To have a clear plan for the rationalization of property that matches the future needs of the Council.
- A review of procurement and contract management arrangements of suppliers, goods and services to ensure best value is maintained throughout the life of contracted out services which includes services provided by council owned companies.

The first draft of the plan is to be released in mid-August 2023 and it is envisaged that the final Commercial Strategy framework will be agreed and implemented by the end of 2023. The strategy should place the following assets together for consideration. Currently they are being dealt with separately.

- Victoria Place regeneration project and Victoria Square Woking Ltd. (VSWL)
- ThamesWey Group Companies and the Sheerwater Regeneration project.
- WBC Investment and Operational property portfolios rationalization programme.

Victoria Place regeneration and Victoria Square Woking Ltd (VSWL)

Of the Council owned companies and joint ventures (JV), resolution of the Victoria Place Regeneration scheme and Victoria Square Woking Ltd JV is the most advanced and pressing in terms of timescale. VSWL is a joint venture with Moyallen, a Northern Ireland based property investment company.

This WBC JV is arranged on the basis of a 52%/48% shareholding in favour of Moyallen. [Content redacted due to commercial sensitivity.] Investigation into the budget increases and to reconcile the expenditure is underway. Moyallen's role in the JV is to oversee the scheme development and to provide secretariat and accounting service to VSWL.

[Content redacted due to commercial sensitivity.]

ThamesWey Group of Companies

ThamesWey is a wholly owned council trading company and was originally set up to deliver district heating and energy services to Woking. Over time the company has diversified from this original focus to deliver and maintain market, affordable and social rent housing in conjunction with the Council. The Group activities are therefore divided into two distinct sectors: (a) housing development, maintenance and provision and (b) district heating and energy supply.

The ThamesWey company structure and financial plan was established on the assumption that a revolving credit facility would be available from the Council to fund the capital financing charges. With the suspension of this facility the overall financial position needs to be understood and will inform the options for the future.

ThamesWey Developments Limited

The immediate activity that commissioners are looking into is the housing development and affordable housing provision and development. This part of the group is responsible for the potential development of the Sheerwater Regeneration project which would see the construction of 1146 new homes and public realm facilities in a 1960's estate in urgent need of renovation in a deprived area of Woking.

The scheme was awarded to ThamesWey Developments Ltd in [2017] and was planned as a 9-year programme with full completion in 2026. To date some 92units have been completed with another 400 near completion, comprising midrise flats and a mix of affordable and social housing units

arranged across several distinct phases. The public realm elements of the scheme including school extension, community centre and repairs to a local church have all been completed. However not all housing phases have been completed and a Business Case is in draft for further grant funding from WBC to Thameswey Developments Ltd., funded through further borrowing from PWLB, to complete these, providing a total of 490 units. At present it is estimated that a further £70m is required for this. Commissioners have challenged the assumptions made by Thameswey in their draft business case and have reviewed the advice on valuations given by Avison Young. We have further written to WBC on a number of clear requirements that we want to see covered in the business case following a commissioner's visit to the regeneration site. The business case remains work in progress.
At the point of completing the current phases, further options must then be explored to determine what can be achieved to maximise the value to the local community and the Council. It is recognized at this stage local residents have effectively lived amidst a construction site and the areas that have not been redeveloped are a blight on their wellbeing and the potential for vandalism and health and safety issues becomes a high risk.

It is envisaged that the options for completing/closing out the development will not be available for consideration until late 2023/Spring 2024. However, the immediate challenge for Thameswey, through September and October 2023, is to maintain the supply chain and relationships with creditors so that work can continue whilst WBC take further expert advice on the best value outcomes that could be achieved. As commissioners and expert advisors work through this 'discovery' phase with Thameswey it is evident that the complex, loose arrangements between WBC and the company require significant work to realign them with the extreme financial constraints of the Council.

ThamesWey Energy Limited

The other principal activity of ThamesWey is the development of local heat and energy networks. To date, in the local Woking area, this has been successful and is internationally recognized. [Content redacted due to commercial sensitivity.] A further project, in collaboration with English Partnerships for energy networks, has never generated a profit and Milton Keynes Council is now pursuing alternative options. We are in the early stages of our investigation into the performance and options for this part of the ThamesWey Group activity, but commissioners are working with the Department of Energy Security and Net Zero to seek alternative support for the associated companies.

WBC Investment and Operating Estate

The WBC property portfolio is a diverse collection of commercial, office, retail, industrial and residential holdings numbering some 385 properties. Several of the assets were acquired between 2010 and 2019 and the rationale for their acquisition is unclear. Many were acquired under special arrangements for the then Chief Executive's ability to procure properties up to a value of £3m without recourse to Council.

Many of the more valuable assets are concentrated within the near vicinity of the town centre. This gives greater importance to a strategically planned asset rationalization programme. An overload of commercial/retail/office properties released onto a (currently) depressed market in a short period of time will have the effect of further depressing values, reducing capital receipts for the Council and maximization of value to the public purse.

The Council is now carrying out its assessment of properties on the basis of 'Hold, Invest, Dispose' and are supported by Avison Young in this. It has become evident to commissioners, through interviews and working with the Council's property department, that there are insufficient commercial marketing skills to deliver the Property Rationalisation Programme (PRP), and this must be addressed through recruitment or partnership with external organisations. Commissioners continue to work closely with

WBC and their advisers to develop a target delivery model for the PRP. C£22m of budgeted rental income from the commercial estate is currently supporting the Council's revenue budget.

The rationalisation process will be a complex one, balancing the lack of information supporting the assets, the optimal time to go to market and trade-offs between the disposal of the more valuable assets to reduce debt and the impact on the Council's revenue budget.

Commercial Governance

It has been agreed that a central element of the IRP will be the Commercial Governance Board. This is to be chaired by the S151 officer and membership will include the Finance Commissioner and the Commercial Commissioner, as well as appropriate senior WBC officers. The terms of reference for the board are based on those successfully used elsewhere and have been adapted for WBC. This successful model will initially concentrate on ensuring commercial decision making is robust and based on appropriate advice and information and the immediate financial stabilization of the Council. Overtime, as PRP is implemented the commercial governance arrangement will have oversight and will be integral to the property Target Delivery Model.

Looking forward – the commercial future

Looking forward, the Council is in a very favourable geographical location, close enough to historical routes (the A3 and main line rail) connecting to south coast ports and London. It is also close to new routes (the M3 and M25) connecting to the west and major London airports including Heathrow. In time, as the Improvement and Recovery Plan rolls out, a fresh look at Woking as a place for business to invest in and take advantage of the positivity of the borough will be possible. Commercially, this will generate increased business rate income as well as a greater use of the assets that have been developed which will support the Council's income generation. This should, however, be based on a thorough socio-economic review of the place and only appropriate sectors, investors and industries be targeted.

Governance and assurance

The LGA are supporting the Council in the review of its scrutiny function. There remain too many member working groups which are not directly sub committees of the scrutiny function and reporting from these groups remains variable.

Additional temporary resource has increased commercial capability for company governance work. Commissioners are working with the Council to establish a commercial board where decisions and business cases can be brought together under a commercial governance umbrella.

To support the Commercial Theme (specifically the companies' governance), changes have been made to the Boards and Articles of Association to reduce conflicts of interests. Some council officers acting as directors and the chief executive have resigned from the company boards and this remains work in progress.

Governance mechanisms for the Improvement and Recovery Plan look promising and is strongly supported by commissioners. The first meeting of the board has taken place and the remit, terms of reference and governance arrangements have been agreed. Elected members will also have oversight of progress through quarterly reports to Executive. Oversight and Scrutiny Committee will scrutinise progress ahead of reporting to the Executive.

A Programme Management Office is already in place and there are plans to strengthen capacity in this area. The resourcing plan for the capitalised revenue budget still needs to be mapped more closely to the Improvement and Recovery Plan.

It is important for the Council to reduce reliance on external contractors and agencies. Currently there are too many external agencies/reviews/advice being given to the Council. Commissioners are working with the Council to streamline this approach into a more coordinated system.

In the light of the Section 114 notice and the difficult financial position it will be important to reassess the vision for the Council and the borough for the next five years. Work is underway to refresh the Corporate Plan, 'Woking for All', but this is in the early stages.

An Improvement and Recovery Plan risk register will be maintained which will underpin the Council's Strategic Risk Register. This will be reported monthly to Corporate Leadership Team and quarterly to Executive There is an opportunity to rework the Corporate Strategic Risk Register in the light of the emerging Improvement and Recovery Plan and this should be undertaken in the next quarter.

Governance and compliance with financial regulations and codes is covered in the finance section above. The Council does understand however, that the finance function does need a complete overhaul, despite the good work carried out in the last six months by the Section 151 officer and his team.

Next steps to focus on

We are expecting the Council to demonstrate progress in all areas of the Improvement and Recovery Plan (as appended) in the next three months before our second report to you at the beginning of December.

Key areas of focus in the next three months for the Council should be:

- Review the 'Woking for All' strategy, to develop an emerging vision for the Council for the next five years, considering the service redesign, structural change and the implications of the Improvement and Recovery Plan.
- To evidence corrective action on the projected overspend on the 2023/24 revenue budget
- To have delivered on the first element of service redesign savings
- Ensuring the planned budget savings are delivered to deliver a balanced 'business as usual' revenue budget within 2023/24 and in future years. This should include the identification of savings to meet the remaining £4m target, ensuring the appropriate links are made between savings identification and staffing restructure processes.
- Concluding the phase of the work to ensure that the finance function and practices are fit for the future. This will include the delivery of the revised Capital and Treasury Management strategies and polices as part of the suite of budget reports and ensuring a full set of accurate and quality assured 2022/23 final accounts are in place.
- Embedding a strong culture of financial management within the authority confirming the audit arrangements for the financial accounts.
- The development and delivery of a balanced HRA and 30-year business plan.
- Develop the workings of the emerging Commercial Board and understand business cases in order to maximise the capital receipt on assets.
- To bring forward clear business cases, if appropriate, that address the partially completed assets in the two main companies and to develop a plan for the assets in the remaining 22 companies.

- To understand and develop a plan to ensure value for money from the contractual arrangements that underpin the management and maintenance of the Council's own and commercial asset portfolio.
- Developing a clear set of plans on how asset rationalisation work will reduce the level of debt held and for the exit of the commercial and regeneration activities.
- Discussions with government on the requirements for support that will enable a balanced budget for 2024/25 to be delivered.

Conclusion

The Council has started to make progress in tackling the challenges it faces and there is clear ownership of those challenges, shown in the unanimous support given in full council to the Section 114 notice and the recommendations put to the Council to respond to it.

These challenges are very significant, and much remains to be done. The most difficult phases of the Council's recovery are yet to begin.

Some of those phases include the establishment of a new service delivery offer (including through engagement with a range of partners) and development of the revenue budget to support that offer over the Autumn. The setting of the budget in the Spring of 2024 will be pivotal. The Council is going through an organisational transformation process which will include significant reductions in the organisation's headcount. There is also the extensive work required to develop and deliver an asset rationalisation strategy.

We look forward to working with the Council to help it to meet those challenges.

Yours sincerely,

Jim Taylor Carol Culley Mervyn Greer

Commissioners