

**The Commissioners
Woking Borough Council**

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Dear Secretary of State,

Woking Borough Council: Commissioners' Fourth Report

1. Introduction

1. Commissioners were appointed in May 2023 by the Secretary of State. The structure of the intervention comprises four Commissioners including a Lead Commissioner, Finance and Commercial specialist Commissioners and a Managing Director Commissioner. In February 2024 the Council received significant Exceptional Financial Support (EFS) for 2023/24 and 2024/25.
2. Woking Borough Council ('Woking BC') continues to address the very serious historic failings that led to the intervention by the Secretary of State and the appointment of Commissioners in 2023. The nature and extent of these shortcomings are such that the necessary fundamental change is still in progress. This report provides an account of the improvements and development achieved to date, together with the areas of the Council's operation which warrant early resolution. It covers the principal weaknesses in terms of governance, finance, commercial, housing, strategic and corporate planning, transformation and culture, whilst acknowledging the progress made to date.

2. Executive Summary

3. The overall assessment of Woking BC's performance since Commissioners were appointed in 2023 is one of an increasing understanding and recognition of the fundamental change that must be effected in order to eradicate the very significant financial and other failings of the past, and the provision of assurances that plans are being instituted to secure a sustainable

future. The governance arrangements now in place address the previous shortcomings in decision-making and the member/officer protocols are a practical illustration of this improvement. This must be maintained. Risk awareness and management must be embedded throughout the organisation and arrangements have been put in place to achieve this.

4. Financial recovery is fundamental to the ultimate success of the local authority in delivery of a sustainable future. The overhanging debt is a major challenge currently managed through the EFS and MRP (Minimum Revenue Provision) arrangements, and the financial resilience of the Council is being tackled in terms of a rigorous approach to capital and revenue budgeting, (including Housing and the Housing Revenue Account), spending and control. However, the Council faces continuing pressures in respect of the capacity to provide robust financial and accounting systems and procedures, further complicated by the audit of historical accounts which either remain outstanding or will carry a 'qualified' opinion. Furthermore, greater progress needs to be made in ensuring there is strong financial leadership within the Council. The need for these changes is underlined by the Public Interest Report issued by the Council's external auditor, Grant Thornton, at the start of November 2024, recording the very significant historic failures in the Council's operation. The Council has accepted the recommendations in full.
5. The commercial dimension includes a radical review of the governance and operation of the Council's 24 companies, including the Victoria Square Woking Ltd and ThamesWey groups. External expertise has been engaged to establish a sound planning and management process which properly represents the role and responsibilities of the Council. Key to this development is substantial work being undertaken in terms of the asset management and disposal programme, contributing towards managing the council's net outstanding debt.
6. The Council is deeply immersed in the delivery of transformation, through the Improvement and Recovery Plan, which demonstrates encouraging process in articulating the strategic and corporate direction of the Council in the medium to long-term. Key to the ultimate success of this work is cultural change in the way the Council, both members and officers, accommodates and identifies with a fundamental shift in behaviours and ways of working. This initiative is

progressing well but the pace of change remains an issue, given the considerable capacity challenges faced by the Council.

7. In overall terms, Commissioners are encouraged by the Council's commitment to achieve the objectives set to radically overhaul the Council's operation. The capacity to deliver the transformation of Woking BC is a continuing constraint in effecting the Improvement and Recovery Plan in an acceptable timescale although it must be emphasised that the Council remains committed to change. The judgement that Commissioners will ultimately exercise is whether Woking BC is achieving service outcomes which meet the needs and requirements of its citizens and achieves Best Value.

Summary of priorities for the coming six months

- Continue to develop and deliver the Council's governance framework, including a robust and comprehensive governance procedures and effective practice (para 8, p.3)
- Embed the concept of risk and risk management in the Council's operation and delivery of services (para 9, p. 4)
- Develop and deliver the Asset Rationalisation and Debt Reduction Plan (para 10, p. 4)
- Building financial capacity and skills in place with a permanent staffing structure (para 11, p. 5)
- Deliver the Medium Term Financial Plan and the 25/26 budget (para 12, p.6)
- Produce transparent final accounts for 2023/24 (para 14, p.7)
- Resolve historic issues within the Housing Revenue Account (para 15, p.7)
- Deliver a balanced Housing Revenue Account Budget and sustainable 30 year Business Plan (para 15, p.7)
- Develop & review proposals for the future of wholly owned companies and the assets they own (para 24, p.10; para 32, pp.12-13)

3. Governance and Risk

8. The constitutional changes highlighted in our third report seek to address the importance of sound decision-making. The practical application of these governance arrangements illustrates that Commissioners have seen a commitment amongst members and officers to observe the protocol that underpins the fulfilment of their respective roles. Continuous

monitoring of this process is essential to emphasise the critical importance of robust governance to avoid any recurrence of past failures. Commissioning of services and procurement have been reviewed and the underlying contractual arrangement strengthened. There remains, however, in terms of commissioning, concerns about consistency in the approach to determining the articulation and specifications of those services to be sought. The skills and expertise associated with this activity are being reviewed to ensure the process provides Best Value, as well as being effective in delivery. This is likely to require further investment, both financially to get the right support and in officer time.

9. Risk remains a challenge. Historically, the management of risk in Woking BC has been very unsatisfactory. Since the adoption of the Improvement and Recovery Plan, The Council is making significant steps to effect a fundamental change in the way risk is now reflected in the Council's business. The concept of risk has been reviewed; the discipline of RAG ratings reinforced and embedding of sound and robust risk management in the organisation is underway. Attitudes and behaviours of the workforce are also undergoing change. This must continue at pace, as the organisation moves from an historic culture where challenge was not welcomed to one where staff are both aware of their individual roles in managing risk and confident to challenge poor practice as they see it, in support of achieving Best Value. Given the recent history of Woking BC's failings, the importance of this issue must be afforded the highest priority.

4. Finance

10. A key element of the Improvement and Recovery Plan is to ensure that robust financial and governance arrangements are implemented to ensure that the mistakes from the past cannot be repeated. The first year of intervention has largely been around discovery, firefighting and establishing a robust plan. The focus now is on getting the right building blocks in place for good financial management and supporting the delivery of the Asset Rationalisation and Debt Reduction Plans, as well as normal financial management of the Council's affairs. This will enable a much greater focus in the third year of intervention on embedding the culture required

to support an effective, sustainable, and high performing local authority. The commitment of the finance team to delivering this work is to be commended. There remain a number of challenges with the key ones being:

- Capacity challenges including the difficulty in attracting and retaining skilled finance staff alongside the volume of work that is required.
- The unsatisfactory position with the final accounts, with the production of the draft council and group accounts for 2023/24 outstanding, and the disappointing approach from the Council's current External Auditor, BDO (who are still reviewing issues of concern in the 2019/20 accounts which had been submitted in 2020). As a result the audit backstop position for these historic accounts and for 2023/24 is likely to be missed.
- The legacy of historic activity on the Housing Revenue Account (HRA) on the viability of the HRA Business Plan and the concerns over the legality of some of the transactions.
- The financial viability of the Council given the scale of the legacy debt.
- The fragility of the Council's technological platform.

The Basics

11. Having robust, reliable, timely and easy to understand financial information is essential for the Council to make progress. It cannot be underestimated how poor the information was at the point the intervention started without even the most basic financial controls of a balanced ledger in place. Whilst a lot of progress has been made, there remain concerns about the integrity of the underlying data. More work is required to ensure reports are of sufficient quality to support and track effective decision-making. Getting the right capacity and skills in place with a permanent staffing structure remains a priority. The required upgrade to the financial system will need careful management and oversight as a corporate project. It is also important that training to budget holders to build the culture of financial ownership is carried out ready for the new financial year.

Medium Term Financial Plan

12. The Council's spending power is £16.9 million and £8 million of savings for 2024/25 were agreed in the 2024/25 budget set in March 2024 which involved a wholesale staff restructure and a move away from providing discretionary services unless they are self-funding. This was a difficult experience for the Council. £7 million of the savings have been achieved and the Council is moving in the right direction, although there remains a lot more to do. The current projected overspend for 2024/25 has significantly reduced from the £3.3 million reported at the end of the first quarter to £438,000 reported at the end of the second quarter to the November 2024 meeting of the Executive, (a General Fund overspend of £98k plus the overspend of £340k on costs earmarked against transformation receipts which are either not eligible or have exceeded the estimated amount required). Whilst there have been some improvements in the position in service departments, a large part of the reduction has been driven by reductions in anticipated capital financing costs. An approach to a three year Medium Term Financial Plan has been agreed along with a target financial envelope that excludes the impact of historic commercial activity. Further work is urgently required to confirm what savings should be delivered for 2025/26 alongside the longer term financial plan to downsize and deliver within that envelope.
13. A considerable amount of work will then be required to complete a draft Budget Report for December Executive and the full Medium Term Financial Plan for Budget Setting Council in March. Clear plans to ensure and monitor delivery are required.

Final Accounts

14. The last set of audited accounts are for 2018/19. A major catch-up exercise is being undertaken with updated 2019/20 draft accounts (Council and Group accounts submitted for Audit in 2020) and the preparation of council entity accounts for 2020/21, 2021/22 and 2022/23 having gone through Audit Committee and been published by the Council. The accounts for these years have been prepared in time to meet the deadline for the local audit backstop arrangements but the External Auditors will not complete their work and have concerns about

disclaiming without the completion of the Group Accounts. Council entity accounts for 2023/24 are due to be completed in December, although the timescales are tight with a risk that this will not be achieved, putting the achievement of the back-stop date for 2023/24 at significant risk. Securing skilled capacity to complete local authority accounts is a challenge for the sector and particularly acute for Woking BC, with the recent loss of skilled interim resource. In addition, the historic accounts are incomplete as the group accounts (that is, including the council owned companies) have not been completed. Finally, they have been prepared under the accounting policies of the time, so once the 2023/24 accounts are complete, they will need to be restated, as will at least 2022/23. It is disappointing that the external auditors have been unable to complete the 2019/20 audit during this period. It is important that transparent final accounts are available and completing this work and being on track for 2024/25 accounts is a key priority.

Housing Revenue Account (HRA)

15. Good progress is being made to develop a viable HRA Budget and Business Plan with the work due to complete in December. The financial viability of the HRA has been constrained by the transfer of over 400 properties ThamesWey Developments Limited, for the Sheerwater development, as part of the Council's planned redevelopment of the estate. Further work has been carried out on the historic transactions (and the ongoing related costs) between the HRA and the Council's commercial undertakings. The Statutory officers are taking legal advice on the lawfulness of this activity and further discussions will be required with government when this work has been completed. Resolving the historic issues and ensuring there are robust plans to deliver the actions required to balance the HRA are priorities for the next period.

Commercial Finance Workstream

16. A particular challenge for Woking BC is that it is required to support a commercial programme of activity on a scale much greater than its financial, capacity and commercial capability to successfully manage it, as a result of its historic commercial decisions. The capacity and skills required are not available within the local authority with a significant volume of work required

to support the development and delivery of the Asset Rationalisation and Debt Reduction Plans. As the Commercial section of this report outlines, good progress is being made in these areas, but there is a legacy impact on the Council's finances and on the finance team's capacity, with considerable finance input required at the same time as the work on the HRA, final accounts and budget process.

Government Support

17. Whilst the Council is taking steps to manage within a reasonable financial envelope and to develop Asset Rationalisation and Debt Reduction Plans, the level of debt is such that the Council requires significant government support. For 2024/25 the published Core Spending Power is £16.9m, yet the total level of debt as at 31 March 2024 stood at over £2.1 billion, which costs £1.3m per week to service in interest alone. At this time, asset book valuations stood at £1.5 billion, including over £400m of HRA and operational assets which will need to be retained. Even if everything else could be disposed of, the level of overhanging debt would still be significant, over £1.5 billion, as the level of debt far exceeds the value of assets; and as some assets, such as HRA and other operational assets must be retained. Under a do-nothing scenario, annual interest costs and Minimum Revenue Provision (MRP) average £70 million and £73 million per annum respectively which would add significantly to the level of debt. The Exceptional Financial Support (EFS) provisionally agreed for 2024/25, and currently anticipated for 2025/26, provides a mixture of being able to borrow to cover the interest and other revenue costs and sets out government's agreement with the Council's assumptions that underpin its approach in suspending MRP charges due on company loans. With no ability to repay EFS through asset sales, let alone all the legacy debt, the position is not sustainable. Work is underway to determine the best exit strategy from the commercial legacy, which we are engaging with government on, and it is recognised that a long-term financial solution will not be in place for the 2025/26 budget process. However, the current position is not viable and Commissioners are keen to continue engaging with government on the route forward.

5. Commercial

18. The commercial section of the Improvement and Recovery Plan (IRP) aims to address the complex commercial commitments made by Woking BC to stabilize finances and protect public funds. The guiding objective is:

“To release the council from unaffordable commitments while protecting the public purse and optimizing asset value.”

19. Since the intervention began, the Commissioner team has undergone a discovery phase, assessing the scale and complexity of Woking BC’s commercial liabilities. This phase has revealed historical governance issues, and progress is now being made to develop financial options for the council-owned companies and to develop plans for divestment that protect the Council, align with its strategy and protect the public purse. The following sections outline the work undertaken since May 2024.

Governance and the Shareholder Executive Committee (SEC)

20. Governance of Woking BC’s companies, both internally and by the Council, was previously insufficient, resulting in weak oversight and limited reporting. A Shareholder Executive Committee (SEC) was created in May 2024 to address these issues. The SEC is supported by an independent Shareholder Liaison Service and requires companies to comply with the Companies Governance Framework (CGF) (adopted in November 2023), conducting self-assessments to ensure transparency.

21. The SEC, consisting of Council members who have received governance training, meets monthly to evaluate company performance and accountability. These meetings have helped strengthen internal governance standards across the board.

Restructuring Company Management

22. The boards of Woking BC’s companies lacked direction and oversight. New chairs were recruited for Victoria Square Woking Ltd (VSWL) and the ThamesWey Group in April 2024, bringing in experienced non-executive directors (NEDs) thereafter, to rebuild the boards and

foster effective governance. Additionally, a turnaround specialist was appointed in September 2024 to review compliance in VSWL and the ThamesWey Group, addressing long-standing management issues, improving reporting standards together with further strengthening of the company boards.

23. Notably, Woking BC acquired Moyallen's 51% stake in VSWL, for a nominal price of £15,000, making it the sole owner. This acquisition streamlined financial management and asset control, leading to the setting up of new financial systems and banking arrangements for improved efficiency.

The Lender Board

24. To clarify the financial health of Woking BC-owned companies, Interpath Advisory was commissioned to conduct a financial review of VSWL and the ThamesWey Group. The Lender Board, created to look after the Council's interest as lender to its companies, led by a Commissioner with commercial expertise and comprising senior Woking BC officers and government observers, was established to oversee this process and facilitate the exchange of financial information. Interpath's reports, which were delivered in November 2024, will provide crucial insights into debt repayment strategies and overall financial viability.

6. Housing

25. Over the past six months since our third report, the Housing Service has set out an Improvement Programme and a capital investment plan. These aim to bring the housing stock back up to admissible standards on fire safety, decency and compliance over the medium term. A stock condition survey has been commissioned and is currently underway. In addition, further tenant engagement measures are being put in place to improve feedback channels and satisfaction with the service provided. The biggest challenge to progress on these vital works is capacity, including the number of unfilled vacancies in the housing team and consequently its capacity to procure and manage the delivery of this Improvement Programme. This situation is under constant review through the Housing Improvement Board.

The Housing Revenue Account (HRA) is reported on separately in the financial section of this report.

7. Integration of Transformation, Service, Financial and Workforce Plans

Service Transformation

26. The points made in our third report about the historic lack of investment in the corporate infrastructure and technological platform at Woking BC, combined with the rapid reductions in staffing made by the Council as part of its 2024/25 budget planning process, remain valid. These factors impact the speed with which Woking BC is able to transform its services and ways of working.
27. Historically, nor had the Council invested in the development of its staff to equip them with the understanding and skills required to facilitate the modernisation of the Council's service offer, in a way that is customer-focussed and financially sustainable.
28. Against this background, the Council is making progress with the modernisation of important aspects of its services and there are early signs of this having positive impacts. This is the case in three important areas:
- The phased updating of the Council's website to make it easier for residents to access the support and information they require. The Council is actively involving both staff and residents in the redesign work underway, which is important in ensuring the perspectives of residents are taken into account and in both engaging staff and helping them to understand what moving to a customer-focussed approach entails.
 - Enabling 'self-service' in areas like council tax which typically generate high volumes of customer enquiries. This is leading to a reduction in telephone contacts and a shift to more automated transactions. This has enabled the Council to retrain front line staff to deal with more complex queries at the first point of contact, thereby reducing failed demand.

- The Council is making important progress with its plans to transfer community assets, including a number of sports facilities, to voluntary and community groups, some of whom bring with them the prospect of investment in those facilities which the Council itself could not access nor afford to do itself.

Strategy and planning

29. The Council is also moving towards a more strategic approach to the development of its Medium Term Financial Plan (MTFP). It has identified four strategic areas of search for future efficiencies and cost recovery. These are being underpinned by a review of the allocation of overheads, the absence of which, until now, has had a distorting effect on the understanding of true service costs. This has compromised effective decision-making in the past.
30. The strategic areas of search cover property held by the Council itself, rather than through its wholly owned companies, procurement, 'hidden subsidies' (which entails shining a light on those costs that are being born by the Council but which should be recovered through charges or met by others), and further opportunities for transformation based on increased automation and an overhaul of processes. There will be a need to create some investment capacity to deliver quantifiable benefits from these areas of work.
31. In parallel with this, the Council is recasting its corporate plan known as the 'Woking for All Strategy', so that this is integrated with and serves the Improvement and Recovery Plan for which the Council is accountable to the Improvement and Recovery Board chaired by the Lead Commissioner. This is keenly focussed on a more manageable set of priorities, which take account of key service issues which need to be addressed. The Council is then intending to expand its performance monitoring to include measures which reflect progress with the delivery of the adopted Strategy. It will also drive the future approach to service planning and staff personal development reviews.
32. This Strategy provides for review of the Local Plan and the need for the Council to define the type of place it wants Woking to be in the future. The importance of this has come to the fore as the Council prepares to review proposals for the future of its wholly owned companies and the assets they own. The future use of those assets needs to take account of a range of factors

beyond the obvious financial considerations, including the future economic vibrancy of the borough and the most effective approach to addressing Woking's strategic housing requirements.

33. In all of these areas, there is much more to do and capacity is constrained. This is compounded by the plethora of legacy issues which need to be addressed, including but not restricted to those emanating from the complex arrangements the Council entered into with its wholly owned companies in the past which have culminated in the overhanging debt. A ruthless approach to the prioritisation and the sequencing of the required improvements remains paramount. This is understood by the senior leadership of the Council both politically and managerially and will be supported by Commissioners.

Human Resources

34. As reflected in our last report, historically the Human Resources function in Woking BC has been viewed very narrowly with little or no investment in its development. Therefore, it has not been well equipped to support the type of organisation development programme required to equip the Council with the skills, infrastructure and processes required to ensure an appropriate focus on the delivery of Woking BC's responsibilities to its residents in a way that is sustainable, customer-focussed and ultimately achieves Best Value.

35. From this low base, the Council is now taking steps to design an appropriate Organisation Development Plan, to support the delivery of its corporate plan - the Woking for All Strategy - and, by implication, the Improvement and Recovery Plan. Although the work on this is at an early stage, the Council's senior leadership understand its importance and is actively engaged in it.

36. Meanwhile and in keeping with the emerging thinking about an Organisation Development Plan, the Council is reshaping its approach to staff personal development reviews, which historically has been linked to pay in a way that seems to have overshadowed meaningful discussions about what is required from each staff member, what they need to help them meet those expectations and the scope for their personal development.

37. Coupled with an historic paternalistic approach to leadership, this has contributed to a culture where staff came to expect to be told what to do, have been reticent to challenge appropriately and were not encouraged and supported to develop solutions and assume responsibility.
38. Clearly, developing the required culture of the organisation moving forward will take some time but there is a recognition and an understanding of why this is important given the imperative to effect fundamental change in the Council's operation in a timely fashion.

8. Conclusion

39. Our third report pointed to advances and improvements in a number of activities which have been further developed in the areas highlighted in this report. The Improvement and Recovery Plan illustrates the actions that have been taken and are scheduled to take place in the three to five year period covered by the plan. This is encouraging and Woking BC is alive to the challenges that remain. Governance is progressing; finance has improved in part but the historic debt issue remains unresolved; company governance, practices and future approach are moving in the right direction, albeit more slowly than we would ideally like; housing issues are recognised but much remains to be done relating to the long-term investment programme and the management of a balanced HRA; the underlying culture of the organisation is now being tackled in the context of transformation. Ultimately, the true test, in Best Value terms, of the way in which service outcomes are delivered is to measure the impact on citizens. The capacity of the organisation (and, indeed, its partners) can be an obstacle to progress but the Council is making every effort to ensure there is no unnecessary slippage in the delivery of the Improvement and Recovery Plan.
40. The Improvement and Recovery Board, comprising the four Commissioners and supported by the Corporate Leadership Team meets monthly to consider and oversee the progress towards the delivery of the Council's Improvement and Recovery Plan. This fourth report points to what has been achieved so far but emphasises that the pace of change remains a critical factor in seeking to achieve a sustainable future for the local authority and its citizens.

Yours sincerely

Sir Tony Redmond

Richard Carr

Carol Culley OBE

Mervyn Greer

Commissioners