

COUNCIL – 4 MARCH 2024

CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES AND MRP STATEMENT

Executive Summary

Local authorities are required by statutory guidance and under the CIPFA Prudential and Treasury Management codes to produce the following reports as part of their annual budget approval:

- a Capital Strategy, which sets out the overall strategy for capital expenditure and finance for the coming year, including borrowing plans and limits, and summarising the Investment and Treasury Strategies;
- an Investment Strategy, which covers all investments apart from those held for treasury management purposes, including the Council's shares and loans and commercial properties;
- a Treasury Management Strategy, which sets out how the borrowing needs arising from the above plans will be arranged and managed; and
- a Minimum Revenue Provision (MRP) Policy Statement.

The intention is for these reports to provide a comprehensive and transparent picture of the Council's capital, borrowing and investment position which links into the Council's overall corporate plans and objectives. The reports include the prudential indicators, limits and investment indicators required under the respective codes and guidance.

Recommendations

The Council is requested to:

RESOLVE That

- (i) the Capital, Investment and Treasury Management Strategies for 2024/25, including the prudential indicators, be approved;
- (ii) the 2024/25 MRP policy statement set out in Appendix A to the Treasury Management Strategy be approved;
- (iii) the 2023/24 MRP policy be amended to align it with the MRP approach for 2024/25 in order to comply with MRP guidance in the current financial year (i.e. 2023/24); and
- (iv) the Debt Reduction Plan Principles set out in Appendix E to the Treasury Management Strategy be approved.

Capital, Investment and Treasury Management Strategies and MRP Statement

Reasons for Decision

Reason: To approve the Council's Strategy for 2024/25 and to adopt the Capital, Investment and Treasury Management Strategies, and the MRP Policy Statement.

The Council has the authority to determine the recommendations set out above.

Background Papers: None.

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Capital, Investment and Treasury Management Strategies and MRP Statement

1.0 Introduction

- 1.1 Since 2019/20 the CIPFA Prudential Code for Capital Finance in Local Authorities, and new government guidance on Local Government Investments have required the publication of Capital and Investment Strategies. The government also introduced statutory investment guidance and is in the process of updating its statutory MRP Guidance.
- 1.2 The Capital, Investment and Treasury Management strategies are presented together enabling the links to be highlighted whilst minimising duplication. A suite of appendices are included which can be referred to from any of the core strategies.
- 1.3 These strategies will continue to be developed further to support the understanding of the Council's capital investments and long term plans. The documents link with the Council's other long term plans and the Medium Term Financial Strategy to provide an overall picture of the Council's activity.

2.0 Capital Strategy

- 2.1 The purpose of the capital strategy is to give a clear and concise view of how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It includes references to elements of the Investment Strategy, Treasury Management Strategy and the Council's Investment Programme.
- 2.2 The unaffordable nature of the Council's previous borrowing and investment strategies became clearly apparent during 2023. A complete change in the Council's capital and investment strategy has therefore been necessary with the support of the Council's Commissioners and the Department of Levelling Up, Homes and Communities (DLUHC), in order to start to develop a financially sustainable future for the Council.

3.0 Investment Strategy

- 3.1 The Investment Strategy sets out the policy and proposals for the Council's investments, including the loans and shares in the ThamesWey Group and Victoria Square Woking Ltd, and the commercial property investments in the Strategic Property Portfolio. The strategy builds on the policies and proposals in the Improvement and Recovery Plan, particularly in the Commercial Theme.
- 3.2 Investments held for treasury management purposes are covered by the Treasury Management Strategy (see below).
- 3.3 The Council has a significant property and investment portfolio and a resulting debt portfolio of £2 billion that is both unaffordable and unsustainable. This led to Government intervention in May 2023 and a s114 notice in June 2023. This led to the appointment of Commissioners and the approval of an Improvement and Recovery Plan (IRP) that includes a significant plan of work to reduce the debt burden and rationalise the asset portfolio. This Strategy is set in this context and therefore marks a significant break with those previously presented to Members for approval.

4.0 Treasury Management Strategy

- 4.1 Treasury Management refers to the management of cash balances and funding needs through borrowing and investment. This report deals solely with treasury (financial) investments, which are as managed by the treasury management team.
- 4.2 The Treasury Management Strategy sets out the Council's strategy for borrowing and its policies for managing its treasury investments and for giving priority to the security and liquidity of those investments. It also includes the Council's Policy for Minimum Revenue Provision

Capital, Investment and Treasury Management Strategies and MRP Statement

(MRP) which has been substantially revised following consultancy advice and takes account of proposed changes to the Government's MRP Guidance.

5.0 Future Developments

- 5.1 These strategies take account of CIPFA's revised Treasury Management and Prudential Codes published in December 2021. The revised Codes require more analysis and a clearer risk management framework around non-treasury investments in particular, especially where (as in Woking Borough Council's case) they have been funded by borrowing.
- 5.2 The revised IRP context for the Council's debt and investment will ensure compliance with the revised codes.
- 5.3 The Department for Levelling Up, Housing and Communities (DLUHC) issued consultations on changes to Minimum Revenue Provision in November 2021, June 2022, and December 2023 (including new draft Statutory Regulations). The consultations discuss changes to how local authorities set aside MRP in relation to investments.
- 5.4 The draft regulations tighten up guidance on the provision of MRP, strengthening the duty under statutory guidance to make provision for the repayment of debt. The final proposed deadline for response was 16 February 2024:

<https://consult.levellingup.gov.uk/local-government-finance/consultation-on-changes-to-statutory-guidance-and>

- 5.5 The guidance makes it clear that Woking's previous approach was not compliant with the duty to provide for MRP and seeks to prevent that approach in future. Despite this tightening of the rules, the Government has also provided for the guidance to be set aside in cases of serious financial failure intervention:

"In very exceptional cases, where the government has made arrangements to intervene in a local authority and has, or is in the process of, put in place financial support arrangements for that authority, it may be appropriate to reflect the nature of any such financial support in the determination of a prudent amount. Where this is the case the local authority must seek agreement from the government on how any assumptions with respect to support are reflected in the determination of MRP." (para 46 of the draft statutory guidance)

- 5.6 The exceptional circumstances are intended to apply to Woking. Backdated MRP amounts to £356m and the intention is for additional MRP to be dealt with from 1st April 2023 onwards. The guidance will allow the Council not to charge this full amount, with Government permission. The debt repayments that would be carried forward will need to be dealt with by the longer term debt reduction plan. The impact of this and the issues arising are set out in the General Fund Budget Report and also the MRP report on this agenda.

6.0 Section 25 Report

- 6.1 The Finance Director's Section 25 report is included as an Appendix to the General Fund Budget Report also on this agenda. This is prepared taking into account the factors set out in the Capital, Investment and Treasury Management Strategies together with the Revenue and Investment Programme budgets. The Council is in a critical financial position and the section 25 report is a key document in assessing the legality and robustness of the budget.

7.0 Implications

Finance and Risk

- 7.1 The financial implications are set out in the three strategy reports.

Capital, Investment and Treasury Management Strategies and MRP Statement

- 7.2 Each strategy sets out the risks involved in the Council's activities. The new Investment Strategy and Capital strategies seek to improve transparency and understanding of the total exposure to risk and mitigating factors in the context of the Improvement and Recovery Plan.

Equalities and Human Resources

- 7.3 Training and development are covered in each of the strategy reports. Where additional needs are identified the Council will provide specific, focussed training.
- 7.4 No equalities implications have been identified.

Legal

- 7.5 The CIPFA codes support the provisions of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 and support strategic planning for capital and investment at a local level. The Council is required to have regard to the codes.

8.0 Engagement and Consultation

- 8.1 There have been no specific consultations in relation to this report.

REPORT ENDS