

Minimum Revenue Provision Policy Statement

Introduction

1. Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') requires local authorities to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. The minimum revenue provision is an annual amount set aside from the General Fund to meet the cost of capital expenditure that has not been financed from available resources, namely: grants, developer contributions (e.g. s.106 and community infrastructure levy) revenue contributions, earmarked reserves or capital receipts.
2. MRP is sometimes referred to as the mechanism for setting aside monies to repay external borrowing. In fact, the requirement for MRP set aside applies even if the capital expenditure is being financed from the Council's own cash resources and no new external borrowing or other credit arrangement has been entered into.
3. Regulation 28 of the 2003 Regulations requires full Council to approve a Minimum Revenue Provision (MRP) Statement setting out the policy for making MRP and the amount of MRP to be calculated which the Council considers to be prudent. This statement is designed to meet that requirement.
4. In setting a prudent level of MRP local authorities must "have regard" to guidance issued from time to time by the Secretary of State for Housing, Communities and Local Government. The latest version of this guidance (version four) was issued by Ministry of Housing, Communities and Local Government (MHCLG) in February 2018.
5. The Department for Levelling Up, Housing and Communities (DLUHC) published a consultation on changes to the Capital Finance Regulations and the Statutory MRP Guidance in December 2023. A summary of the proposed changes is set out at paragraph 11 below. The changes being consulted upon will take effect from 1 April 2024. Consequently the MRP Policy Statement for 2024/25 must have regard to the proposed changes as well as the extant legislation and MRP Guidance.
6. In setting a level which the Council considers to be prudent, the Guidance states that the broad aim is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits to the Council.
7. The Guidance sets out four "possible" options for calculating MRP, as set out below,

Option	Calculation method	Applies to
1: Regulatory method	Formulae set out in 2003 Regulations (later revoked)	Expenditure incurred before 1 April 2008
2: CFR method	4% of Capital Financing Requirement	Expenditure incurred before 1 April 2008
3: Asset life method	Amortises MRP over the expected life of the asset	Expenditure incurred after 1 April 2008
4: Depreciation method	Charge MRP on the same basis as depreciation	Expenditure incurred after 1 April 2008

8. Two main variants of Option 3 are set out in the Guidance (i) the equal instalment method and (ii) the annuity method. The annuity method weights the MRP charge

towards the later part of the asset's expected useful life and is increasingly becoming the most common MRP option for local authorities.

9. The Guidance also includes specific recommendations for setting MRP in respect of finance lease, investment properties and revenue expenditure which is statutorily defined as capital expenditure under the 2003 Regulations (also referred to as revenue expenditure funded from capital under statute or REFCUS). Examples of REFCUS include capitalised redundancy costs, loans or grants to third parties for capital purposes, and the purchase of shares in limited companies.
10. Other approaches are not ruled out however they must meet the statutory duty to make prudent MRP provision each financial year.

DLUHC consultation

11. DLUHC published a consultation on changes to the Capital Finance Regulations and Statutory Guidance in respect of MRP in December 2023. This follows two earlier consultations in November 2021 and February 2022. The aim of the changes proposed is to strengthen the requirement for local authorities to make a prudent MRP provision, in response to two issues which have led to underpayment of MRP at a number of authorities including Woking:
 - (a) excluding a proportion of debt from the MRP determination in two areas:
 - (i) firstly, debt associated with investment properties or investments defined as capital expenditure, on the basis that such assets retain their capital value and that the asset can be sold at any time in the future to repay the associated debt. The Government have stated that this is not prudent. The proposals will amend the 2003 Capital Finance Regulations to make clear that MRP is required on such expenditure;
 - (ii) secondly, debt associated with making loan advances to third parties for a capital purpose. The argument put forward by authorities exempting such debt from MRP calculations is that the repayments of principal would be used to repay debt. This was an argument used by the Council in previous years' MRP Statements, but never actually was applied in practice. The proposed changes will require local authorities to continue to set aside MRP on "commercial loans" (defined as a loan undertaken for profit), but allows local authorities an exemption from charging MRP for non-commercial loans, but will require local authorities to set aside as MRP an amount for any expected credit loss calculated under IFRS9. In other words for non-commercial loans as soon as there is evidence that the debtor might be unable to repay all or some of the loan, the authority would be required to set aside the full amount of the estimated loss.
 - (b) using capital receipts in place of charging MRP to revenue. Authorities following this approach would use capital receipts to pay for the amount of MRP due for the individual financial year. This practice effectively treated capital receipts as a revenue source, which is not permissible under Regulation 23 of the Capital Finance Regulations. The proposed changes to the Capital Finance Regulations make clear that capital receipts can only be used to reduce the overall level of the CFR, which in turn forms the basis for calculating the MRP charge, based on the residual CFR after the application of capital receipts.

12. In addition, paragraph 46 of the draft MRP Guidance states that for local authorities where the Government has made arrangements to intervene and has, or is in the process of, put in place financial support arrangement for the authority, that it may be appropriate to reflect the nature of any such financial support when determining a prudent level of MRP for the forthcoming financial year. The draft Guidance goes on to state that the authority must seek agreement from the Government on how any such assumptions with respect to support are reflected in the determination of MRP. The draft Guidance goes on to explain that paragraph 46 is not a new policy but clarifies an issue that previous editions of the Guidance was silent on. As such, the Government expects this to apply to prior periods (or MRP from prior periods).

Review of 2023/24 MRP Policy Statement

13. External review of the Council's MRP policy statements for previous years highlighted a number of areas of non-compliance with the 2018 MRP Guidance, primarily the exclusion of MRP on any of the unfinanced capital expenditure incurred on advancing loans to third parties, which includes the £1.3billion advanced to Thameswey Group and Victoria Square Woking Ltd.
14. Notwithstanding that the MRP Policy Statements approved in previous years did not comply with the MRP Guidance, nevertheless they were properly approved in line with the Council's processes, and thus lawfully set. Consequently any correction to MRP to bring the Council's MRP in line with the MRP Guidance and thus onto a prudent level, can only be made prospectively. The MRP Guidance permits changes to the MRP Policy Statement for the current year to be made in the year to which it relates.
15. Therefore it is recommended that the MRP Policy Statement for 2023/24 is amended to align it with the MRP Policy Statement for 2024/25. This will allow the Council to fully comply with MRP Guidance in the current year and bring the Council's MRP onto a more prudent basis.

Minimum Revenue Provision (MRP) policy statement

16. Having regard to current Guidance on MRP issued by MHCLG and the "options" outlined in that Guidance, the Council is recommended to approve the following MRP Statement to take effect from 1 April 2024, on the basis that this represents "a prudent provision" in line with Regulation 28.

MRP stream	Policy	Explanation
All pre-2007/08 capital expenditure	MRP will be calculated on a straight-line to repay this element over 25 years	This is more prudent than Options 1 and 2 because it repays the debt in 25 years, whereas Options 1 and 2 never repay the debt as they both work on a reducing balance method. The 25 year period is the conversion of the 4% charge under Options 1 and 2 into years.
All operational capital expenditure incurred since 2007/08	MRP will be calculated on a straight-line using the expected useful asset lives of the assets (Option 3 – asset life), subject to a maximum useful asset life of 50 years.	This complies with the Option 3 of the MRP Guidance and the requirement for a maximum asset life of 50 years.

<p>All capital expenditure on commercial assets incurred since 2007/08</p>	<p>MRP will be calculated on an annuity basis using the expected useful asset lives of the assets (Option 3 – asset life), subject to a maximum useful asset life of 20 years and discounted using the PWLB new loan annuity rate applicable on 30 September in the year before MRP commences.</p>	<p>The use of the annuity method complies with Option 3 as set out para 35(b) of the MRP Guidance.</p>
<p>Expenditure capitalised by virtue of a capitalisation direction under section 16(2)(b) of the Local Government Act 2003</p>	<p>MRP on any expenditure capitalised by way of a Direction will be charged over 20 years using the asset-life method using an annuity approach.</p>	<p>The 20 year life is the period specified in para 47 of the MRP Guidance.</p> <p>The use of the annuity method complies with Option 3 as set out para 35(b) of the MRP Guidance.</p>

MRP stream	Policy	Explanation
Loans to third parties	MRP will be charged on a straight-line basis over the expected useful life for which the loan is to be used, subject to a maximum useful asset life of 50 years	The straight-line approach complies with Option 3 of the MRP Guidance and the useful life is that set out in para 47 of the MRP Guidance.
Expenditure on the acquisition of share capital	MRP will be charged on a straight-line over 20 years	The straight-line approach complies with Option 3 of the MRP Guidance and the 20 year life is that set out in para 47 of the MRP Guidance.
MRP for service concession contracts	The amount of the MRP charge will be equal to the amount by which the balance sheet liability is written by the unitary charge (i.e. the principal element of the unitary charge)	This complies with para 43 of the MRP Guidance
Asset lives	<p>Asset lives used for MRP calculations will be determined by the Council's RICS-registered valuers, and will be consistent with the depreciation policies set out in the Council's annual Statement of Accounts, and will be kept under regular review.</p> <p>If no life can reasonably be attributed to an asset, such as freehold land, the estimated useful life will be taken to be a maximum of 50 years</p>	This complies with para 42 of the MRP Guidance.
Discount rate for use when applying the annuity method for calculating MRP under Option 3	MRP will be discounted using the PWLB new loan annuity rate applicable on 30 September in the year before MRP commences	The MRP Guidance does not suggest what discount rate(s) to use. By specifying the PWLB new loan annuity rate at 30 September in the year before MRP aligns the discount rate to the middle of the year in which the expenditure is incurred and provides a clearly evidenced trail to the discount rate to be used and reflects the type of borrowing undertaken by the Council.
MRP commencement	MRP should normally begin in the financial year following the one in which the expenditure was incurred. However, in accordance with the statutory Guidance, commencement of MRP may be deferred until the financial year following the one	This approach complies with para 41 of the MRP Guidance

	in which the asset becomes operational	
Use of capital receipts to reduce indebtedness	Capital receipts may be applied to reduce the CFR. This means that subsequent year's MRP charges will reduce by the amount of receipts applied. The MRP reduction will be on a straight line basis over 20 years, [unless the capital receipt relates to identifiable MRP charges, in which case the section 151 officer may determine the annual MRP reduction consistent with those MRP charges.]	This approach complies with para 68 of the draft MRP Guidance

17. On the basis of the above MRP Policy, the MRP for the forthcoming financial year (2024/25) would be £105m comprising:

MRP element	£m
Supported borrowing	1
Unsupported borrowing	88
PFI	1
MRP on 2023/24 Capitalisation Direction	15
TOTAL MRP	105

18. The MRP calculated is unaffordable, however it would not be appropriate to charge the full MRP because to do so would be based on the principle that the Council would need to repay all debt from its own resources. This is not the case, as paragraph 46 of the draft Guidance clearly applies, because the Council is in support discussions with Government. Consequently, the MRP charge should reflect this.
19. Discussions between officers, the Finance Commissioner and DLUHC on the nature, quantum and timing of support are ongoing and inherently depend on the Council's own work with regard to asset disposals and service efficiencies. However, the Council has been clear and the Government accepts that Woking cannot meet all the borrowing liabilities and the debt charge consequences. Given the timings and dependencies on the Council's work, Government has not provided a specific commitment to the value and form of support, but has committed to working with the Council on the long-term solution and recognises that the Council will need external support to repay its debt.
20. In accordance with the Guidance and assurances of support from Government it is not appropriate to charge the full MRP – this is an approach which has been agreed with Government. The level of MRP which the Council should be bearing on a business as usual basis is £8.122m for 2024/25 – this excludes additional MRP in respect of completing the projects being run by Victoria Square Woking Ltd and Thamesway and backdated MRP, for all of which Government support is expected. On this basis setting MRP on a business as usual basis, based on the assurances around Government support, would meet the requirement for the Council to be setting a prudent level of MRP.

21. Once it is clear what elements of debt the Council must support and what elements will be addressed through Government support then the future MRP policy will be updated in accordance with the Guidance to ensure that all debt is repaid in line with the statutory duty under Regulations 27 and 28. This may mean that some MRP being deferred to future years.
22. In respect of the MRP for which the Council should have historically made in previous years as a charge to council tax, given the support expected from the Government, then under paragraph 46 of the Guidance it would not be appropriate to be making MRP for the entire debt – only that which is business as usual.

Treasury Management Governing Documents

Treasury Management Policy Statement

1. This organisation defines its treasury management activities as the management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
2. This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation and any financial instruments entered into to manage these risks.
3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management.

Treasury Management clauses adopted by the Council

1. The Council will create and maintain, as the cornerstones for effective treasury and investment management:
 - a treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities
 - suitable treasury management practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities
 - investment management practices (IMPs) for investments that are not for treasury management purposes.

The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6, 7 and 8 of the TM Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the TM Code's key principles.

2. The Council (i.e. full council) will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close in the form prescribed in its TMPs and IMPs.
3. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to The Executive, and for the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the organisation's policy statement, TMPs and IMPs, and if

they are a CIPFA member, CIPFA's Standard of Professional Practice on treasury management.

4. The Council nominates the Scrutiny Committee to be responsible for ensuring effective scrutiny of the strategy and policies for treasury management and for non-treasury investments.

Treasury Management Practices and Investment Management Practices

The Council confirms that it has adopted the Treasury Management Practices (TMPs) set out in the Treasury Code. It intends to review its operational procedures and notes in support of these TMPs. The TMPs are set out under the following headings:

1. Treasury risk management
2. Performance measurement
3. Decision-making and analysis
4. Approved instruments, methods and techniques
5. Treasury management organisation, clarity and segregation of responsibilities, and dealing arrangements
6. Reporting requirements and management information
7. Budgeting, accounting and audit arrangements
8. Cash and cash flow management
9. Money Laundering
10. Training and qualifications
11. Use of external service providers
12. Corporate governance

The Treasury Management Code requires authorities to maintain Investment Management Practices (IMPs) which perform a similar function in relation to its non-treasury investments. The Council's investment portfolio is currently under comprehensive review with a view to disposing of most or all of them in order to reduce the Council's debt. This is a major part of the Improvement and Recovery Plan's Commercial workstream and is being overseen by the Commercial and Finance Governance Board. Operational procedures for non treasury investment administration and management will be reviewed and documented in the light of the workstream's outcomes.

INTEREST RATE FORECASTS

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View		07.11.23											
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Additional notes by Link on this forecast table: -

- Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

APPENDIX D

Policies and criteria for treasury management investments

Investment Policy

1. The Council will have regard to the DLUHC's Guidance on Local Government Investments ("the Guidance") and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code").
2. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low – the Council's investment priorities will be security first, liquidity second and then return.
3. The borrowing of monies purely to invest or on-lend to external parties to make a return is unlawful and this Council will not engage in such activity. This excludes lending to group companies and other organisations which is carried out in order to achieve the Council's strategic objectives.
4. Part of the Council's investments may be managed on the advice of Tradition UK (TUK) or other local authority investment managers. Investments will reflect the manager's views of market and the future for interest rates. Subject to the availability of funds, managers may be asked to manage up to £10m. TUK are currently the only external fund manager involved in the management of the Council's funds, although no funds are held with them at the present time.
5. All investments of the Council's funds will comply with the Annual Investment Strategy. The arrangements between the Council and TUK additionally stipulate guidelines and duration and other limits in order to contain and control risk.
6. Investment instruments identified for use in the financial year are listed in Appendix D under the 'Specified' and 'Non-Specified' Investments categories (determined by level of risk). Counterparty limits will be as set through the Council's Treasury Management Practices Schedules. The limits shown are maximum levels. The Chief Finance Officer in consultation with Treasury Officers has the scope to reduce these limits (below those shown) to minimise the level of cash at risk in the light of market conditions. As Money Market Funds (MMFs) are diversified by nature and AAA rated, the Chief Finance Officer, in consultation with Treasury Officers, will vary the limits of these funds in order to manage cash flows. These limits will be updated in the Treasury Management Practices.
7. When the Council has funds in excess of normal limits that it is not possible or economical to invest with a suitable counterparty, these will remain on deposit with Lloyds Bank, the Council's banker.

Credit Worthiness Policy

8. The Council uses Fitch ratings to derive its investment criteria (used in the table Appendix D). Where a counterparty does not have a Fitch rating, the equivalent Moody's rating will be used. The Council is alerted to all credit rating changes on a daily basis through its use of the Link Asset Services creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

9. The Link Asset Services creditworthiness service uses a modelling approach with credit ratings from all three rating agencies – Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses credit watches, credit outlooks and other information in a weighted scoring system. The end product is a series of colour code bands which indicate the relative creditworthiness of counterparties and give a recommended duration for investments.
10. When placing investments Treasury Officers will take account of this information, although it is not followed entirely such as in the use of building societies.
11. Treasury officers are of the view that credit rating agencies and Link Asset Services have underestimated the level of support within the building society sector. Consequently the Council will continue to use Building Societies based on asset value and market sentiment indicating that the risk is acceptable.
12. This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as this would leave the Council with few financial institutions on its approved lending list. The Link Asset Services creditworthiness service does use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.
13. The Council's credit limits have historically been set at a sufficiently high level that none of the institutions that have not been able to meet their commitments in recent times, have been on the Council's lending list, or those that have got into difficulties have received government support. Similarly none of the building societies in which the Council has invested have failed to meet their commitments. On this basis the Council will continue to use Link Asset Services' creditworthiness service, credit ratings and asset value (for building societies) for determining eligibility for the lending list. As indicated in paragraph earlier in the report, the risk appetite of the Council is low, and the priority for investment is security, followed by liquidity, then return.

Country Limits

14. The Council will only use approved counterparties from the UK and countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this criteria are shown in Appendix E. This list will be added to or deducted from by officers should ratings change in accordance with this policy.
15. The Executive resolved in June 2016 that the UK be excluded from the sovereign rating criteria, as it is not felt that there is substantial additional risk to undertaking investments in the UK.
16. Should the level of the Council's investments increase it will seek to avoid a concentration of investments in too few counterparties or countries (although a concentration in the UK is not considered to be undesirable).

Environmental, Social and Governance (ESG) policy in relation to treasury investments

17. The Council's treasury investments are held in short term deposits with financial institutions or in pooled funds of such deposits. Whilst considerable attention has been given to ESG investment considerations in relation to longer term investments such as

equities and bonds, ESG criteria are much less developed as yet in relation to shorter term deposits. The Council aims to be a responsible investor of its short term cash deposits. It will keep developing ESG analysis under review and may take ESG factors into account in its lending decisions.

Specified Investments

All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	N/a	In-house and fund managers
Term deposits – UK government	N/a	In-house and fund managers
Term deposits – other LAs	N/a	In-house and fund managers
Funds on deposit with the Council's main banker – Lloyds Bank – no limit	N/a	In-house
Term deposits to 4m– banks *	AAA or Aaa	In-house and fund managers
Term deposits to 2m– banks *	AA- or Aa3	In-house and fund managers
Term deposits up to 4m– building societies *	with gross assets in excess of £1,000m	In-house and fund managers
Term deposits up to 2m – building societies *	with gross assets between £500m and £1,000m	In-house and fund managers
Callable deposits	As above	In-house and fund managers
Certificates of deposits issued by banks and building societies	As above	In-house and fund managers
Money Market Funds – Constant Net Asset Value	AAA	In-house
Money Market Funds – Low Volatility Net Asset Value	AAA	In-house
UK Government Gilts	AAA	Fund Managers
Gilt Funds and Bond Funds	AAA	Fund Managers
Treasury Bills	N/a	Fund Managers

* If forward deposits are made by in-house managers, the forward period plus the deal period should not exceed one year in aggregate.

Changes to investment rules were came into force on 3rd January 2018 with the introduction of the MIFID (Markets in Financial Instruments Directive) II regulations. Under the new rules, all local authorities are classified as retail counterparties, and authorities have to consider whether to opt up to professional status and for which types of investments. Some investment options are not available to retail counterparties, and as a result Woking Borough Council has opted up to professional status for three out of four of its existing money market funds (Federated, Standard Life and Deutsche). This has not been necessary for the remaining money market fund (LGIM), which would continue to deal with retail counterparties. A view will be taken going forward on any new investments on a case by case basis and the arrangements will be regularly reviewed as appropriate.

Non-Specified Investments

At the time of placing an investment, a maximum of 35% will be held in aggregate in non-specified investments (including in-house and externally managed funds).

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – UK government (with maturities in excess of 1 year)	N/a	In-house and fund managers	35%	5 years
Term deposits – other LAs (with maturities in excess of 1 year)	N/a	In-house and fund managers	35%	5 years
Term deposits – banks and building societies (with maturities in excess of 1 year)	As for specified investments	In-house and fund managers	35%	5 years
Callable deposits (with maturities in excess of 1 year)	As above	In-house and fund managers	35%	5 years
Certificates of deposits issued by banks and building societies	As above	In-house and fund managers	35%	5 years
UK Government Gilts with maturities in excess of 1 year	AAA	Fund Managers	35%	5 years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers	35%	5 years
Bonds issued by a financial institution which is guaranteed by the UK government	N/a	In-house on a 'buy-and-hold' basis. Also for use by fund managers	35%	5 years
Sovereign bond issues (i.e. other than the UK govt)	AAA	Fund Managers	35%	5 years
Corporate Bonds : <i>the use of these investments would constitute capital expenditure</i>	N/a	N/a	Nil	N/a
Floating Rate Notes : <i>the use of these investments would constitute capital expenditure</i>	N/a	N/a	Nil	N/a

Guide to Ratings

Fitch	Moody's	Standard and Poor's
Rating Levels to be used in Treasury Management		
AAA AA+ AA	Aaa Aa1 Aa2	AAA AA+ AA
Fitch's individual ratings measure an institution's intrinsic safety and soundness on a stand-alone basis, and provide an assessment of the strength of the institution's financial structure, its performance and its credit (and therefore, risk) profile. The laws and accounting practices that govern the operations, reporting and disclosure of financial information in the country in which the institution operates, would have a bearing on the assessment. These ratings are divorced entirely from considerations of external support, from either parent or the government, and are, therefore, useful indicators of credit.	Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. In addition to commercial banks, Moody's BFSRs may also be assigned to other types of financial institutions such as multilateral development banks, government-sponsored financial institutions and national development financial institutions. BFSR's are a measure of the likelihood that a bank will require assistance from third parties such as its owners, its industry group, or official institutions. BFSR's do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honour its domestic or foreign currency obligations. Factors considered in the assignment of BFSR's include bank specific elements such as financial	Long Term credit ratings are based, in varying degrees, on the following considerations: <ul style="list-style-type: none"> • Likelihood of payment—capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation; • Nature of and provisions of the obligation; • Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and

<p>At present, Fitch is the only agency which explicitly states its view of the likely presence of a lender of last resort, either government or parent, with the willingness and the resources to aid a failing financial institution.</p>	<p>fundamentals, franchise value, and business and asset diversification. Although BFSR's exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.</p>	<p>other laws affecting creditors' rights.</p> <p>Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default</p>
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Approved countries for investments

Investments will only be made in sterling and where a bank has a UK branch.

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

Approved countries for investment are based on the lowest rating from Fitch, Moody's and S&P.

Note: The UK is excluded from the minimum sovereign rating criteria (report paragraph 12.20 refers).

Debt Reduction Plan - Principles

Within the Council's Improvement and Recovery Plan (IRP), there is a key link between the Asset Rationalisation Plan (ARP) and options for disposal, developed by the Commercial workstream, and a clear Debt Reduction Plan worked on jointly with the Finance workstream.

This joint work will ensure that the asset disposal programme is underpinned by a detailed option appraisal considering the benefits and risks of disposals and, in the case of company assets, the impact on the companies' cash flow position. It will need to balance the imperative to reduce debt with the need to secure a managed exit from commercial arrangements, achieve best consideration and optimise value for the public purse.

Now that the ARP is identifying a programme of disposals and cash flows, it is important to establish some principle to inform how a Debt Reduction Plan (DRP) will use those cash flows to reduce debt. Set out below are suggested general principles and then specific ones for each of the main categories of assets in the ARP.

General principles:

- The default assumption on General Fund receipts (not HRA) is that they will be applied to debt reduction. Any exceptions should be agreed by the Commercial Board and then any relevant formal approval. A key exception will be any receipts DLUHC agree can be used to support transformation spending.
- In accordance with local authority accounting conventions, assets are not linked to individual loans, so any capital receipts will similarly be used on a programme basis and applied to reduce debt that maximises the revenue benefit of repayment.
- The timing of repayment of debt will also be judged on a programme basis and according to the Council's Treasury Management Policy and in year cash flow and borrowing arrangements. This may mean that receipts may be used to defer borrowing for capital programme investment (internal borrowing) at a point in time, rather than repaying debt immediately. This will still reduce the CFR in year and hence reduce the Minimum Revenue Provision (MRP).
- Such internal borrowing will still reduce overall borrowing, but it will have to be tracked as part of a DRP to show the overall trajectory of borrowing reduction.
- The premium (or discount) payment required on PWLB loans will be calculated as part of any debt charge savings, but it can be a disincentive to actual debt repayment, so this should NOT be used in a decision on sale (i.e. as a reason for not selling). Discussions will have to be held with Government on how a programme of repayment can be facilitated by reviewing these arrangements for Woking. In the short term, using receipts for internal borrowing will still produce revenue savings in debt charges, so the short-term default is likely to be not to repay actual debt until this matter is resolved.
- Quarterly Treasury Management reports to Members, as required by the CIPFA Code of Practice will provide close monitoring of:
 - capital receipts received and their application
 - the Capital Finance Requirement (CFR)
 - the actual level of debt
 - and impact on MRP

Detailed templates supporting these reports and DRP will be maintained by the Finance team. These will be reviewed at the Strategic Property Group and with Commissioners at the Commercial Governance Board prior to this as a means of monitoring the DRP.

- The Finance team maintaining a log of receipts and their application will provide a forecast for the capital receipts reserve account, showing all incoming receipts and all applications of receipts to produce the forecast balance on the reserve each year end.

For each of the asset categories:

1. Commercial estate:

- a) disposal criteria: the key metrics for decision making are capital receipt (and hence potential debt reduction) compared to revenue stream lost and potential savings in debt charges (based on applying the receipt to reduce debt). Any historic debt cost of an asset is useful information to track “overhanging” debt that will have to be written off, but is NOT a key factor in the disposal decision.
- b) It is recognised in the above that the Council’s revenue from its investment estate will reduce as assets are disposed of. The impact on the MTFP will need to be understood and planned for accordingly.
- c) debt charge savings comprise interest saving; MRP saving; and any loan premium / discount arising. In accordance with the general principles, how receipts are applied to repay debt is a separate matter; however, we can agree a notional rate, say the 40 year PWLB annuity premature repayment rate to estimate interest + premium / - discount in the calculations whilst the actual savings will depend on how the receipt is applied and this will also be tracked.
- d) the default assumption is that all capital receipts (except revenue lease surrender on Victoria Gate) will be applied to debt reduction.
- e) However, in relation to land disposals (not shares or loans), the costs incidental to General Fund disposals can be met from capital receipts, but only up to 4% of the capital receipt arising (Cap Fin Reg 23).

2. Group Company receipts:

For the company assets the Asset Rationalisation Strategy will set out the overall approach that will be taken to asset disposal.

3. a) disposal criteria: the key metrics will (as with commercial estate) be capital receipt compared to revenue loss and debt charge saving. However, this assessment will also have to take cognisance of the impact on the company accounts (impact on viability). This will need separate work as the sale value v balance sheet holding value will be a criteria, unlike Council assets (this needs further work by commercial workstream with Finance).
- b) for the Council, default assumption again will be the repayment of debt, with the same application of the general principles on the timing on when debt is repaid. However, work will be needed on issues arising from the proceeds being transferred out of the companies (impact on viability).

3. Housing Revenue Account (HRA land):

a) For HRA assets the primary consideration will be the sustainability of the HRA. This will take into account the investment required to meet urgent fire safety and decency standards and the impact of the reduction in rental income if any HRA assets are disposed of: HRA land disposals are likely to be required to reinvest in stock to meet the regulatory requirements and ensure that the investment is affordable in accordance with the Prudential Code and HRA rules.

b) work is needed to clarify ownership of land – i.e. which are completed Thamesway sites (which are sales under category 2 above), which are cleared Thamesway sites that the HRA has been paid for and therefore in cat 2, and which is HRA land under this cat 3?

4. Other Operational Assets

Currently not included in the ARP. Any operational assets no longer required to deliver services would transfer to disposal programme and debt repayment would follow the same principles as for the commercial estate.

Treasury management scheme of delegation

(i) Council

- approval of annual strategy

(ii) Executive

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of/amendments to the organisation's adopted clauses and treasury management policy statement
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations

(iii) Overview and Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(iv) Treasury Management Panel

- As discussed in the main report, decisions regarding debt rescheduling are general treasury management decisions and are therefore delegated to the Chief Finance Officer (as referred to under point 3.14 in the 'Functions Delegated to the Director of Finance / Section 151 Officer' in the Constitution). The Director of Finance /151 officer has in turn delegated treasury management duties to particular officers in the Finance Department. Therefore the Treasury Management Panel no longer meet.

Appendix G

LONG TERM BORROWING MATURITY PROFILE AS AT 09 FEBRUARY 2024

	PWLB	LOBO	OTHER	ALL		PWLB	LOBO	OTHER	ALL
2023 /2024	29			29	2053 /2054	45			45
2024 /2025	274			274	2054 /2055	48			48
2025 /2026	25			25	2055 /2056	36	5		41
2026 /2027	21			21	2056 /2057	50			50
2027 /2028	18			18	2057 /2058	51			51
2028 /2029	18			18	2058 /2059	71			71
2029 /2030	19			19	2059 /2060	78			78
2030 /2031	24			24	2060 /2061	63			63
2031 /2032	24			24	2061 /2062	76			76
2032 /2033	20			20	2062 /2063	47			47
2033 /2034	25			25	2063 /2064	48			48
2034 /2035	31			31	2064 /2065	70			70
2035 /2036	26			26	2065 /2066	60			60
2036 /2037	27			27	2066 /2067	92			92
2037 /2038	25			25	2067 /2068	51			51
2038 /2039	28			28	2068 /2069	48			48
2039 /2040	26			26	2069 /2070	20			20
2040 /2041	29			29	2070 /2071	16			16
2041 /2042	24			24	2071 /2072	6			6
2042 /2043	28			28	2072 /2073				
2043 /2044	25			25	2073 /2074				
2044 /2045	26			26	2074 /2075				
2045 /2046	27			27	2075 /2076				
2046 /2047	27			27	2076 /2077		10	10	20
2047 /2048	28			28	2077 /2078			5	5
2048 /2049	28			28	2078 /2079				
2049 /2050	32			32	2079 /2080				
2050 /2051	30			30	2080 /2081				
2051 /2052	31			31	2081 /2082				
2052 /2053	35			35	2082 /2083				
						2006	15	15	2036

Annuity repayments of principal are included as they are made in the relevant financial year.

Includes Short Term PWLB Borrowing