COUNCIL – 4 MARCH 2024

CAPITAL STRATEGY 2024-25

1.0 Introduction

1.1 This capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services together with an overview of how associated risk is managed, and the implications for future financial sustainability. This capital strategy report includes a summary of the Council's investment and treasury management strategies, which are set out more fully in the reports which follow.

1.2 The Capital Strategy, Investment Strategy, and Treasury Management Strategy aim to comply with the following statutory Codes and Guidance which local authorities are required by law to 'have regard' to:

- CIPFA's Prudential Code for Local Authority Capital Finance (revised 2021)
- CIPFA's Code of Practice for Treasury Management in the Public Services (revised 2021)
- Statutory Guidance on Local Authority Investments (revised 2018)
- Statutory Guidance on Minimum Revenue Provision (draft for consultation 2024).

1.3 The CIPFA Codes require the production of prudential indicators in relation to capital finance, borrowing and investments, and these are incorporated in the relevant reports below. Councils are encouraged to include local prudential indicators where these help interpret their financial position.

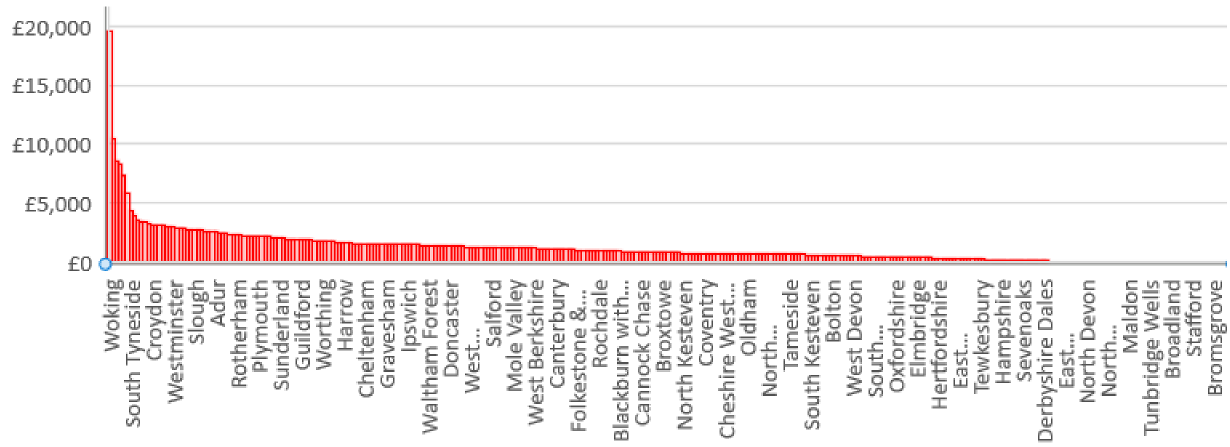
1.4 This report will;

- Describe how the Council reached its current exposed debt and investment position.
- Set out the Council's revised strategic objectives for capital expenditure, borrowing and investment.
- Set out the policies steering the capital programme and financing proposals in this budget.
- Forecast the Council's debt over the MTFS period and how that relates to the proposals in the Improvement and Recovery Plan and to the discussions with Commissioners and the Department of Levelling up, Housing and Communities (DLUHC).
- Outlines the proposed strategy for the Council's investments (including the Group and Victoria Square Woking Ltd) which is set out more fully in the Investment Strategy report.
- Outlines the treasury management strategy which is also set out fully in the report of that name, including the proposals for Minimum Revenue Provision (MRP).

2.0 Context: borrowing, investments and the Council's financial position

2.1 The Council's capital and investment strategy from around 2016 onwards sought to achieve regeneration, housing and environmental objectives, by very large scale investment, funded by Council borrowing, in the council-owned ThamesWey Group of companies and in Victoria Square Woking Ltd (VSWL). Interest from the loans to the companies was intended to cover the associated borrowing costs. This has led to the Council having £19,573 debt per head of population, by far the highest debt per head of any authority in England:

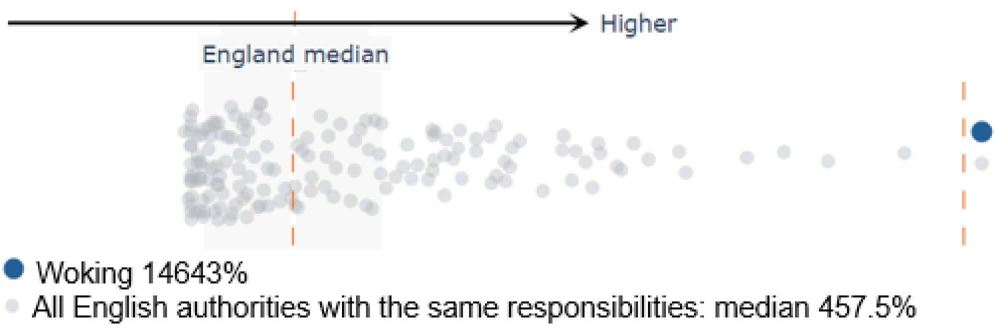
Local prudential indicator: loan debt per head of population



Source: DLUHC statistics at 30 September 2023

2.2 The volume of debt contrasts with the Council's core revenue resources from Council tax and business rates of around £15m in 2024/25. Analysis from OfLog shows Woking as an extreme outlier compared with other authorities, with total debt at 31 March 2022 being 14643% of its core spending power:

Local prudential indicator: Total debt as a percentage of core spending power



Source: OfLog Local authority Data explorer (2021/22 actuals)

2.3 In 2023 it became clear that the council investments in ThamesWey and VSWL were not able to deliver the cashflows to meet loan payments to the Council without further ongoing injections of Council cash via the loans' revolving credit facility. Moreover, the Council had not been charging minimum revenue provision (MRP) on its investments, and it became clear that this was not prudent, especially under the revised MRP regulations and Guidance being proposed by the Government. The unsustainability of the Council's financial position led to the Government's External Assurance Review and the appointment of Commissioners. The Section 114 notice in June 2023 by the then Interim Director of Finance made it clear that the Council's Investment Strategy had resulted in unaffordable borrowing; inadequate steps to repay that borrowing; and high values of irrecoverable investments. MRP charges in relation to investments appeared to have been understated by £356m to the 31 March 2024. Interest income of £43m per annum from the group companies has been suspended in 2023/24.

2.4 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. The Council fully acknowledges its corporate responsibility to the community and the taxpayer and to Government to take such steps as are available to meet a proportion of its overall revenue deficits from its own resources. The Council published its Improvement and Recovery Plan (IRP) in July, as well as agreeing its Guiding Principles for returning to financial balance over the medium term. These form the basis of much of the capital and investment strategies below.

3.0 Strategic objectives and risk appetite in relation to capital, borrowing and investment

3.1 The Council's Medium Term Financial Strategy has four strategic goals:

- To provide a framework within which the Council is eventually able to achieve a series of balanced budgets in the medium term;
- To reach for and deliver where possible both financial stability and sustainability;
- To enable successive budgets to be balanced using a set of Guiding Principles;
- To provide a budget and risk structure within which the Improvement and Recovery Plan can be delivered.

3.2 A key part of delivering these goals is a way forward for the Council's debt, investments and capital finance. The Improvement and Recovery Plan includes the following strategic aims relating to these areas:

- Financial recovery: sustainable budget management, making difficult decisions whilst delivering against strategic Council priorities and safeguarding future capacity;
- Commercial: release the Council from unavoidable commitments, whilst protecting the public purse and optimising the value of existing assets and rationalising;
- Governance and assurance: ensure risk is managed and decisions are based on data and evidence and scrutinised.

3.3 In this context the Council is highly risk averse, as the revenue account is unable to manage financial volatility.

3.4 The Council's overall priorities, which were set out in the Woking for All Strategy in 2022, are under review given the Council's changed situation. A draft vision and mission statement has been developed alongside the budget, as described in the General Fund Budget Report to 8 February Council. This includes a mission for a trusted and transparent Council that lives within its means.

4.0 Capital Expenditure and Financing

<u>Capital Programme 2024/25</u>

4.1 Given the need to minimise capital expenditure, the previous capital programme was suspended in September 2023, and the revised Medium Term Financial Strategy adopted the following Capital Planning Principles as the criteria for agreeing capital budgets. Proposals that do not fall within these 'Capital Principles' have not been included within the Capital Programme:

- Items of programming that relate to essential health and safety works and deliver compliance to the regulations within in the Council's property estate.
- Essential investment in Information & Communications Technology to ensure that the Council has fit for purpose and secure tools and infrastructure to support operations generally where there is a suitable business case to support such investment.
- Items where - following support from Government and from Commissioners - specific resources are provided to the Council by Government to complete or partially complete certain specified schemes that were already in delivery by the various companies owned by the Council when the Section 114 Notice was issued.

- Any schemes that can be shown to be wholly funded from external resources without implying additional cost burdens for the Council.
- Where proposals are estimated to return a measurable revenue saving; for example, leasing of the Council's commercial property portfolio which may require modest upfront capital investment and which then return a beneficial income stream to the revenue budget.
- In addition, proposals funded by the Housing Revenue Account will be developed alongside these General Fund principles with the aim of supporting a sustainable HRA 30 year business plan.

4.2 The reduced capital programme following these principles reflects the Council's wider orientation towards being an organisation focussed on delivering core services to its residents. Hence, whilst the programme is much reduced overall, it does include the most significant investment in Council Housing for some time. This investment is fully funded via HRA resources and meets the requirement of the Prudential Code. It funds spending to help the Council meet essential regulatory fire safety and Decent Homes standards. Similarly, the much reduced General Fund programme covers essential maintenance requirements such as on Pool in the Park. In summary the programme is:

Prudential indicator: Capital expenditure

Prudential indicator: capital expenditure

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
General Fund capital expenditure	90.5	34.7	8.1	6.9	6.9
HRA capital expenditure	4.3	18.3	18.3	16.8	4.2
Total capital expenditure	94.8	53.0	26.4	23.7	11.1
analysis	This is much lower than recent years, and declines in later years as known resources are lower at this stage.				
objective	to maximise external resources and minimise use of capital receipts and prudential borrowing based on the Capital Principles				

4.3 Further details are set out in the Capital Programme Report and the HRA Budget Report presented to the 1st February Executive.

4.4 The figures included in the HRA and General Fund Capital Programme are indicative budgets and do not represent approval to spend. Separate expenditure approvals will be required, based on the production of a robust business case. Where any borrowing from PWLB is needed to fund the programme, approval will be sought from DHLUC as part of the regular monthly meetings to review cash flow and the Council's borrowing requirements.

<u>Capital Programme Governance</u>

4.5 It is the intention that no new capital expenditure financed by borrowing or by the Council's own resources (such as capital receipts) should normally be approved outside of the annual budget process. The objective is to strengthen budget discipline and ensure consistent prioritisation of very limited resources in accordance with the Council's Capital Principles. In year approvals should be limited and relate to exceptional cases such as the in year receipt of grant funding for projects.

4.6 The inclusion of a project or programme in the Capital Programme does not permit it to proceed until a formal business case has been approved. Before a project included in the annual programme can proceed, a project manager is identified and will prepare a short summary of the project for consideration by the Corporate Leadership Team (CLT). If CLT are supportive, the project manager will complete a more detailed workbook which covers the objectives of the project, the costs, funding and risks. If necessary, a report will be presented to the

Executive or Council to approve use of resources in line with the Council's Constitution. Arrangements are described more fully in the Capital Programme report elsewhere in the budget papers.

4.7 As stated above, any new borrowing that is required to support capital expenditure is subject to government approval as part of the Intervention and arrangements for Exceptional Financial Support. Therefore schemes cannot progress until this is in place.

4.8 Strengthening governance across the Council forms an important part of the Improvement and Recovery Plan. The Governance and Assurance Theme aims to ensure risk is managed, future decision making arrangements are improved, and to make changes to the constitution accordingly. This includes reviewing the roles of Overview and Scrutiny and Standards and Audit Committees.

<u>Capital Programme Financing</u>

4.9 All projects within the Capital Programme are financed either from grants or contributions (external sources), reserves or capital receipts (internal sources) or borrowing (including leasing/Private Finance Initiative). Table 2 shows the proposed financing of the capital budget above.

Capital Programme February 2024

	2022/23 Budget £m	2023/24 Budget £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m	2027/28 Budget £m
General Fund	87	34	9	6	6	6
Housing (Including Council Housing)	69	61	44	20	18	6
TOTAL	156	95	53	26	24	11

4.10 Where opportunities arise, the Council will apply for government or other external funding to contribute towards planned Capital Programme projects. The award of grants is subject to the conditions of the grant awarding body and will often include a requirement for match funding by the Council and a repayment clause if funds are not applied in accordance with the grant terms.

4.11 Prudential borrowing has been the main source of capital finance in recent years, but this now needs to be minimised as part of the Improvement and Recovery Plan's objective of reducing the Council's debt. The much reduced programme now utilises prudential borrowing for a small element of the housing capital programme (funded by the Housing Revenue Account) and essential maintenance of the Council's core assets and to support the completion of the VSWL and ThamesWey business cases. There is a well established process for accessing prudential borrowing to support the later which is covered in the monthly DHLUC meetings.

4.12 As reported in the General Fund Budget and Council Tax Setting 2024-25 Report elsewhere on the agenda, the Government have agreed that the Council can use £3.5m of capital receipts to carry out a comprehensive Improvement and Recovery Programme. The above report provides an update on this programme.

5.0 Debt forecasts, affordability and the Improvement and Recovery Plan

<u>Forecast debt</u>

5.1 The Council's debt is formed of loan debt and other long term liabilities, such as liabilities under PFI contracts. In general, debt increases by the amount of prudential borrowing for capital expenditure, and reduces by the amount of minimum revenue provision (MRP). Debt (net of treasury investments) is also likely to rise when reserves are used or revenue deficits are incurred. At 31 March 2024 the Council's total loan debt is estimated at £2,115m, rising to £2,254m by 31 March 2025.

5.2 The debt charges (interest plus minimum revenue provision) arising from this level of debt are unaffordable to the Council, given the loss of the associated investment income. The Government accepts that Woking cannot meet all the borrowing liabilities and the debt charge consequences. In relation to the 2024/25 budget, the Government has provided capitalisation directions which enable a balanced budget to be set; however this does not reduce the Council's debt or borrowing costs.

5.3 In relation to later years, 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.

5.4 On this basis, without assuming the nature of financial support in later years, the projected debt across the medium term plan period is as set out below. This represents the prudential indicator for the Operational Boundary.

Prudential indicator: Operational Boundary (forecast debt)

5.5 The table below shows the current trajectory of the Council's debt in future years. This is based on the interim solution of the Capitalisation Directive explained in the Medium Term Financial Strategy report. This solution will continue to increase the Council's overall debt by capitalising revenue shortfalls until a longer term solution to the Council's unaffordable debt commitment is agreed with Government.

5.6 The requirement for the capitalisation directive is driven by the overall revenue budget shortfalls estimated to be at £114m in 2024/25 and to £95m in 2025/26 (as per the capitalisation directive calculation detail). The largest component of this is the loss of revenue associated with the suspension of interest previously paid by the Council's Joint Ventures and wholly owned companies (at £48m in 2024/25). These figures exclude the associated MRP costs which cannot be capitalised.

5.7 The much reduced capital programme of essential spending on the housing programme and other essential maintenance forms a smaller portion (£34m in 2024/25 and £19m in 2025/26).

Prudential indicator: operational boundary (forecast gross debt)

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Opening gross loan debt	1,973.4	2,115.4	2,254.0	2,359.8	2,469.9
Planned prudential borrowing for capital	83.3	33.9	19.3	18.2	5.5
Revenue shortfall - met by capitalisation direction	52.7	114.0			
Later year revenue shortfalls - funding to be resolved			95.1	101.4	107.4
Less MRP	0.0	-8.1	-8.6	-9.5	-9.6
other cashflows eg movements in reserves	6.0	-1.1	0.0	0.0	0.0
Forecast closing loan debt	**2,115.4**	**2,254.0**	**2,359.8**	**2,469.9**	**2,573.2**
Other long term liabilities	19.7	20.7	19.1	17.5	15.9
Operational boundary (forecast debt)	**2,135.1**	**2,274.7**	**2,378.9**	**2,487.4**	**2,589.1**
Analysis: These figures make no assumptions about the nature of Government assistance beyond 2024/25. On this basis,debt continues to grow due to budget shortfalls and some borrowing for essential capital. These are the figures on which interest costs have been budgeted. Substantial asset sales in later years are expected to reduce debt, but are not yet quantified.					
Objective: The Council seeks with the support of Government to achieve a substantial reduction in its debt.					

Debt affordability

5.8 The debt financing costs arising from the above debt are extremely high relative to the Council's underlying revenue resources. Financing costs comprise largely interest due plus minimum revenue provision (MRP is considered more fully in paragraph 6 below). The prudential indicator for financing costs as a proportion of the net revenue stream illustrates this as follows:

Prudential indicator: Financing costs as a % of the net revenue stream

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
General Fund gross financing costs	65.0	72.2	77.7	79.1	82.9
net revenue stream	16.1	19.0	19.0	19.0	19.0
Financing costs as % of net revenue stream	404%	380%	409%	416%	437%
analysis	this is the share of income from general grants and Council Tax taken by financing costs (largely interest and MRP). THis needs to be much lower in order to reach a sustainable position.				
objective	to substantially reduce this over the medium term to a level where plausible variations can reasonably be met without a major disruption to services				

The Improvement and Recovery Plan (IRP)

5.9 The above forecasts show a level of debt and debt financing costs which, without Council action and Government support, are unaffordable and will continue to grow.

5.10 The Council is committed to playing its part in resolving these problems. The Improvement and Recovery Plan approved by the Council in July 2023 sets out several themes to progress the Council's financial recovery with the support of the Government. Key to the Council's actions in reducing its debt is the asset rationalisation plan, under which capital receipts from asset sales will be used to repay the Council's debt. This will reduce its financial exposures and risks for both borrowing and investments, on both sides of the balance sheet. This is set out in the IRP's Commercial Workstream and is described more fully in the Investment Strategy report.

Authorised Limit for debt

5.11 The Authorised Limit for Debt is a limit on total loan debt and other long term liabilities which the Council must set by law and under CIPFA's Prudential Code. The limit may not be exceeded. Pending further work on a long term financial solution with the Government, the authorised limit has been set in this budget at the forecast debt shown in the Operational Boundary above, plus a small margin to allow for cashflows and other uncertainties. The limits include the estimated borrowing required to cover revenue deficits under a capitalisation direction.

Prudential Indicator: Authorised Limit for Borrowing and Debt

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Forecast closing loan debt	2,135.1	2,274.7	2,378.9	2,487.4	2,589.1
Allowance for cashflows and uncertainties	74.7	79.6	83.3	87.1	90.6
Authorised Limit for borrowing	**2,209.8**	**2,354.3**	**2,462.2**	**2,574.5**	**2,679.7**
Other long term liabilities	19.7	20.7	19.1	17.5	15.9
Authorised Limit for debt	**2,229.5**	**2,375.0**	**2,481.3**	**2,592.0**	**2,695.6**
Analysis and Objective: as for the operational Boundary above					

The "Other Long Term Liabilities" represents a Private Finance Initiative (PFI) scheme explained in section 11.

6.0 Minimum Revenue Provision (MRP) and the Capital Financing Requirement

6.1 Minimum Revenue Provision (MRP) is an annual charge to revenue account required by law to meet the cost of capital expenditure that has not been financed from available resources. This can be thought of as a way of repaying prudential borrowing and other liabilities used to fund capital expenditure. The Capital Financing Requirement (CFR) is the measure of the unfinanced capital outstanding, or the underlying level of debt relating to capital expenditure.

6.2 The Government has been reviewing its MRP approach since 2021/22, and the final proposed amendments to regulations and statutory guidance, with effect from 2024/25, were recently published for consultation.

6.3 The Council's MRP has in recent years been very low in relation to its CFR due to its previous policy of not charging MRP in relation to capital loans to third parties. A review for the Council by Worth Technical Accounting Solutions has advised that MRP was estimated to be cumulatively understated by £356.4m as at 31st March 2024. MRP underprovision was one factor in the section 114 notice issued by the then interim Director of Finance in June 2023.

6.4 Funding these levels of MRP is beyond the means of the Council, and has been a major element in discussions with the Commissioners and DLUHC during 2023. DLUHC have agreed that:

- The Government has committed to working with the Council on the long-term solution to its borrowing liabilities and debt charges and recognises that the Council will need external support to repay its debt.
- In accordance with the MRP Guidance and assurances of support from Government it is not appropriate to charge the full MRP. 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 ThamesWey and backdated MRP which will be deferred in line with the draft MRP guidance. This is on the basis of the draft MRP guidance in relation to 'distressed authorities' the fact the draft guidance articulates existing policy and the request for Exceptional Financial Support made by the Council. 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.

- 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 some MRP being deferred to future years.

6.5 The MRP policy which forms Appendix 1 to the Treasury Management Strategy reflects the above.

Capital Financing Requirement (CFR)

6.6 The Capital Financing Requirement is a measure of debt outstanding related to financing capital expenditure. It increases with new debt-financed capital expenditure and reduces as MRP or capital receipts are set aside to repay debt. The Council's CFR has been restated using a balance sheet calculation provided in the MRP review by Worth Technical Accounting Solutions. The calculation may be subject to further review when the Council's recent years' accounts are audited.

6.7 The Capitalisation Directions referred to in the General Fund Budget report permit the Council to capitalise the 2024/25 revenue deficit arising from the historic borrowing and investment strategy. This will increase the Council's CFR.

6.8 The Direction is simply a temporary mechanism to enable the Council to set a balanced revenue budget. The Direction brings with it no cash resources, so the deficit – whether treated as revenue or capital – reflects a cash shortfall which will have to be met from borrowing, and will therefore result in an increase in the Council's debt outstanding in 2024/25. Future revenue deficits will continue to increase Council debt until a more sustainable solution to the Council's debt position is identified. Any new borrowing under the capitalisation direction will relate to 2024/25 onwards. The issue of a capitalisation direction will not cause the Council to incur any additional borrowing for 2023/24 or before.

6.9 On this interim basis, the CFR is estimated as follows:

Prudential indicator: Capital Financing Requirement (CFR)

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
General Fund CFR	2,146.1	2,284.5	2,293.7	2,300.8	2,295.2
HRA CFR	163.5	165.9	178.6	191.2	191.2
Total CFR	2,309.6	2,450.4	2,472.3	2,492.0	2,486.4
analysis	This is the underlying level of debt which has financed capital expenditure, including the capitalisation directions in this budget. The CFR value remains under review while accounts are audited.				
objective	to substantially reduce this over the medium term				

6.10 The CFR is closely related to a council's debt outstanding. Debt should normally be below the CFR, due to revenue reserves and other balances in hand. If debt exceeds the CFR this is usually an indication of financial difficulties:

Prudential Indicator: Gross debt and the Capital Financing Requirement

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Gross debt (loans and other long term)	2,137.4	2,274.7	2,378.9	2,487.4	2,589.1
Capital Financing Requirement	2,309.6	2,450.4	2,472.3	2,492.0	2,486.4
does debt exceed the CFR?	No	No	No	No	Yes
analysis	This compares the calculated CFR required with the Council's forecast level of actual debt. The debt exceeds the CFR in 2027/28 as the CFR does not include a capitalisation directive from 2025/26 onwards while borrowing is still estimated to be required to finance revenue deficits.				
objective	to keep actual debt below the CFR				

6.11 Where debt exceeds the CFR, the Code requires an authority to take steps to bring debt back below the CFR in the medium term. This will need to be part of the medium term financial solution being developed with the Commissioners and DLUHC.

7.0 Asset management

7.1 Due to the continuing restrictions on new expenditure commitments, there are few resources in the capital programme or revenue budget for asset maintenance and management on the General Fund, which will focus on essential maintenance for core services. The 2024/25 Housing Programme does however include significant investment in fire safety and Decent Homes standards, which can be funded from a more sustainable Housing Revenue Account.

7.2 During the financial reviews of 2024/25 it has become clear that the Council has not been providing sufficient resources to maintain the condition and suitability of its General Fund assets in the medium and long term. A provision of up to £20m per annum of revenue and capital expenditure combined, has been included in the Capitalisation Directive for 2024/25 and is part of the ongoing dialogue with DLUHC.

7.3 The HRA's asset management is separate due to the HRA ring fence. The capital programme's proposals for the HRA address the immediate needs of the housing stock and will be further reviewed when the 30 year HRA Business Plan is produced during 2024/25.

7.4 The Council's asset management needs will be changed significantly by the asset rationalisation proposals under the Improvement and Recovery Plan. The Strategic Asset Management Plan will be reviewed accordingly.

<u>Asset Rationalisation Plan</u>

7.5 A key part of the Improvement and Recovery Plan is the asset rationalisation and debt reduction work. The work is in the context of the strategic aim 'to release the Council from unaffordable commitments whilst protecting the public purse and optimising the value of from existing assets'.

7.6 The rationalisation strategy places the key Council assets together for consideration, namely:

- Victoria Place regeneration project and Victoria Square Woking Ltd (VSWL)
- ThamesWey Group Companies and the Sheerwater Regeneration project.
- WBC Strategic commercial property investment portfolio
- WBC operational property portfolios.

8.0 A commercially experienced property specialist has been brought in to lead the development and implementation of the rationalisation strategy and subsequent disposal programme. The last three months has seen a breakthrough in the asset rationalisation work. The next period will see the completion of a prioritised plan which will balance the urgent need to reduce the levels of debt with achieving value for money for the assets sold. A programme of asset disposals for the next three years is developing.

8.1 Asset information remains a barrier to more rapid progress and even in the most aggressive scenario, disposals in the next two years are likely to be in the tens not hundreds of millions. Accordingly, the Council's debt and CFR remain forecasted at elevated levels pending further clarity about the asset rationalisation programme as well as the future government support mechanism.

9.0 Investment Strategy

9.1 The Council's Investment Strategy is included elsewhere in the suite of budget reports, and is summarised below. It covers all the Council's non-treasury investments made to support service objectives, in particular its loans and shares (predominantly in VSWL and the ThamesWey Group) as well as its commercial property investments.

9.2 The last decade has seen a highly expansionary investment strategy. Historic expenditure on share and loan acquisition estimated at 31 March 2023 stood at £1,334m, financed from borrowing; the current value of the Strategic Property portfolio was estimated at £225m at 31 March 2023.

9.3 The Government's External Assurance review of May 2023 concluded that the current value of investment assets was estimated to be well below the associated borrowing. There was insufficient regard to the level of risk the Council was being exposed to, and it could not be argued that the borrowing and investment had been proportionate or prudent. The Council's historic investment and borrowing decisions were disproportionate to its ability to manage complex commercial activity.

9.4 The suspension of interest receipts from VSWL and the ThamesWey Group during 2023/24 has resulted in a loss of investment income of around £43m per annum, which previously had been used to meet the associated borrowing costs. The Council will receive an estimated income from other service-related loans of £1.4m in 2024/25, and a further £6.7m from the Strategic Property portfolio.

9.5 The Improvement and Recovery Plan's Commercial Theme aims to release the Council from unaffordable commitments whilst protecting the public purse and optimising the value from existing assets'. It will do this as far as possible by reducing investment risks to a proportionate size; obtaining the best financial outcome for the public purse in relation to the failed investments; and using the sale proceeds to repay part of the Council's loan debt.

9.6 This will require a full understanding of the activities of all Council owned companies, joint ventures and commercial property assets. As noted in the previous section, this process will take several years.

9.7 The Council's non-treasury investment limit, as required by Government Guidance, is set out below. This reflects the scale of historic expenditure and not the value of the shares and loans; and does not yet reflect the asset rationalisation programme which is currently under development. Future years' Investment Strategies will see a much smaller portfolio.

Prudential indicator: non-treasury investments limit

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Shares (at cost)	37.8	37.8	37.8	37.8	37.8
Loans (at cost)	1,363.6	1,388.2	1,388.5	1,388.5	1,388.5
Commercial property (valuation 31.3.2023)	224.9	224.9	224.9	224.9	224.9
total limit	1,626.3	1,650.9	1,651.2	1,651.2	1,651.2
analysis	The Council's investment purchases have been disproportionate, especially in its Group companies. The limit has been maintained at current levels pending decisions about future investment reductions.				
objective	to substantially reduce the level of investments over the medium term, to reduce investment exposure and repay debt.				

10.0 Housing Revenue Account Capital and Borrowing

10.1 A 30 year Business Plan for the HRA is in preparation for approval in the next few months. This will enable a longer term perspective on the affordability and sustainability of the HRA and its capital plans. The HRA capital budget is essentially a one year plan with indications for later years which will need review as part of the business plan development. The HRA prudential indicators shown below will inform the development of the business plan and will be incorporated into the final document.

Prudential indicator: HRA capital expenditure and debt

HRA prudential indicators: Capital Expenditure and Capital Financing Requirement

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
HRA Capital expenditure	4.3	18.3	18.3	16.8	4.2
HRA prudential borrowing	0.0	2.4	12.6	12.6	0.0
HRA CFR	163.5	165.9	178.6	191.2	191.2
Analysis: The HRA CFR is the measure of HRA debt outstanding. It increases due to new prudential borrowing, but there is no automatic mechanism to reduce it so new HRA prudential borrowing needs to be done with care.					
Objective: To ensure that HRA CFR remains affordable and prudent over the life of the HRA Business Plan.					

Prudential indicators: HRA debt affordability

10.2 These indicators show that HRA debt per dwelling increases significantly from 2026/27 due to additional prudential borrowing combined with a falling number of HRA properties as a result of right to buys. The affordability of this will need to be assessed as part of the Business Plan development.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
HRA financing costs	5.6	5.6	5.9	6.4	6.6
HRA revenues	21.2	24.2	24.8	25.4	26.0
number of HRA dwellings	3,386	3,296	3,276	3,256	3,236
HRA financing costs as a % of revenues	26%	23%	24%	25%	25%
HRA financing costs per dwelling (£ actual)	1,640	1,701	1,804	1,958	2,039
analysis	THe later years figures are draft pending production of the HRA Business Plan. If financing costs as a share of HRA revenues or per dwelling rises by more than inflation, that represents a bigger call on limited HRA resources. The affordability of later years should be reviewed carefully as part of the forthcoming HRA Business Plan.				
objective	To ensure that financing costs at an affordable proportion over the 40 year life of the HRA Business Plan. In the medium term, for the proportion of revenues and cost per dwelling to remain at a stable level at which the housing stock can be maintained and sustained using revenue resources with little or no additional prudential borrowing.				

11.0 Treasury Management Strategy

11.1 The Council's Treasury Management Strategy is included elsewhere in the suite of budget reports, and is summarised below. It sets out how the Council manages its loan debt and treasury investments, in order to meet its longer term borrowing needs as well as its day to day cashflows.

11.2 The strategy for 2024/25 is an interim position until a more sustainable solution to the Council's unaffordable debt position is identified. As described in section 5 above, the Council's debt is forecast to grow pending a long term financial solution. In addition, a substantial volume of existing borrowing matures during 2024/25 and this will need replacing. New borrowing is expected to be taken largely as one year maturity loans from the PWLB, with the possibility of some two to three year loans to match the likely timing of major asset sales in that period. In normal circumstances, the Council's borrowing requirement would be largely met by longer term borrowing, but this is unlikely to be appropriate given the need for a major debt reorganisation and reduction exercise with the Government.

11.3 This one year borrowing strategy is supported by the likelihood of reducing short term interest rates in the coming one to three years, but the Council's resultant high exposure to short term rate variations may result in significant interest cost volatility.

11.4 The PWLB does not lend to any Local Authority which plans to buy investment assets primarily for yield (regardless of whether this purchase would be funded by PWLB borrowing or through other resources). This budget contains no such plans. DLUHC and the Commissioners will continue to be closely involved in any borrowing from the PWLB which will require their approval.

11.5 Treasury management investments are taken in order to manage the Council's cashflows and other treasury activities. Given the Council's position as a substantial net borrower, treasury investments are likely to continue to be held for short term cashflow management only. A balance of around £15m is assumed in order to allow short term cashflow fluctuations to be met. In accordance with Government Investment Guidance, the Council will prioritise security and liquidity over yield for treasury management investments.

11.6 Decisions on treasury management investment and borrowing need to be made daily, and are therefore delegated to the Finance Director and finance team to act in accordance with this Treasury Management Strategy. Treasury Management Practices are being reviewed to provide day to day guidance for treasury officers.

11.7 Borrowing and treasury investments are reported during the year in the Council's financial monitoring, and prudential indicators will be reported quarterly as required by CIPFA's Prudential Code. A Treasury Management report is presented to the Executive after the end of the year detailing the activity for the year and the Overview and Scrutiny Committee receives a mid-year report.

12.0 Other long term liabilities

12.1 The Council is committed to making future payments to cover its pension fund deficit valued at £67m at 31 March 2022.

12.2 The Council has a General Fund Private Finance Initiative (PFI) scheme which provides 224 houses at affordable rents for 25 years via a release to a housing association. The liability associated with the payment of the unitary charge was assessed as £23.2m at 31 March 2023.

12.3 Decisions on incurring new discretional liabilities are taken in the same way as other Council expenditure and will be the subject of Executive/Council decisions if not covered by approved budgets.

13.0 Risk management in capital, investment and treasury

13.1 The Council has become all too aware of the risks surrounding disproportionate levels of borrowing and investment, especially where investments are financed by borrowing. The Improvement and Recovery Plan aims as far as possible to net down the investment and borrowing risks on both sides of the balance sheet, by selling investments and other assets, and using the proceeds to repay debt; however, investment values and proceeds will be substantially below the associated levels of borrowing. The Government has recognised that the Council will need external support to repay its debt and restore affordability.

13.2 The key risks to the Council currently are during this transitional period while the Improvement and Recovery Plan is implemented and further support is firmed up with DLUHC. These risks are being managed primarily through the risk management arrangements documented in the Improvement and Recovery Plan. Risks will be identified and managed by each working group, and risks requiring escalation will be reported and captured in the wider programme risk register, and shared with the Executive as part of quarterly programme updates.

13.3 Key risk areas which are covered include the level of resources available to support the work programme; the pace of change required and the pressures on staffing, morale and retention; and the Council's reliance on external resources for delivery. The section 25 report in the Medium Term Financial Plan sets out the overall risks to the Council's sustainability. Further risk management arrangements are included in the Improvement and Recovery Plan.

14.0 Knowledge, skills and capacity

14.1 Knowledge, skills and capacity continue to be a key challenge to the Council, especially as it seeks to deliver a challenging Improvement and Recovery Plan.

14.2 External advisors and consultants are used where the Council does not have the technical knowledge, experience or skills required. They are also used to supplement the internal resource if Council staff do not have the capacity to manage the Council's requirements.

14.3 The Council supports training towards professional qualifications and for staff to attend relevant training courses for continued professional development. Training and briefing sessions for Members and Officers on local government finance generally and on subjects or projects as needs are identified.