COUNCIL – 4 MARCH 2024

# TREASURY MANAGEMENT STRATEGY 2024-25

## 1.0 Introduction

1.1 This report considers how the Council's borrowing and treasury investments are arranged and managed. It recommends a strategy for addressing its treasury management risks and needs during 2024/25.

1.2 The Council's financial difficulties, which led to the section 114 notice by the then Interim Director of Finance in June 2023, relate mainly to the extremely high level of the Council's loan debt, and the Council's reliance on failed investments in Group companies to fund the borrowing costs. The plans for addressing this are considered mainly in the Capital Strategy and the Investment Strategy also on the agenda. This report is concerned with how the Council's loan debt is best managed, and the policy for MRP.

1.3 The report also sets out a revised Policy Statement for Minimum Revenue Provision (MRP), which addresses the need for a much higher revenue charge for MRP under current and proposed regulations and guidance, and describes the Government arrangements which permit the MRP charge to be reduced whilst the Council is receiving extraordinary financial support from the Government.

1.4 The report also includes for approval a number of principles for the Council to follow as it develops a Debt Reduction Plan. This is attached as Appendix E.

1.5 The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' CIPFA's Prudential Code and Treasury Management Code, and to Government Investment Guidance. CIPFA revised the Treasury Management and Prudential Codes in 2021.

1.6 Treasury Management is defined by the Code 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."*

1.7 For Woking Borough Council, the key aspects of this are its loan debt and borrowing costs, together with the security of its (relatively small) treasury management investments. The Council's investments which have been made for service purposes, including the loans and shares in the Group companies, are the subject of the Investment Strategy report above.

## 2.0 Treasury management risk appetite, objectives and policy

2.1 The main treasury management risks which the Council is exposed to include:

- Interest rate risk: the risk that future borrowing costs rise
- Liquidity and refinancing risks: the risk that the Council cannot obtain funds when needed
- Credit risk: the risk of default in the Council's treasury investments.

2.2 The Council's borrowing costs are far higher than the Council's forecast resources can support, following the suspension of interest income from the Group Companies. Fundamental actions to address this are under development by the Council, its Commissioners and the Government. In this position, the Council's risk appetite in relation to treasury management must be very low.

2.3 Stable and predictable charges to revenue account from treasury activities are therefore a high priority to the Council.

2.4 The Council's objectives in relation to treasury management can therefore be stated as follows:

*"To obtain funding and manage the Council's loan debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested".*

2.5 This does not mean that it is possible to avoid treasury risks. A balance has to be struck, with an emphasis on prudence and stability.

2.6 CIPFA's Treasury Management Code asks authorities to adopt a standard Policy Statement and four key clauses in relation to treasury management. These are attached at Appendix B, which also outlines the Treasury Management Practices and Investment Management Practices required by the Code.

2.7 The Finance Directorate has limited capacity to proactively manage treasury risks or use advanced treasury techniques or instruments. Treasury activities are therefore likely to be limited to:

- Borrowing from the PWLB and via the money market
- Borrowing when required (subject to regular checks by Government)
- Making short term treasury management investments
- Restructuring of loan debt.

2.8 As the Council is in intervention and will be in receipt of Exceptional Financial Support, there are likely to be specific conditions that restrict the Council's borrowing activity. Due to the scale of the debt held these will include regular reporting of the cash flow position and to seek advance approval for any borrowing required and it is anticipated that borrowing will be with PWLB.

## 3.0 Current Treasury Position

3.1 The Council's loan debt outstanding and treasury investments at 31st December 2023 are as follows:

| | | Principal | | Ave. rate |
|---|---|---|---|---|
| Borrowing | | £m | £m | % |
| Long term borrowing: | | | | |
| Fixed rate funding | PWLB | 1,730.7 | | 2.62 |
| | Market | 30 | | 4.48 |
| | | | 1,760.70 | 2.65 |
| Variable rate funding | PWLB | 0 | | - |
| | Market | 0 | | - |
| | | | 0 | |
| Other long term liabilities (PFI) | | | 22.3 | 3.73 |
| Total long term borrowing | | | 1,783.00 | 2.66 |
| Short term borrowing | PWLB | | 268.80 | 5.49 |
| | LOCALS | | 45.00 | 4.70 |
| Total Borrowing | | | 2,096.80 | 5.37 |

| | | |
|---|---|---|
| Treasury Investments<br>- Short term WBC Treasury | 48.10 | 5.38 |

## 4.0 Borrowing Requirement and loan debt maturity profile

4.1 The Council's borrowing requirement is the amount the Council expects to need to borrow in the year, due to a forecast increase in overall loan debt, plus maturing loans needing to be replaced:

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Forecast increase in gross loan debt | 138.6 | 105.8 | 110.1 | 103.3 |
| maturing loans | 275.5 | 25.1 | 20.5 | 17.7 |
| **total amount required to be borrowed** | **414.1** | **130.9** | **130.6** | **121.0** |

4.2 Details of the £138.6m increase in loan debt are in the Capital Strategy paragraph 5.4 (the Operational Boundary) and can be summarised as follows:

**Increase in loan debt**

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Planned prudential borrowing for capital | 33.9 | 19.3 | 18.2 | 5.5 |
| Revenue shortfall - met by capitalisation direction | 114.0 | 0.0 | 0.0 | 0.0 |
| Later year revenue shortfalls - funding to be resolved | 0.0 | 95.1 | 101.4 | 107.4 |
| Less MRP | -8.1 | -8.6 | -9.5 | -9.6 |
| other cashflows eg movements in reserves | -1.1 | 0.0 | 0.0 | 0.0 |
| **Forecast increase in gross loan debt** | **138.6** | **105.8** | **110.1** | **103.3** |

4.3 The main reason for the increase in debt will be to support the requested Capitalisation Directive required to cover revenue expenditure until the Council is in a more sustainable financial position. The main element of the CD will be to cover the loss of revenues arising from the suspension of interest previously paid by the wholly owned companies. Any new borrowing to support the capital programme will be subject to government approval. The capital programme for 2024/25 will contain essential regulatory, health and safety and asset management expenditure, planned borrowing to support capital expenditure agreed in 2023/24 and some limited investment to realise revenue savings.

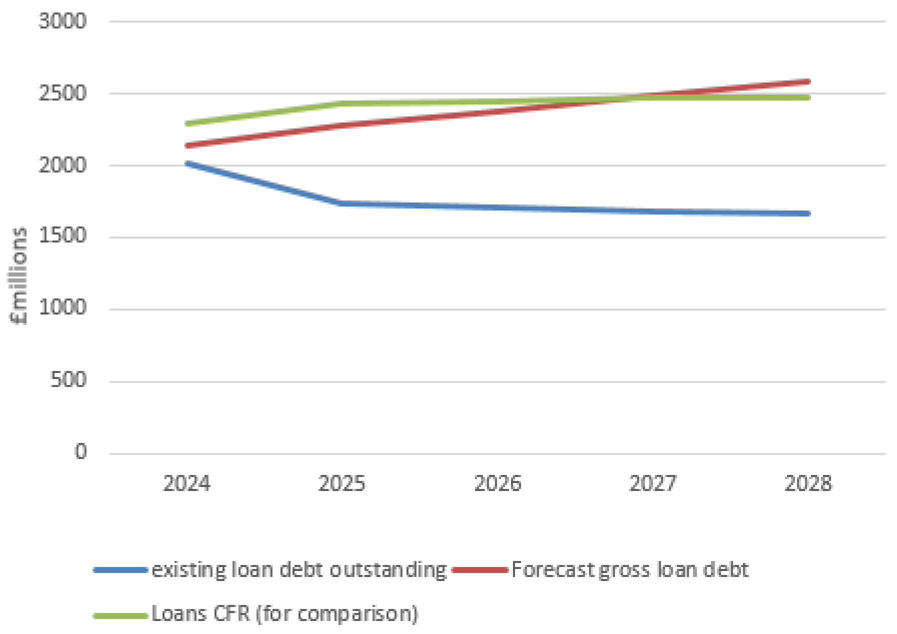
4.4 £275.5m of the Council's existing borrowing matures in 2024/25, and this will need to be replaced. This also forms part of the Council's borrowing requirement. Replacement borrowing may also be required for Lender's Option Borrower's Option (LOBO) loans, if the lender exercises their right to increase the interest rate on the loan and the Council decides to repay the loan rather than accepting the increased rate. However, there are only £15m of LOBO loans outstanding.

4.5 Due to the scale of the outstanding debt the Council is developing a Debt Reduction Plan which will sit alongside the Asset Rationalisation Plan (as explained in section 9). The capital receipts realised will be applied to reduce the overall capital financing requirement and to either repay existing debt or avoid future borrowing.

<u>Loan maturity profile and liability benchmark</u>

4.6 The forecast level of loan debt compared with the Council's existing loans outstanding is shown in the liability benchmark prudential indicator:

**Liability benchmark prudential indicator Table**




4.7 The gap between existing loans outstanding (the blue line) and the Council's forecast loan debt (the red line) shows the borrowing requirement over the MTFP period. This shows a substantial borrowing need arising during 2024/25, as noted above, but not growing much further during the rest of the LTFP period due to relatively low loan maturities in those years. A longer term projection is usually helpful to assess whether the Council's maturity profile matches well to its forecast debt outstanding, but in Woking's current circumstances a long term projection is not currently appropriate due to the uncertainty over future debt levels.

4.8 The chart also shows the loans Capital Financing Requirement (CFR) for comparison (the green line). This exceeds actual loan debt by 2027/28. This is an indicator of financial difficulties, and is discussed further in the Capital Strategy para 6.10.

4.9 The prudential limits for the maturity structure of borrowing are a means of controlling the proportion of borrowing across the maturity profile, to support this objective. The Council's maturity limits are as follows:

**Prudential indicator: Maturity structure for fixed rate borrowing**

| **% of loans maturing in:** | **< 12 months** | **1-5 years** | **5-10 years** | **10-20 years** | **> 20 years** |
|---|---|---|---|---|---|
| lower limit | 0% | 0% | 0% | 5% | 10% |
| upper limit | 35% | 30% | 30% | 40% | 60% |
| analysis | The 12 month limit is higher than would normally be the case due to the uncertainty over the Council's future debt position and the strategy to repay a sizeable volume of debt over the coming 3 years or so. | | | | |
| objective | To manage loan debt within these limits, subject to future arrangements for government support. | | | | |

## 5.0 Interest rate risk

5.1 Interest rate risk is the risk that fluctuations in interest rates will create financial burden on the organisation's finances. Variable rate borrowing and short term borrowing are especially sensitive to interest rate changes. This Council with an extremely high level of loan debt is very vulnerable to interest rate changes.

5.2 The Treasury Code asks local authorities to use their own prudential indicators for interest rate risk, appropriate to their circumstances. The Council will use the following two indicators:

**Prudential indicator: interest rate risk limits**

| | |
|---|---|
| GF impact of a 1% rise in interest rates | £4.6m in 2024/25 |
| maximum % of short term and variable rate debt | 35% in 2024/25 |
| | |
| analysis | These limits will need to be much lower in later years |
| objective | To remain within the limit |

## 6.0 Outlook for interest rates

6.1 The Council has appointed Link Asset Services as treasury adviser to the Council and part of their service is to assist the Council to inform our view on interest rates. Appendix C provides their forecast for bank rates and PWLB borrowing rates, summarised as follows:

**Link interest rate forecasts 7 Nov 2023**

| % | March 2024 | March 2025 | March 2026 |
|---|---|---|---|
| bank rate | 5.25 | 4.00 | 3.00 |
| 5 year PWLB | 4.90 | 4.20 | 3.60 |
| 10 year PWLB | 5.00 | 4.20 | 3.70 |
| 50 year PWLB | 5.10 | 4.30 | 3.90 |

The interest rate available to the Council on new PWLB loans may be 1% higher than the normal 'certainty' rate forecasted above, due to the Council's financial situation.

6.2 This forecast suggests that interest rates will reduce over the next two years, and that short term and long term rates will be at broadly similar levels, but with short term borrowing becoming a little cheaper than long term borrowing during 2024/25. This suggests that some longer term borrowing might be deferred, given a reasonable prospect of lower rates in a year or two's time. The cost of short term borrowing in the meantime is forecast to fall.

6.3 However, all forecasts need to be treated with caution. The forecast is based on a view of the economic conditions of the economy and other influences on interest rates. Link provide the following assessment of upside and downside risks to their forecast:

**The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is to the downside.

**Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- Despite the recent tightening to 5.25%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

## 7.0 Borrowing Strategy

7.1 The borrowing requirement calculated in the Table under paragraph 4.1 above shows a substantial borrowing requirement in 2024/25 of £414m, predominately required to replace maturing loans as well as supporting some limited capital expenditure. The Link interest rate forecasts above suggest that borrowing costs may start to fall during 2024/25, and Link's general advice to authorities is that deferral of long term borrowing may be appropriate until interest rates have fallen. The developing Debt Reduction Plan will also consider how capital receipts from asset rationalisation should be applied. In the first instance, given the size of the forward debt requirement, the plan may mean that avoiding drawing down further debt is more beneficial than repaying existing debt.

7.2 The Council's ongoing discussions with the Commissioners, DLUHC and the PWLB to develop funding solutions for the Council's borrowing and other financial problems have a major bearing on the 2024/25 borrowing strategy. In the short term, adverse revenue cashflows may require temporary borrowing, whilst longer term plans to stabilise and reduce the Council's debt are likely to make long term borrowing inappropriate and potentially costly if loans need to be prematurely repaid at a penalty. The prudential borrowing in the capital programme has largely been limited to the £78m of funding for Victoria Square Woking Ltd and Thameswey Ltd, and these are expected to be relatively short term financings until the assets under construction can be completed. The Council may also have to pay a higher interest rate to the PWLB to access borrowing during the current recovery period. For these reasons also, short term borrowing of one to three years at most is likely to be the appropriate borrowing strategy for 2024/25. This does however expose the Council to significantly higher refinancing and interest rate risks in 2025/26 as the loans mature, but if interest rates fall as forecast by Link this would be in the Council's favour.

7.3 A proportion of borrowing out to three years or so may be appropriate to match the likely timescales for realising capital receipts. This will be kept under review as part of the developing Debt Reduction Plan by the Director of Finance.

7.4 HRA borrowing is accounted for in accordance with Government regulations and CIPFA guidance, using the HRA CFR as the measure of HRA debt and apportioning a share of interest costs to it. HRA prudential indicators are reported in the Capital Strategy and will in future be included in the HRA Business Plan.

7.5 This strategy will be kept under review throughout the year as interest rate conditions and the Council's own position develop.

PWLB Borrowing

7.6 The Council is likely to be dependent on the PWLB for most or all of its borrowing in 2024/25. The PWLB lends for a minimum period of 1 year. Regular meetings with DLUHC are held to review and agree the Council's borrowing needs. Because the Council is receiving extraordinary financial support from the Government, the interest rate available to the Council may be 1% higher than the normal 'certainty' rate.

## 8.0 Policy on borrowing in advance of need

8.1 Borrowing in advance of need' is where borrowing is taken before it is needed to meet the Council's operational cashflows. This results in surplus cash which requires investment until needed. Government Investment Guidance expects local authorities to have a policy for borrowing in advance, largely because of the increased treasury risks it creates including credit risk on the surplus cash invested.

8.2 The Council is a substantial net borrower, and in order to minimise its debt outstanding and its treasury investment exposures, it should only have surplus cash for short periods to cover in-year cashflows. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. It is highly unlikely that any borrowing would be undertaken in advance of need and any decision to do so would need to demonstrate significant financial and operational benefits after the cost of carry had been taken into account and would require explicit government approval. Regular meetings are held with Government to review any borrowing requirements before PWLB loans are drawn down. These meetings provide an additional external check on borrowing in advance of need.

8.3 In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that the Council's forecast borrowing requirement supports a clear need for borrowing in the coming one to three years to meet the authority's current plans and expected cashflows;

- ensure that the on going revenue liabilities created, and the implications for future plans and budgets have been considered, including the cost of carry of the borrowing until it is needed and the credit risk of the investment required;

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;

- consider the merits and demerits of alternative forms of funding; and

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

## 9.0 Debt Reduction and Restructuring

9.1 As part of the intervention there is a requirement on the Council to reduce the level of assets held hence the levels of outstanding debt. This forms a key part of the Council's overall Improvement and Recovery Plan. The Director of Finance is working with Commissioners to develop a Debt Reduction Plan (DRP) alongside the development of an Asset Rationalisation Plan. 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.

9.2 The attached principles for debt reduction have been drafted (see appendix E).

9.3 The key principle is that all proceeds from the sale of General Fund assets (including those from the Council's companies), will be presumed to be used to reduce debt, rather than fund further expenditure. The reduction in debt is likely initially to involve not borrowing, rather than actual repayment of PWLB debt, given the initial need for funding for the Capitalisation Directive.

9.4 The Council's debt problem is a General Fund one, not the Housing Revenue Account. For HRA assets the primary consideration will be the sustainability of the HRA. 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.

9.5 Before the Council does actually repay PWLB debt, there will need to be discussions with Government on how the rules governing debt restructuring for local authorities apply. The PWLB operates a system of premiums or discounts on the repayment of borrowing which will impact on the interest savings that are achievable. The level of savings will be reduced unless Woking BC is given some dispensation.

9.6 Debt rescheduling is considered to be part of general Treasury Management and therefore decisions regarding debt rescheduling are delegated to the Chief Finance\S151 Officer as detailed in the delegated functions section of the Constitution.

9.7 Progress on the Debt Reduction and Asset Rationalisation Plans will be reported to Council and Executive as part of the Improvement and Recovery Plan and any debt rescheduling will be reported to the Executive in subsequent treasury monitoring reports.

## 10.0 Annual Investment Strategy for treasury management investments

<u>Investment Policy</u>

10.1 The Council's ongoing policies for treasury management investments are set out at Appendix D. These policies determine in particular the Council's arrangements for prioritising security, liquidity, and yield in that order, as recommended by the DLUHC Investment Guidance. They include the Council's criteria for making treasury investments of a high credit quality (using credit ratings and other information), and criteria for the maximum maturity of investments. The Director of Finance may also appoint investment managers.

<u>Investment Strategy</u>

10.2 The Council has surplus cash to lend only for short periods, as part of day to day cashflow fluctuations and as part of maintaining adequate liquidity. For these purposes, the treasury team will expect to hold around £15m of treasury investments.

10.3 The Council currently holds no treasury management investments for which the remaining time to maturity is in excess of one year. Such investments are unlikely to be appropriate as the Council is a substantial net borrower and only needs to invest to cover short term cash flows. In the unlikely event that longer term investments become appropriate, the Council will apply a long term prudential limit for treasury management investments as follows:

| Long term treasury management investments | 1-2 years | 2-5 years | longer |
|---|---|---|---|
| limit | £20m | £10m | £0 |
| analysis | WBC should not need any long term investments as it is a high debt authority. | | |
| objective | To avoid longer term investments, because surplus cash should be used to repay debt | | |

10.4 Investments will accordingly be made with reference to cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Were there to be any core balance of funds up to £10 million available for investment over a 0-5 year period, these funds that would be managed in discussion with Tradition UK or other UK money market brokers or investment advisers.

10.5 For its cash flow generated balances, the Council will seek to utilise its Lloyds business reserve account, money market funds and short-dated deposits (overnight to three months) using secure counterparties in order to benefit from the compounding of interest.

10.6 Link's view, along with many other commentators, is that UK interest rates (short and long term) will start to fall during 2024/25. This would mean a relatively small reduction in interest earned from the treasury investments. However, this would be more than offset by a similar reduction in interest costs on the larger value of borrowing.

10.7 The Council will receive monthly reports on its investment activity in budget monitoring, an annual monitoring report to the Overview and Scrutiny Committee and at the end of the financial year as part of its Annual Treasury Report.

## 11.0 Treasury management revenue budget

11.1 Based on the above interest rate outlook, borrowing strategy and treasury investment strategy, the revenue budget for treasury management is as follows:

| | 2023/24 Rev £000 | 2024/25 £000 | 2025/26 £000 | 2026/27 £000 | 2027/28 £000 |
|---|---|---|---|---|---|
| gross interest payable | 63,318 | 69,670 | 75,055 | 75,967 | 79,992 |
| loan premium / discount charges | 16 | 16 | 16 | 16 | 16 |
| less capitalised interest | -309 | 0 | 0 | 0 | 0 |
| General Fund MRP | 7,503 | 8,122 | 8,573 | 9,527 | 9,527 |
| **Gross financing costs** | **70,527** | **77,808** | **83,644** | **85,511** | **89,535** |
| | | | | | |
| Interest charged to HRA | -5,552 | -5,607 | -5,909 | -6,376 | -6,597 |
| Expenses charged to HRA | -36 | -36 | -36 | -36 | -36 |
| **Gen Fund gross financing costs** | **64,975** | **72,201** | **77,735** | **79,134** | **82,938** |
| | | | | | |
| interest receivable: | | | | | |
| - treasury investments | -785 | -694 | -488 | -450 | -450 |
| - ThamesWey and VSWL | -43,788 | -46,300 | -46,034 | -45,891 | -45,891 |
| - other service investments | -713 | -719 | -711 | -711 | -711 |
| **'business as usual' budget** | **19,689** | **24,488** | **30,503** | **32,083** | **35,887** |
| | | | | | |
| less suspended interest | 43,788 | 46,300 | 46,034 | 45,891 | 45,891 |
| **General Fund treasury budget** | **63,477** | **70,788** | **76,537** | **77,974** | **81,777** |

11.2 Given the suspension of interest income from the Group Company investments, this interest burden is far higher than the Council is able to sustain, and longer term solutions are being considered with the Commissioners and DLUHC.

11.3 The budgeted cost in each year is based on the Council's current forecasts and plans. Actual interest costs will be affected by the nature of future Government extraordinary support, future interest rates, cashflows, the level of reserves and provisions, and any debt restructuring. Sections 5 and 6 above have discussed the potential volatility of the treasury budget due to the potential upsides or downsides to the interest rate outlook and the large scale of the Council's short term borrowing as a consequence of the debt reduction plan.

**12.0 Banking services**

12.1 The Council's bankers, Lloyds, have a policy for Councils subject to a s114 notice that requires the Executive to consider the Council's continued use of facilities which it has with Lloyds Bank in light of the issue of the s114 Notice. The Banking Facilities are an essential part of the Council's current funding plans, to enable it to continue to provide its statutory services. In view of this the Council has the power to enter into and continue to use the Banking Facilities.

**13.0 Use of External Service Providers**

13.1 As previously stated the Council uses Link Asset Services as its external treasury management advisors in order to acquire access to specialist skills and resources. The services provided include the following:-

- Provision of interest rate forecasts and advice on borrowing and investment strategies;
- Regular updates on economic and political changes;
- Forecasts of movements in Public Works Loan Board rates;
- Advice on debt rescheduling, funding policy, volatility and maturity profile analysis;
- Advice on investment counterparty creditworthiness;
- Provision of annual template documents and advice on the various Treasury Management reports; and
- Treasury Management training.

13.2 Although external treasury management advisors are used, responsibility for treasury management decisions remains with the Council at all times and undue reliance is not placed upon the external service provider.

13.3 The Council uses money market brokers, and may also use other borrowing or investment advisers, managers and other treasury service providers. The Director of Finance may procure, appoint and dismiss all external treasury service providers.

**14.0 MRP Policy**

14.1 Local authorities are required by law to 'charge to a revenue account a minimum revenue provision (MRP) for that year'. MRP 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. 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.

14.2 Authorities are required to produce an MRP Policy Statement which sets out how the charge to revenue account is calculated. The Government has issued Guidance on MRP, which authorities must by law have regard to.

14.3 The Council's MRP in previous years has been extremely low in relation to its CFR, and in 2023 the Council commissioned a review from Worth Technical Accounting Solutions to review its MRP policy and revenue charges. This has advised that MRP for 2024/25 was understated by £80m, due predominantly to the policy of not charging MRP on the loans to companies.

The cumulative under provision in the Council's accounts to 31.3.2024 is calculated as £356.4m. MRP and MRP arrears are therefore a major component of the Council's financial difficulties.

14.4 DLUHC has recently consulted on changes to MRP Regulations and Guidance, which will have effect from the 2024/25 financial year. It is clear from the proposed Guidance that the Council's previous policy was not compliant with the duty to make prudent provision. However, there are special provisions for authorities which are in severe financial difficulties and requiring Government support:

*"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)*

14.5 As part of the Government's support arrangements it is proposed that the Council will only need to make £8.2m of MRP in 2024/25, reflecting its 'business as usual' position. This exceptional MRP relief should allow the Council to set a legal budget for 2024/25. MRP arrangements in the longer term will need to be addressed by the longer term debt reduction plan. 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. The MRP projections in this budget MTFS assume continuation of the business as usual basis for MRP will continue, pending further clarification.

14.6 The Worth report recommended a revised MRP Policy Statement which would be compliant with the statutory duty to make prudent MRP provision. This is attached at Appendix A, and takes account of the recent draft MRP Guidance including the Government MRP relief proposal. It is recommended for approval as part of this budget report.

**15.0 Skills, capacity and training**

15.1 CIPFA's Treasury Management Practices (TMP 10) expects officers and members to receive treasury management training appropriate to their roles. General treasury training has been, and will continue to be provided by Link, but establishing in house skills and capacity to an appropriate level continues to be a challenge for the Council.

15.2 The Director of Finance will seek to implement the recommendation of TMP 10 to identify the competencies required for the main roles at officer and member level, including knowledge and skills schedules and identifying the training needed to meet any gaps. At present the Council's skills and capacity at officer level is being enhanced through interim and consultancy appointments, but it is necessary to ensure a good level of in house skills and capacity appropriate to the demands of the Council's debt and investment position.

REPORT ENDS