ANNEX 1

CAPITAL STRATEGY 2025/26

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1. Introduction

1.1 The 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. The capital strategy report also includes a summary of the Council's investment and treasury management strategies (which can be found in full at Annex II and Annex III of this report).

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

- Chartered Institute of Public Finance and Accountancy (CIPFA's) Prudential Code for Local Authority Capital Finance (2021)
- CIPFA's Code of Practice for Treasury Management in the Public Services (2021)
- Government statutory guidance on local authority investments (2018)

- Government statutory guidance on Minimum Revenue Provision (statutory guidance updated 10 April 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. This report:

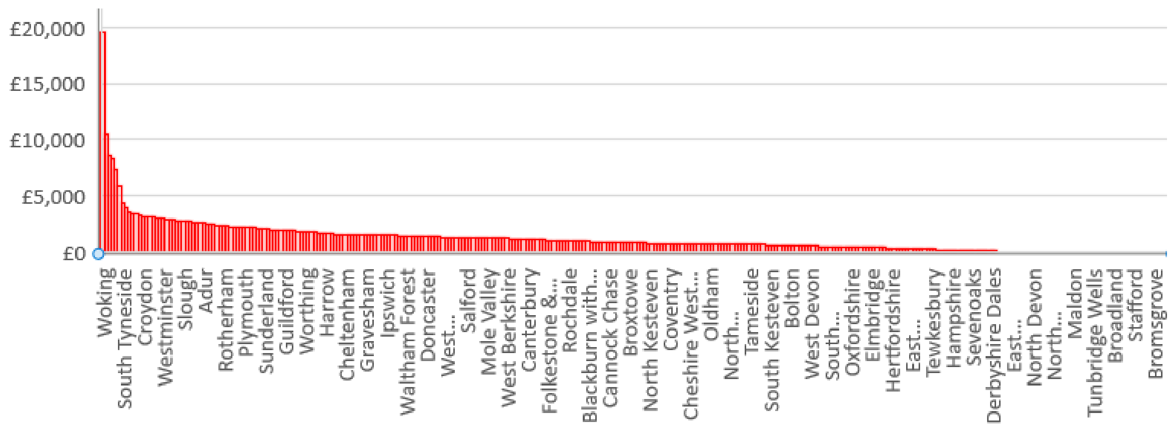
- Sets out how the Council reached its current exposed debt and investment position.
- Sets out the Council's revised strategic objectives for capital expenditure, borrowing and investment.
- Sets out the policies steering the capital programme and financing proposals in this budget.
- Forecasts the Council's debt over the Medium-Term Financial Strategy (MTFS) period and how that relates to the proposals in the Improvement and Recovery Plan and to the discussions with Commissioners and the government (Ministry of Housing, Communities and Local Government, MHCLG).
- Outlines the proposed strategy for the Council's commercial investments (including the Thameswey group of companies and Victoria Square Woking Limited and subsidiaries) which is set out more fully in the Investment Strategy report (Annex II of this report).
- Outlines the Treasury Management Strategy (Annex III of this report) the proposals for the Council's Minimum Revenue Provision, MRP policy (Appendix A of Annex III).

2. 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 large scale investment funded by borrowing. This was substantially via the wholly Council owned Thameswey Group of companies and in Victoria Square Woking Limited (VSWL) and subsidiaries. The interest from the loans to the companies was intended to cover the borrowing costs and the value of the companies and their assets was intended to repay the debt.

2.2 As a result of this and other borrowing, the council has c£2.1 billion of debt (31 March 2024)[1]. The Council's debt per head of population - c£20,000 - is the highest debt per head of any authority in England[2].

Local prudential indicator: loan debt per head of population



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[1] Woking Borough Council Draft Statement of Accounts 2023/24 (balance sheet, page 18, short term and long term borrowing).

[2] MHCLG statistics and Census data.

2.2 This level of debt is unaffordable for the Council with the interest due alone far exceeding the Council's total revenue resources. The volume of debt contrasts with the Council's core revenue resources from Council tax and business rates of less than £20 million. Government data shows the Council as an extreme outlier compared with other authorities (line is the average with the dark dot – the Council's measure of how much debt relative to the amount of money available to spend on services (core spending power) being 13,070% at 31 March 2024[3].

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

2.3 In 2023 it became clear that the Council's commercial investments (Thameswey group of companies and Victoria Square Woking Limited) would not able to deliver the cashflows to meet loan repayments to the Council without further ongoing injections of Council cash via the loans' revolving credit facility. In addition, 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 government guidance now in place. The unsustainability of the Council's financial position resulted in the government's External Assurance Review and the appointment of Commissioners. The Section 114 notice in June 2023 clarified 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 were substantial understated. Interest income due to the Council as lender from the Council's commercial companies has been suspended since 2023/24.

2.4 Since last year there has been a complete change in the Council's capital and investment strategy with the input from and the support of the Council's Commissioners and the government (Ministry of Housing, Communities and Local Government, MHCLG) to progress 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 updated its Improvement and Recovery Plan (IRP) in September 2024 which includes guiding principles for returning to financial balance over the medium term and progress to date. These form the basis of much of the Council's capital and investment strategies.

3. Strategic Objectives and Risk Appetite in relation to Capital, Borrowing and Investment

3.1 The Council's MTFS 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/Programme 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:

[3] Corporate and finance - Local Authority Data Explorer (for Woking Borough Council).

- 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. The Council's overall priorities are set out in the latest Woking for All Strategy 2025-2028[4] and under continuous review. This includes a mission for a trusted and transparent Council that lives within its means.

4. Capital Expenditure and Financing

Capital Programme 2025/26

4.1 The Council follows these capital planning principles to minimise capital budgets and limit spending to essential capital investment only. Proposals that do meet these principles are not included in the capital programme.

- Essential health and safety works (compliance with regulations) for the Council's property estate.
- Essential investment in information and communications technology to ensure that the Council has fit for purpose and secure tools and infrastructure to support operations and where there is a compelling business case to support such investment.
- Following agreement from Government and the Commissioners, specific resources are provided to the Council by Government to complete or partially complete specified schemes that were 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 additional cost burdens for the Council.
- Proposals which are estimated to return a measurable revenue saving. For example, leasing of the Council's commercial property portfolio which may require modest upfront capital expenditure and which then return a beneficial income stream to the revenue budget.
- Proposals funded by the Housing Revenue Account, HRA will be developed alongside these General Fund principles with the aim of supporting a sustainable HRA 30 year business plan.

4.2 The latest capital programme following these principles focuses on delivering core services to residents. The programme does include additional investment in council housing. This investment is funded from HRA resources (as required under the landlord account ringfence) and meets the requirements of the Prudential Code.

[4] Forewords | Woking Borough Council

Prudential Indicator: capital expenditure and funding

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
General Fund capital expenditure	48	9	7	7	2
HRA capital expenditure	10	22	18	16	12
Total capital expenditure	**58**	**30**	**25**	**23**	**14**
Reserves, grants, Section 106, capital receipts	13	20	20	18	6
General Fund borrowing*	44	7	6	5	0
HRA borrowing	0	3	0	0	8
Total capital funding	**58**	**30**	**25**	**23**	**14**
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 Council's capital planning principles.				

*The 2024/25 General Fund borrowing includes £38 million for completion of commercial company business cases.

4.2 Full details are set out in the 2025/26 Capital Programme report elsewhere on this agenda. Please note that the 2025/26 capital programme budgets are indicative and do not represent approval to spend. Separate expenditure approvals will be required based on the production of a robust business case for each project. In addition, where borrowing from government (Public Works Loan Board, PWLB) is required to fund the programme approval will be sought as part of the regular monthly meetings to review cash flow and the Council's borrowing requirements.

4.3 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).

4.4 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.

4.5 Prudential borrowing has been the main source of capital finance in recent years but needs to be minimised as part of the Improvement and Recovery Plan's objective of reducing the Council's debt. The reduced capital programme now utilises prudential borrowing for essential maintenance of the Council's core assets, a small element of the housing capital programme (funded by the Housing Revenue Account) and final support for the completion of the commercial company business cases. There is a tightly controlled process for accessing prudential borrowing covered in the regular meetings between the Council, Commissioners and government.

<u>Capital Programme Governance</u>

4.6 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 planning principles. In year approvals should be limited and relate to exceptional cases. For example: the in-year receipt of grant funding for projects.

4.7 The inclusion of a project or programme in the Council's 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 bid covering 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 2025/26 Capital Programme report elsewhere on this agenda.

4.8 Any new borrowing that is required to support capital expenditure is subject to government approval as part of the Section 114 intervention and arrangements for Exceptional Financial Support. Schemes cannot progress until this is in place.

4.10 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 and future decision making arrangements are improved. This includes reviewing the roles of Overview and Scrutiny and Audit and Governance Committees.

5. Debt Forecasts, Affordability and the Improvement and Recovery Plan

Forecast debt

5.1 The Council's debt is substantially made up of loan debt with some other long term liabilities under PFI contracts. 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. Exceptional Financial Support was agreed for 2024/25 and has been requested for 2025/26.

5.2 The government has not provided a specific commitment to the value and form of support in future years but is committed to working with the Council on a long-term solution and recognises that the Council will need external support to repay its debt. On this basis - without assuming the nature of financial support in later years - the projected debt across the medium term plan period has been forecast.

Prudential indicator: Operational Boundary (forecast debt)

5.3 The table shows the forecast trajectory of the Council's debt in future years (both General Fund and Housing Revenue Account). At 31 March 2025 , the Council's total loan debt is forecast to be £2,245 million rising to £2,322 million by 31 March 2026. The Council's budget was supported by government capitalisation direction in 2024/25 and the Council has requested support for 2025/26. The Council's overall debt will continue to increase (revenue shortfalls capitalised) until a longer term solution to the Council's unaffordable debt is agreed.

5.4 A capitalisation direction is required to meet the overall revenue budget shortfalls estimated £94 million in 2024/25 and £75 million in 2025/26 (as per the final 2025/26 request for Exceptional Financial Support submitted to government).

Prudential indicator: operational boundary (forecast gross debt)

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Opening gross loan debt	2,115	2,245	2,322	2,390	2,457
Planned prudential borrowing for capital	44	11	6	5	12
Revenue shortfall met by capitalisation direction	94	75			
Later year revenue shortfalls funding to be resolved			70	70	70
Less 'business as usual' MRP	-8	-8	-9	-9	-9
other cashflows eg movements in reserves	-1	0	0	0	0
Forecast closing loan debt	**2,245**	**2,322**	**2,390**	**2,457**	**2,530**
Other long term liabilities	21	19	18	16	15 f
Operational boundary (forecast debt)	**2,266**	**2,341**	**2,407**	**2,473**	**2,545**
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 . For example: depend on market conditions at the point of sale.					
Objective: The Council seeks with the support of government to achieve a substantial reduction in its debt.					

Debt affordability

5.5 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 the 'business as usual' Minimum Revenue Provision (considered more fully in paragraph 6). The prudential indicator for financing costs as a proportion of the net revenue stream illustrates this. This table is illustrative for later years as it does, for example, not take account of potential future asset sale receipts being used to repay debt.

Prudential indicator: General Fund Financing costs to net revenue stream

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
General Fund gross financing costs	71	75	78	79	82
net revenue stream	19	20	20	20	20
Financing costs as % of net revenue stream	373%	377%	389%	396%	410%
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)

5.6 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.

5.7 The Council's Improvement and Recovery Plan (IRP)[5] 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 (debt reduction plan) 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. This is set out in the IRP's

[5] Improvement and Recovery Plan (IRP) | Woking Borough Council

commercial workstream and is described more fully in the Council's Investment Strategy (Annex II of this report).

<u>Authorised Limit for debt</u>

5.8 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 at the level of the debt in the Operational Boundary (in paragraph 5.4) plus a margin to allow for cashflows and other uncertainties.

Prudential indicator: Authorised limits for borrowing and debt

	2024/25	2025/26	2026/27	2027/28	2028/29
	£m	£m	£m	£m	£m
Forecast closing loan debt	2,245	2,322	2,388	2,455	2,524
Allowance for cashflows and uncertainties	79	81	84	86	88
Authorised Limit for borrowing	**2,323**	**2,403**	**2,472**	**2,541**	**2,613**
Other long term liabilities	21	19	18	16	15
Authorised Limit for debt	**2,344**	**2,422**	**2,489**	**2,557**	**2,628**
Analysis and Objective: as for the operational Boundary above					

6. 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 Council's MRP has in recent years been very low in relation to its CFR due to its previous (incorrect) policy of not charging MRP in relation to capital loans to third parties. An independent review by Worth Technical Accounting Solutions advised that MRP was cumulatively understated. This has been corrected and forms part of the Council's reporting and Exceptional Financial Support applications to government. The Council's cumulative unfunded MRP is estimated to be c£503 million at the end of 2025/26.

6.3 Funding the correctly calculated levels of MRP is beyond the means of the Council and continues to a major element in discussions with the Commissioners and government (MHCLG). The government have agreed that:

- The government is 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.

- The MRP policy unpinned the Council's MRP calculation has been updated in line with the government guidance to ensure that all debt is repaid in line with the statutory duty under Regulations 27 and 28. As this is unaffordable, this will require a proportion of MRP to be deferred to future years as part of Exceptional Financial Support requests (subject to government agreement). The Council will only charge a 'business as usual' element of the full MRP value excluding, for example, repayment of commercial loans.

6.4 The Council's overall budget is detailed in the General Fund summary (Section 9 of the General Fund Budget 2025-26 report). Within the Council's total budget, MRP of £104 million is forecast which includes MRP related to the Council's commercial loans. As previously mentioned, the majority of this MRP will be deferred as part of the Government's Exceptional Financial Support (if approved). However, £8 million of the MRP will not be deferred and will be charged in the 2025/26 financial year. This amount reflects the MRP calculated under the Council's previous policy in place before the Section 114 Notice was issued in June 2023. The 'Business As Usual' (BAU) budget, as presented in the General Fund summary, includes a notional MRP level based on a sustainable debt target. This sustainable debt is set at £75 million with an additional £5 million in borrowing per year for capital projects.

6.5 The Council's latest (2025/26) MRP policy is set out in Appendix A of the Treasury Management Strategy (at Annex III of this report).

Capital Financing Requirement (CFR)

6.6 The Capital Financing Requirement (CFR) 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 calculation may be subject to further review as part of the external audit of the Council's accounts.

6.7 The Council's CFR has been restated using a balance sheet calculation provided in the MRP review by Worth Technical Accounting Solutions. Future years are a forecast and, for example, make assumptions about asset sale proceeds (capital receipts) which reduce the CFR. Subject to agreement by government a small proportion of capital receipts will be applied to transformation related spending.

6.8 The capitalisation directions referred to in the General Fund Budget report (elsewhere on this agenda) may (if agreed by government) permit the Council to capitalise the 2025/26 revenue deficit arising from historic borrowing and investment strategy. This will increase the Council's CFR. 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 2025/26. Future revenue deficits will continue to increase Council debt (and CFR) until a more sustainable solution to the Council's debt position is identified.

Prudential indicator: Capital Financing Requirement (CFR)

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
General Fund CFR	2,423	2,524	2,384	2,509	2,638
HRA CFR	163	166	166	166	174
Total CFR	2,586	2,690	2,550	2,676	2,812
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				

6.9 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 issues (either with the calculation or in reality).

Prudential Indicator: Gross debt and the Capital Financing Requirement (CFR)

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Gross debt (loans and other long term)	2,266	2,341	2,406	2,471	2,539
Capital Financing Requirement	2,586	2,690	2,550	2,676	2,812
Does debt exceed the CFR?	No	No	No	No	No
Analysis	This compares the calculated CFR required with the Council's forecast level of actual debt. The forecast debt does not exceed the forecast CFR				
Objective	to keep actual debt below the CFR				

7. Housing Revenue Account (HRA) Capital and Borrowing

7.1 The Council's 30 year business plan for the Housing Revenue Account, HRA was approved by 12 December 2024 Council[6]. The HRA Business Plan sets out the Council's strategy for spending and borrowing to maintain its housing stock and operate services for its tenants and leaseholders. The HRA prudential indicators shown below inform the business plan.

HRA prudential indicators: Capital Expenditure and Capital Financing Requirement, CFR

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
HRA Capital expenditure	10	22	18	16	12
HRA prudential borrowing	0	3	0	0	8
HRA CFR	163	166	166	166	174
Analysis: The HRA CFR is the measure of HRA debt outstanding increasing with new prudential borrowing. There is no mechanism to reduce it so additional HRA borrowing should be prudent.					
Objective: To ensure that HRA CFR remains affordable and prudent over the life of the HRA Business Plan.					

Prudential indicators: HRA debt affordability

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

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[6] (Public Pack)Agenda Document for Council, 12/12/2024 19:00 (page 61).

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
HRA financing costs	5.5	5.6	5.7	5.7	5.9
HRA revenues	22.8	23.4	24.1	24.9	25.6
number of HRA dwellings (No)	3,386	3,300	3,250	3,200	3,150
HRA financing costs as a % of revenues	24%	24%	24%	23%	23%
HRA financing costs per dwelling	£1,636	£1,701	£1,750	£1,778	£1,861
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 HRA Business Plan.				
Objective	To ensure that financing costs at an affordable proportion over the 30 year 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.				

8. Asset management

8.1 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.

8.2 The housing capital programme does however include significant investment, for example, in fire safety and Decent Homes standards which can be funded from a more sustainable Housing Revenue Account (details of this are included in the 2025/26 Capital Programme (elsewhere on this agenda). This capital spending is funded by the Housing Revenue Account.

8.3 The Council's asset management is driven by the asset rationalisation proposals (Asset Management Plan) set out the Council's Improvement and Recovery Plan. There is a £20 million sinking fund/asset management reserve linked to the investment estate and funded through by the 2024/25 Capitalisation Direction

8.4 Key elements of the Improvement and Recovery Plan are asset rationalisation and debt reduction with the aim of releasing the Council from unaffordable commitments whilst protecting the public purse and optimising the value of from existing assets.

8.5 There is a programme of asset disposals underway – Asset Rationalisation Plan. For example: a commercially experienced property specialist is leading the development and implementation of the rationalisation strategy and subsequent disposal programme. The exact timing and value of asset disposals is subject to a range of variables including market conditions at the point of sale. These are factored into the financial modelling in this strategy.

9. Investment Strategy Overview

9.1 The Council's Investment Strategy (at Annex II) 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 Victoria Square Woking Limited and the Thameswey group of companies) as well as its commercial property investments.

9.2 The Council historically had a highly expansionary investment strategy. Historic expenditure on share and loan acquisition at 31 March 2024 was c£1.4 billion financed from borrowing. For example, the balance sheet value of the Council's investment property portfolio and held for sale assets was c£300 million at 31 March 2024[7]. The likely realisable value of the Council's investment assets (both on the sole entity balance sheet and those of the Council's wholly owned group companies) is significantly below its investment related borrowing.

9.3 The Government's original external assurance review of May 2023 concluded that the Council's historic investment and borrowing decisions were disproportionate to its ability to manage complex commercial activity and that the Council lacked the commercial skills and capacity to identify a longer term strategy to resolve its commercial arrangements. Following this, the Council's June 2023 Section 114 notice report clarified that the Council's historic investment strategy had resulted in unaffordable borrowing, inadequate steps to repay that borrowing (underprovided Minimum Revenue Provision) and high value irrecoverable investments.

9.4 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. The aim is - as far as possible - to reduce investment risks to a proportionate size by using sale proceeds to repay the Council's loan debt whilst trying to obtain the best financial outcome for the public purse in relation to the failed investments.

9.5 The Council's non-treasury investment limit 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 underway. The expectation is that this will substantially reduce in future when investment disposals/exits occur. Please note that the loan value for balance sheet purposes has been substantially impaired in the 2023/24 Statement of Accounts as the value of the loan is significantly higher than the value of the underlying assets[8].

Prudential indicator: non-treasury investments limit

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Shares (at cost)	38	38	38	38	38
Loans (at cost)*	1,400	1,400	1,400	1,400	1,400
Investment property**	300	300	300	300	300
Total limit	1,738	1,738	1,738	1,738	1,738
Analysis	The Council's investment purchases have been disproportionate. The limit has been maintained at existing 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.				

* This does not not include the market value of group company assets (which would reduce the loan).
**This is the latest balance sheet valuation (31 March 2024) for illustrative purposes only.

10. Treasury Management Strategy Overview

10.1 The Council's Treasury Management Strategy (at Annex III) and is summarised below. It sets out how the Council manages its loan debt and treasury investments to meet its longer term borrowing needs as well as its day to day cashflows.

[7] Woking Borough Council Draft Statement of Accounts 2023/24 (page 18).
[8] Woking Borough Council Draft Statement of Accounts 2023/24 (page 5).

10.2 As previously stated, the Council's borrowing costs are far higher than the Council's resources can support. Key actions to address this are underway and have been jointly developed by the Council, its Commissioners and the Government. As a result, the Council's risk appetite in relation to treasury management must remain very low. Stable and predictable charges to revenue account from treasury activities are therefore a high priority to the Council.

10.3 The tighter government framework for local authority borrowing means that the Public Works Loan Board (PWLB) does not lend to any local authority which plans to buy investment assets primarily for yield. The Council can only borrow from the PWLB and has no future investment borrowing plans. The government (MHCLG) and the Commissioners are and will continue to be closely involved in scrutinising and approving any future borrowing by the Council.

10.4 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 c£15 million is assumed 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.

10.5 Decisions on treasury management investment and borrowing need to be made daily and are therefore delegated to the Strategic Director for Finance and finance team to act in accordance with this Treasury Management Strategy and borrowing is approved by government. Treasury Management Practices are in place (and under review) to provide day to day guidance for treasury officers.

10.6 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.

11. Other Long Term Liabilities

11.1 Council is committed to making future payments to cover its pension fund deficit estimated to be £10 million on 31 March 2024. The Council has a General Fund Private Finance Initiative scheme which provides 224 houses at affordable rents for 25 years via a housing association. The long term liability is estimated to be £21 million on 31 March 2024[9].

11.2 The Council will not take on any additional long term liabilities without, for example, a compelling operational reason. Decisions are taken in the same way as those on other Council expenditure (subject to Executive/Council decisions).

12. Risk Management in Capital, Investment and Treasury

12.1 The Council has is fully aware of the risks surrounding its disproportionate and historic levels of borrowing and investment especially where investments are financed by borrowing. In addition, as set out in this strategy, rigorous controls are now in place on future capital expenditure and the management of investments and treasury.

12.2 The Council's Improvement and Recovery Plan aims 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. The investment values and proceeds will be substantially below the associated levels of borrowing. The Government has and continues

[9] Woking Borough Council Draft Statement of Accounts 2023/24 (balance sheet, page 18).

to recognise that the Council will continue to need external support to repay its debt and restore affordability.

12.3 The key risks, whilst the Council's Improvement and Recovery Plan is in the process of being delivered and support continues to be required from government (until a longer term solution is found), are being managed via the risk management arrangements documented in the Plan itself. Risks are identified and managed by each working group with risks requiring escalation are reported and captured the programme risk register and shared with the Executive as part of quarterly programme updates.

13. Knowledge, Skills and Capacity

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

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