County Council

Revised Treasury Management Strategy and Investment Strategy Documents

Date: Thursday 8 February 2024
Time: 10.00 am
Venue: Council Chamber, Shire Hall

Items on the agenda: -

The name of the Warwickshire Recovery and Investment Fund has been changed to the Warwickshire Investment Fund.
No other changes have been made.

Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

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Agenda Item 3

Council

8 February 2024

Treasury Management Strategy and Investment Strategy

Recommendations

That Council:

1. Approves the Treasury Management Strategy for 2024/25 (Appendix 2) with effect from 1 April 2024;

2. Approves the Investment Strategy for 2024/25 (Appendix 3) with effect from 1 April 2024;

3. Requires the Executive Director for Resources to ensure that gross borrowing does not exceed the prudential level specified (Appendix 2, Section 3.13, Table 12 "Authorised Borrowing Limit");

4. Approves the revised lending limits for the Warwickshire Property Development Group (WPDG) (Appendix 3, Annex 7);

5. Approves the revised lending limits for the Warwickshire Investment Fund (WIF) (Appendix 3, Annex 7);

6. Requires the Executive Director for Resources to ensure that gross investment in non-Treasury investments does not exceed the prudential levels specified (Appendix 3, Annex 7);

7. Delegates authority to the Executive Director for Resources to undertake such delegated responsibilities as are set out in Appendix 2, Annex 7, and Appendix 3, Section 2.5;

8. Requires the Strategic Director for Resources to implement the Minimum Revenue Provision (MRP) Policy (Appendix 2, Section 2.11-2.26).

1 Executive Summary

1.1 The Council is required to set a Treasury Management Strategy and Investment Strategy each year and these are set out at Appendix 2 and Appendix 3.

1.2 The Treasury Management Strategy, Investment Strategy, and Capital Strategy are all related. The features of these three strategies are summarised below, and the interrelationships are detailed in Appendix 1.

Capital Strategy	Treasury Management strategy	Investment strategy
Sets out all Council expenditure that is capital in nature, i.e. expenditure on assets that provide benefits over more than one financial year.	Sets out how the Council manages its cash balances, and how capital financing (borrowing) requirements will be managed.	Sets out how the Council will manage non-treasury investments.

1.3 Treasury Management activity has been focused on managing the cash balances of the Council in secure and liquid settings as needed, following the priority of security being the most important consideration, followed by liquidity, with yield being important but not as important as security and liquidity. This is covered in the Treasury Management Strategy (Appendix 2).

1.4 The strategic investments made by the Council are covered in the Investment Strategy (Appendix 3). These investments include, but are not limited to the

- Warwickshire Investment Fund (WIF); and
- Warwickshire Property and Development Group (WPDG).

1.5 Due to the level of cash balances held by the Council, no new external borrowing has been required to finance the capital programme of the Council or its Investment activity in recent years.

1.6 The financial year 2023/24 has seen a sustained period of volatile economic activity, with inflation remaining high although it has begun to reduce and interest rates have stabilised after a period of significant increase.

2. Treasury Management (Appendix 2) - Headlines

2.1 Treasury management is to do with the safe handling of cash (the priorities are ensuring security and liquidity, followed by the objective of earning an efficient return). Treasury cash balances are planned to reduce driven by “internal borrowing” whereby the Council makes use of temporarily available cash balances in order to reduce the amount of external borrowing required to support new investment. Internal borrowing is preferred where possible because internal borrowing is cheaper than external borrowing. Appendix 2, Table 7 shows how the position will move in this direction and become increasingly “under borrowed” (i.e. the Council will be borrowing both externally and internally rather than just externally).

2.2 The need to borrow, also referred to as the Capital Financing Requirement or CFR (Appendix 2, Table 4) is forecast to increase driven by the planned capital strategy including investments in WPDG and the WIF.

Interest Rates

2.3 Interest rates reached a peak during the year and have remained high. The outlook for 2024/25 is expected to be that rates settle and gradually reduce during the year. The rates at which local authorities can borrow have risen from the historic lows at the end of 2021/22, in line with the trend in interest rates.

2.4 Interest returns received on treasury investments have reflected the interest rates in the marketplace. This is expected to reduce during the year 2024/25 as both the interest rates are expected to fall, and the overall treasury portfolio size will reduce.

2.5 Non-treasury investments provide financial returns that reflect market rates, having regard to covering the Council's costs and reflecting risk.

Borrowing

2.6 Taking out new PWLB borrowing is now more expensive than it has been in recent years (Appendix 2 Section 3) but it is still a relatively low cost source of financing. A key requirement will be to ensure that the Council maintains access to PWLB rates when it does need to borrow (although alternatives will also be considered when borrowing is required to ensure best value is achieved). There are two specific factors that will be managed to achieve this:

- By providing HM Treasury with a forward forecast of capital plans local authorities can maintain access to the lowest rates (referred to as the "certainty rates"); and
- By making non-treasury investments that meet PWLB lending criteria (Appendix 3, Annex 1).

2.7 The current borrowing maturity profile includes a concentration of debt due to be repaid around 2050-2060 (Appendix 2 Annex 2). When new borrowing is taken out the opportunity will be taken to consider spreading out the maturity profile more evenly.

2.8 Limits for borrowing have been set based upon expected levels of investment, including an "Authorised Borrowing Limit" which cannot be exceeded (Appendix 2, Table 12).

2.9 The Minimum Revenue Provision (MRP) that is used to reflect the repayment of borrowing principal has been amended. For the majority of capital spending financed by borrowing the MRP remains unchanged. However, as a result of changes to government statutory guidance and regulations, from the 1 April 2024 MRP will in future only be charged for capital WPDG and WIF loans where there is an expectation of a default (Appendix 2, Section 2.18-2.22). Separately, MRP in respect of leases accounted for under a new accounting standard IFRS16 with effect from 1 April 2024 will be managed in such a way as to avoid double counting of leasing charges in the revenue budget (Appendix 2, Section 2.22-2.24).

3 Investment Strategy (Non-Treasury Investments - Appendix 3) – Headlines

3.1 The WPDG and WIF will continue in 2024/25. Both initiatives have refreshed strategies, including a reduction of the total WIF budget and the closure of the Business Investment Growth (BIG) pillar of the WIF as per the WIF Business Plan, which is approved annually by Cabinet and the updated WIF Investment Strategy and Business Plan are elsewhere on this committee meeting's agenda. These initiatives continue to create non-treasury investments that will be funded from internal and external borrowing.

3.2 The final WPDG and Joint Venture Business Plan for 2024/24 is not yet completed. Following completion and approval of that Plan, the Executive Director for Resources will consider whether any changes are required to the Treasury Management Strategy. Should changes be required they will be subject to a report to Cabinet and Council for approval.

3.3 An important feature of all non-treasury investments is that they are made with the primary purpose of delivering organisational objectives, and not purely or primarily to make a financial return (Appendix 3, Section 3). The objectives of the WPDG and WIF reflect this requirement and are set out in their respective strategies.

3.4 The Council holds a small amount of other non-treasury investments, all related to the delivery of service objectives (Appendix 3, Section 14).

Risk

3.5 Any investment involves risk, with the risks depending upon the nature of the investment. A range of strategic governance and risk management standards are set out throughout the Investment Strategy which all non-treasury investments must adhere to (as set out in Appendix 3, Annex 2 – Annex 4). In addition, more detailed requirements may be determined for specific funds and incorporated into the approval of those funds.

3.6 Investment risk and return are linked, with higher risks typically being rewarded by higher returns. How financial risk manifests itself varies with the type of investment, for example equity risk manifests in the form of share price volatility, and lending risk manifests in the form of loan repayment default.

3.7 The financial risks and rewards involved in non-treasury investments are of a different nature to (and greater than) the financial risks relating to traditional capital expenditure and treasury investments (Appendix 3, Section 8).

3.8 The reasons for the differences are:

- Treasury investments prioritise security and liquidity to serve the primary objective of treasury management which is to ensure that cash is available when needed to serve the purpose for which that cash is held.
- Traditional capital spending is basic expenditure by nature and is fully funded as such.

- Non-Treasury investment risks are different in that although they are made with the primary purpose of delivering organisational objectives, and not purely or primarily to make a financial return, they are assumed to retain or increase their original asset value and are assumed to provide a more significant financial return than traditional treasury investments. Therefore, there is exposure to the risk of these assumptions not happening.
- The objectives of non-treasury investments by their nature are not the same as treasury investments, and therefore they may not prioritise security and liquidity as highly as treasury investments do.

3.9 A key feature of managing risk will include having arrangements to manage the risk of losses. This will include a certain degree of expected losses built into business models (no investment is 100% guaranteed to pay back), the use of reserves to provide some cover, and hard limits on non-treasury investment levels to limit maximum exposure to losses.

3.10 Some risks are driven by the duration of an investment. The longer the investment is for, the greater the probability is of a default. In addition, very long-term investments introduce intergenerational risks that need to be considered.

3.11 Aside from the risks associated with any individual investments, another type of risk is addressed by the Investment Strategy called “proportionality” (Appendix 3, Section 9). This is to do with the overall aggregate level of investment and exposure to loss, in comparison to the size and financial capacity of a local authority to bear the losses that it is exposed to. The issue of proportionality will be monitored, and proportionality measures may be used in the future to put limits on investment activity.

Prudential Indicators

3.12 The Investment Strategy has been updated to have regard to revised investment plans, including the relevant Prudential Indicators (Appendix 3, Annex 7) that place limits on gross and net investment.

3.13 The gross amount that may be invested in each fund annually is controlled by a hard ceiling within each year. The net level of investment will be monitored (i.e. after accounting for repayment of previous investments). If the annual net position is lower than expected due to repayment defaults, this would trigger a review of future gross investment limits.

3.14 In addition, the following more detailed limits will be applied to manage risk (Appendix 3, Annex 7):

- the length of time that investments may be made for; and
- the amount of a fund that may be debt or equity investment.

3.15 The “Authorised Borrowing Limit” set within the Treasury Management Strategy (Appendix 2, Table 12) includes borrowing required to service these investments.

3.16 All non-treasury management investments will be required to demonstrate that they meet the following criteria:

- That they are primarily for the purpose of delivering organisational objectives and meeting service need.
- That they meet the revised criteria recently set out by the Government that need to be met to retain access to PWLB lending. The Government has specified the kinds of investment that may be made (Appendix 3, Section 3). It is possible to invest in other initiatives but if that were the case, the local authority would have to find borrowing sources from elsewhere and would be considered a higher risk to lend to.
- That whilst they may make a financial return, they must not be purely or primarily for the purpose of making a financial return.

Governance

3.17 High-level requirements for the governance of non-treasury investments are specified in the Investment Strategy (Appendix 3). These are the minimum requirements that must be met. Where specific investments or funds are developed, they may prescribe more detail around their governance arrangements, but those arrangements must meet these strategic requirements.

4 Financial Implications

4.1 The financial implications are detailed within the report and appendices.

5 Environmental Implications

5.1 Both strategies include an “Environmental Social and Governance” (ESG) policy. The primary objectives of treasury management will however remain security, liquidity, and yield, with non-treasury investments also including the delivery of organisational service objectives.

6 Timescales Associated with Next Steps

6.1 The Treasury Management Strategy and Investment Strategy will, subject to approval by Council, come into effect on 1st April 2024.

Appendices

Appendix 1 – Explanation of Capital Expenditure, Treasury Investments, and Non-Treasury Investments
Appendix 2 – Treasury Management Strategy
Appendix 3 – Investment Strategy (for Non-Treasury Investments)

Background Papers

None.

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The report was circulated to the following members prior to publication:
Local Member(s): n/a county wide report
Other members:

Appendix 1

Explanation of Capital Expenditure, Treasury Investments, and Non-Treasury Investments

	Capital Expenditure	Treasury Investments	Non-Treasury Investments
Purpose	Traditional capital expenditure to meet service objectives	Maximising the security and liquidity of cash, and generating the most efficient returns without compromising the required security and liquidity	Investment in assets to meet service objectives and/or commercial objectives
Investment Timescales	Long term	Short-term (up to 1 year)	Short term through to exceptionally long term - dependent on objectives
Outcome for Asset Value	Assets are consumed through their working life and are assumed to have no remaining value at the end of their working life. New funding is then required to purchase or create a new asset.	The preservation of capital (security) is the top priority. Assets are only held until the cash is needed for its original purpose (for example a capital receipt that was held until it was spent).	Asset values are assumed to be maintained and repaid where investments are loans by nature. Where investments are equity in nature then either (1) asset values are assumed to be maintained and/or increase or (2) be replaced by other value (e.g. dividends, capital receipts).
Sources of Funding	Investment is permanent (i.e. the investment does not come back). Sources include capital receipts and grants and borrowing. Provision is made for replacement costs via the MTFS.	Investments are temporary (i.e. investments are assumed to come back eventually) Cash balances provide the funding.	Investments are temporary (i.e. investments are assumed to come back eventually). Primarily borrowing and cash balances
Risk	Assets are fully funded, so there is no risk of a loss of an assumed financial investment as such, however there are risks for example (1) cost over-run and (2) that an asset does not deliver its objectives, and that this has knock-on implications.	Credit and liquidity risk exist but are minimised, for example by restricting investments to counterparties with high credit ratings and restricting investments to shorter durations.	Risks are directly dependent upon the nature of the investments undertaken, and the governance and controls built around them. Risks relate to individual investments, and also emerge from the aggregate total amount of activity.
Primarily covered by which strategy document?	**Capital Strategy** Capital plans also feature in the Treasury Strategy as they drive borrowing and cash planning.	**Treasury Management Strategy**	**Investment Strategy** • Will also feature in the capital strategy where investment is capital in nature and must be accounted for as such. • Will also feature in the Treasury Strategy where the investment drives borrowing or the use of cash balances.
Examples of what this covers in practice	Traditional capital expenditure, for example on roads, IT infrastructure, etc.	• Loans to Banks, Building Societies, and other Local Authorities • Investments in Money Market Funds • Investment in the CCLA Property Fund	• Pre-existing non-treasury investments (e.g. land bank, companies such as ESPO, loans to Educaterers, and loans made via CWRT). • WPDG

Appendix 2

Treasury Management Strategy Statement

Warwickshire County Council
2024/25

1.0 Introduction

Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as:

"The management of the local authority's borrowing, investments and cash flows, 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."

1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the Treasury Management operation is to ensure that this cash flow is adequately planned and managed with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.4 The contribution the Treasury Management function makes to the authority is critical, as the balance of debt and investment operations ensure cash liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The costs of debt and the investment income arising from cash deposits have an effect on the Council's available budget. Since cash balances generally exist to serve specific purposes, it is paramount to ensure adequate security of the sums invested so that ultimately the cash is still available to be used for the reason it was originally being held for.

Treasury Management reporting

1.5 The Council is currently required to receive and approve, as a minimum, three main Treasury reports each year, which incorporate a variety of policies, estimates and actuals:

a.) **Prudential and Treasury indicators and Treasury strategy** (this report) -:
- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the Treasury Management strategy, (how the investments and borrowings are to be organised), including Treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b.) **A mid-year Treasury Management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c.) **An annual Treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and Treasury indicators and actual Treasury operations compared to the estimates within the strategy.

d.) **Scrutiny -** The above reports are scrutinised by the Resources and Fire and Rescue Overview and Scrutiny Committee.

e.) **Quarterly reports** – In addition to the three major reports detailed above, from 2023/24 quarterly reporting is also required. However, these additional reports do not have to be reported to full Council/Cabinet but do need to be adequately scrutinised. This role is undertaken by the Resources and Fire and Rescue Overview and Scrutiny Committee.

Capital Strategy and Investment Strategy

1.6 The Treasury Management Strategy Statement (TMSS) interacts with both the Capital Strategy and the Investment Strategy.

a.) **Capital Strategy -** The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and Treasury Management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

The aim of the strategy is to ensure that all the Council's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

b.) **Investment Strategy -** The Council is required to set out separately an Investment Strategy (IS) in relation to non-Treasury investments. Non-Treasury investments must consider security, liquidity, and yield, however the relative priority of these three factors does not have to follow Treasury Management principles as non-Treasury investments are, by their nature, not intended to deliver Treasury Management objectives. The Council's Investment Strategy is a separate document; however, it does interrelate with the Treasury Management Strategy and Capital Strategy.

1.7 The table below summarises these different strategies.

Capital Strategy	**Treasury Management Strategy – including Treasury Investment Strategy**	**Investment Strategy**
Traditional capital expenditure to directly meet service objectives.	Management of cash and debt to service the delivery of day-to-day operations and the long-term financing of investments.	Non-Treasury investments with the primary objective of meeting service objectives.

Treasury Management Strategy for 2024/25

1.8 The strategy for 2024/25 covers two main areas:

a.) Capital considerations -
- Capital expenditure plans and the associated prudential indicators; and
- Minimum revenue provision (MRP) policy.

b.) Treasury Management considerations -
- The current Treasury position;
- Treasury indicators which limit the Treasury risk and activities of the Council;
- Prospects for interest rates;
- Borrowing Strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- Investment Strategy;
- Creditworthiness policy;
- The policy on use of external service providers; and
- The Councils Income Management Policy.

1.9 These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.10 The Treasury Management scheme of delegation, and responsibilities of the Section 151 officer are set out in Annex 6 and 7 respectively.

Training

1.11 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for Treasury Management receive adequate training in Treasury Management. This especially applies to members responsible for scrutiny.

1.12 The following is carried out to monitor and review knowledge and skills:

a.) Planned and recorded attendance at training and events.
b.) Tailored learning plans for Treasury Management officers and board/Council members.
c.) Treasury Management officers and board/Council members undertake a self-assessment against the required competencies.
d.) Regular communication with officers and board/Council members to highlight training needs on an ongoing basis.

1.13 A formal record of the training received by officers central to the treasury function will be maintained by the treasury team. Similarly, a formal record of the Treasury Management/capital finance training received by members will also be maintained by the Treasury Manager. Both records will be included in Treasury Management Outturn reports at the end of the financial year.

Treasury Management Consultants

1.14 The Council currently contracts with Link Group, Treasury Solutions as its external Treasury Management advisers.

1.15 The Council recognises that responsibility for Treasury Management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of external service providers. All decisions will be undertaken with regard to all available information, including, but not solely, our Treasury advisers.

1.16 The Council also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources as and when required. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly contracted, agreed and documented and subjected to regular review.

1.17 In respect of non-Treasury investments, two adviser contracts are used for access to specialist skills and resources. These are detailed in the Investment Strategy and are separate to the above treasury adviser contract.

2.0 The Capital Prudential Indicators 2024/25 – 2028/29

2.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. The outputs of the capital expenditure plans are reflected in the prudential indicators (Annex 1), which are designed to assist members to review and confirm capital expenditure plans.

Prudential Indicator – Capital Expenditure and Financing

2.2 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 1 – Total Capital Programme

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital Expenditure	183,666.00	214,885.29	143,251.03	75,761.74	56,936.62	55,586.40
Non-Treasury Investment WPDG*	10,738.00	15,725.38	11,420.13	11,367.23	15,013.46	5,555.21
Non-Treasury Investment WRIF*	-	20,000.00	15,000.00	15,000.00	-	-
Total	**194,404.00**	**250,610.67**	**169,671.16**	**102,128.98**	**71,950.08**	**61,141.61**

***WPDG Warwickshire Property and Development Group**

***WRIF Warwickshire Recovery and Investment Fund BIG and PIF Pillars**

2.3 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to borrow to fund the shortfall.

Table 2 – Financing of Capital Expenditure

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital receipts	222.91	2,683.20	144.00	192.00	-	-
Capital grants	138,221.48	74,340.38	42,035.38	36,916.38	36,064.38	35,966.38
Self Financed Borrowing	-	-	-	-	-	-
Revenue	547.00	272.00	-	-	-	-
Capital Programme Funding/Income	138,991.39	77,295.58	42,179.38	37,108.38	36,064.38	35,966.38
WPDG Receipts	5,643.00	6,419.79	12,993.40	19,610.56	18,351.55	15,171.09
WRIF Receipts	-	-	4,400.00	7,000.00	10,000.00	10,000.00
Non Treasury Investment Funding/Income	5,643.00	6,419.79	17,393.40	26,610.56	28,351.55	25,171.09
Total Funding/Income	**144,634.39**	**83,715.37**	**59,572.78**	**63,718.94**	**64,415.93**	**61,137.47**
Total Capital Expenditure	194,404.00	250,610.67	169,671.16	102,128.98	71,950.08	61,141.61
Net financing need for the year	**49,769.61**	**166,895.29**	**110,098.37**	**38,410.04**	**7,534.15**	**4.14**
Minimum Revenue Provision (MRP)	- 10,082.80	- 11,670.27	- 17,879.27	- 21,568.03	- 22,241.71	- 21,653.41
Borrowing Requirement	**39,686.81**	**155,225.03**	**92,219.11**	**16,842.00**	**- 14,707.57**	**- 21,649.27**

2.4 The net financing need split between capital expenditure and non-Treasury investments is shown below, to help show the relative scale of non-Treasury investments.

Table 3 – Financing of Non-Treasury Investments

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
WPDG Capital Investment	10,738.00	15,725.38	11,420.13	11,367.23	15,013.46	5,555.21
Less: WDPG Related Receipts and Repayments	- 5,643.00	- 6,419.79	- 12,993.40	- 19,610.56	- 18,351.55	- 15,171.09
WRIF Capital Investment	-	20,000.00	15,000.00	15,000.00	-	-
Less: WRIF Related Receipts and Repayments	-	-	- 4,400.00	- 7,000.00	- 10,000.00	- 10,000.00
Net financing need for the year	**5,095.00**	**29,305.59**	**9,026.73**	**- 243.32**	**- 13,338.09**	**- 19,615.88**
Percentage of total net financing need %	10.2%	17.6%	8.2%	n/a *	n/a *	n/a *

*** Note that reciepts exceed payments from 2026/27-2028/29 so no net financing is needed for non treasury investments**

2.5 Further details in respect of non-Treasury investments are set out in the separate Investment Strategy document.

Prudential Indicator – The Council's Borrowing Need (Capital Financing Requirement)

2.6 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the indebtedness and underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

2.7 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges for the economic consumption of capital assets as they are used.

Table 4 – Capital Financing Requirement

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
CFR – Capital Programme	291,445.69	417,365.13	500,557.51	517,642.83	516,273.36	514,239.97
CFR - WPDG	5,095.00	14,400.59	12,827.32	4,584.00	1,245.90	(8,369.98)
CFR - WRIF	0.00	20,000.00	30,600.00	38,600.00	28,600.00	18,600.00
Total CFR	**296,540.69**	**451,765.72**	**543,984.82**	**560,826.83**	**546,119.26**	**524,469.99**
Movement in CFR - Capital Prog		137,589.70	101,071.65	38,653.36	20,872.24	19,620.02
Movement in CFR - WPDG		9,305.59	(1,573.27)	(8,243.32)	(3,338.09)	(9,615.88)
Movement in CFR - WRIF		20,000.00	10,600.00	8,000.00	(10,000.00)	(10,000.00)
Movement in CFR - Total		**166,895.29**	**110,098.37**	**38,410.04**	**7,534.15**	**4.14**
Movement in CFR represented by						
Net financing need for the year	49,769.61	166,895.29	110,098.37	38,410.04	7,534.15	4.14
Less MRP and other financing	(10,082.80)	(11,670.27)	(17,879.27)	(21,568.03)	(22,241.71)	(21,653.41)
Movement in CFR net of MRP	**39,686.81**	**155,225.03**	**92,219.11**	**16,842.00**	**(14,707.57)**	**(21,649.27)**

Prudential Indicator – Liability Benchmark

2.8 A third and new prudential indicator for 2024/25 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

2.9 There are four components to the LB:

a.) Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

b.) CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

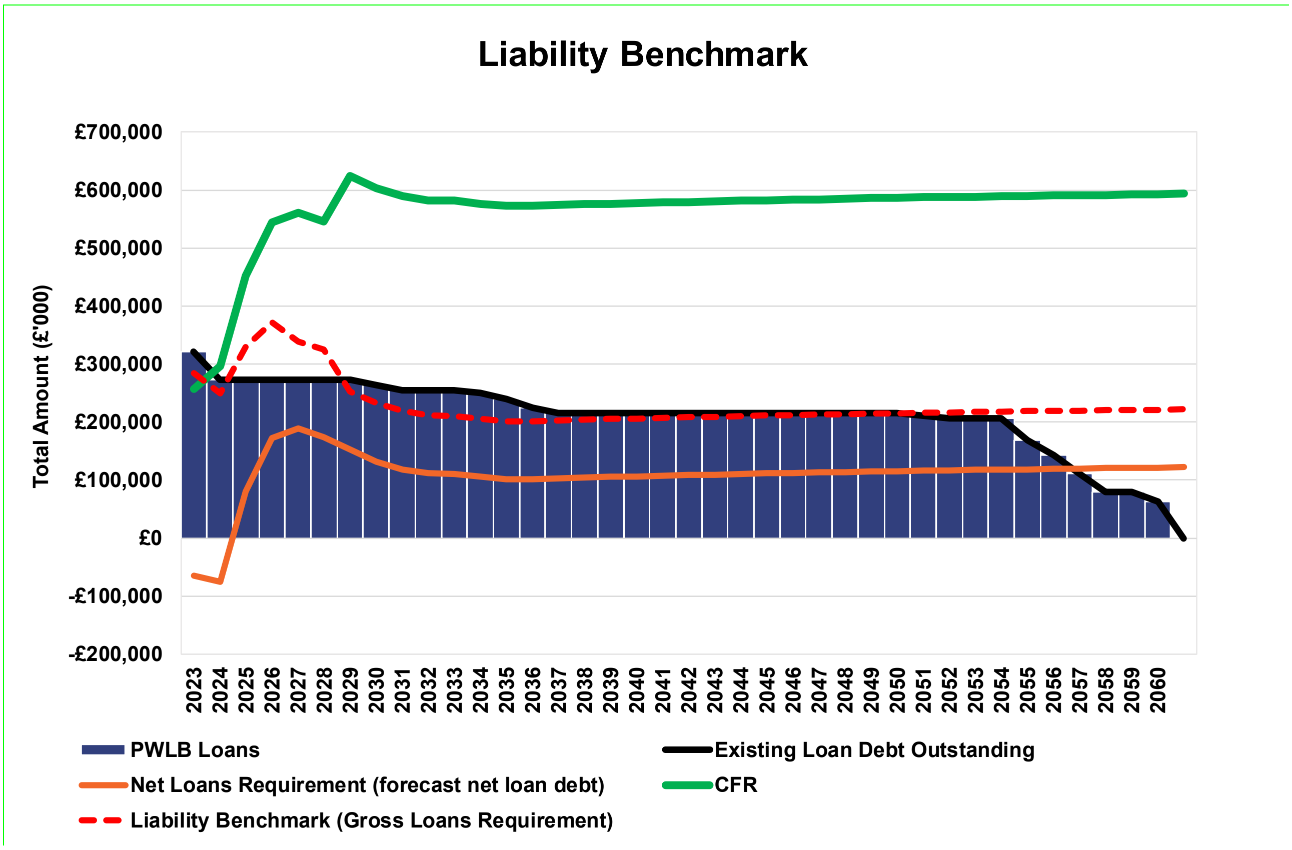
c.) Net loans requirement: this will show the Authority's gross loan debt less Treasury Management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

d.) Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 6 Liability Benchmark

In £000's	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Existing Loan Debt	£272,413	£272,413	£272,413	£272,413	£272,413	£272,413	£264,413	£254,413	£254,413	£254,413	£250,413
Net Loans Requirement	-£74,965	£80,260	£172,479	£189,321	£174,614	£152,965	£132,177	£118,642	£111,200	£110,808	£105,404
CFR	£296,541	£451,766	£543,985	£560,827	£546,119	£624,295	£603,507	£589,973	£582,531	£582,138	£576,734
Liability Benchmark	**£250,035**	**£330,260**	**£372,479**	**£339,321**	**£324,614**	**£252,965**	**£232,177**	**£218,642**	**£211,200**	**£210,808**	**£205,404**
Forecast Investments	£344,320	£160,086	£106,572	£107,546	£122,121	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000
(Over)/Under LB	-£22,378	£57,847	£100,066	£66,908	£52,201	-£19,448	-£32,236	-£35,771	-£43,213	-£43,605	-£45,009

Chart 1 Liability Benchmark



Core Funds and Expected Investment Balances

2.10 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 7 – Expected Investments

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Fund balances / reserves	226,608.43	197,599.04	193,304.04	193,120.04	192,988.04	192,988.04
Capital receipts	-	-	-	-	-	-
Other	5,852.46	5,852.46	5,852.46	5,852.46	5,852.46	5,852.46
Total core funds	**232,460.89**	**203,451.50**	**199,156.50**	**198,972.50**	**198,840.50**	**198,840.50**
Working capital	136,000.00	136,000.00	136,000.00	136,000.00	136,000.00	136,000.00
(Under)/over borrowing	- 24,140.69	- 179,365.72	- 228,584.82	- 227,426.83	- 212,719.26	- 199,069.99
Expected treasury investments	**344,320.20**	**160,085.78**	**106,571.68**	**107,545.67**	**122,121.24**	**135,770.51**

* Working capital balances shown are estimated year-end; these may be higher mid-year

Minimum Revenue Provision (MRP) Policy Statement

2.11 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP).

2.12 The MRP should be designed to make prudent provision to redeem debt liabilities over a period which is reasonably commensurate with the associated capital expenditure benefits.

2.13 Having regard to these requirements, the MRP provision will be calculated as set out below.

MRP for Capital Programme Expenditure.

2.14 The MRP provision will be calculated on the average remaining useful life of the Council's asset portfolio. We will calculate and apply the remaining useful life over two categories of asset:

- Land, buildings and infrastructure; and
- Vehicles, plant and equipment and intangible assets.

2.15 The proportion of debt outstanding in each category of asset will be determined by the value of assets included in the balance sheet at the end of each financial year.

2.16 The 2020 review shows that the remaining useful life of our assets is now 22 years. By using an average life of 25 years for our assets equates to an annual provision of 4% straight line MRP.

2.17 For vehicles, plant and equipment, the remaining useful life is assumed to be 6 years e.g. 5 years average remaining useful life will result in 20% straight line MRP.

MRP for the Warwickshire Property Development Group (WPDG)

2.18 Unlike mainstream capital spending where provision for purchase of replacement assets has to be made in order to have funding available for replacement assets, expenditure (investment) in the WPDG will at a later date be repaid in full.

2.19 It is possible to assume that these repayments of principal amount to the necessary revenue provision. However, there is a risk that repayment of principal is not made, or not made in full. In order to mitigate this risk, the MRP policy for the WPDG will be to make a provision as follows:

- No MRP will be charged to the revenue account on any equity land or asset transfers into Wholly Owned subsidiaries.
- No MRP will be charged on working capital loans. Any anticipated impairments will be treated following the relevant accounting standards (namely IFRS9 - Financial Instruments), and not charged through the capital financing regime.
- MRP on development loans made to DevCo (a subsidiary of WPDG) will be charged over 25 years of equivalent to 4% per year on any amount reasonably expected to default, rather than the full value of the loan.
- MRP on loans to ManCo (a subsidiary of WPDG for purchase of assets from DevCo) will be charged to the revenue account over 25 years (4% per year) on any amount expected to default, rather than the full value of the loan.
- Any capital receipts then received as repayment of the loan principal from ManCo and Dev Co will be used to offset “traditional” borrowing requirements for financing the wider capital programme.

MRP for the Warwickshire Investment Fund (WIF)

2.20 Unlike mainstream capital spending where provision for purchase of replacement assets has to be made in order to have funding available for replacement assets, expenditure (investment) in the WIF will at a later date be repaid in full.

2.21 It is possible to assume that these repayments of principal amount to the necessary revenue provision. However, there is a risk that repayment of principal is not made, or not made in full. In order to mitigate this risk, the MRP policy for the WIF will be to make a provision as follows:

> “*MRP on WIF loans that are capital in nature will be charged over 25 years or equivalent to 4% per year on any amount reasonably expected to default, rather than the full value of the loan*”

2.22 Any capital receipts then received as repayment of the loan principal from WIF will be used to offset “traditional” borrowing requirements for financing the wider capital programme.

MRP For International Financial Reporting Standard 16 (IFRS16) - Leases

2.23 On 1 April 2024 the Council is required to adopt a new accounting standard for leases (IFRS16). This means that for all leases where we are the lessee, our right-to-use the asset will be recognised and we will account for the leased asset on our Balance Sheet as though we had purchased the asset.

2.24 The introduction of increased numbers of leases onto the Balance Sheet will increase the Capital Financing Requirement. Without any other change this would increase the MRP charge. However, lease rental payments are already made from revenue budgets for these assets and therefore, to avoid double counting the cost of the leased assets, a technical adjustment will be made to ensure a “net nil” effect on the revenue budget.

2.25 For assets under lease contracts existing from 2024/25 onwards, the annual MRP charge will match the element of the rent/charge that goes to write down the lease liability. Therefore, there will be no impact on available capital resources or the capital financing requirement from this new accounting requirement.

MRP Calculation

2.26 The actual calculation of MRP will be based on the [Total Capital Financing Requirement x 4%]. This is deemed to be a prudent overall level of provision based upon the requirements set out above.

2.27 The Council has the option to directly and specifically link internal borrowing to specific investments and where this is the case a MRP would not be made. This would mean that repayments associated with the loan would not be capital and would therefore not be ringfenced to financing capital spending. Any anticipated impairments will be treated following the relevant accounting standards (namely IFRS9 - Financial Instruments), and not charged through the capital financing regime. However, the default position is that specific funding sources are not directly linked to specific investments therefore an express decision to link specific funding to a specific investment would need to be made for this to happen.

3.0 BORROWING

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The Treasury Management function ensures that the Council’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Capital Strategy. This involves both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant Treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy

3.2 In recent years the Council has held an over borrowed position (meaning external borrowing was greater than the total capital financing requirement), however this is forecast to change by the end of the financial year 2023/24 when we expect a marginal under borrowed postion. Going forward, the capital programme and use of internal borrowing will mean the Council expects to maintain an under borrowed position. The need for further borrowing will be kept under review.

Current Portfolio Position

3.3 The overall Treasury Management portfolio as at 31st March 2023, 30th September 2023 and 31 December 2023 are shown below for both borrowing and investments.

Table 8 – Current Portfolio Position

Treasury Portfolio						
	Actual 31.03.2023 £m	Actual 31.03.2023 %	Actual 30.09.2023 £m	Actual 30.09.2023 %	**Actual 31.12.2023 £m**	**Actual 31.12.2023 %**
Treasury investments						
Banks	38.29	8.35%	17.00	4.35%	17.17	5.11%
Building Societies	50.34	10.98%	50.00	12.79%	30.00	8.93%
Local authorities	201.14	43.86%	192.00	49.12%	172.35	51.29%
Housing Associations			30.00	7.68%	30.00	8.93%
Total managed in house	**289.77**	**63.19%**	**289.00**	**73.94%**	**249.52**	**74.26%**
Bond funds	29.40	6.41%	28.98	7.41%	29.44	8.76%
Property funds	10.02	2.19%	9.89	2.53%	9.82	2.92%
Cash fund managers	129.39	28.22%	63.00	16.12%	47.23	14.06%
Total managed externally	**168.81**	**36.81%**	**101.87**	**26.06%**	**86.49**	**25.74%**
TOTAL TREASURY INVESTMENTS	**458.58**	**100%**	**390.87**	**100%**	**336.01**	**100%**
Treasury external borrowing						
PWLB	321.406	100%	272.400	100%	272.400	100%
Total external borrowing	**321.406**		**272.400**		**272.400**	
Net Treasury Investments / (Borrowing)	**137.17**		**118.47**		**63.61**	

3.4 Annex 2 sets out the current maturity profile of the borrowing portfolio. Currently there is a significant concentration of debt maturities across the period 2050-2060.

3.5 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 9 – External Debt Forecast

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt						
Current Debt	272.400	272.400	272.400	272.400	272.400	264.400
New Debt	-	-	43.000	61.000	61.000	61.000
Actual gross debt at 31 March	**272.400**	**272.400**	**315.400**	**333.400**	**333.400**	**325.400**
The Capital Financing Requirement	296.541	451.766	543.985	560.827	546.119	524.470
Under / (over) borrowing	**24.141**	**179.366**	**228.585**	**227.427**	**212.719**	**199.070**

Internal Debt

3.6 The Council will seek to hold efficient levels of cash and will therefore run-down external investment balances and use cash to finance a share of the Capital Financing Requirement. This is referred to as internal borrowing. The level of internal borrowing will be kept under review to ensure that the level of liquid Treasury investments (a liquidity buffer) does not fall below £75m, and total Treasury Investments does not fall below £100m.

Table 10 – Internal Debt Forecast

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt	272.400	272.400	315.400	333.400	333.400	325.400
Internal Debt (internal borrowing)	24.141	179.366	228.585	227.427	212.719	199.070
Internal borrowing as % of CFR	**8.1%**	**39.7%**	**42.0%**	**40.6%**	**39.0%**	**38.0%**

3.7 Where it is deemed appropriate to add to the level of current external loan finance, any risks associated with such borrowing will be subject to prior appraisal (including borrow now or borrow later analysis) and subsequent reporting through the mid-year or annual reporting mechanism.

3.8 Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.9 The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

3.10 **The operational boundary** – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Table 11 – Operational Boundary

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt	393.313	496.942	598.383	616.910	600.731	576.917
Total	**393.313**	**496.942**	**598.383**	**616.910**	**600.731**	**576.917**

The Authorised Limit for External Debt

3.11 This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

3.12 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all

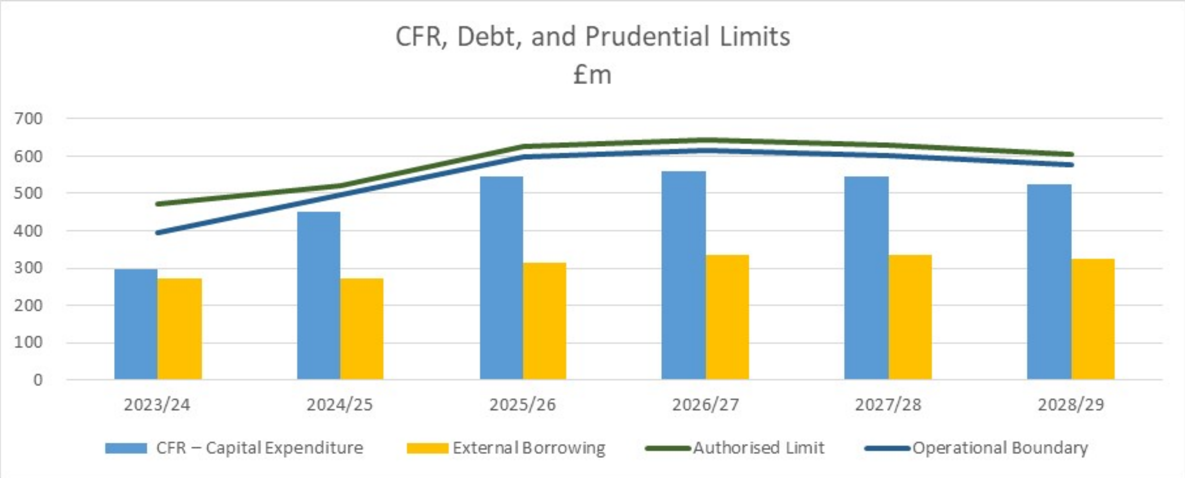
Councils' plans, or those of a specific Council, although this power has not yet been exercised.

3.13 The Council is asked to approve the following authorised limit.

Table 12 – Authorised Limit

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt	472.00	520.00	626.00	645.00	629.00	604.00
Total	**472.000**	**520.000**	**626.000**	**645.000**	**629.000**	**604.000**

Chart 2 - Capital Financing Requirement, Debt and Prudential Limits



Prospects for Interest Rates

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

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

3.15 Additional notes by Link on this forecast table:

- Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

3.16 **PWLB Rates** – Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

3.17 **The balance of risks to the UK economy** – The overall balance of risks to economic growth in the UK is to the downside.

3.18 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.

3.19 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

Link Group Forecast

3.20 We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

3.21 **Gilt yields and PWLB rates** – The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

3.22 Our target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

- Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

3.23 Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below.

You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

3.24 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

3.25 Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Borrowing Strategy

3.26 Being mindful of the economic outlook for 2024/25 (Annex 8) the following assumptions will be adopted in the borrowing strategy:

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates.
- Internal borrowing will be weighed against potential long-term costs that will be incurred if market loans at long term rates are higher in future years.
- Long term fixed rate market loans at rates significantly below PWLB rates will be considered where available, to ensure the best rates and to maintain an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under ten years will be considered where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a current concentration in longer dated debt.
- To ensure that the Council considers all options to secure long-term certainty, the Council may also look to make use of forward starting loans as this will allow us to lock into a known financing rate out of a future date. These loans tend to be offered by Financial institutions (primarily insurance companies and pension funds but also some banks, where the objective is to use the forward loan with a mix of internal loans/temporary borrowing to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Policy on Borrowing in Advance of Need

3.27 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. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

3.28 However, the Council may borrow in advance of need for risk management or borrowing efficiency purposes. In determining whether borrowing will be undertaken in advance of need, the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to fund in advance of need;
- Ensure the ongoing revenue liabilities created, and the implications on future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate time periods and repayment profiles; and
- Consider the impact of temporarily increasing cash balances until cash is required to finance capital expenditure, and the consequent increase in exposure to counterparty and other risks.

Debt Rescheduling

3.29 As short-term borrowing rates are cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short-term nature and the cost of debt repayments. Reasons for debt rescheduling would include:

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the strategy; and
- Enhancing the balance of the portfolio, for example reducing concentration of the debt maturity profile.

3.30 The option to make repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt position will be kept under review.

New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

3.31 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both Housing Revenue Account and non-Housing Revenue Account borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons (for full list see Annex 3):

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

3.32 Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4. ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

4.1 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with Treasury (financial) investments, (as managed by the Treasury Management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

4.2 The Council’s investment policy has regard to the following:

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

4.3 The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council’s risk appetite. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider spreading investments for periods up to 18 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options

4.4 The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector

on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisers to maintain a monitor on market pricing such as **“credit default swaps”** and overlay that information on top of the credit ratings.

- **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- This authority has defined the list of **types of investment instruments** that the Treasury Management team are authorised to use. There are two lists in annex 4 under the categories of ‘specified’ and ‘non-specified’ investments -

4.5 **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

4.6 **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

- **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total Treasury Management investment portfolio to non-specified Treasury Management investments of £150m.
- **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Annex 4.
- **Sector Limits.** The Council has determined that it will limit the maximum exposure within different sectors of investments. These are set out in Annex 4
- **Transaction limits** are set for each type of investment in Annex 4.
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.10).
- This authority has engaged **external consultants**, (see paragraph 1.11), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

4.7 As a result of the change in accounting standards for 2022/23 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. The Government has extended the Override for an additional two-year period until 31 March 2025.)

4.8 However, this authority will also pursue **value for money** in Treasury Management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

4.9 The above risk management policy criteria are **unchanged** from last year.

Creditworthiness Policy

4.10 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that it:

- Maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- Has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.11 The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

4.12 Credit rating information is supplied by the Link Group, our Treasury advisers, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

4.13 The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

a.) **Banks of good credit quality –** the Council will only use banks which are:
- UK banks; or
- non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of A-and have, as a minimum, the following Fitch Ratings:
- Short Term – F1
- Long Term – A-

b.) **Council's own Bank** – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

c.) **Building Societies** - The Council will use all societies which meet the ratings for banks outlined above;

d.) **Money Market Funds (MMFs)**:
- CNAV (constant net asset value) – AAA rated
- LVNAV (low volatility net asset value)– AAA rated
- VNAV (variable net asset value) – AAA rated

e.) **Property Funds** - CCLA

f.) **Social Bond Funds** - Threadneedle

g.) **Ultra-Short Dated Bond Funds** – at least AA rated

h.) **Local Authorities and Parish Council Loans** - both spot and forward dates

i.) **Housing Association Loans** - both spot and forward dates

4.14 **Use of additional information other than credit ratings** – Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

4.15 **Time and monetary limits applying to investments** – The time and monetary limits for institutions on the Council's counterparty list are detailed in Annex 4.

4.16 **Creditworthiness** – Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating was placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. After the Sunak/Hunt government has calmed markets, the outlook of the UK sovereign debt has since been rated stable by Moody's (20 October 2023), S&P (21 April 2023) and DBRS (13 January 2023). Accordingly, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

4.17 **Credit Default Swaps (CDS) prices** – Although bank CDS prices (these are market indicators of credit risk) spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitors CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

Other Limits

4.18 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors:

a.) **Country limit** – The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *A-*** from Fitch Ratings. The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

b.) **In-house funds** – Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed:

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment Performance / Risk Benchmarking

4.19 **Benchmarks** are guides to risk, they may be breached depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is so that officers can monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Current advice suggests using the investment benchmark – 'returns above the 7-day SONIA compounded rate'.

Non-Treasury Investment Strategy

4.20 A separate document entitled "Investment Strategy" covers the Council's position in respect of non-Treasury Management investments held for service reasons or commercial reasons.

End of Year Investment Report

4.21 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

External Fund Managers

4.22 The County Council uses a number of external managers to spread risk and obtain maximum market exposure. Current external fund managers actively used during the last year are listed below. This list is not exhaustive and new fund managers may be engaged if necessary. Officers will periodically review the position, performance, and costs of external fund managers, and may meet with client relationship managers or fund managers as appropriate.

- Blackrock
- Deutsche Bank
- Goldman Sachs

- Insight
- Aberdeen
- Federated Hermes
- CCLA
- Threadneedle

4.23 The council currently holds investments with two variable net asset value funds, CCLA and Threadneedle. Both funds have experienced volatility driven by Covid followed by a period of stabilisation. These Funds are kept under review.

Environmental, Social, and Governance Policy

4.24 As a responsible investor, the Council is committed to considering environmental, social, and governance (ESG) issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

4.25 However, the Treasury Management function is controlled by statute and by professional guidelines and the first priorities of Treasury must remain security, liquidity, and yield. With those priorities kept in place, the following activity will be undertaken in respect of climate change and responsible investing. Steps will be taken to:

- Ensure an understanding of the degree to which investments may contribute towards climate change. This may take the form of measuring the carbon footprint or some similar measure.
- Where appropriate, move cash balances to funds that have are ESG driven targets, or “green funds”, to ensure our investment is contributing towards tackling ESG issues.
- Identify and understand the extent to which investments which are exposed to risks driven by climate change, for example investments in assets at risk of weather change (e.g. property or infrastructure at risk of flooding), assets at risk of becoming stranded (e.g. fossil fuel investments), or assets at risk from geopolitical risks driven by climate change (e.g. water access, the capacity for food production, or economic conflict).
- Keep abreast of new investment opportunities that have regard to ethical investing and climate change as this is a quickly developing arena.
- Understand the ESG policies of funds, other local authorities, when considering new investment opportunities.

Pension Fund Cash

4.26 This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, implemented 1 January 2010. With effect 1 April 2010, the Council does not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority after 1 April 2010 must comply with the requirements of SI 2009 No 393. The council has a separate statement for Pension Fund investment purposes.

ANNEXES

1. Prudential and Treasury Indicators
2. Treasury Management - Portfolio
3. Approved Sources of Long and Short Term borrowing
4. Treasury Management - Practice
5. Approved Countries for Investments
6. Treasury Management - Scheme of Delegation
7. Treasury Management - Role of the Section 151 Officer
8. Economic background

Annex 1

Prudential and Treasury Indicators

The Council's capital expenditure plans are the key driver of Treasury Management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

The following indicators are set out in the main body of the report:

Prudential Indicator	Reference
Capital Expenditure	Table 1
Gross Debt	Table 2
Capital Financing Requirement	Table 4
Liability Benchmark	Table 6
Over/Under Borrowing	Table 7
Borrowing - Operational Boundary	Table 11
Borrowing - Authorised Borrowing Limit	Table 12

In addition, the prudential indicators below will be applied.

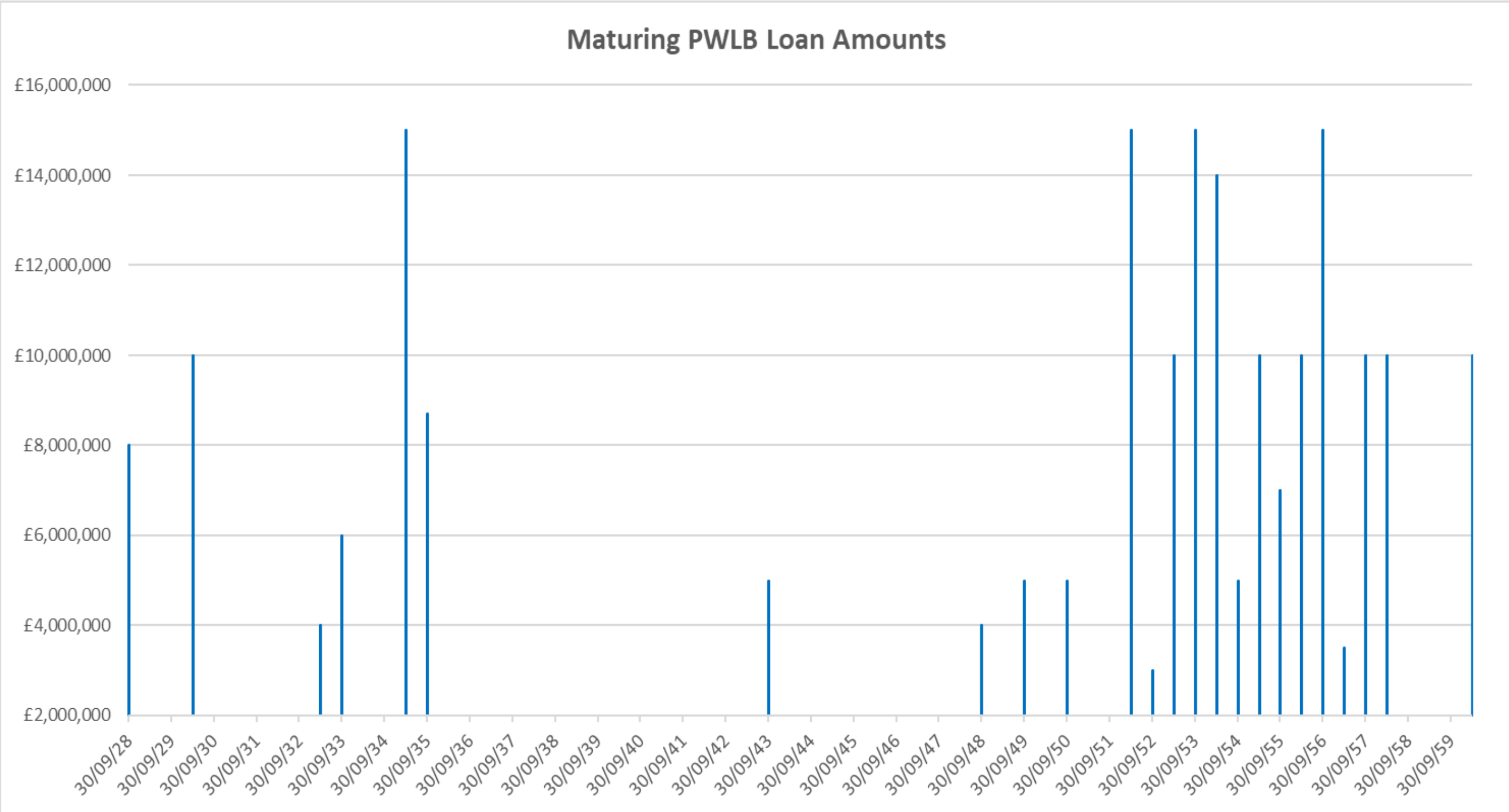
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Upper limit for fixed interest rate exposure						
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%	100%	100%	100%
Upper limit for variable rate exposure						
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 365 days	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
(per maturity date)	150,000	150,000	150,000	150,000	150,000	150,000

Maturity structure of new fixed rate borrowing during year	upper limit	lower limit
under 12 months	20%	0%
12 months and w ithin 24 months	40%	0%
24 months and w ithin 5 years	60%	0%
5 years and w ithin 10 years	100%	0%
10 years and above	100%	0%

Maturity structure of new external borrowing during year	upper limit	lower limit
under 12 months	35%	0%
12 months and w ithin 24 months	45%	0%
24 months and w ithin 5 years	65%	0%
5 years and w ithin 10 years	100%	0%
10 years and above	100%	0%

Treasury Management Portfolio

1. Debt Schedule



2. Balance Sheet Forecast

Warwickshire County Council
Balance Sheet Projections

2023/24 (£'000)		2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
CAPITAL FINANCING REQUIREMENT						
296,541	CFR Relating to General Fund	442,563	535,150	552,345	537,977	516,653
296,541	Total CFR	442,563	535,150	552,345	537,977	516,653
-	Finance Lease Liabilities		-	-	-	-
296,541	Underlying Borrowing Requirement	442,563	535,150	552,345	537,977	516,653
272,400	External Borrowing c/fwd	272,400	272,400	315,400	333,400	333,400
	Loan Maturities					(8,000)
-	New Loans	-	43,000	18,000		
272,400	External Borrowing	272,400	315,400	333,400	333,400	325,400
24,141	Under / (Over) Borrowing	170,163	219,750	218,945	204,577	191,253
8%	*Borrowing as a % of Requirement*	*38%*	*41%*	*40%*	*38%*	*37%*
RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)						
17,835	General Fund Balance	17,835	17,835	17,835	17,835	17,835
(618)	Collection Fund Adjustment Account	(618)	(618)	(618)	(618)	(618)
209,391	Earmarked reserves	180,382	176,087	175,903	175,771	175,771
-	Capital Receipts Reserve	-	-	-	-	-
3,453	Provisions	3,453	3,453	3,453	3,453	3,453
2,399	Capital Grants Unapplied	2,399	2,399	2,399	2,399	2,399
(24,141)	Over / (Under) Borrowing	(170,163)	(219,750)	(218,945)	(204,577)	(191,253)
136,000	Working Capital	136,000	136,000	136,000	136,000	136,000
344,320	Expected Treasury Investments	169,289	115,407	116,027	130,263	143,587

*Year end balances currently estimated for 2023/24

Annex 3

Approved Sources of Long and Short-Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

Annex 4

Treasury Management – Practice

4.1 Counterparty Limits

	Fitch Long term Rating	Money Limit	Transaction limit	Time Limit
Banks	*A-*	£20m	£20m	1yr
Building Societies	*A-*	£20m	£20m	18 months
Local authorities	N/A	£10m	£10m	2yr
Housing Associations	N/A	£10m	£10m	3yr
DMADF	UK sovereign	unlimited	unlimited	6 months
Other Institutions limit	N/A	£10m	£10m	1yr
	Fund rating**	Money Limit	Transaction Limit	Time Limit
Money Market Funds CNAV	AAA	£60m	£60m	liquid
Money Market Funds LVNAV	AAA	£60m	£60m	liquid
Money Market Funds VNAV	AAA	£60m	£60m	liquid
Ultra-Short Dated Bond Funds	AA	£60m	£60m	liquid
Property Fund	N/A	£15m	£15m	90 day
Social Bond Funds	N/A	£40m	£40m	90 day

4.2 Sector Limits

Sector Type	Limit Applied
Money Market Funds (overnight funds) and Instant Access funds	£300m aggregate
Money Market Funds (overnight funds) and Instant Access funds	Maximum holding in any one fund should not represent more than 5% of that funds total asset value
Short Term Investments 7-95 day (deposits, call and notice accounts, property and social bond funds)	£200m aggregate
Medium Term Investments 95-365 day (lending, deposit, call and notice accounts)	£100m aggregate
Lending to Local Authorities	Maximum £250m total
Lending to Local Authorities	Forward deals (deals agreed in advance of the loan issue date) allowed up to a total of 2 years to include both notice and loan term
Deposits with Housing Associations	Maximum £100m total
Deposits with Housing Associations	Forward deals (deals agreed in advance of the loan issue date) allowed up to a total of 3 years to include both notice and loan term
Deposits with Building Societies	Maximum £100m total
Deposits with Building Societies	Forward deals (deals agreed in advance of the loan issue date) allowed up to a total of 18 months to include both notice and loan term

4.3 Specified Investments

Investment Type	Credit Criteria (Fitch Ratings)	Limits (per institution)	Use
DMO Deposit Facility	--	No Limit	In-house
Term deposits: Local Authorities	--	£10m	In-house
Term deposits: Housing Associations	--	£10m	In-house
Nationalised Banks	Short-term F1, Support 1	£20m	In-house and External Manager
Term deposits: UK Banks	Short-term F1, Long-term A, Viability a, Support 3	£20m	In-house and External Manager
Term deposits: Bank Council uses for current account	--	£25m	In-house and External Manager
Term deposits: UK Building Societies	Top five largest societies as reported annually. (To be continually monitored)	£20m	In-house and External Manager
Term deposits: Overseas Banks	Short-term F1+, Long-term AA- Viability aa, Support 1	£20m	In-house and External Manager
Certificates of deposits issued by UK banks and building societies	Short-term F1, Long-term A, Viability a, Support 3	£20m	External Manager
Money Market Funds	AAA	£60m	In-house and External Manager
Ultra Short Dated Bond Funds	AA	£40m	In-house and External Manager
UK Government Gilts, Treasury Bills	--	No Limit	External Manager
Gilt Funds and Bond Funds	Long-term A	No Limit	External Manager

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

4.4 Non-Specified Investments

Investment Type	Credit Criteria (Fitch Ratings)	Limits (per institution)	Use
Term deposits: UK banks and building societies with maturities in excess of one year with a maximum of three years allowed for in-house deposits	Short-term F1, Long-term A, Viability a, Support 3	£20m	In-house and External Manager
Fixed Term Deposit with Variable Rates and Variable Maturities	Short-term F1, Long-term A, Viability a+, Support 3	£20m	In-house and External Manager
Certificates of Deposits issued by UK banks and building societies	Short-term F1, Long-term A, Viability a, Support 3	£20m	External Manager
UK Government Gilts with maturities in excess of 1 year	--	£20m	External Manager
Local Government Association Municipal Bond Agency	--	£20m	--
CCLA Property Fund	--	£20m	--
Threadneedle Social Bond Fund	--	£40m	--
Local Authority wholly owned trading company	--	£5m	In-house

Annex 5

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

Annex 6

Treasury Management - Scheme of Delegation

(i) Council

- approval of annual strategy.
- budget consideration and approval.
- approval of the division of responsibilities.

(ii) Cabinet

- scrutinise the proposed annual strategy.
- approval of/amendments to the organisation's adopted clauses, Treasury Management policy statement and Treasury Management practices.
- Receiving and reviewing half year and annual monitoring reports and acting on recommendations.

(iii) Resources and Fire & Rescue Overview and Scrutiny Committee

- Overview and scrutiny of Treasury Management policy, practice, and activity as required.
- Receiving quarterly monitoring reports for overview and scrutiny.

Annex 7

Treasury Management – Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, Treasury Management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- approve the early payment of pension fund contributions
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and Treasury Management, with a long term timeframe.
- Recommending the MRP policy.

Annex 8

ECONOMIC BACKGROUND-

Provided by Link Treasury Advisors

The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.

- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.

- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.

- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.

- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

• The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

• The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

• The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

• As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

• The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

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Appendix 3

Investment Strategy
(For Non-Treasury Investments)

Warwickshire County Council

2024/25

1. Introduction

1.1 Local Authorities may make investments of two types:

- Treasury Investments.
- Other Investments (also referred to in this strategy as “non-treasury investments”).

1.2 This Investment Strategy covers “Other Investments” and is prepared according to statutory guidance issued under the Local Government Act 2003, the Treasury Management Code of Practice, and The Prudential Code for Capital Finance in Local Authorities. Non-Treasury Investment are policy investments made to deliver Corporate objectives as set out in the Capital Strategy and Medium Term Financial Strategy.

1.3 For the purposes of this Investment Strategy, an investment is any financial or non-financial asset of the authority which is held partially or primarily to generate a return. Investments include loans made by the local authority to wholly-owned companies or associates, to a joint venture, or to a third party. For the avoidance of doubt, the strategy does not include pension fund or trust fund investments which are subject to separate regulatory regimes, or treasury investments which are detailed separately in the Treasury Management Strategy.

1.4 Non-treasury management investments may take a number of forms, for example holding shares in companies, issuing loans to companies, promoting economic development, or holding non-financial assets (e.g. property). Details of the Council’s existing and planned non treasury investments are set out in Section 12 and 13 of this strategy.

2. Transparency and Democratic Accountability

2.1 This Investment Strategy is a public document and must be approved annually by full Council, and any material changes during the year also being presented to Council for approval.

2.2 The more specific and detailed governance arrangements for any new funds will also be subject to Member approval through Cabinet or Council. For example, arrangements for the governance of the Warwickshire Property and Development Group (WPDG) and Warwickshire and Investment Fund (WIF).

2.3 Under Regulation 17 of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 as amended overview and scrutiny committee members have right of access to any confidential information relating to any decision by the executive or any member of the executive of their council where relevant to a review or scrutiny being undertaken by the committee or included in its work programme.

2.4 Any fundamentally new or additional levels of investment outside of those specified in or delegated by this Investment Strategy for investment for non-treasury purposes will be required to have direct Council approval that would be set out in an updated Investment Strategy.

2.5 The Section 151 Officer has delegated authority to implement this Investment Strategy, with the following overarching responsibilities highlighted.

- Ensuring that due diligence is carried out on investment proposals in accordance with the risk appetite of the authority.
- Ensuring the proportionality of investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
- Ensuring an adequate governance process is in place for the approval, monitoring, and ongoing risk management of non-treasury investments.

3. Investment Objectives

3.1 The primary objective of all non-treasury investments will be to contribute towards the Council's core organisational objectives for Warwickshire:

- "A county with a vibrant economy and places with the right jobs, skills, and infrastructure";
- "A place where people can live their best lives; where communities and individuals are supported to live safely, healthily, happily and independently"; and
- "A county with sustainable futures which means adapting to and mitigating climate change and meeting net zero commitments."

3.2 In Addition, all Non-Treasury investments will be required to demonstrate how they contribute towards the objectives specified in the Department for Levelling Up, Housing and Communities (DLUHC) guidance which will control local authority access to Public Works Loan Board (PWLB) lending by the withdrawal of PWLB lending to authorities when not met. DLUHC's objectives are harmonious with the Council's overarching strategic objectives and powers, and are summarised below and detailed in Annex 1:

- Service;
- Housing;
- Regeneration;
- Treasury management; and
- Prevention of social or economic decline.

3.3 The principles of security, liquidity, and yield must be considered when making any investment. When considering treasury management investments, security is the highest priority, followed by liquidity, and yield is a low priority. However, for non-treasury investments, whilst all three principles matter, there is more flexibility around the relative priorities depending upon risk appetite and investment objectives. The following sections set out these principles in detail.

3.4 There have been significant changes in economic circumstances since the WIF was created. It is no longer the case that recovery of the local economy from the impact of Covid in itself is a primary driver. Rather the drivers of the need to support the local economy are broad and complex. Therefore, it is recommended to change the title of the Fund to become simply "The Warwickshire Investment Fund". Should this be adopted the Strategy will be amended to reflect this

4. Security

4.1 The principle of security relates to the preservation of capital, i.e. ensuring that the original investment is returned.

4.2 Non-treasury investments will be categorised as a means of indicating and controlling risk as follows:

- Specified Investments;
- Loans; and
- Non-Specified Investments.

4.3 Annex 2 describes these in detail and Annex 3-5 sets out how these will be managed.

4.4 Total exposure to investments will be capped as specified by this Investment Strategy, including detailed limits specifying ceilings on different types of investment, in order to limit risk exposure. This is summarised in Section 11 and detailed in Annex 6 and Annex 7.

4.5 All investments will have a specified end date and a documented process for review and, where contractually possible, early closure and realisation of capital should the circumstances performance, or risk profile require it. Investments which are of a nature that do not have a contractual end date, for example equity, will still have a planned holding duration.

4.6 Investment cash or non-treasury assets will not be issued in advance of need, minimising third party treasury management risk and the risk of cash or assets being used for objectives other than the investment objective.

5. Liquidity

5.1 The principle of liquidity relates to how quickly investments can be returned to the Council.

5.2 In order to manage liquidity risk, this Investment Strategy will specify the maximum durations for which financial investments may be committed.

5.3 The default arrangement for loans will be annuity repayments, i.e. the payment of principal in even instalments throughout the duration of the loan term. Other profiles may be considered on an exceptional basis, however the risk of alternative profiles must be considered alongside how the profile would help to meet organisational objectives.

5.4 The contractual terms of investments made will specify repayment conditions and timing.

5.5 For non-treasury investments, medium and long-term financial planning will be used to ensure that funds can be accessed when needed to repay capital borrowed.

5.6 The level of liquidity of non-treasury assets will be assessed and monitored.

5.7 The capital programme, capital financing requirement, and treasury management activity will have regard to the planned repayment of investments relating to non-treasury investments, for example capital receipts and the repayment of loan principal.

5.8 The new investments in the Warwickshire Property Development Group (WPDG) will be relatively long term and illiquid in nature. Annexes 2 to 8 set out arrangements and controls which will be used to manage this risk.

6. Yield

6.1 Investments will not be made purely or primarily for yield. This will mean that the Council will have access to PWLB lending at the low rates available from this source. Should the Council want to consider investments purely or primarily for yield, this would require a review of the overall capital financing position for the Council, because the Council would lose access to PWLB rates and capital financing costs would foreseeably be expected to increase.

6.2 However, where investments are made, the expected rates of return will have regard to the nature of investment and the level of risk been taken by the Council. Investment returns cannot be so low as to breach state aid/subsidy rules and cannot be so high as make an appropriate investment unviable to appropriate counterparties. Investment returns will seek to align with market norms.

6.3 Net yield will be calculated after having regard to costs, fees, and expected credit loss calculations.

7. Borrowing

7.1 The Council will not borrow purely for profit and will not borrow more than or in advance of need purely or primarily to profit.

7.2 However, the Council may borrow in advance of need primarily for risk management or borrowing efficiency reasons (for example to lock into low interest rates if interest rates are expected to rise significantly).

7.3 Capital receipts shall not be repurposed from the acquisition of assets that contribute to service delivery in order to fund the purchase of investments solely to avoid borrowing in advance of need.

8. Risk

8.1 Any investment, by its nature, involves a risk that the rate of return may not be achieved, and the original investment may not be repaid. It also carries the potential risk that more than the original investment is lost if an investor for whatever reason subsequently puts additional money in above the original investment, for example if unsuccessfully attempting to turn around a failing investment.

8.2 The financial risks involved in the non-treasury investments relating to the WPDG and WIF are of a different nature and greater than the financial risks relating to traditional capital expenditure and treasury investments. The reasons for the differences are:

- Treasury investments prioritise security and liquidity in order to serve the primary objective of treasury management which is to ensure that cash is available when needed to serve the purpose for which that cash is held. To achieve this treasury objective, relatively safe and secure investments are chosen, and consequently low rates of return are accepted.
- Traditional capital spending is expenditure by nature and is fully funded as such. A capital asset provides benefits over its financial life and the cost of the asset is spread across the life of the asset, reflecting its consumption and use. At the end of the life of the asset, a new asset would be required if the same benefits are required to continue, and in order to pay for a new asset new money is needed. This new money is prudently provided for by the Council making an annual provision called the Minimum Revenue Provision (MRP). This means that money will be available to purchase a

new asset when the time comes. There is no assumption that the asset will retain its financial value, or that the asset will provide a financial return, and therefore there is no risk of either of these assumptions not happening.

- Non-Treasury investment risks are different in that:
  - They are assumed to retain or increase their original asset value, and they are assumed to provide a financial return. Therefore, there is exposure to the risk of those assumptions not happening.
  - The objectives of non-treasury investments by their nature are not the same as treasury investments, and therefore they may not prioritise security and liquidity as highly as treasury investments do.

8.3 Although the Council will not pursue investments purely for the objective of financial return, the Council will pursue investments in order to meet objectives as set out in Section 3, and in doing so accepts higher risks with respect to security and liquidity.

8.4 Higher risk is associated with higher reward. Investors will seek to find opportunities receiving higher returns for lower risk, while organisations seeking investment will seek opportunities paying lower returns for higher investor risk. These competing requirements result in a market-norm rate of return for a given level of risk. Rates of return will have regard to this, ensuring that rates of return are not so low as to breach state aid/subsidy rules and not so high as to be unviable to counterparties. Rates should be market normative and enough to reward the investment risk taken.

8.5 The majority of traditional treasury management investment is very low risk, for example loans to other local authorities, and money market funds designed to preserve capital. There are some small investments in higher risk investments including the Threadneedle Social Bond Fund (currently £29m) and CCLA Property Fund (currently £10m). These two investments are held over a longer timeframe in order to provide access to higher rates of interest in return for accepting less liquidity and higher risk. The WPDG and WIF investments will be further up the risk/return spectrum, however this positioning is driven by the objectives of the WPDG and WIF being different to treasury management objectives.

8.6 Before entering into an investment, and whilst and investment is in place certain protocols will be followed to manage risks. These are detailed at Annex 3.

9. Proportionality

9.1 Any particular investment will carry its own risks, driven by the investment itself and the counterparty it relates to. The risk and return associated with any particular investment will vary.

9.2 In addition, there is the aggregate risk that the Council is exposed to when considering all investments in totality. This is a function of the total amount of assets and income at risk of loss, and the extent to which the Council is dependent upon those assets and that income.

9.3 This Investment Strategy sets out maximum limits for non-treasury investments in order to limit total risk exposure.

9.4 The Medium-Term Financial Strategy sets out the extent to which the overall Council budget is supported by income from non-treasury investments. However, when considering exposure to financial risk, there is also the risk of loss of principal, and where this occurs this may impact on the income and expenditure account directly.

9.5 Two indicators are required by Government guidance to be used to set limits that cannot be exceeded in order to manage proportionality. These measures are:

- Gross debt as a proportion of net service expenditure; and
- Commercial income as a percentage of net service expenditure.

9.6 These measures are incorporated into the indicators detailed in Annexes 5 and Annex 6.

10. Capacity, Skills and Culture

10.1 Non-Treasury investments carry particular risk, and the nature and scale of proposed investments in the WPDG and WIF create new risks. We will ensure we have the appropriate capacity, culture, and skills to manage Non-Treasury investments through a range of specific actions and policies as set out in Annex 4.

11. Prudential Indicators and Limits

11.1 A range of measures will be used to report on and control exposure to financial risks from investment decisions. Annex 5 sets out definitions of the measures that will be used.

11.2 Measures are classified as either “Indicators” or “Limits” and the distinction is set out below:

- Indicators (Annex 6) – these are measures to monitor a particular financial parameter which will provide insight into performance and/or risk.
- Limits (Annex 7) - these measures which set hard limits on certain financial parameters in order to control and limit exposure to risk.

11.3 The most important measures are the limits on gross investment set out in Annex 7. These provide the fundamental control over maximum exposure to risk.

11.4 Over time, the use of measures will be reviewed and measures that are initially used for monitoring purposes may in the future used for control purposes.

11.5 The measures used, and any targets or limits, will be updated at a minimum annually when the Investment Strategy is updated.

11.6 The indicators have been chosen having regard to DLUHC guidance.

12. Warwickshire Property and Development Group

12.1 In 2019/20 Council approved a commercial strategy setting out the intention to explore new approaches to the delivery of organisational objectives.

12.2 During 2021/22, the Warwickshire Property and Development Company (WPDG) was launched and WPDG drew down the working capital facility provided by the Council.

12.3 During 2022/23 WPDG has drawn down scheduled payments of the first capital (development) loan.

12.4 During 2023/24 WPDG has drawn down a second development loan, repaid its first development loan and drawn down a further management loan.

12.5 WPDG was launched with the following objectives:

- To undertake regeneration and place making activities within the county of Warwickshire. This should include delivery of major schemes, prioritising regeneration activities and delivering specific regeneration plans across the county.
- To undertake activities that progress Warwickshire County Council’s key policy objectives, for example mitigating climate change, promoting sustainable and inclusive economic growth in Warwickshire, improving quality of life, and improving Warwickshire’s 5G network and connectivity.
- To undertake activities with a view to generating new short- and long-term financial returns from the Council’s property assets as appropriate and establishing and maintaining momentum in such activities.
- To operate in effective partnership with public sector stakeholders, in particular district and borough councils, NHS bodies, Warwickshire Police,

universities, West Midlands Combined Authority, Coventry and Warwickshire Local Enterprise Partnership and Homes England.

12.6 WPDG investments may be of the following nature:

- Equity Investment;
- Commercial Loans;
- Corporate Guarantees; and
- Partnerships (Joint Venture).

12.7 The value of any loan guarantees will be included in counting of the total value of loans issued as they allow a third party to call on a loan unilaterally.

12.8 Any investments of a convertible nature between equity and debt will be counted as the actual type of investment that they are at the given time.

12.9 For the management of risk, limits will be set by the Investment Strategy controlling the following:

- How much can be invested in each year;
- How much may be equity, capital, and revenue in nature; and
- The maximum duration of investments will be as set out in the detailed business plan.

12.10 Annex 7 specifies the limits for investment in the WPDG. These limits are specific for the next year, and indicative for the following 4 years.

12.11 The WPDG business plan includes potential investments over a significantly longer period of time, however actual approval for it is subject to viable detailed business cases for each individual investment and is also subject to the approval of an Investment Strategy with appropriate investment limits being approved at the necessary time. For completeness, the indicative total gross investment profiles proposed for the WPDG are set out in the table below. The table shows the *planned* investment. Annex 7 also sets out the *maximum* investment per year. The headroom this provides enables the Council and the company to function efficiently and effectively without the need for disproportionate governance approvals should circumstances change or opportunities arise, but at the same time keeping a hard limit to provide Council with certainty and assurance as to the maximum level of investment exposure that could be taken without further approval from members.

Table 1 – WPDG Gross Investment

Table 1 WPDG Gross Investment

Indicative Gross Investment £m	2024/25	2025/26	2026/27	2027/28	28/29	Total
Equity	15.73	11.42	11.37	15.01	5.56	59.08
Working Capital Loans (Revenue)	1.10	-	-	-	-	-
Total	**16.82**	**11.42**	**11.37**	**15.01**	**5.56**	**59.08**

12.12 All individual investments will be subject to approval of bespoke business cases and due diligence as required by the specified governance arrangements.

12.13 The investment profile will be updated each year on a rolling basis. For example, before the actual investment limits for 2024/25 are proposed in the next annual Investment Strategy, they will be informed by experience to date of investments made in 2023/24.

13. Warwickshire Investment Fund

13.1 A business case and strategy have been approved by Council in June 2021 to set up a Warwickshire Investment Fund (WIF) with the objective of providing finance to support business start-ups and business growth within Warwickshire and supporting the Council's strategic goals and priorities as set out in the Warwickshire Council Plan, Covid 19 Recovery Plan, Economic Strategy, Commercial Strategy, and Place Shaping Programme.

13.2 A revision to the WIF business case and strategy is being presented to Cabinet in January 2024 with updated investment levels for 2 of the pillars of the fund, and closure of 1 of the pillars.

13.3 Although the primary objective of this fund is to deliver service objectives (specific examples being job creation and job safeguarding, leveraging additional resources funding into the County, and increasing social value) the fund will operate on a commercial basis and will therefore plan to generate financial returns for the council.

13.4 The business plan and investment strategy for this specific Fund must fit within all of the controls and governance requirements set out in this overarching non-Treasury Investment Strategy. For the avoidance of doubt, should there be any difference this strategy/policy would prevail, and should there be a need or desire to invest outside of the boundaries set out in this policy, that would require bringing this policy back to Council to approve the changes first. In this way members and Council retain direct control of the overall level of risk being taken.

13.5 Annex 7 sets out the limits on gross investment within each fund each year. Following a review of the WIF, changes have been made to the original WIF plan. These limits are designed to control exposure to risk. The WIF is made up of three sub funds with different risk profiles and therefore each sub fund has its own limit as follows:

	Maximum Investment over remaining 3 years of WIF
Property and Infrastructure Fund (PIF) Capital Lending	£50m
Property and Infrastructure Fund (PIF) Revenue Lending	£4m
Local Communities Enterprise Fund (LCE) Revenue Lending	£10m
Total	£64m

13.6 The business plan for the WIF sets out an explanation of the nature and risks to do with these funds in detail.

13.7 In addition to having a limit on the amount that can be invested over the five-year period, other constraints are also placed on investment activity in order to control exposure to risk as follows:

- Limits for the amount that can be invested in each financial year (Annex 7.3);
- Limits on how much investment may be equity or working capital loans, which carry different risk profiles to debt invested in capital (Annex 7.3, 7.4 and 7.5);
- Limits on how long a loan may stay out with a third party before it must be paid back (Annex 7.4); and
- Each fund will have tailored governance arrangements and individual investments will be assessed against specified criteria that include consideration of risk and the financial strength of the counterparty as well as the benefits in terms of delivering Council objectives.

13.8 No limits will be set on net debt however net debt will be monitored, and in addition to the monitoring of these strategic indicators there will be detailed monitoring of the investment portfolio.

14. Other Non-Treasury Investments

14.1 The Council already holds a number of investments that are non-treasury by nature. These investments are managed under existing procedures and protocols. This section sets out these investments.

Company Shares

14.2 The Council currently holds shares and debt with the following companies for the purposes of promoting the achievement of organisational objectives.

These companies may provide a return on investment but that is not the primary reason for their existence.

- Warwickshire Legal Services Trading Ltd
- Educaterers Ltd
- University of Warwick Science Park Innovation Centre Ltd
- Warwick Technology Park Management Company Ltd
- Warwick Technology Park Management Company (No2) Ltd
- Eastern Shires Purchasing Organisation (ESPO)
- SCAPE Group Ltd
- Coventry and Warwickshire Local Enterprise Partnership
- Coventry and Warwickshire Waste Disposal Company
- Local Capital Finance Company Ltd
- UK Municipal Bond Agency PLC
- Border to Coast Pension Partnership Ltd

14.3 The share value relating to the above companies recorded in the 2022/23 accounts was £2.645m, with dividend income of £1.147m.

Company Loans

14.4 In addition to the above the Council currently operates two wholly owned Local Authority Trading Companies:

- Warwickshire Legal Services Trading Ltd; and
- Educaterers Ltd.

14.5 There is a £1.8m loan facility in place with Educaterers at a rate of return that tracks base rate to provide support to the company's cash flow.

14.6 Local authority-controlled company activity has been an area of particular interest to CIPFA and the government, and CIPFA are developing further guidance around the governance of these entities. We will keep up to date with developments and have regard to any new guidance as appropriate.

14.7 The capital programme already includes allocations available for the purposes of making loans to local businesses who cannot raise funds through other means such as banks. This includes the following capital programme forecast for 2023/24.

Table 2 – Capital Programme Loans

Forecast £m	2023/24	2024/25 Onwards	Total Balance
Capital Growth Fund Business Loans and Grants	0.222	0.270	0.492
Capital Investment Fund/Duplex Fund	-	-	-
Capital Investment Fund/Small Business Grants	0.150	0.325	0.475
Total	**0.372**	**0.595**	**0.967**

14.8 Loans and grants are managed via the Coventry and Warwickshire Reinvestment Trust (CWRT), this includes arrangements for assessing loans, issuing loans, and recovery.

Property Investment

14.9 The Council does not currently invest in property for the purposes of generating commercial income, however the Council does currently hold some assets for the purpose of generating future capital receipts.

Table 3 – Property Investment

£m	31/03/2023
NUNEATON/Land at former Magistrates Courts, Vicarage Street	0.238
NUNEATON/Land Adjoining 51 Queens Road, Queens Road	0.007
Attleborough Fields Industrial Estate Slingsby Close	0.907
NUNEATON/Former Manor Park Community School, Beaumont Road	3.187
ARLEY/ARC School (Former Herbert Fowler Junior School)	1.116
RUGBY/Great Central Industrial Estate, Great Central Way	1.497
ALCESTER/Former Area Library, Priory Road	0.300
Kineton/ River Meadows Care Home	0.112
ALCESTER/Meadow View H.E.P Kinwarton Road	0.721
WARWICK/Land at Heathcote Hill Farm	0.028
Former Priory Medical Centre	0.887
WARWICK/Land at Fusiliers Way	1.232
BEDWORTH/Former Manor Park Playing Field	0.192
WOLSTON/South Lodge Farm	1.689
DUNCHURCH/Blue Boar Farm, Lawford Heath Lane	0.481
DUNCHURCH/Blue Boar Farm-1	0.970
DUNCHURCH/Blue Boar Farm-2	0.041
Total	**13.387**

Investment Property as % of Total Fixed Assets	31/03/2023
Total Fixed Assets £m	1,421.05
% of Total Fixed Assets	**0.942%**

14.10 The value of these assets can change, and these assets generate a small amount of incidental income (approximately £500k in 2022/23). The properties classified as investment property had an asset value of £13.387m as at March 2023, which is 0.9% out of a full asset value in the balance sheet of £1.421bn.

14.11 Where any of these properties in future come under the auspices of the WPDG, the governance arrangements in place for the WPDG will apply.

15. Environmental, Social, and Governance Policy

15.1 As a responsible investor, the Council is committed to considering environmental, social, and governance issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

15.2 The impact of an investment in respect of climate change may be a consideration for investment decisions, with investments that help to prevent climate change, or help to cope with its impact, or which are resilient to its effects being desirable. Measurement of impact such as via carbon footprint will be undertaken where practical.

15.3 Investments that have a social impact benefit, either on a local scale or more widely may be considered.

15.4 The ESG policy of fund managers and investment partners may be considered when making decisions, with the preference being for fund managers and partners who share similar values around ESG.

Annex 1

Public Works Loan Board – Lending Objectives

Type	Description
Service	Normal local authority capital spending, for example education, highways, transport, social care, public health, cultural services, environmental services, regulatory services, and Fire and Rescue Services, as would be captured in the MHCLG Capital Outturn Return.
Housing	Normal local authority general fund or housing revenue account activity, as would be captured in the housing sections of the DLUHC Capital Outturn Return. In principle this includes land release, housing delivery, and subsidising affordable housing.
Regeneration	• Addressing economic or social market failure by providing services, facilities, or other amenities of value to local people which would not otherwise be provided by the private sector • Preventing negative outcomes including through buying and conserving assets of community value that would otherwise fall into disrepair • Investing significantly in assets beyond the purchase price, developing assets to improve them and/or change their use • Generating significant additional activity that would not otherwise happen without the local authority's intervention, for example creating jobs and/or social or economic value • Investments that recycle income to related projects with similar objectives rather than income being applied to wider services
Treasury Management	Restructuring or extending existing debt from any source, including the restructuring of internal financing
Prevention of Social or Economic Decline	• Investments that prevent a negative outcome, for example conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease • Investment where there is no realistic prospect of support from any other source • investments with a defined exit strategy so that investments are not held for any longer than is necessary to achieve their objective

DLUHC issued guidance following the 2020 PWLB consultation stating that authorities that invest make Non-Treasury investments for the above reasons will have access to PWLB lending.

Local authorities that choose to invest for other reasons, or who choose to invest purely or primarily for yield will not be allowed to access PWLB lending for a period of time. In these cases, lending will be available from other sources, however it is foreseeable that the credit rating and risk profile of a local authority will be adversely impacted where it been refused access to the PWLB, and this would foreseeably impact on the lending rates and terms made available to the local authority.

Annex 2

Investment Categories

Investment Type	Description
Specified Investments	Generally lower risk. These are sterling denominated, short-term, not capital by nature, and are made with counterparties with high credit ratings The Investment Strategy, will use the same criteria for the determination of specified investments as the Treasury Management Strategy
Loans	Generally higher risk than specified investments. In order to mitigate risk: • Credit risk and expected credit loss models will be used for loans and receivables. • Documented credit control arrangements will be used. • The value of loan guarantees will be counted against total lending exposure, whether or not a loan facility has been fully utilised. • Where a loan may be convertible to equity this can only be at the Council's discretion. No loans will be offered with any contractual commitment to convert them to equity.
Non-Specified Investments	This category covers all investments which are not specified investments, for example equity.
Non-Treasury Investments	This relates to physical assets which can be realised to recoup the capital invested. In order to mitigate risk: • The Council will monitor on an annual basis whether assets retain sufficient value to provide security. • Where security is sufficient, a statement should be made to this effect. • Where security is insufficient, a plan detailing the mitigating actions being taken to protect capital invested should be produced. • Where a loss is recognised in the accounts, the impact of this loss should be reported in an updated Investment Strategy. • Where the initial directly attributable purchase costs are greater than the realisable value of an asset, a statement setting out the timescales expected for the asset value to provide security for the sums invested will be made.

Annex 3

Risk Management

Risk	Risk Management
Business market itself is not sound	• Review of the wider market in which the counterparty operates
Counterparty is not financially sound or well governed	• Use of independent credit ratings or credit assessments • Review of published financial reports and accounts • Review of the wider business plans of the organisation • Review of the counterparty's business case for seeking Council investment • Undertaking bespoke due diligence on the counterparty's financial and governance position where appropriate. •
The counterparty investment plan is not sound	• Reviewing the specific investment business case methodology, rationale, and assumptions • Review of the specific market environment • Undertaking bespoke due diligence where appropriate.
The investment is not repaid	• Establishing security against counterparty assets where appropriate • Including appropriate wordings in loan agreements • Regular monitoring of loan repayments, with the information required from the counterparty being specified • Use of credit control processes • Regular monitoring of counterparty financial metrics • Use of shareholder powers in respect of shareholdings, for example voting rights, reserved shareholder powers, board membership rights, and access to company information. • Utilising internal expertise and external expertise to monitor and review investment risk. • Where appropriate providing information, guidance, and support to counterparties to assist them in navigating difficulties in making repayments. • Use of the expected credit loss model to account for investments. • Having exit strategies built into the investment plan.
The Council does not adequately understand an investment	• Commissioning of experts and external advisers where internal expertise is not available. • Use of competitive procurement processes to secure external advisers. • Use of specified contract terms and objectives, and proactive contract management, to direct external advisers. • Investments in new markets or endeavours will be profiled with lower investments in the initial years to provide proof of concept and organisational learning before investment levels are scaled up

Annex 4

Capacity, Skills, and Culture - Policies and Actions

	Actions
Capacity	• For investment funds ensuring adequate capacity is resourced at conception to deliver the fund objectives. • For individual investments, ensuring business cases include regard to the capacity required to deliver investment objectives for the Council and the counterparty. • Ensuring that investment costs are accounted for and covered by gross investment returns before net returns are counted.
Skills	• An annual training plan for Members closely involved in investment governance but noting that Members are not expected to be investment experts and require appropriate support and advice from experts. • Specific training on the prudential framework for officers and other stakeholders involved in negotiating investments • Commissioning of external expertise where internal expertise is not available • The use of appropriately qualified and experienced internal staff where necessary
Culture	• Reporting to Members and senior officers of lessons learned from other local authorities, where public reports are made available. • Ensuring no investment or counterparty is ever perceived to be “too big to fail”. • Ensuring that unsuccessful investments are identified and accepted as such as early as possible and that robust decisions are taken to prevent further losses, for example by investing further into an unviable project. • Ensuring a positive support and challenge culture. • A robust culture promoting consistent application of investment controls • Investment appraisals consider the long-term and the whole investment life-cycle. • Investment funds consider intergenerational fairness. • Conflicts of interest are transparent and proactively managed. • Risk management and performance management will be evidence based.

Annex 5

Indicator Definitions

Title	Purpose
Gross debt as a proportion of net service expenditure (to be monitored)	Demonstrates the scale of debt in comparison to the financial size and strength of the authority Indicates proportionality and whether the authority is taking too much risk in aggregate
Commercial income as a proportion of net service expenditure (to be monitored)	Demonstrates the dependence of the authority on commercial income associated with investments Indicates proportionality and whether the authority is taking too much risk in aggregate Note this indicator only relates to commercial income associated with non-treasury investments, therefore for example it excludes income from normal trading with third parties such as schools.
Loan to value ratio (to be monitored)	Demonstrates the amount of debt issued compared to the total associated underlying asset value Indicates risk of exposure to losses
Gross investment limits	To manage risk, limits will be set with respect to how much can be invested in non-treasury investments profiled across the medium term financial planning horizon at a high level, and provide a more detailed limits around investment durations for investments to be made in the coming year Gross limits are a hard limit in-year Net lending will be monitored and will inform the gross limits updated for following years
Non-treasury investment net borrowing as a percentage of net financing need (to be monitored)	Total non-treasury investments as a proportion of total capital financing requirement, assuming non-treasury related capital receipts reduce non-treasury related borrowing.
The expected net rate of return (to be monitored)	The overall expected net rate of return for investments This is the gross rate of return, less costs and fees, and less expected credit loss Returns are not risk-free, therefore higher rates of return indicate higher levels of risk

Annex 6

Investment Strategy Indicators

6.1 Gross debt as a proportion of net service expenditure

		2024/25	2025/26	2026/27	2027/28	2028/29
Gross Debt	£m	272.40	315.40	333.40	333.40	325.40
Net Service Expenditure	£m	610.13	606.01	616.67	635.12	658.00
Gross debt as % of net service expenditure	%	44.6%	52.0%	54.1%	52.5%	49.5%

6.2 Income as a proportion of net service expenditure

		2024/25	2025/26	2026/27	2027/28
WRIF income	£m	1.237	2.202	2.813	2.378
WPDG income	£m	1.306	3.513	3.300	6.498
Income (gross)	£m	2.543	5.715	6.113	8.876
Net Service Expenditure	£m	610.13	606.01	616.67	635.12
Commercial income as % of net service expenditure	%	0.42%	0.94%	0.99%	1.40%

Note - gross income represents income before having regard to costs

6.3 Loan to value

		2024/25	2025/26	2026/27	2027/28	2028/29
Total Loans (Capital)	£m	35.725	26.420	26.367	15.013	5.555
Asset Value	£m	to be monitored				
Loan to value	%					

Note - asset values will depend on lending opportunities, these will initally be monitored rather than a limit being set.

6.4 Non-treasury investment net financing as a percentage of total net financing need

		2024/25	2025/26	2026/27	2027/28	2028/29
Net Financing Relating to Non Treasury Activity	£m	29.306	9.027	- 0.243	- 13.338	- 19.616
Total Net Financing Requirement	£m	166.895	110.098	38.410	7.534	0.004
Non Treasury Borrowing as % of Total	%	17.6%	8.2%	* n/a	* n/a	* n/a

* Note - in 2025/26 repayment of principal exceeds loans issues hence a net negative figure

6.5 Expected Gross Rate of Return

	Approximate Average Rate of Return
WPDG	7%
WRIF - Property Fund	6.5%-7.5%
WRIF - LCEF	6%-15%

Annex 7 Investment Strategy Plan and Prudential Limits

7.1 Annual Gross Investment Plan - Medium Term

		2024/25	2025/26	2026/27	2027/28	2028/29	Total
WPDG - Equity	£m	-	-	-	-	-	-
WPDG - Development Loans	£m	15.725	11.420	7.365	10.661	0.150	45.322
WPDG - Owned Property Loans	£m	-	-	4.002	4.352	5.405	13.759
WPDG - Revenue Loans	£m	1.096	-	-	-	-	1.096
WPDG - Joint Venture Equity	£m	-	-	-	-	-	-
Sub Total - WPDG	£m	16.821	11.420	11.367	15.013	5.555	60.177
WRIF - BIG Fund	£m	-	-	-	-	-	-
WRIF - LCE (Revenue)	£m	3.334	3.333	3.334	-	-	10.000
WRIF - PIF Fund	£m	20.000	15.000	15.000	-	-	50.000
WRIF - PIF Fund (Revenue)	£m	1.000	1.000	1.000	1.000	-	4.000
Sub Total - WRIF	£m	24.334	19.333	19.334	1.000	-	64.000
Total	£m	41.155	30.753	30.701	16.013	5.555	124.177

Other Revenue Loans		2023/24	2024/25	2025/26	2026/27	2028/29
Other LATC Loans	£m	3.000	3.000	3.000	3.000	3.000
CWRT	£m	5.000	5.000	5.000	5.000	5.000
Total		8.000	8.000	8.000	8.000	8.000

7.2 Cumulative Gross Investment Plan - Medium Term

		2024/25	2025/26	2026/27	2027/28	2028/29
WPDG - Equity	£m	-	-	-	-	-
WPDG - Development Loans	£m	15.725	27.146	34.511	45.172	45.322
WPDG - Owned Property Loans	£m	-	-	4.002	8.354	13.759
WPDG - Revenue Loans	£m	1.096	1.096	1.096	1.096	1.096
WPDG - Joint Venture Equity	£m	-	-	-	-	-
Sub Total - WPDG	£m	16.821	28.242	39.609	54.622	60.177
WRIF - BGF	£m	-	-	-	-	-
WRIF - LCEF (Revenue)	£m	3.334	6.666	10.000	10.000	10.000
WRIF - Property	£m	20.000	35.000	50.000	50.000	50.000
WRIF - PIF Fund (Revenue)	£m	1.000	2.000	3.000	4.000	4.000
Sub Total - WRIF	£m	24.334	43.666	63.000	64.000	64.000
Total	£m	41.155	71.908	102.609	118.622	124.177

7.3 Maximum Investment Limits

	£m	2024/25	2025/26	2026/27	2027/28	2028/29
WPDG Capital Loans	£m	25.00	25.00	25.00	25.00	25.00
WPDG Revenue Loans	£m	4.00	4.00	4.00	4.00	4.00
WRIF PIF Capital Loans	£m	20.00	20.00	20.00	20.00	20.00
WRIF PIF Revenue Loans	£m	3.00	3.00	3.00	3.00	3.00
WRIF LCE Revenue Loans	£m	3.00	3.00	3.00	3.00	3.00
Other Revenue Loans	£m	7.00	7.00	7.00	7.00	7.00
Total	£m	62.00	62.00	62.00	62.00	62.00

*Annual investment limits are for in year spend only. These will be amended per year as necessary based on actuals.

7.4 Maximum Duration Limits

WPDG - Equity		Investment durations will be specified by each business case, subject to the investment limits set out in this strategy. The net investment limits above align with investment duration limits over the period of the MTFS.
WPDG - Development Loans		
WPDG - Revenue Loans		Revenue loans are short term by nature. The balance each year represents the lending facility available.
WRIF - LCEF	£m	5 years
WRIF - Property	£m	5 years

7.5 Equity Limits

		Equity Limits
WPDG		As specified by each business case, and subject to the specific limits set out in this strategy. If an equity investment is in the form of pre-existing owned property then the investment may go ahead if a higher value is due to revaluation only.
WRIF		No more than 10% of the gross investment budget for each year may be equity in nature

7.6 Maximum Investment Per Counterparty

WPDG		As per the gross investment values in Table 7.3
WRIF - LCEF		£500k
WRIF - Property		£10m