

# County Council

6 February 2025

## Treasury Management Strategy and Investment Strategy

### Recommendations

That Council:

1. Approves the Treasury Management Strategy for 2025/26 (Appendix 2) with effect from 1 April 2025;
2. Approves the Investment Strategy for Non Treasury Investments for 2025/26 (Appendix 3) with effect from 1 April 2025;
3. Requires the Executive Director for Resources to ensure that gross borrowing does not exceed the prudential level specified (Appendix 2, Section 3.16, 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 Executive Director for Resources to implement the Minimum Revenue Provision (MRP) Policy (Appendix 2, Section 2.13-2.29).

### 1 Executive Summary

- 1.1 The Council is required to set a Treasury Management Strategy and Investment Strategy for Non Treasury Investments (“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.

<b>Capital Strategy</b>	<b>Treasury Management strategy</b>	<b>Investment strategy</b>
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 is focused on managing the cash balances of the Council in secure and liquid settings as needed, with security being the most important consideration, followed by liquidity, and with yield being important but not as important as security and liquidity. This is covered in the Treasury Management Strategy (Appendix 2). This appendix has been amended since the January 2025 Cabinet Report was published to reflect an uplift in the annual Capital Investment Fund allocation from £15m per year to £18m per year from 2025/26 as per the Budget resolution.
- 1.4 The non-treasury 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) and other local authority controlled companies as set out at section 14 of Appendix 3.
- 1.5 In 2024/25, inflation initially remained high but gradually reduced over the year. Interest rates have also stabilised after a period of significant increase but remain high. Despite these challenges, the Council has managed its cash balances effectively, resulting in no new external borrowing being required to finance the capital programme or investment activities. This has allowed the Council to transition from an over-borrowed position to an under-borrowed position, effectively utilising internal borrowing to optimise the use of internal resources.

## **2. Treasury Management (Appendix 2) - Headlines**

- 2.1 The Treasury Management Strategy includes a continued reduction in cash balances through “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 the transition towards an increasingly “under borrowed” position.
- 2.2 The need to borrow, also referred to as the Capital Financing Requirement or CFR (Appendix 2, Table 4), is forecast to increase. This increase is driven by the planned capital strategy, including investments in WPDG and the WIF, as well as the need to cover the rapidly growing Dedicated Schools Grant (DSG) High Needs Deficit, which is using up our cash reserves.

## ***Interest Rates***

- 2.3 Interest rates reached a peak during the year and have remained high. The outlook for 2025/26 is that rates will settle and gradually reduce. The rates at which local authorities can borrow have peaked in 2024/25, short to medium term loan rates are forecast to remain elevated over the course of next year. In the longer term, rates are expected to decline as inflation stabilises and economic conditions improve, making borrowing more favourable.
- 2.4 Interest received on treasury investments are expected to decrease during 2025/26 as interest rates fall and the overall size of the treasury portfolio reduces.
- 2.5 Non-treasury investments are expected to provide higher financial returns than treasury investments to reflect the different risks being taken.

## ***Borrowing***

- 2.6 While Public Works Loan Board (PWLB) borrowing costs have increased compared to historic lows, they still remain a relatively low-cost source of financing (Appendix 2 Section 3). A key requirement to access new borrowing is 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 amended based upon expected levels of investment over the medium term, including an “Authorised Borrowing Limit” which cannot be exceeded (Appendix 2, Table 12).
- 2.9 The Minimum Revenue Provision (MRP) policy remains unchanged from 2024/25.
- 2.10 The Treasury Management Strategy Statement (TMSS) proposes enabling the use of Local Climate Bonds (LCBs) as a new borrowing instrument for 2025/26 to raise funds for environmentally sustainable projects (e.g. Renewable energy installations) Appendix 2, Section 3. Available as a potential option to finance the Council's carbon net zero goal; these bonds would most likely be structured as peer-to-peer loans managed by Financial Conduct Authority (FCA)-regulated platforms to ensure compliance, and at

this stage, the TMSS is only seeking to enable the facility and therefore possibility of using LCBs. If the option were to be taken forward a detailed proposal and business case would be developed and taken through appropriate governance for approval.

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

- 3.1 WPDG and WIF investments will continue in 2025/26. Both initiatives have refreshed strategies. The WIF & WPDG strategy and business plan are reported elsewhere on this agenda. The WIF strategy includes proposals to maintain the investment of £64m by the end of 2026/27 and proposes a review of the potential need for any fund in 2027/28 and beyond.
- 3.2 Following completion and approval of the final WPDG and Develop Warwickshire (the Joint Venture with Vistry) Business Plan for 2025/26 at Cabinet on the 28<sup>th</sup> January, 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 for endorsement and then 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, hard limits on non-treasury investment levels to limit maximum exposure to losses, and credit risk being reflected in interest rates.
- 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 2025.

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

	<b>Capital Expenditure</b>	<b>Treasury Investments</b>	<b>Non-Treasury Investments</b>
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?	<b>Capital Strategy</b> Capital plans also feature in the Treasury Strategy as they drive borrowing and cash planning.	<b>Treasury Management Strategy</b>	<b>Investment Strategy</b> <ul style="list-style-type: none"> <li>Will also feature in the capital strategy where investment is capital in nature and must be accounted for as such.</li> <li>Will also feature in the Treasury Strategy where the investment drives borrowing or the use of cash balances.</li> </ul>
Examples of what this covers in practice	Traditional capital expenditure, for example on roads, IT infrastructure, etc.	<ul style="list-style-type: none"> <li>Loans to Banks, Building Societies, and other Local Authorities</li> <li>Investments in Money Market Funds</li> <li>Investment in the CCLA Property Fund</li> </ul>	<ul style="list-style-type: none"> <li>Pre-existing non-treasury investments (e.g. land bank, companies such as ESPO, loans to Educaterers, and loans made via the Coventry and Warwickshire Reinvestment Trust (CWRT)).</li> <li>WPDG</li> </ul>