Police & Crime Commissioner Warwickshire

Treasury Management Strategy 2025/26

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Equality Analysis	Low (get guidance from DM)

Reduce crime | Support victims | Make communities safer

1. Introduction

1.1 Background

Treasury management is defined, in a local government context, as:

"The management of the Commissioner's investments, borrowing, cash flows, 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."

The Commissioner 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, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with a low risk appetite, providing security of capital and sufficient liquidity initially before considering investment return (yield): this is known as the SLY principle – Security, Liquidity, Yield.

The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to the borrowing need of the Commissioner, essentially the longer term cash flow planning to ensure that the Commissioner can meet his 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 occasions, debt previously drawn may be restructured to meet the Commissioner's risk or cost objectives.

1.2 Statutory Requirements

The Commissioner has a statutory obligation under the Local Government Act 2003 to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice (both revised in 2021) to set Prudential and Treasury Indicators for the next three years to ensure that the Commissioner's capital investment plans are affordable, prudent and sustainable.

The Commissioner is required, therefore, to set out their treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the policies for managing their investments and for giving priority to the security and liquidity of those investments.

1.3 CIPFA Requirements

The Chartered Institute of Public Finance and Accountancy's (CIPFA) is responsible for publishing and maintaining the Code of Practice on Treasury Management with which the Commissioner is obliged to comply.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Commissioner's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Commissioner will seek to achieve those policies and objectives;
- Receipt by the Commissioner of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Commissioner of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. The Commissioner has delegated this responsibility to the Treasurer, with certain aspects delegated to the Director of Finance and his team. Further details are set out in the Financial Regulations, section 7.6;
- Delegation by the Commissioner of the role of scrutiny of treasury management strategy and policies to a specific named body. In this respect the Commissioner has chosen to delegate this responsibility to the Joint Audit and Standards Committee (JASC).

The suggested strategy for 2025/26 in respect of the following aspects of the treasury management function is based upon the Chief Finance Officer's and the Force Financial Accounting Team's (who undertake treasury management on behalf of the Commissioner) views on interest rates, supplemented with leading market forecasts provided by treasury advisers (MUFG Corporate Markets (MUFG), formerly known as Link).

The strategy covers:

- Treasury limits for 2025/26 to 2028/29
- Prudential indicators
- External and local content
- Borrowing strategy
- Debt rescheduling
- Annual investment strategy
- Minimum Revenue Provision (MRP) strategy

In accordance with the CIPFA Code the Commissioner will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large, unexpected change in interest rates, or in the Commissioner's capital programme, or in the level of its investment balances.

2. Treasury Limits for 2025/26 to 2028/29

The Commissioner is required to determine and keep under review how much he can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Local Government Act 2003.

The Commissioner must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires him to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax levels is 'acceptable'.

Termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in corporate financing consists of both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in **Appendix A**

The Commissioner's current treasury portfolio is as follows:

Treasury Portfolio at 28th February 2025	Principal £m	Average Rate %
Fixed Rate Funding		
Public Works Loans Board	13.9	3.47
Short-term borrowing	5.0	5.65
Investments		
In House	(6.5)	5.26
Externally Managed	0.0	
Net Debt	12.4	

The Commissioner's borrowing requirements are as follows:

Borrowing Requirement	23/24 Actual £m	24/25 Expected £m	25/26 Forecast £m	26/27 Forecast £m	27/28 Forecast £m	28/29 Forecast £m
New borrowing*	1.571	4.080	4.519	2.641	2.073	1.870
Replacement borrowing	0.0	0.0	0.0	0.0	0.0	0.0
Total	**1.571**	**4.080**	**4.519**	**2.641**	**2.073**	**1.870**

* The borrowing requirement for 2023/24 was funded "internally" from surplus cash and this will also be the case in 2024/25. Future years could also be funded in this way, dependent on cashflow, but it is likely that external borrowing (PWLB) will be required at some stage due lower levels of cash and an already high level of "internal borrowing"

Although we're not expecting to take out new long-term borrowing in 2024/25, timings of cash flows have meant that we have taken £5m of temporary borrowing from Dec 24 to July 25 and we may also need to take out some short-term borrowing before 31 March 2025 (c.£2m), to cover temporary cashflow deficits over year end. The forecast also assumes larger revenue contributions to capital will be made each year from 2024/25 onwards, partly funded by vetting income.

3. Prudential Indicators for 2025/26 to 2028/29

Prudential and Treasury Indicators (Appendix A to this report) are relevant for the purpose of setting an integrated treasury management strategy.

The indicators are based on the currently agreed capital programme.

4. The External Context

4.1 Economic Background

The second half of 2024/25 saw:

- GDP growth growing by only 0.1% in Q4 2024 (October to December) following no growth in the quarter ending September;
- The 3myy rate of average earnings growth reach 6% in December;
- CPI inflation increase to 2.5% in December, and then tick upwards to 3% in January, with the strong prospect of further increases through the first half of 2025;
- The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December, before cutting them again in February, to 4.5%;
- 10-year gilt yields starting October at 3.94% before finishing up at 4.55% at 18 February.
- The 0.1% rise in Q4 2024 was heavily impacted by growth of 0.4%m/m in December. The quarter had not started well with GDP falling in October, the second such decline in a row. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 0.7% (it was initially 1.8% in the immediate wake of the Budget.)

- Moreover, although January's composite Purchasing Manager Index came in above the break-even 50 level, it was still consistent with a 0% rise in real GDP in early 2025. The economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI rose slightly to 48.3, but that is still consistent with manufacturing output falling, a similar story to the latter part of 2024.
- This weakness in the manufacturing sector was offset to a degree by a rebound in the services sector. The services PMI stood at 50.3 in January. A closer inspection of the data suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors.
- After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of 2024. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, of late, retail sales increased 3.6% y/y in December, following a flat reading in November.
- The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years. Initially, the Bank of England reacted by forecasting growth of 1.75% in 2025. However, with recent growth tepid at best, now they only forecast 0.75% in 2025, with a pickup to 1.5% in 2026 and 2027.
- December's wage growth figures were a touch stronger than what most forecasters had expected, but they were a bit weaker than the Bank's forecast. The 3myy rate of average earnings growth accelerated from 5.5% in November (revised down from 5.6%) to 6.0% in December. But more important for the Bank was the rise in regular private sector pay growth, from 5.9% (revised down from 6.0%) to 6.2%, which came in a touch below the Bank's Q4 2024 forecast of 6.3%. January's pay data, however, showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The number of job vacancies currently stands at 819,000, the same as the pre-pandemic February 2020 level.
- CPI inflation has started to rise significantly of late, with the annual growth rate increasing from 1.7% in September to 2.5% in December. It then moved

higher still in January to 3%. The Bank is forecasting Q3 2025 inflation hitting 3.7%. Core inflation increased to 3.7% in January whilst services inflation hit 5%.

- Throughout the latter months of 2024 gilt yields rose. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (currently 4.55%). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.
- The FTSE 100 finished 2024 at 8,121 and somewhat in the shadow of the US S&P500, which rose 24% in 2024. However, the FTSE 100 has proven attractive to investors in 2025 to date, moving up to 8,775 by 18 February. The £ has also proved resilient to date and stands at $1.2612.

MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November, 13 December 2024 & 10 February 2025

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.
- On 10 February, following a vote for no change on 13 December (6-3), Bank Rate was cut from 4.75% to 4.5%. The vote was 7-2 in favour of a 25bps cut, with two members voting for a 50bps cut. The Governor continued to reference gradual and careful cuts in rates moving forward.

4.2 Prospect for Interest Rates

The Commissioner has appointed MUFG as its treasury advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. MUFG provided the following forecasts on 10 February 2025. These are forecasts for Bank Rate, average earnings, and PWLB certainty rates (gilt yields plus 80 bps).

MUFG Corporate Markets Interest Rate View 10.02.25													
	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27	Mar-28
BANK RATE	4.50	4.25	4.25	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.50	4.30	4.30	4.00	3.80	3.80	3.50	3.50	3.50	3.50	3.50	3.50	3.50
6 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.50
12 month ave earnings	4.40	4.20	4.20	3.90	3.70	3.70	3.50	3.50	3.50	3.50	3.50	3.50	3.60
5 yr PWLB	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.40	4.30	4.20	4.20	4.10	4.00
10 yr PWLB	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.50	4.50	4.40	4.40
25 yr PWLB	5.80	5.70	5.60	5.50	5.40	5.30	5.20	5.10	5.00	5.00	4.90	4.90	4.80
50 yr PWLB	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.70	4.60	4.60	4.50

Additional notes by MUFG on this forecast table: -

- Our last interest rate forecast update was undertaken on 11 November, in the wake of the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November.
- In the interim period, there has been some general concern over the robustness of the Chancellor's spending policies, the impact of the various tariff policies of President Trump on global inflation, whilst in February the Bank of England has provided forecasts for the CPI measure of inflation to jump to 3.7% in Q3 2025 before falling below the 2% inflation target – albeit only in three years' time.
- Also in February, the Bank of England's Monetary Policy Committee voted 7-2 to cut Bank Rate from 4.75% to 4.5%. The vote was a split vote, with seven members voting for the 25bps cut, but Dhingra and Mann voting for a 50bps cut. Governor Bailey confirmed any further easing in monetary policy would reflect a *gradual* and *careful* approach.
- Moreover, the Bank set out a distinctly gloomy backdrop for the economy, with GDP expected to grow only 0.75% in 2025 before improving to 1.5% in 2026 and 2027 respectively.
- Overall, although January proved particularly volatile from a gilt market perspective, our previous forecast has remained resilient. The MPC did cut its Bank Rate to 4.5% as forecast, the 5-year PWLB Certainty Rate is at our previous forecast level for Q1 2025, whilst the 10-, 25- and 50-years' PWLB Certainty Rates are only slightly higher than our previous Q1 2025 forecast.
- Accordingly, we have not felt it necessary to make any material changes to our forecast. Having said that, we acknowledge there may be a presentational problem for the Bank to cut rates in Q3 2025 when inflation is at its peak (based on their forecast), so we anticipate a further rate cut in May but then a pause before further rate cuts are made at the back end of 2025 and in 2026.
- Additionally, with there being a fair degree of uncertainty over how tariff policies will evolve not just in the US, but globally, we have lifted our PWLB forecasts by some 20-30bps in some areas. We will also take note of what the Chancellor says when considering the Office for Budget Responsibility's forecast updates on 26 March, and the budgetary headroom that remains.

- Our revised PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

4.3 Gilt yields and PWLB rates – MUFG view

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are generally to the upsides. 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:

PWLB borrowing	Current borrowing rates as at 10.02.25 p.m. %	Target borrowing rate now (end of Q4 2026) %	Target borrowing rate previous (end of Q4 2026) %
5 years	4.90	4.40	4.20
10 years	5.28	4.70	4.40
25 years	5.79	5.10	4.80
50 years	5.49	4.80	4.60

Borrowing advice: Our long-term (beyond 10 years) forecast for the neutral level of Bank Rate stands at 3.5%. 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 be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now %	Previously %
2024/25 (residual)	4.50	4.60
2025/26	4.10	4.10

2026/27	3.60	3.70
2027/28	3.50	3.50
2028/29	3.50	3.50
Years 6-10	3.50	3.50
Years 10+	3.50	3.50

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

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.

5. Local Context

It is estimated that as at 31 March 2025, the Commissioner will hold £12.7m of external PWLB borrowing, around £7m of temporary borrowing, and a minimal level of investments. Forecast changes in these sums are shown in the balance sheet analysis in table 5.1. Ideally working capital would be at a minimal level at each year end (that is, debtors and creditors would be at a similar level) and normally cash and investments would also be close to zero as revenue funding has been spent during the year. In practice this can vary depending on the timing of the April pensions payroll payment (c.£2.5m) and other large payments around year end (e.g. PWLB loan repayments). Levels of cash and investments vary throughout the year, peaking in July when the pensions top-up grant is received from the Home Office (c.£15m).

Table 5.1 Balance Sheet Summary and Forecast

	31.03.24 Actual £m	31.03.25 Forecast £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m	31.03.29 Forecast £m
Funding:						
Borrowing CFR	34.427	34.545	34.970	33.464	31.173	29.868
Less: External Borrowing (incl £2m temp borrowing)	(19.366)	(19.722)	(19.454)	(20.149)	(19.992)	(20.788)
Internal Borrowing	**15.061**	**14.823**	**15.516**	**13.315**	**11.181**	**9.080**
Less Balance Sheet Resources:						

Usable Reserves (incl Capital Receipts Reserve)	(16.217)	(11.955)	(11.731)	(10.435)	(9.881)	(9.911)
Less: Working Capital	859	(1.868)	(1.785)	(880)	700	1,169
Cash and Investments	**(0.297)**	**(1.000)**	**(2.000)**	**(2.000)**	**(2.000)**	**(2.000)**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Commissioner's current strategy is to maintain borrowing and investments below their underlying levels, known as "internal borrowing".

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 5.1 shows that the Authority expects to comply with this recommendation during 2025/26.

6. Borrowing Strategy

The balance sheet forecast in table 5.1 shows that the Commissioner expects net debt to remain about the same in 2025/26, including temporary borrowing. Repayments of existing debt will amount to c.£2.4m. The Commissioner may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £50 million.

Objectives: The Commissioner's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Commissioner's long-term plans change is a secondary objective.

Strategy: The Commissioner is currently maintaining an under-borrowed position. This means that the capital borrowing need, the Capital Financing Requirement, has not been fully funded with loan debt as cash supporting the Commissioner's reserves, balances, and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate currently remains relatively – see sections 4.2 & 4.3 above.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Head of Accounting & Financial Control in conjunction with Treasury Advisers will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

In addition, it is important to note that the Commissioner will seek to minimise his future borrowings by using revenue budget under spends to defray borrowing where this is feasible and prudent.

The Commissioner has previously raised all of his long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions, and local authorities, if appropriate, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Commissioner intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Commissioner may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without incurring additional costs during the intervening period.

In addition, the Commissioner may also borrow short-term loans to cover temporary cash flow shortages.

6.1 Sources of borrowing

The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board);
- any institution approved for investments (see below);
- any other bank or building society authorised to operate in the UK;
- any other UK public sector body;
- UK public and private sector pension funds (except Warwickshire Pension Fund);
- capital market bond investors;
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

6.2 Other sources of debt finance

In addition, capital finance may be raised by the following methods that are not borrowing but may be classed as other debt liabilities. This would usually be for smaller items of equipment only e.g. printers:

Leasing
Hire Purchase
Sale and Leaseback

The Commissioner has previously raised all of his long-term borrowing from the PWLB but continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

6.3 Municipal Bonds Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. In practice, this hasn't proven to be a very popular method of financing with Local Authorities

6.4 Policy on borrowing in advance of need

The Commissioner will not borrow more than or in advance of his needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Commissioner can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need, the Commissioner 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 take funding in advance of need;
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered;
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- consider the merits and demerits of alternative forms of funding;

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use;
- consider the impact of borrowing in advance of temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

6.5 Debt rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Commissioner may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

The reason for any rescheduling to take place will include:

- the generation of cash savings and discounted cash flow savings;
- helping to fulfil the strategy outlined in Section 6 above, and
- enhancing the balance of the portfolio (amending the maturity profile and / or the balance of volatility)

Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates paid on current debt.

The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

7. Annual Investment Strategy

7.1 Investment Policy – Management of Risk

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 and service investments, are covered in the Capital Strategy.

The Authority’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 2021

The Commissioner’s investment priorities will be security first, portfolio liquidity second and then yield (return). The Commissioner will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Commissioner’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 “laddering” investments for periods up to 12 months with high credit rated financial institutions, including Local Authorities, whilst investment rates remain elevated.

In accordance with the above, and in order to minimise the risk to investments, the Commissioner has stipulated below the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list takes account of the ratings and watches published by all three ratings agencies, with a full understanding of what the ratings represent. Using information from MUFG, service banks’ ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

Furthermore, the Commissioners’ officers recognise that ratings should not be the sole determinant of the quality of an institution and that 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 the institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Commissioners’ officers will engage with the advisors, MUFG, to monitor market pricing 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 banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment and minimisation of risk.

The Commissioner’s delegated officers may invest surplus funds on behalf of the Commissioner with any of the counterparty types set out in the next section, subject to the cash limits (per counterparty), the time limits shown, and the prevailing advice from MUFG.

7.2 Creditworthiness Policy

The Commissioner applies the creditworthiness service provided by the MUFG. This service employs a sophisticated modelling approach utilising credit ratings from the

three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Commissioner to determine the suggested duration for investments. The Commissioner will, therefore, use counterparties within the following durational bands:

- **Yellow** 5 years *
- **Dark pink** 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- **Light pink** 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- **Purple** 2 years
- **Blue** 1 year (only applies to nationalised or semi nationalised UK Banks)
- **Orange** 1 year
- **Red** 6 months
- **Green** 100 days
- **No colour** not to be used

The MUFG creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Commissioner uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly when MUFG issue their weekly update. The Commissioner is alerted to changes to ratings of all three agencies through its use of the MUFG creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Commissioner's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by MUFG. Extreme market movements may result in downgrade of an institution or removal from the Commissioner's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Commissioner will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

Appendix C shows the latest list provided by MUFG.

The list will be used as a guide as to the most appropriate investment to be made taking into account the suggested durations and the counterparty limits set out below.

Investments in non-UK banks will only be made after obtaining the explicit agreement of the PCC's Chief Finance Officer, for each individual investment.

Treasury Investment Counterparties and Limits

Sector	Counterparty limit	Sector limit	Time limit
The UK Government – DMADF facility	Unlimited	n/a	6 months (DMADF)
Local authorities & other government entities (per entity)	£3m	Unlimited	1 year
The Commissioner's Bankers (Lloyds)	£5m	n/a	liquid
Other UK Banks	£2m	£10m	As per MUFG list
UK Building Societies	£2m	£4m	As per MUFG list
Overseas Banks	£1m	£2m	As per MUFG list

Money Market Funds	£2m per MMF	£5m	liquid

7.3 Environmental, social and governance (ESG) considerations

The Commissioner is supportive of the Principles for Responsible Investment (www.unpri.org) and will seek to bring ESG (environmental, social and governance) factors into the decision-making process for investments. Within this, the Council is also appreciative of the Statement on ESG in Credit Risk and Ratings which commits signatories to incorporating ESG into credit ratings and analysis in a systemic and transparent way. The Commissioner uses ratings from Fitch, Moody's and Standard & Poor's to support its assessment of suitable counterparties. Each of these rating agencies is a signatory to the ESG in credit risk and ratings statement.

For short term investments with counterparties, the Commissioner utilises the ratings provided by Fitch, Moody's and Standard & Poor's to assess creditworthiness, which do include analysis of ESG factors when assigning ratings. The Commissioner will continue to evaluate additional ESG-related metrics and assessment processes that it could incorporate into its investment process and will update accordingly.

8. investment Limits

The Commissioner's revenue reserves available to cover investment losses are estimated to be £12.0m on 31st March 2025. In order that no more than 20% of available reserves will be put at risk in the case of a single default the maximum that will be lent to any one organisation other than the UK government, UK Local Authorities, and the Commissioner's bankers (Lloyds) will be £2m. Money market funds are not treated as a single organisation due their diversified entities.

A group of banks under the same ownership will be treated as a single organisation for limit purposes.

8.1 Liquidity management

The Commissioner's cash flow forecasts are updated regularly throughout the year to determine the maximum period for which funds may prudently be committed. Current forecasts are compiled on a prudent basis to minimise the risk of the Commissioner being forced to borrow on unfavourable terms to meet their financial commitments. Limits on long-term investments are set by reference to the Commissioner's medium term financial plan and cash flow forecast.

9. Treasury Management Indicators

The Commissioner measures and manages his exposure to treasury management risks using Treasury Management indicators governing upper limits for fixed and variable rate exposure.

9.1 Security

The Commissioner has adopted a voluntary measure of his exposure to credit risk by monitoring the value weighted average credit rating / credit score of their investment portfolios.

	Target
Portfolio average credit rating for Warwickshire	A-

9.2 Liquidity

The Commissioner will continue to adopt a voluntary measure of his exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period without additional borrowing.

	Target
Total cash available within 3 months	£15m

9.3 Interest Rate Exposures

This indicator is set to control the Commissioner's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2024/25	2025/26	2026/27	2027/28	2028/29
Upper limit on fixed interest rate exposure (CFR)	£34.5m	£34.8m	£33.5m	£31.2m	£29.9m
Upper limit on variable interest rate exposure	£5m	£5m	£5m	£5m	£5m

9.4 Maturity Structure of Borrowing

This indicator is set to control the Commissioner's exposure to refinancing risk. The upper and lower limits on the maturity of fixed rate borrowing will be:

	Upper	Lower
Under 12 Months	50%	50%
12 Months and within 24 Months	100%	100%
24 Months and within 5 Years	100%	100%
5 Years and within 10 Years	100%	100%
10 Years and above	100%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

9.5 Long-term treasury Management Investments

The purpose of this indicator is to control the Commissioner's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2024/25	2025/26	2026/27	2027/28
Limit on principal invested for longer than 365 days	£2m	£2m	£2m	£2m

10. Other Items

The CIPFA Code requires the Commissioner to include the following in its treasury management strategy:

10.1 Policy on use of financial derivatives

In the absence of any explicit legal power to do so, the Commissioner will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivates embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in live with the overall treasury risk management strategy.

The Commissioner can make use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

10.2 Investment training

The needs of the Commissioner's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by MUFG and / or CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA etc.

Investment Advisers: The Commissioner uses MUFG Corporate Markets as its external treasury management advisors.

The Commissioner 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 our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Commissioner will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

10.3 Financial implications

The budget for investment income in 2025/26 is £200k, based on an average investment portfolio of £4.5 million at an interest rate of 4.1%. The budget for debt interest payable in 2025/26 is £0.600m (including short-term borrowing), based on an average PWLB debt portfolio of £13.6m at an average interest rate of 3.5%. If actual levels of investments and borrowing, and actual interest rates differ from these forecasts, performance against budget will be correspondingly different.

10.4 Other options considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The PCC's Chief Finance Officer having consulted the JASC believes that the above strategy represents an appropriate balance between risk

management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on Income and Expenditure	Impact on Risk Management
Invest in a narrower range of counterparties and / or for shorter times.	Interest income will be lower.	Lower chance of losses from credit related defaults, but any such losses may be greater. Greater chance of breaching the £5m limit with Lloyd's
Invest in a wider range of counterparties and / or for longer times.	Interest income will be higher.	Increased risk of losses from credit related defaults, but any such losses may be smaller.
Borrow additional sums at long-term fixed interest rates.	Debt interest costs will rise; it is likely that this will only be partly offset by higher investment income.	Higher investment balance leading to a higher impact in the event of a default, however long-term interest costs may be more certain.
Borrow short-term or variable loans instead of long-term fixed rates.	Debt interest costs will initially be lower.	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain.
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income.	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain and likely to lead to regular cashflow deficits requiring more occurrences of temporary borrowing (usually at higher rates)

11. Revision Record

Date of change	Nature of revision
XX February 2025	Annual update

APPENDIX A

POLICE AND CRIME COMMISSIONER FOR WARWICKSHIRE

Prudential Indicators and MRP Statement 2025/26

Prudential Indicators 2025/26

The Local Government Act 2003 requires the Commissioner to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Police and Crime Commissioners (PCCs) are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the PCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year. Please note that the new "Liability Benchmark" Indicator has been set out and explained fully in section 5 above.

Estimates of Capital Expenditure: The PCC's planned capital expenditure and financing may be summarised as follows:

Capital Expenditure and Financing	2024/25 Forecast Outturn £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Total Expenditure	**10.754**	**7.610**	**5.781**	**5.780**	**6.077**
Capital Receipts	2.511	0.251	0.000	0.000	0.000
Government Grants	0.036	0.000	0.000	0.000	0.000
Reserves	0.186	0.000	0.000	0.000	0.000
Revenue	3.582	2.590	2.890	3.457	3.957
Section 106	0.359	0.250	0.250	0.250	0.250
Borrowing	4.080	4.519	2.641	2.073	1.870
Total Financing	**10.754**	**7.610**	**5.781**	**5.780**	**6.077**

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the PCC's underlying need to borrow for a capital purpose.

Police & Crime Commissioner Warwickshire

Capital Financing Requirement	31.03.25 Forecast £m	31.03.26 Estimate £m	31.03.27 Estimate £m	31.03.28 Estimate £m	31.03.29 Estimate £m
Total CFR	34.545	34.970	33.464	31.173	29.868

The CFR is forecast to fall by around £4m over the next four years as capital expenditure financed by debt is lower than the resources put aside for debt repayment (MRP). This reduction is due to the use of revenue (including reserves) contributions to fund around half of the capital expenditure each year from 2026/27.

Gross Debt and the CFR: In order to ensure that over the medium-term debt will only be for a capital purpose, the PCC should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence.

Debt	31.03.25 Forecast £m	31.03.26 Estimate £m	31.03.27 Estimate £m	31.03.28 Estimate £m	31.03.29 Estimate £m
Total Borrowing (includes temporary / short-term borrowing)	19.722	19.454	20.149	19.992	20.788

Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt: The operational boundary is based on the PCC's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC's estimates of capital expenditure, the CFR and cash flow requirements, and is a key management tool for in-year monitoring.

Operational Boundary	31.03.25 Forecast £m	31.03.26 Estimate £m	31.03.27 Estimate £m	31.03.28 Estimate £m	31.03.29 Estimate £m
Total Debt	40.0	40.0	35.0	35.0	35.0

Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the PCC can legally owe. The authorised limit provides

headroom (£10m) over and above the operational boundary for unusual cash movements.

Authorised Limit	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Total Debt	**50.0**	**50.0**	**45.0**	**45.0**	**40.0**

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

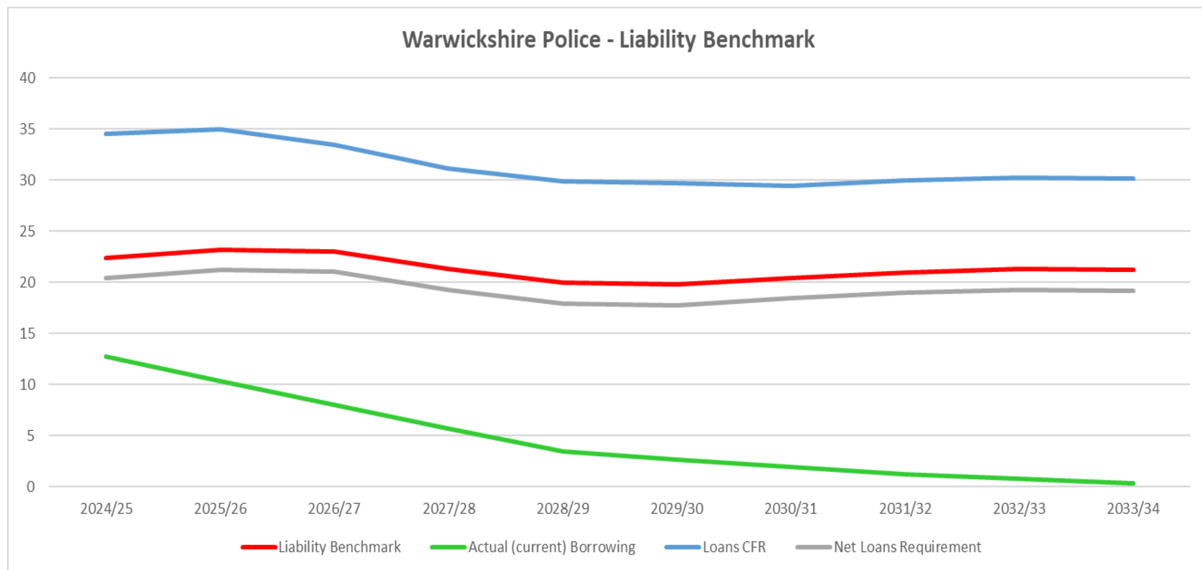
Ratio of Financing Costs to Net Revenue Stream	2024/25 Forecast %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	3.20	3.22	3.15	3.29	2.41

Incremental Impact of Capital Investment Decisions: This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement arising from the capital programme proposed

Incremental Impact of Capital Investment Decisions	2024/25 Revised £	2025/26 Estimate £	2026/27 Estimate £	2027/28 Estimate £	2028/29 Estimate £
General Fund - increase in annual band D Council Tax	0.30	0.22	0.11	0.58	(2.56)

Liability benchmark: To compare the Commissioner's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 5.1 above and that cash and investment balances are kept to a minimum level of £2m at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Commissioner is likely to be a long-term borrower or long-term investor in the future and so shape his strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Commissioner must hold over a 10 year period to fund his current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.



The liability benchmark was a new treasury management prudential indicator in the 2021 edition of the CIPFA Treasury Management Code and was reported for the first time in the 2023/24 Treasury Management Strategy.

Unlike other indicators, the liability benchmark is to be shown graphically for a minimum of ten years. It consists of four lines – the loans capital financing requirement (LCFR), the net loans requirement (NLR) and the liability benchmark itself (LB) plus a line for actual borrowing.

The concept is that the chart allows a comparison of current borrowing against the need to borrow. Where the LB exceeds actual loans held, the PCC can take long-term borrowing.

The LCFR can be described as the maximum permitted level of borrowing (effectively the Capital Financing Requirement). But borrowing up to the LCFR will usually mean high levels of investments, exposing the authority to credit, price and interest rate risks.

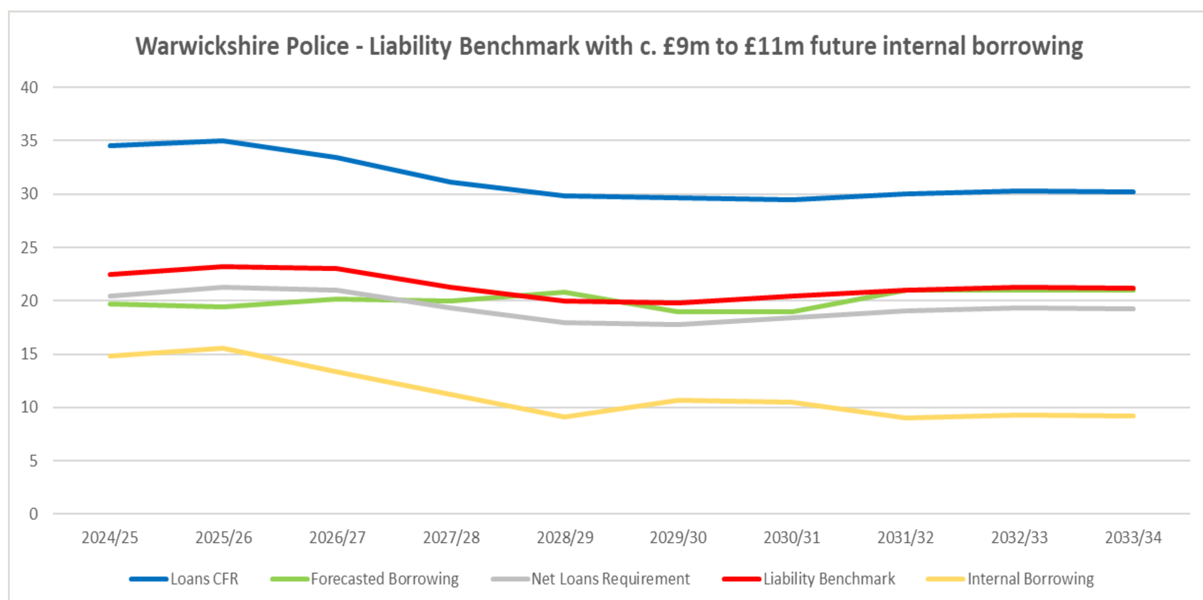
The NLR is the minimum possible level of borrowing, at which investments would be zero. This would expose the authority to the liquidity risk of being unable to make payments when due. Actual debt levels below this line would indicate “internal borrowing”.

The LB is then the optimal point between the two, where an appropriate balance of risks can be struck between these two extremes.

For the PCC for Warwickshire, the chart shows that although the Capital Financing Requirement (blue line) decreases over time - due to forecasted new borrowing requirements each year being lower than the forecasted annual Minimum Revenue Provision charges - the level of actual debt (green line) decreases at a faster rate as existing loans mature. The gap between the blue line (CFR) and the green line demonstrates the level of internal borrowing as set out in Table 5.1. The actual borrowing shown on the green line does not take account of the projected future borrowing shown in the table in 5.1, it is only plotting the maturity of the current borrowing portfolio.

The Net Loans Requirement (grey line) takes into account usable reserves and working capital (Creditors minus Debtors) but assumes investments are zero. The Liability Benchmark assumes that investments will be maintained at around £2m (as explained in 5.1 above). Therefore, the difference between the LB and the actual borrowing is the suggested ideal level of new borrowing that could be required over the period of the chart, taking into account levels of usable reserves, working capital, and investments.

By way of comparison, an alternative liability benchmark chart has been prepared below that plots the forecasted borrowing (green line) against the Liability benchmark and the CFR, based on the forecasted borrowing set out in the Prudential Indicators above and assuming a longer-term level of internal borrowing of between £9m and £11m. This version of the chart demonstrates that the Commissioner's capital financing plans are prudent and consistent with the liability benchmark indicator and also demonstrates the need for the Commissioner to "externalise" some of the internal borrowing over the 10 year period.



Police & Crime Commissioner Warwickshire

Annual Minimum Revenue Provision Statement 2025/26

Where the PCC finances capital expenditure by debt, he must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the PCC to have regard to the Department for Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018. The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities (and PCCs) cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Commissioner to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance:

For capital expenditure incurred before 1st April 2008, MRP will be determined in accordance with the former regulations that applied on 31st March 2008. MRP has been calculated on a straight-line basis over a 40 year period.

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the period over which the capital expenditure provides a benefit to the PCC (based on the expected useful life of the relevant asset) using the annuity method, starting in the year after the asset becomes operational.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26.

Based on the PCC's estimate of its Capital Financing Requirement on 31st March 2025 at the time of setting the budget, the budget for MRP has been set as follows:

	31.03.2025 Estimated CFR £m	2025/26 Estimated MRP £m
Capital expenditure before 01.04.2008	8.095	0.258

Police & Crime Commissioner Warwickshire

Unsupported capital expenditure after 31.03.2008	26.4	3.853
Total General Fund	**34.544**	**4.111**

APPENDIX B

The Treasury Management Role of the S151 (Responsible) Officers (The Chief Finance Officer to the Commissioner and the Director of Finance to the Chief Constable).

- Recommending clauses, treasury management policy / practices for approval, reviewing the same regularly, and monitoring compliance.
- Reviewing the list of approved counterparties in accordance with recommendations from appointed treasury advisers (MUFG).
- 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.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers

APPENDIX C

MUFG List of Suggested Counterparties for Lending for Police & Crime Commissioner for Warwickshire