

Report Title - Envoy Report – Warrington Commercial & Treasury Management Investment

Portfolio: Cllr Denis Matthews

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1. Purpose of Report

- 1.1 The purpose of this report is to provide a clear and succinct position to the Council of its commercial and treasury management investment portfolio, making clear the financial returns from 2008/9 to 2025/26 the probable outlook for the future of the portfolio alongside recommendations regarding next steps for each element of the portfolio to now be taken forward, all in line with the requirements and directions outlined within the 2025 Best Value Inspection Report.

2. Recommendations

- 2.1 It is recommended that the Council agrees to the following next steps regarding each of the elements of the commercial and treasury management investment portfolio, noting that all recommendations resulting from the next steps will be taken through the Council's governance framework, requiring decisions from Cabinet and/or Council and including ensuring appropriate scrutiny and briefing arrangements are put in place to support decision-making.

- 2.2 It is recommended that Cabinet agrees to:

(i) Commercial Property Portfolio

- Progress the sale of Birchwood Park.
- Continue with opportunistic disposals to maximise PWLB rebate position.
- Producing a forecast of all assets for the MTFP period including potential value changes to identify whether early sale would prevent any increased deficit being generated.
- Continue to focus on the corporate asset optimisation strategy for all Council property assets.

(ii) Redwood Bank

- Proceed with the potential sale currently being explored with a 3rd. party and if it progresses, look to negotiate a more equitable distribution of funds.
- To obtain shareholder agreement to appoint a 3rd. party to launch a new sales process, if the current sale fails to complete.

(iii) Warrington Renewables – Solar Farms

- Focus on restoring Cirencester to full operability and maximising output and revenue from York and Hull.
- A review of Gridserve performance and assessment of whether they are fulfilling their contractual obligations.
- Carry out soft market testing of the potential for disposal of all sites.
- Review the ability of the solar farms to make annual debt repayment to the Council.

(iv) Incrementum Housing

- Review the strategic case for retaining assets under ownership and whether sale to a Housing Association would be beneficial.
- Ensuring there is an operational focus to maximise income including reviewing rent policies.
- Review and develop a plan to bring forward sites currently 'on hold' in order to take forward new housing development and/or other Council use purposes and cease excessive security etc costs.

(v) Corporate Loan Portfolio - Housing Association (HA) and Economic Regeneration Loans

- Review the HA Loans Policy and clarify the position with MHCLG before any further loan drawdowns, loans approved or extended excepting where there is an unavoidable legal requirement.
- Ensure existing governance and monitoring discipline is maintained
- Ensure that the Enterprise Cheshire & Warrington loan is novated or ended when the new combined authority is created.

(vi) Wire Regeneration

- Continuing the short-term Wire JV journey to complete the sale of housing land at Bevan Mews and complete St James office refurbishment to a digital hub.
- Seek to dissolve the JV and recover any capital receipts through the sale of the remaining assets.

(vii) Warrington Own Buses (WOB)

- Revisit and amend the business plan in line with the true cost base including a review of the affordability of existing fare cap arrangements to achieve financial sustainability of the company.

- Ensure the shareholder agreement clearly defines the obligations of the Council and WOB.

(viii) Discontinued Investments (TEO & Together Energy)

- Conclude accounting treatment for loss resulting from exit from Technology Enhanced Operations Ltd bond following agreement to sell the shares following the bond being converted to equity.
- Note Together Energy was placed into admin, and accounting entries are complete regarding the loss.

(ix) Time Square

- The need to urgently explore the financial arrangements and treatment of the Time Square development.

(x) Treasury Management

- An independent review being required regarding the Treasury Management and Investment Strategy, including accounting for MRP, providing adequate reserves for impairment and IFRS9 implementation and appropriate use of PWLB.
- Remove all 'non-standard' investment counterparties from the authorised list and ensure all CFO decisions are subject to political & CX consultation
- Review and redesign the formal reporting formats used for Treasury Management to ensure all pertinent information is succinctly presented with good use of appendices.
- Undertake a comparison review of loan repayment to secure PWLB compared to taking new borrowing should EFS be granted.
- Review the Council position related to cashflow over the MTFP period.

(xi) Governance

- Undertake a full review of the governance arrangements in place related to the commercial and treasury management investment portfolio and bring forward recommendations to Cabinet and Council to ensure the arrangements are robust and in line with the best value directions. This will be expected to include the development of a new reporting framework and governance approach involving the Envoys for the commercial and treasury management investment portfolio.

(xii) Reporting Back

- an overall update report be provided quarterly in order to track progress.

(xiii) Status of Report

- Note that the report has been produced by the Envoys but has been subject to full involvement of Warrington Officers', this report has been the subject of consultation with those officers' and the report is agreed as accurate.

3. Executive Summary

3.1 The 2025 Best Value Inspection report through the directions, made clear the requirements being placed upon the Council in relation to its commercial and treasury management investment portfolio and this report looks to assist the Council in addressing those matters.

3.2 The table below presents the summarised position of the Council's commercial and treasury management investment portfolio dating from 2008/9 to present date 2025/26.

	2009 - 2025	2009 - 2025	2025/6	2025/6	2009 - 2026	Change	MRP	Asset Value	Potential
Investment	Surplus /	Interest	Income/	Interest	Used as	Asset	Provision	Loss as at	Overall
	Loss	Gain	Exp	gain	Revenue	Value		2025	Net Loss
	£million	£million	£million	£million	£million	£million	£million	£million	£million
Total	78.14	76.78	2.86	8.13	165.92	-307.98	32.64	-275.35	-109.43

3.3 With the exception of the Housing Association (HA) and Economic Regeneration Loan Portfolio, all the investments face some financial difficulties and even the HA and Economic Regeneration loans are not without a low degree of risk given the remaining duration that exists on some, both outstanding loans and undrawn facilities.

3.4 It is also unlikely that any disposal of assets or interests will generate surplus cash over and above the associated borrowing, which would have helped to prevent further borrowing for Exceptional Financial Support purposes.

3.5 Work is ongoing to review other Council property assets that could be deemed surplus without borrowing attached to them, but that is unlikely to generate significant amounts.

3.6 In relation to the position now faced in 2025/26, the summary table shows that whilst a revenue surplus in the region of £166 million has been generated from 2009 to date, through the various investments, all of the revenue surplus has been absorbed into prior years revenue accounts, in essence used to balance successive budget gaps. Therefore, this sum is not available to offset the net potential liability referenced in the paragraphs below. The revenue surplus for the year 2025/6 is projected to stand at £11.87m.

3.7 The table shows that if the Council tried to sell all the investment assets today, it is faced with a potential reduction in the residual value of their investments by some £308 million, with volatility in some asset classes contributing to the reduction, which after MRP and specific loss provisions of £32.64 million are applied, leaves a potential liability of £275.35 million if sold now.

3.8 The final column shows the cumulative position, after allowing for all the income, the capital losses are much greater, and the overall net loss is £109.43 million. The

Housing Association and Regeneration loan portfolio provided a net profit as a result of 'interest rates differential charging, arrangement fees, commitment fees and exit fees'. All other categories have resulted in a net loss assuming the asset is sold today.

- 3.9 **The current focus must be the net potential liability of £275.35 million and ensuring that the MTFP has appropriately and accurately addressed the projected annual revenue income anticipated across the portfolio.**
- 3.10 To be clear the recommendations **are not** to move to sell the whole portfolio at this juncture which would unnecessarily crystallise that potential capital loss. The next steps will take a measured and carefully managed approach over the next two years in order to avoid a 'fire sale' and ensure that the Ministerial Directions are followed and any negative financial impact on the public purse and the residents of Warrington are minimised wherever possible.
- 3.11 It is also recommended that an overall update report be provided quarterly in order to track progress.

4.0 Introduction and Background

- 4.1 This report is provided to assist the Council in addressing the 2025 Best Value Inspection Report (BVI report) requirement with specific reference to the commercial and treasury management investment portfolio. The BVI report references eight directions, the following four directions are most relevant to this report
- *Address systemic weaknesses in the Authority's governance functions, to secure improvements in transparency, scrutiny, and formal decision-making.*
 - *Deliver financial sustainability, including by closing any short – or – long term budget gaps and reducing the Authority's exceptionally high level of external borrowing and high dependency on high-risk income.*
 - *Increase corporate grip of the Authority's risk management and ensure compliance with all relevant rules and guidelines relating to the financial and debt management of the Authority.*
 - *Strengthen the commercial decision-making, property management, and management of commercial projects functions of the Authority to address the serious failings in these areas over recent years and ensure conformity with the Best Value Duty, thereby delivering improvements in outcomes for the people of Warrington and the public purse.*
- 4.2 Over the last 15 years the Council has undertaken a range of commercial and treasury management investments to support policy priorities, encourage growth and regeneration in the local area and to provide additional income for the Council.

- 4.3 Initially, these investments were primarily focussed on local needs – loans to Housing Associations to fund social housing in Warrington and the surrounding area for example – but over recent years the range of activities has broadened considerably. This has included more complex investments which, by their very nature involve much higher risk. This review has considered how the various investments have performed commercially against the business case expectations and what level of return has been achieved to date.
- 4.4 The report has also attempted to establish, as far as practical in the time available, the likely impact on the Council's accounts, as a whole, that now needs to be tackled as part of setting the Medium Term Financial Plan and the budget in March 2026 as well as informing the application for exceptional financial support (EFS) from MHCLG.
- 4.5 It should be noted that the review is based on the most recent available information, some of which is more current than others and therefore there is likely to be a margin of error as recent performance may not have been accounted for.
- 4.6 Clearly, with many of the activities ongoing, this exercise must include an assessment of asset valuations that may be subject to further volatility in the future and is therefore indicative only at a point in time, but it does give an indication of the overall scale of the problems faced. Losses on property assets for instance, would only be realised in the event of disposal, but appropriate provisions need to exist to cover for that differential in any event.
- 4.7 The Envoys would like to thank Warrington officers' for their assistance in providing a significant amount of information to support this review and their time in responding to the many questions, finally this report has been shared and discussed with those officers' in advance in order to check the validity of the report based upon best available information at this time and the report is agreed as accurate

5. Initial Conclusions and Proposed Next Steps

- 5.1 The most pressing need is in relation to Redwood Bank, Warrington Renewables (Solar Farms) and Wire Regeneration, where early decisions need to be made about the rationale for continued involvement. There is also a need to explore the financial arrangements and treatment of the Time Square development and ensuring the future financial sustainability of Warrington Own buses as a stand-alone company.
- 5.2 There is an urgent need to establish the position of the Warrington Renewables – Solar Farms, to ensure they can continue to honour the debt repayments to the Council. Cirencester is currently unable to make the expected payment for 2025/26, which will need to be factored into future years.
- 5.3 It is clear that any further activity requiring new loans and/or additional loan drawdowns need to be discouraged where possible with immediate effect and if there is a perceived need to proceed this should be given very careful and detailed scrutiny regarding a robust and professional business case.

- 5.4 Given the potential capital value of the commercial property assets, there is a need to commence research on the short- and medium-term outlook for the various commercial property sectors to help inform a rationalisation programme. This should seek to minimise risk of capital and revenue losses.
- 5.5 There is a need to apply a more realistic accounting treatment to Warrington Own Buses most recent accounts and revise the business plan accordingly.
- 5.6 The Council has and will likely benefit from PWLB discounts resulting from loan repayments from sales and capital receipts and whilst this is lessening the impact from capital losses, these fortuitous discounts should have been available to the Council to support the MTFP gap.
- 5.7 The assessment to date has focussed on the commercial and treasury management aspects of the investments, but we now need to assess the accounting implications for the Council, particularly MRP provisions and the extent to which investments have been written down.

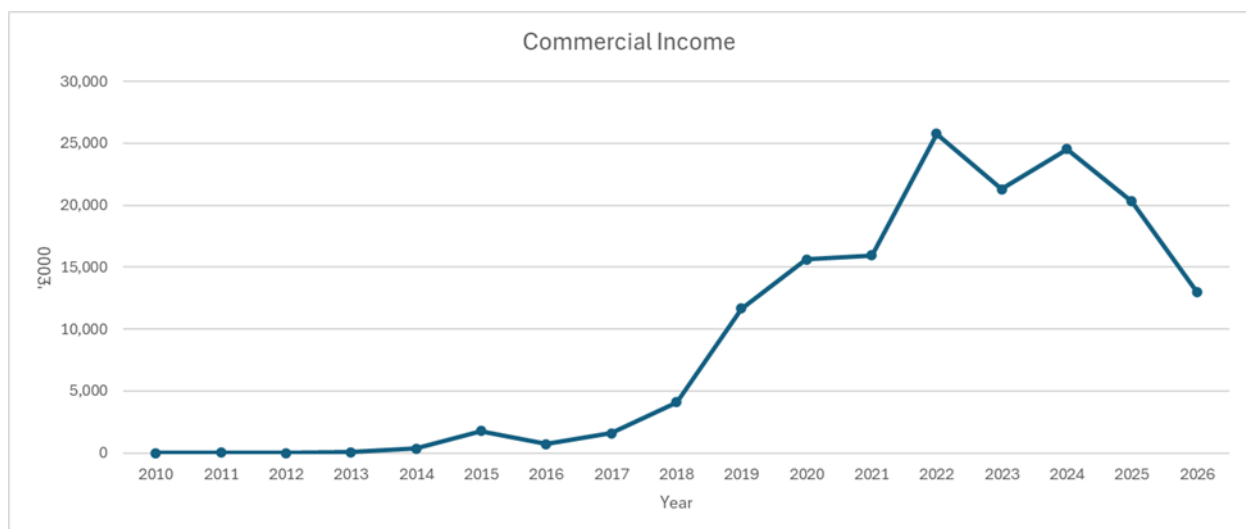
6. High Level Financial Assessment of the Portfolio's Performance

- 6.1 With the exception of the Housing Association etc Loan Portfolio, all of the investments face some financial difficulties and even the loans are not without a low degree of risk given the remaining duration that exists on some, both outstanding loans and undrawn facilities. The potential financial impact of these challenges is summarised in the Table below,

	2009 - 2025	2009 - 2025	2025/6	2025/6	2009 - 2026	Change	MRP	Asset Value	Potential
Investment	Surplus /	Interest	Income/	Interest	Used as	Asset	Provision	Loss as at	Overall
	Loss	Gain	Exp	gain	Revenue	Value		2025	Net Loss
	£million	£million	£million	£million	£million	£million	£million	£million	£million
Total	78.14	76.78	2.86	8.13	165.92	-307.98	32.64	-275.35	-109.43

- 6.2 It is also unlikely that any disposal of assets or interests will generate surplus cash over and above the associated borrowing, which would have helped to prevent further borrowing for EFS purposes. Work is ongoing to review other property assets that could be deemed surplus without borrowing attached to them, but that is unlikely to generate significant amounts.
- 6.3 In relation to the position now faced in 2025/26, the summary table shows that a surplus in the region of £166 million has been generated from 2009 to date, 2025, some 16 years, on average £10 million per annum, through the various investments, but it must be noted that **all of the surplus** has been absorbed in prior years revenue accounts, used to balance successive budget gaps. Therefore, this sum is not available to offset the net potential liability referenced in the paragraphs below. The revenue surplus for the year 2025/6 is projected to stand at £11.87m.

- 6.4 The table shows that the Council is now faced with a potential reduction in the residual value of their investments by some £308 million which after MRP and specific loss provisions of £32.64 million are applied, this leaves a potential liability of £275.35 million.
- 6.5 The final column shows the cumulative position, after allowing for all the income the capital losses are much greater and the overall net loss is £109.43 million, with only the Housing Association and Regeneration Loan Portfolio providing a net profit, all of which is as a result of 'interest rates differential charging, arrangement, commitment and exit fees'. All other categories have resulted in a net loss.
- 6.6 The current focus must be two fold; the net potential liability of £275.35 million. The mechanism, amount and timescale for addressing this shortfall would need the approval of the external auditor and given the historical backlog of audited accounts, this could take some considerable time. It is important that the Council now move swiftly to validate the potential liability, accepting that it will lie within a narrow range of outcomes for accounting purposes; and ensuring that the MTFP has appropriately and accurately addressed the projected annual revenue income anticipated across the portfolio.
- 6.7 The chart below shows the level of income each year.



- 6.8 Please note the graph excluded Time Square, WOB and Wire Regeneration.
- 6.9 Finally, the Council agreed a delegation to the Chief Financial Officer (CFO) to set aside a sinking fund to set against any capital loss, the maximum to be 15% per annum of income generated, the table below identifies the sinking fund allocations.

Sinking fund	
Year	Amount (£000)
2017/18	1000
2023/24	967
2024/25	804
	2772

7. Governance Review

- 7.1 There is a need to undertake a full review of the governance arrangements in place related to the commercial and treasury management investment portfolio and bring forward recommendations to Cabinet and Council to ensure the arrangements are robust and in line with best value directions.
- 7.2 The review needs to consider the further impact resulting from the next steps contained within this report and the decisions which will need to be made over the next two years. Consideration will need to be given to the development of a new reporting framework and governance approach involving the Envoys for the commercial and treasury management investment portfolio.
- 7.3 The Monitoring Officer is already at an advanced stage in undertaking this review and the Envoys have provided feedback for consideration which should allow this matter to be brought forward for decision in early course.

8. Next Steps Decision–Making

- 8.1 No decisions have been made as a result of this review, the recommended next steps are clearly outlined in this report and need to be taken forward urgently.
- 8.2 All decisions will be taken forward through the Council's normal governance, informal briefings, Scrutiny, Cabinet decision and/or Council decision.
- 8.3 The MTFP 2026/7 – 2029/30 includes more realistic expectations regarding income targets and amendments are to be made to the MRP policy but the further impact resulting from the next steps will need to be considered and decisions made over the next two years through a new reporting framework and governance involving the Envoys for the commercial and treasury management investment portfolio.
- 8.4 The information contained within this report has been included as part of the Exceptional Financial Support (EFS) submission with a request for Government financial support regarding the potential capital losses.

9. Financial Considerations

- 9.1 This report is presenting the financial position regarding the commercial and treasury management investment portfolio of the Council. The recommended decisions are to

make progress on a number of next steps. As those next steps are progressed any such financial considerations will be included within the relevant governance process.

10. Legal Considerations

- 10.1 This report is presenting the financial position regarding the commercial and treasury management investment portfolio of the Council. The recommended decisions are to make progress on a number of next steps. As those next steps are progressed any legal considerations will be included within the relevant governance process.

11. Risk Assessment

- 11.1 The recommended next steps are designed to mitigate and manage down the significant risks the Council is currently carrying with regard to the commercial and treasury management investment portfolio.
- 11.2 There are no specific risk issues in relation to the contents of this report. As next steps are progressed any such issues will be included within the relevant governance process.

12. Equality and diversity / equality impact assessment

- 12.1 There are no specific climate and sustainability issues in relation to the contents of this report. As next steps are progressed any such issues will be included within the relevant governance process.

13. Consultations

- 13.1 The Envoys would like to thank Warrington officers' for their assistance in providing a significant amount of information to support this review and their time in responding to the many questions, finally this report has been shared and discussed with those officers' in advance in order to check the validity of the pack based upon best available information at this time and the report is agreed as accurate.
- 13.2 The Envoys also met with relevant external parties including :
- Chief Executive of Redwood Bank,
 - EY Partner adviser on Redwood Bank,
 - Chief Executive and the Chairman of the Board of Warrington Own Buses,
 - the External Accountant for Warrington Renewables - Solar Farms
 - Representatives of Gridserve and Statkraft
 - Chief Executive of Torus Housing Association
 - Representatives of Langtree, Wire regeneration Joint Venture Partner