

## Investment Strategy Report 2022/23

### Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to regenerate and provide service delivery in the locality

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

### Treasury Management Investments

The Council typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £100 million and £130 million during the 2022/23 financial year.

**Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

**Further details:** Full details of the Council's policies and its plan for 2022/23 for treasury management investments are covered in a separate document, the treasury management strategy.

### Service Investments: Loans

**Contribution:** The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

**Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows

Category of borrower	31.3.2021 actual			2022/23
	Balance owing £000	Loss allowance £000	Net figure in accounts £000	Approved Limit £000
Subsidiaries	0	0	0	10,000
Suppliers	0	0	0	0
Local businesses	0	0	0	500
Local charities & Community Groups	0	0	0	500
Parish Councils	0	0	0	500
Housing associations	0	0	0	5,000
Residents	0	0	0	0
Employees	0	0	0	0
<b>TOTAL</b>	0	0	0	15,100

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Councils statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by presenting a full business detailing.

- Market assessment – evidencing an independent assessment of the market that the Council is/will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements
- External Advisor Assessment – All service loans will be subject to assessment by the Council's External Treasury Advisor and a report will be included within the business case.
- Any external advice will be presented to the Audit & Governance, Scrutiny, Cabinet and Council Committees for approval
- Credit Ratings may be used to assess the risk appetite and will be subject to regular monthly review.

**Annual Reporting:**

- Reporting – As a minimum Service departments will provide an annual report to Council which will include an update on the investment and an independent external review.

### **Service Investments: Shares**

**Contribution:** The Council may invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth.

**Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Category of company	31.3.2021 actual			2022/23
	Amounts invested £000	Gains or losses £000	Value in accounts £000	Approved Limit £000
Subsidiaries	0	0	0	5,000
Suppliers	0	0	0	500
Local businesses	0	0	0	500
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,000</b>

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares by presenting a full business detailing.

- Market assessment – evidencing an independent assessment of the market that the Council is/will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements
- External Advisor Assessment – All service loans will be subject to assessment by the Council's External Treasury Advisor and a report will be included within the business case.
- Any external advice will be presented to the Audit & Governance, Scrutiny, Cabinet and Council Committees for approval
- Credit Ratings may be used to assess the risk appetite and will be subject to regular monthly review.

### **Annual reporting:**

- Reporting – As a minimum Service departments will provide an annual report to Council which will include an update on the investment and an independent external review.

**Liquidity:** The maximum period for which funds may be prudently committed is for 5 years, after which subject to satisfactory review this may be renewed annually for a 1-year period.

**Non-specified Investments:** Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Councils upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition

## **Regeneration/Service Investments: Property**

**Contribution:** The Council invests in local property to facilitate regeneration and provide service delivery. The income from these investments will repay any borrowing used in the purchase and to provide a maintenance budget without putting further pressure on the Council's finances.

*Table 1: Property held for investment purposes in £ millions*

Property	Actual	31.3.2021 Actual	
	Purchase cost £000	Gains or (losses) £000	Value in accounts £000
Investment Property - shop	166	34	200
Investment Property - shop	1,433	-1,118	315
Investment Property - shop	2,358	-1,443	915
Investment Property - Business Park	2,355	250	2,605
Investment Property - Business Centre	851	114	965
<b>TOTAL</b>	<b>7,163</b>	<b>-2,163</b>	<b>5,000</b>

**Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss. However, the Council fully expects the fair value to increase following significant works to the adjoining car park, with the fair value expected to increase to that nearing the original purchase price.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by assessing the viability of the cost of financing the investment against the return on investment in terms of receivable income. Investments that are subject to short leases are unlikely to be considered due to the high risk of potential voids.

**Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed; the Council ensures that borrowing is on an equal instalment basis and that revenue budgets cover the cost of the loan repayment.

### **Loan Commitments and Financial Guarantees**

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

The Council does not have any current financial guarantees and all loans are through the Public Works Loan Board (PWLb).

## **Capacity, Skills and Culture**

**Elected members and statutory officers:** It is important that the members and officers involved in the Treasury Management function have appropriate capacity, skills, and information to enable them to take informed decisions on specific investments, to assess the risk and strategic objectives and to ensure that the Council's risk exposure is managed. Periodically the Council's external Treasury advisors, Arlingclose will hold member training sessions which will provide members with a raft of technical advice specifically designed for the Council's environment. Additionally, Officers have a wide range of information available to them from various sources such as the Chartered Institute of Public Finance and Accountancy (CIPFA), Arlingclose and Room 151. Officers will also attend a number of courses/seminars throughout the year and have periodical strategic meetings with the Council's treasury advisors.

**Property Investment deals:** Officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local Authorities operate and have access to a number of external bodies who can provide specific advice and direction.

**Corporate governance:** All of the Council's procedures provide a corporate governance arrangement that ensure accountability and for decision making on investment activities and ensure that the Council's Chief Finance Officer/Section 151 Officer is fully briefed on the Council's investment position at any one time.

## **Investment Indicators**

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

**Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

*Table 2: Total investment exposure in £millions*

<b>Total investment exposure</b>	<b>31.03.2021 Actual £000</b>	<b>31.03.2022 Forecast £000</b>	<b>31.03.2023 Forecast £000</b>
Treasury management investments	130.60	110.00	110.00
Property investments	2.96	2.80	2.64
<b>TOTAL INVESTMENTS</b>	<b>133.56</b>	<b>112.80</b>	<b>112.64</b>
Guarantees issued on loans	77.25	65.80	65.64
<b>TOTAL EXPOSURE</b>	<b>-56.31</b>	<b>-47.00</b>	<b>-47.00</b>

**How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

*Table 3: Investments funded by borrowing in £millions*

<b>Investments funded by borrowing</b>	<b>31.03.2021 Actual £000</b>	<b>31.03.2022 Forecast £000</b>	<b>31.03.2023 Forecast £000</b>
Property Investments	2.96	2.80	2.64

**Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

*Table 4: Investment rate of return (net of all costs)*

<b>Investments net rate of return</b>	<b>2020/21 Actual</b>	<b>2021/22 Forecast</b>	<b>2023/2024 Forecast</b>
Short & Long Term Treasury Management investments	0.33%	0.22%	0.35%
Long Term Treasury Management property investments	4.40%	3.91%	4.00%
Long Term Treasury Management multi asset investments	3.35%	2.60%	3.00%
Property Investments	3.84%	4.07%	4.50%
<b>ALL INVESTMENTS</b>	<b>12.07%</b>	<b>10.80%</b>	<b>11.85%</b>