Annex 7C

Investment Strategy 2020/21

Introduction

The Authority 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 earn investment income (known as **commercial investments** where this is the main purpose).

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 Authority 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 £48m and £57m during the 2020/21 financial year.

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

Further details: Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in Annex 7B, the treasury management strategy.

Service Investments: Loans

Contribution: The Council can money to its subsidiaries, its suppliers, businesses investing in the district, local charities, housing associations and private sector housing owners to support local public services and stimulate local economic growth. The main loans currently given are as part of the Council's Private Sector Housing schemes. The Council currently holds loans of £3.4m (of which £1.2m is allocated to the Financial Instruments Loss Allowance and £2.2m is the resultant net value in the 2018/19 accounts). The Council has approved the establishment of a property company to develop, acquire and manage property investments at arm's length from the Council; it may therefore make loans to this subsidiary to fund proposed projects.

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 Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes

Category of borrower	**2020/21**
	Approved Limit £m
Subsidiaries	100
Businesses investing in the district	3.0
Local charities	0.5
Housing associations	2.0
Private Sector Housing	4.0
TOTAL	**109.5**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority 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 Authority assesses the risk of loss before entering into and whilst holding service loans by undertaking thorough due diligence on any proposals, securing the loan against assets where possible and seeking external advice when necessary.

Service Investments: Shares

Contribution: The Council invests in the shares of its subsidiaries to support local public services and stimulate local economic growth. The Council does not currently hold any such shares but is in the process of establishing a property company to develop, acquire and manage property investments at arm's length from the Council to provide a vehicle to invest in both private residential and commercial properties and deliver investment returns. It is proposed that the Council will be the sole shareholder and will initially invest £100 in share capital in the company. Any further investment in subsidiaries would be subject to approval in accordance with the Property Investment Strategy.

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 subsidiaries is set at £1m.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding shares by undertaking thorough due diligence and seeking external advice as appropriate.

Non-specified Investments: Shares are the only investment type that the Authority 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 Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

Contribution: The Council invests in local commercial property with the intention of making a profit that will be spent on local public services.

Table 2: Property held for investment purposes

Property	**Actual**	**31.3.2019 actual**		**31.3.2020 expected**	
	Purchase cost £m	**Gains or (losses) £m**	**Value in accounts £m**	**Gains or (losses) £m**	**Value in accounts £m**
B & Q Whitfield	17.25	-	17.25	-	17.25
Whitfield Court	4.45	-	4.45	-	4.45
Former Co-op Site	0.66	n/a	n/a	-	0.66
TOTAL	**22.36**		**22.36**	**-**	**22.36**

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

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2019/20 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding property investments by undertaking thorough due diligence and a detailed business case for each proposal, incorporating income streams, length of tenancy, financial assessment of tenants, structural surveys, market and economic factors and risk analysis. Appropriate external advice is sought when required.

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 Authority proposes to undertake borrowing on an annuity basis or otherwise make provision for capital repayment in order to manage the level of capital repayments over the period. It also plans and manages its cash-flow in advance to prepare for any such future commitments.

Proportionality

The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Authority has contingency plans for continuing to provide these services. These plans include the transfer of surplus income to earmarked reserves, diversification of its portfolio to protect against loss in a particular sector, lease monitoring and review and monitoring of borrowing options and costs.

Table 4: Proportionality of Investments

	2019/20 Budget	**2020/21 Budget**	**2021/22 Budget**	**2022/23 Budget**
Gross service expenditure	£62.5m	£63.3m	£64.2m	£65.2m
Investment income	£1.5m	£1.6m	£1.7m	£1.8m
Proportion	2.4%	2.5%	2.7%	2.8%

Capacity, Skills and Culture

Elected members and statutory officers: The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council establishes project teams from all the professional disciplines from across the Council and as and when required. External professional advice is taken where required and will always be sought in consideration of any major property investment decision. The Council currently employs Arlingclose Limited as treasury management advisers and utilises various other professional advisors as appropriate. Training and briefings are offered to support project team members in maintaining up to date knowledge and expertise to understand and challenge.

Commercial deals: Full due diligence is undertaken for all major schemes that the Council decides to purchase. This includes appropriate legal and other professional advice to ensure that the Council complies with current guidance and that the scheme is in the best interests of the Council. The finance team works with service managers to assess the viability for any commercial deals. Finance staff attend regular training course and have access to the prudential framework to ensure principles of the framework are adhered to.

Corporate governance: On 30 November 2016 Council approved the Property Investment Strategy. This approved investing up to £200m in commercial and residential property, either directly or through a property company, primarily in order to increase economic regeneration and also to generate returns. This strategy delegated the approval of property investments to the Portfolio Holder for Corporate Resources and Performance, advised by Project Advisory Groups where required.

Investment Indicators

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

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

Table 4: Total investment exposure in £millions

Total investment exposure	**31.03.2019 Actual £m**	**31.03.2020 Forecast £m**	**31.03.2021 Forecast £m**
Treasury management investments	48.0	50.0	50.0
Service investments: Loans	3.5	3.6	3.7
Commercial investments: Property	22.3	22.3	22.3
TOTAL INVESTMENTS	73.8	75.9	76

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the Council's commercial investments are proposed to be funded by borrowing in the future. At the time of writing, no long-term borrowing has been undertaken to fund the existing commercial investments. This will continue to be kept under review, working with Arlingclose Limited, and borrowing undertaken when appropriate. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

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 5: Investment rate of return (net of all costs)

Investments net rate of return	**2019/20 Forecast**	**2020/21 Forecast**
Treasury management investments	3%	3%
Commercial investments: Property	1.6%	1.6%