

## Investment Strategy Report 2021/22

1. 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 earn investment income (known as **commercial investments** where this is the main purpose).
2. This investment strategy meets the requirements of statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) in January 2018.

### **Treasury Management Investments**

3. 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 £20m and £50m during the 2021/22 financial year.
4. The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.
5. Full details of the Council's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the Treasury Management Strategy 2021/22.

### **Service Investments: Loans**

6. The Council lends money to its subsidiaries, statutory bodies, suppliers, local businesses, local charities and academies, housing associations, residents, its employees to support local public services and stimulate local economic growth.
7. An invest to save loan was given to the West London Waste Authority which is the statutory body responsible for waste disposal for a number of boroughs in West London towards the development of a new waste treatment facility.

8. The Council's loan to First Wave Housing Limited has been used to support the provision of temporary accommodation and improve the provision of permanent housing as a registered provider.
9. The Council has issued a loan to its subsidiary i4B Holdings Ltd (i4B). This has been used to purchase 360 properties as part of the Council's temporary accommodation reform plan. They have also purchased a new build block which will be used to provide key worker housing in the borough.
10. The School Loan Scheme has helped support significant improvements to school facilities, ensuring the buildings are suitable for modern teaching and learning and accessible for pupils with disabilities.
11. 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:

**Table 1: Loans for service purposes in £ millions**

| Category of borrower            | 2019/20       | 2021/22        |
|---------------------------------|---------------|----------------|
|                                 | Balance owing | Approved Limit |
| Subsidiaries                    | 167.4         | 300.0          |
| Local businesses                | 0.2           | 10.0           |
| Schools, Academies and Colleges | 1.1           | 55.0           |
| Waste Authority                 | 16.1          | 20.0           |
| Local charities                 | 0.0           | 10.0           |
| Housing associations            | 0.0           | 50.0           |
| Local residents                 | 0.0           | 5.0            |
| <b>TOTAL</b>                    | <b>184.8</b>  | <b>450.0</b>   |

12. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2019/20 onwards will be 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.

13. The Council assesses the risk of loss before entering into and whilst holding service loans by undertaking various financial checks and utilising specialists (where required) to advise on technical aspects of the investment. Projects funded by service loans are monitored within the Council's existing capital programme and governance reporting regime.

### **Commercial Investments: Property**

14. The Council has in the past invested in property locally to secure a financial return as well as supporting regeneration activities. Total commercial investments are currently valued at £9.0m consisting of 34 individual property assets generating £0.55m PA, or a yield of 6.1%. The forecast for 2021/22 expects similar returns to 2020/21.

***Table 2: Property held for investment purposes in £ millions***

|                  | Forecast 2021/22 |                  |                         |                 |
|------------------|------------------|------------------|-------------------------|-----------------|
| Asset Types      | No. of Assets    | Gain or (losses) | Value in accounts in £m | Income PA in £m |
| Operational      | 48               | 8.7              | 173.0                   | 0.86            |
| Commercial       | 34               | 0.5              | 9.0                     | 0.55            |
| Community Groups | 40               | 0.8              | 15.8                    | 0.18            |
| Education        | 48               | 14.7             | 294.0                   | 0.00            |
| Regeneration     | 35               | 1.3              | 26.3                    | 0.12            |
| Non HRA Housing  | 7                | 0.2              | 4.1                     | 0.10            |
| <b>TOTAL</b>     | <b>212</b>       | <b>26.1</b>      | <b>522.4</b>            | <b>1.81</b>     |

15. 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. This exercise is generally conducted annually and the results are reflected in the Council's balance sheet.
16. The Authority assesses the risk of loss before entering into and whilst holding property investments by developing an intelligent repairs and maintenance strategy to minimise unplanned reactive expenditure, improve the sustainability of the estate as a whole, maximise value, reduce running costs, and thereby

risk and liability. In having a planned and proactive approach to maintenance the following priorities for investment are proposed:

- Ensuring full compliance with relevant legislation - this includes DDA, health and safety, fire regulations, legionella and asbestos;
  - Ensuring the Council's contractual or legal obligations are met in respect of repairs and maintenance obligations detailed in leases or management agreements;
  - Preserving asset life - protecting heritage assets and minimising obsolescence on existing assets;
  - Income/ efficiency - investing in assets where there is a clear potential to generate income as a consequence of by improving the quality of the asset;
  - Corporate objectives - making improvements required to meet changing service demand i.e. new facilities, new fit-out, in support of community resilience; and
  - Business continuity - minimising the risk of asset failure causing unexpected interruptions to service delivery.
17. 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 takes the steps maintains a disposals programme that forms part of the capital strategy and the Medium Term Financial Planning (MTFP).

### **Other categories of investment**

#### Loan Commitments and Financial Guarantees

18. 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 holds a loan commitment of £110.5m which can be utilised by either i4B Holdings Ltd or First Wave Housing Ltd. The loan funds phase 2 of the Private Rented Sector acquisition programme which current plans include providing 60 street properties to increase the Council's temporary accommodation provision and identify new build development opportunities. Most recently, i4B purchased a block of 153 units to provide key worker accommodation in the borough. i4b is forecast to utilise £24.4m of this loan commitment during 2021/22.

### **Capacity, skills and culture**

19. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making recommendations and decisions on commercial activities. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury) & AAT for example.

20. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach can be more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
21. Our retained advisors provide a comprehensive training and awareness programme for elected Members, including training in relation to scrutiny of the Treasury Management function and the annual Statement of Accounts. The training programme covers, Local Government Finance, Corporate Governance, The Role of the Governance / Audit Committee and capital Programme Prioritisation.
22. The Council's treasury activity (including investments and borrowing) is reported to the Audit & Standards Advisory Committee and full Council twice a year via a mid-year report as well as the full year outturn report.

#### **Investment Indicators**

23. 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

24. 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 3: Total investment exposure in £millions***

| <b>Total investment exposure</b> | <b>2019/20<br/>Actual</b> | <b>2020/21<br/>Forecast</b> | <b>2021/22<br/>Forecast</b> |
|----------------------------------|---------------------------|-----------------------------|-----------------------------|
| Treasury management investments  | 109.7                     | 30.0                        | 30.0                        |
| Service investments: Loans       | 184.8                     | 202.2                       | 225.3                       |
| Commercial investments: Property | 9.0                       | 9.0                         | 9.0                         |

|                          |              |              |              |
|--------------------------|--------------|--------------|--------------|
| <b>TOTAL INVESTMENTS</b> | <b>303.5</b> | <b>241.2</b> | <b>264.3</b> |
| <b>TOTAL EXPOSURE</b>    | <b>303.5</b> | <b>241.2</b> | <b>264.3</b> |

How investments are funded

25. Government guidance states that these indicators should include details of 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, grants and other income.

**Table 4: Investments funded by borrowing in £millions**

| <b>Investments funded by borrowing</b> | <b>2019/20<br/>Actual</b> | <b>2020/21<br/>Forecast</b> | <b>2021/22<br/>Forecast</b> |
|--|---------------------------|-----------------------------|-----------------------------|
| Service investments: Loans             | 184.8                     | 202.2                       | 225.3                       |
| Commercial investments: Property       | 9.0                       | 9.0                         | 9.0                         |
| <b>TOTAL FUNDED BY BORROWING</b>       | <b>193.8</b>              | <b>211.2</b>                | <b>234.3</b>                |

Rate of return

26. 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)**

| <b>Investments net rate of return</b> | <b>2019/20<br/>Actual</b> | <b>2020/21<br/>Forecast</b> | <b>2021/22<br/>Forecast</b> |
|---------------------------------------|---------------------------|-----------------------------|-----------------------------|
| Treasury management investments       | 0.8%                      | 0.1%                        | 0.1%                        |
| Service investments: Loans            | 3.5%                      | 3.2%                        | 3.1%                        |
| Commercial investments: Property      | 6.1%                      | 6.1%                        | 6.1%                        |

**Table 6: Other investment indicators**

| <b>Indicator</b>  | <b>2019/20<br/>Actual</b> | <b>2020/21<br/>Forecast</b> | <b>2021/22<br/>Forecast</b> |
|---|---------------------------|-----------------------------|-----------------------------|
| Debt to net service expenditure ratio                     | 2.17                      | 2.33                        | 2.02                        |
| Commercial income as a % of net service expenditure ratio | 0.20%                     | 0.19%                       | 0.18%                       |