Appendix H

Investment Strategy Report 2020/21

Introduction

1. 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).

2. The Council does not currently hold any investments principally to earn income.

Treasury Management Investments

3. 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 £20m and £100m during the 2020/21 financial year.

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

5. Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the Treasury Management Strategy 2020/21.

Service Investments: Loans

6. The Council lends 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.

7. 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 in £ millions

Category of borrower	31.3.2019 Actual	2020/21
	Balance owing	Approved Limit
Subsidiaries	79.3	500.0
Local businesses	0.2	100.0
Local charities	0.0	100.0
Housing associations	0.0	20.0
Local residents	0.0	5.0
TOTAL	**79.5**	**725.0**

8. 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 from 2019/20 onwards will be 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.

9. The Authority 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. In addition to this credit ratings are regularly used to determine the suitability of prospective partners.

Commercial Investments: Property

10. 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 2020/21 expects similar returns to 2019/20.

Table 2: Property held for investment purposes in £ millions

	Forecast 2019/20			
Asset Types	**No. of Assets**	**Gain or (losses)**	**Value in accounts in £m**	**Income PA in £m**
Operational	48	8.3	173.0	0.86
Commercial	34	0.4	9.0	0.55
Community Groups	40	0.8	15.8	0.18
Education	48	14.0	294.0	0.00
Regeneration	35	1.3	26.3	0.12
Non HRA Housing	7	0.2	4.1	0.10
TOTAL	**212**	**24.9**	**522.4**	**1.81**

11. 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.

12. 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.

13. 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

14. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness. The Council holds does not hold any loan commitments of financial guarantees.

Capacity, skills and culture

15. 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 e.g.

16. 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.

17. 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.

18. 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

19. 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

20. 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 3: Total investment exposure in £millions

Total investment exposure	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
Treasury management investments	103.2	50.0	50.0
Service investments: Loans	79.5	150.0	240.0
Commercial investments: Property	522.4	522.4	530.0
TOTAL INVESTMENTS	**705.1**	**722.4**	**820.0**
TOTAL EXPOSURE	**705.1**	**722.4**	**820.0**

How investments are funded

21. Government guidance states that these indicators should include details of 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 following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves, grants and other income.

Table 4: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
Service investments: Loans	79.5	150.0	240.0
Commercial investments: Property	522.4	522.4	530.0
TOTAL FUNDED BY BORROWING	**601.9**	**672.4**	**770.0**

Rate of return

22. 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	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Treasury management investments	0.72%	0.72%	0.72%
Service investments: Loans	2.2%	6.2%	6.1%
Commercial investments: Property	6.4%	6.4%	6.4%

Table 6: Other investment indicators

Indicator	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Debt to net service expenditure ratio	1.55	1.39	1.18
Commercial income as a % of net service expenditure ratio	0.68%	0.68%	0.62%