Appendix H

Investment Strategy Report 2022/23

Introduction

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 government 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 £150m during the 2022/23 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 2022/23 for treasury management investments are covered in a separate document, the Treasury Management Strategy 2022/23.

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. The loan to the Council's other subsidiary, i4B Holdings Ltd, has been used to purchase 495 properties as part of the Council's temporary accommodation reform plan.

9. 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.

10. 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	2021/22	2022/23
	Forecast Balance owing	Approved Limit
Subsidiaries	143.7	300.0
Local businesses	0.2	21.5
Schools, Academies and Colleges	1.1	55.0
Waste Authority	15.5	20.0
TOTAL	**160.5**	**461.5**

11. 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. The loss allowance to date has been immaterial.

12. 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

13. The Council has in the past invested in property locally to support regeneration as well as secure a financial return. Total commercial investments are currently valued at £20.7m consisting of 40 individual property assets generating £3.1m PA, or a yield of 15%. The forecast for 2022/23 expects similar returns to 2020/21.

Table 2: Property held for investment purposes in £ millions

	Expected 22/23			
Asset Types	**No. of Assets**	**Gain or (losses)**	**Value in accounts in £m**	**Income PA in £m**
Commercial	40	1.0	20.7	3.1

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 Council and are included here for completeness.

15. FWH currently has £36m of loans outstanding with the Council at an interest rate of 3%. As part of the proposal to transfer 109 units in the Granville new homes blocks back to the Council it was agreed in principle that theses outstanding loans would be refinanced with the goal of ensuring the ongoing financial viability of FWH without the need for the Council to write off any of the loans to FWH. The basis of the financing is to be agreed. The outline modelling presented as part of the transfer proposal to the Council included a refinancing of the outstanding debt at 2% an rescheduling the loan repayments over a 50 year period.

16. I4B currently has loans of £126m outstanding with the Council at varying rates of interest and maturity dates depending on the date of the initial loan draw down. A further £64m of finance consisting of 80% loan and 20% equity was available as at the 31st of March 2021 with a further £19.475m of this forecast to be utilities in the 2021/22 financial year.

Capacity, skills and Culture

17. 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 and AAT for example.

18. 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.

19. 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.

20. 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

21. 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

22. 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

Total investment exposure	20/21 Actual	21/22 Forecast	22/23 Forecast
Treasury management investments	82.7	30.0	30.0
Service investments: Loans	160.5	227.2	245.6
Commercial investments: Property	0.0	0.0	0.0
TOTAL INVESTMENTS	**243.2**	**257.2**	**275.6**

TOTAL EXPOSURE	**243.2**	**257.2**	**275.6**

How investments are funded

23. 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

Investments funded by borrowing	20/21 Actual	21/22 Forecast	22/23 Forecast
Service investments: Loans	160.5	227.2	245.6
Commercial investments: Property	0.0	0.0	0.0
TOTAL FUNDED BY BORROWING	**160.5**	**227.2**	**245.6**

Rate of return

24. 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	20/21 Actual	21/22 Forecast	22/23 Forecast
Treasury management investments	0.06%	0.02%	0.02%
Service investments: Loans	3.5%	3.1%	3.0%
Commercial investments: Property	6.4%	15.0%	15.0%

Table 6: Other investment indicators

Indicator	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Debt to net service expenditure ratio	2.27	2.22	2.09
Commercial income as a % of net service expenditure ratio	0.62%	1.01%	0.96%