

## Investment Strategy Report 2023/24

### 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 2023/24 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 treasury management investments are covered in a separate document, the Treasury Management Strategy 2023/24.

### Service Investments: Loans

6. The Council lends money to its subsidiaries, statutory bodies, suppliers, local businesses, local charities and academies, housing associations, residents and 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 in a number of West London

boroughs. The funding assisted 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 affordable 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 521 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 Council is planning to provide a cashflow loan to United Colleges Group, to help facilitate the development of their new campus in Wembley.
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	2022/23	2023/24
	Forecast Balance owing	Approved Limit
Subsidiaries	135.4	400.0
Local businesses	0.2	10.0
Schools, Academies and Colleges	0.7	55.0
Waste Authority	15.5	20.0
Local Charities	0.0	10.0
Housing Associations	0.0	50.0
Local Residents	0.0	5.0
<b>TOTAL</b>	<b>151.8</b>	<b>550.0</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 have been shown net of this loss allowance since 2019/20. 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.

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 previously invested in property locally to support regeneration as well as secure a financial return.
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. Should the 2022/23 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.
16. The Council assesses the risk of loss before entering into and whilst holding property investments by regularly reviewing investment performance.
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 Council uses cashflow forecasting to assess when funding will be required and hold sufficient short term deposits which provide a liquidity buffer reducing the likelihood of any short notice investment property sales.

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

	Expected 2023/24			
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

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.
19. I4B currently has loans of £100.2m outstanding with the Council at varying rates of interest and maturity dates depending on the date of the initial loan draw down. A further £40m of loan finance was available as at the 31st of December 2022 with a further £17.7m of this forecast to be utilised in the 2022/23 financial year. £18.4m is forecast to be utilised in 2023/24.

**Capacity, skills and Culture**

20. 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.
21. 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.
22. 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.
23. 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**

24. 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**

25. 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>21/22 Actual</b>	<b>22/23 Forecast</b>	<b>23/24 Forecast</b>
Treasury management investments	98.6	30.0	30.0
Service investments: Loans	151.8	154.5	172.1
Commercial investments: Property	20.7	20.7	20.7
<b>TOTAL INVESTMENTS</b>	<b>271.1</b>	<b>205.2</b>	<b>222.8</b>
Commitments to lend	72.2	52.1	32.9
<b>TOTAL EXPOSURE</b>	<b>343.3</b>	<b>257.3</b>	<b>255.7</b>

#### **How investments are funded**

26. 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>21/22 Actual</b>	<b>22/23 Forecast</b>	<b>23/24 Forecast</b>
Service investments: Loans	151.8	154.5	172.1
<b>TOTAL FUNDED BY BORROWING</b>	<b>151.8</b>	<b>154.5</b>	<b>172.1</b>

#### **Rate of return**

27. 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>21/22 Actual</b>	<b>22/23 Forecast</b>	<b>23/24 Forecast</b>
Treasury management investments	0.06%	3.1%	3.1%
Service investments: Loans	3.9%	3.9%	3.9%
Commercial investments: Property	6.4%	15.0%	15.0%

**Table 6: Other investment indicators**

<b>Indicator</b>	<b>2021/22 Actual</b>	<b>2022/23 Forecast</b>	<b>2023/24 Forecast</b>
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%