Appendix G

Non-treasury Investment Strategy Report 2025/26

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.

3. The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are technically not investments; and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

Treasury Management Investments

4. 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 2025/26 financial year.

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

6. Full details of the Council's policies and its plan for treasury management investments are covered in a separate document, the Treasury Management Strategy 2025/26.

Service Investments: Loans

7. The Council lends money to its subsidiaries, local businesses, local charities, municipal waste authorities and academies to support local public services and stimulate local economic growth.

8. 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. The loan is expected to be repaid back by December 2041.

9. The Council's existing 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. Further loan facilities may be advanced to First Wave Housing if suitable opportunities are presented. The loan to the Council's other subsidiary, i4B Holdings Ltd, has been used to purchase properties as part of the Council's temporary accommodation reform plan.

10. The School and Academies 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 Council is planning to provide a cashflow loan to United Colleges Group, to help facilitate the development of their new campus in Wembley. Funds are currently expected to be drawn down between September 2026 and March 2027, although this may be subject to change if there are delays in the submission of related planning applications related to the existing blocks being sold as part of the process.

12. **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 Council, 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 (£m)	2025/26 Approved Limit	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
I4B Subsidiary Loans	500.0	222.1	222.1	222.1	222.1	222.1	222.1
I4B Subsidiary Equity		36.4	36.4	36.4	36.4	36.4	36.4
FWH Subsidiary Loans		33.8	33.4	32.9	32.5	32.0	31.5
Local Businesses	10.0	0.2	0.2	0.2	0.2	0.2	0.2
Schools, Academies And Colleges	55.0	17.6	17.4	17.1	16.8	16.5	16.2
Waste Authority	20.0	14.4	13.9	13.5	13.0	12.4	11.8
Local Charities	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Housing Associations	50.0	0.0	0.0	0.0	0.0	0.0	0.0
Local Residents	5.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**650.0**	**324.5**	**323.3**	**322.1**	**320.9**	**319.6**	**318.2**

13. 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.

14. In addition to lending service loans, the Council may consider the following service investments:

    - Lending to Joint ventures (JVs), Associates and Similar entities: The Council can invest in such organisations where there is minimal risk. Moreover, there are instances when the Council is de facto required to invest or to deliver an alternative scheme.

    - The Council may lend to Companies or Charities, which are not wholly owned, which deliver services supporting the Medium-Term Financial Plan. The loans must be on a commercial basis and that the Council must require assurances that the loan principal will be repaid. Risk assessment of any proposed lending will be in accordance with the methods set out in paragraph 16.

- The Council may make small loans to organisations that are at a higher risk to support the local economy, possibly in relation to a complex regeneration scheme. Such loans, regardless of the amount, will require a delegated approval report, signed off by the Corporate Director, Finance and Resources S151 Officer in conjunction with the Cabinet Member responsible for Finance. Risk assessment of any proposed lending will be in accordance with the methods set out in paragraph 16.

- **Working Capital Facilities:** These are explicitly not capital expenditure because they exist to manage cashflows and such facilities are short term in nature. The Council can loan on a commercial basis to organisations and the approval process is via the Corporate Director, Finance and Resources S151 Officer, who depending on the size of the loan may choose to request additional approval from the relevant Cabinet Member for Finance. Regular reviews of cashflow of any entities receiving such a loan are a requirement, taking place no less than on a quarterly basis. It is anticipated that the majority of such facilities would take in relation to wholly owned companies or JVs, and that they would be on a commercial basis. However, where they are not on commercial terms, additional approval from the relevant Cabinet Member for Finance, depending on the size of the loan, should be sought. One key aspect that must be considered in relation to working capital is that the cashflow review is not just for the demonstration of the financial health of the borrower and ability to repay (plus interest), but to ensure that the loan is not being used for capital purposes. Such a facility would operate via an on-lending agreement and drawdowns would be supported by relevant documentation. Currently the Council has provided i4B a working capital facility with respect to an earlier phase of the Company.

  Since working capital facilities are not capital expenditure, accounting for the facility under IFRS 9 means that a revenue charge will be recognised for the expected credit loss and therefore would impact Council balances.

15. All lending to Companies whether Council owned or not will require a formal on lending agreement.

16. **Risk assessment:** 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. The following risk assessment methods are used:

- Evaluation of business plans/cashflow forecasts

- Ability to demonstrate repayment of principal and interest
- Use of credit ratings and financial data
- Wholly owning the company having a sizeable share in company
- Council having first right to call on assets in the event of default / charge on assets (relevant for i4B Holdings Ltd)
- Obtaining assurance that there is sound governance and in controls in place.
- Determination of an exit strategy
- Use of external advisors for accounting/taxation; legal (including Subsidy Control); and technical advice
- Use of on-lending / loan agreements to manage the respective transaction and financial monitoring of such agreements.

17. The Council will consider other risk assessment methods as deemed appropriate and available at the time of the risk evaluation.

Service Investments: Shares

18. The Council does not hold any service investment shares. However, the Council may consider the service investment shares in the future should an opportunity arise with a wholly owned company or other companies.

19. **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. To limit this risk and ensure that the total exposure of service investment shares remain proportionate to the size of the Council.

20. Investment shares will be subject to an expected credit loss assessment under IFRS 9.

Commercial Investments: Property

21. The Council does not at present or in the future invest in commercial property for the purpose of making a profit.

Other categories of investment

22. **Loan Commitments and Financial Guarantees:** 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.

23. I4B currently has loans of £182.0m 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 loan facility has been agreed to be advanced to I4B subject to a new loan agreement between the Council and I4B. It is expected a loan agreement will be in place by 31 March 2025.

24. United College Group (UCG) currently has a commitment to access a £30m loan facility subject to a commercial loan agreement with the Council being signed. The loan facility will give UCG a further option to extend to £50m. No loans have been drawn to date. The first loan drawdown is expected to take place in 2026/27.

Capacity, skills and Culture

25. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making recommendations and decisions on Treasury Management investments and Service Investments. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and all senior members of the finance team are qualified accountants. In conjunction with the knowledge and skills of Council staff, 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.

26. 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.

27. 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

28. 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.

29. **Total risk exposure:** 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 2: Total investment exposure

Total Investment Exposure (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Treasury management cash investments	20.0	20.0	20.0	20.0	20.0	20.0
Service investments: Loans	324.5	323.3	322.1	320.9	319.6	318.2
Commercial investments: Property	0.0	0.0	0.0	0.0	0.0	0.0
Total Investments	**344.5**	**343.3**	**342.1**	**340.9**	**339.6**	**338.2**
Commitments to lend	50.0	50.0	50.0	50.0	50.0	50.0
Total Exposure	**394.5**	**393.3**	**392.1**	**390.9**	**389.6**	**388.2**

30. **How investments are funded:** 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 3: Investments funded by borrowing

Investments Funded by Borrowing (£m)	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
I4B Loans	258.4	258.4	258.4	258.4	258.4	258.4
First Wave Housing (FWH)	34.3	33.8	33.4	32.9	32.5	32.0
Total Service investments: Loans	**292.7**	**292.3**	**291.8**	**291.4**	**290.9**	**290.5**
Total Funded By Borrowing	**292.7**	**292.3**	**291.8**	**291.4**	**290.9**	**290.5**

31. **Rate of Return:** 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 4 sets out the expected

rate of return on service investments whist Table 5 sets out other investment indicators.

Table 4: Investment rate of return (net of all costs)

Investments net rate of return	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Treasury management investments (%)	4.67%	3.94%	3.75%	3.75%	3.75%	3.75%
Service investments: Loans (%)	2.0%	2.6%	2.6%	2.6%	2.6%	2.6%
Commercial investments: Property (%)	0.0	0.0	0.0	0.0	0.0	0.0

Table 5: Other investment indicators

Other investment indicators	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
External Debt (Loans)	846.5	1,055.5	1,183.0	1,202.4	1,207.7	1,196.2
Net Service Expenditure	387.0	431.0	444.2	461.3	479.3	479.3
Debt to net service expenditure ratio	2.2	2.4	2.7	2.6	2.5	2.5
Commercial income as a % of net service expenditure ratio	0.0	0.0	0.0	0.0	0.0	0.0