

# Investment Strategy Report 2024/25

## Introduction

- 4.1 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).
- 4.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

## Treasury Management Investments

- 4.3 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 £2m and £15m during the 2024/25 financial year.
- 4.4 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
- 4.5 **Further details:** Full details of the Authority's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy, which is part of these appendices.

## Service Investments: Loans

- 4.6 **Contribution:** The Council will lend money to its subsidiaries, local businesses, local charities and housing associations to support local public services and stimulate local economic growth.
- 4.7 **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 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 | 31.3.2023 actual |                |                        | 2024/25           |
|----------------------|------------------|----------------|------------------------|-------------------|
|                      | Balance owing    | Loss allowance | Net figure in accounts | Approved Limit £m |
| Subsidiaries         | 0                | 0              | 0                      | 1.0               |
| Local businesses     | 0                | 0              | 0                      | 0.5               |
| Local charities      | 0                | 0              | 0                      | 0.5               |
| Housing associations | 0                | 0              | 0                      | 1.0               |
| <b>TOTAL</b>         | <b>0</b>         | <b>0</b>       | <b>0</b>               | <b>3.0</b>        |

4.8 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 are 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.

4.9 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by using specialist advice to understand the market and the potential future demands of the market and the customers in it. It will also use benchmarking data from the market to determine future potential risks which need to be planned for. External advice is only sought from credible sources eg acknowledged experts in their fields and officers ensure that they fully understand any information given to them before decision or advice is taken.

### **Commercial Investments: Property**

4.10 **Contribution:** The Authority invests via Regeneration schemes such as Levelling Up Fundings via the Government in property with the intention of making a profit that will be spent on local public services. Levelling Up funding in being invested in regenerating the Market Hall site and clearing the existing Fire Station site for future regeneration.

Table 2: Property held for investment purposes in £ millions

| Property [type] | Actual        | 31.3.2023 actual  |                   | 31.3.2024 expected |                   |
|-----------------|---------------|-------------------|-------------------|--------------------|-------------------|
|                 | Purchase cost | Gains or (losses) | Value in accounts | Gains or (losses)  | Value in accounts |
| N/A             | 0             | 0                 | 0                 | 0                  | 0                 |
| <b>TOTAL</b>    | <b>0</b>      | <b>0</b>          | <b>0</b>          | <b>0</b>           | <b>0</b>          |

- 4.11 **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.
- 4.12 *Where value in accounts is at or above purchase cost:* 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 2023/24 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.
- 4.13 *Where value in accounts is below purchase cost:* The fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss, and the Authority is therefore taking mitigating actions to protect the capital invested.
- 4.14 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by involving specialist advisors with expertise in the type of property being purchased, looking at historic data and speaking to other councils undertaking similar activities.
- 4.15 **Liquidity:** 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 ensures that properties purchased are in an active market where there is demonstrable demand to ensure that the authority does not purchase assets which it will not be able to sell on at a later date.

### **Loan Commitments and Financial Guarantees**

- 4.16 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.

## **Proportionality**

- 4.17 The Council does not plan to become dependent on profit generating investment activity to achieve a balanced revenue budget.

## **Borrowing in Advance of Need**

- 4.18 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council would only not follow this guidance if interest rate forecasts and treasury advisor guidance set out that it was more cost effective, **in terms of significantly reduced debt interest charges**, for the Council to borrow for the **Approved 3 year capital programme** at a point of time rather than when that expenditure is taking place over that 3 year period. It is unlikely that this will happen however the option should not be closed off. Funds would be invested. The Councils policies in investing the money borrowed, including management of the risks, would be as per normal short term Treasury Investments.

## **Capacity, Skills and Culture**

- 4.19 **Elected members and statutory officers:** Member training will take place annually as part of the induction process. External advisors will provide reports to support investment decisions with officers ensuring that they fully understand them and can relate them to the strategic objectives and risk profile of the Council.
- 4.20 **Commercial deals:** Significant work has been undertaken using external advisors and relevant training courses have been attended to ensure that officers are fully aware of the code and statutory requirements of a local authority which is investing.

KPMG have developed a modelling tool for the Council to use when assessing potential purchases as a precursor to engaging with external consultants to ensure that potential purchases are likely to make sense from the perspective of the authority before incurring advisor costs. However, following an internal review of the policy, it has been decided that the Council may wish to make purchases which do not make a financial return or may indeed make a loss in the short term. On these occasions a business case will be developed which specifies the non-financial benefits of the investment. These are likely to be regenerative schemes for the greater good of the area with an intended long term impact. The regenerative and redevelopment benefits which will flow from the investment will be taken into account in the development of the business

case, so if the net investment yield falls below 0.75% it can still proceed if these benefits are deemed to outweigh the lower than target yield.

- 4.21 **Corporate governance:** when investment decisions are to be made, they are to be led by the Council’s Director of Finance in consultation with the Corporate Management Team. They will assess the potential investment opportunity using the KPMG finance appraisal model and should they decide it presents a strong opportunity for the Council and complies with the relevant criteria a conditional offer can be made. A business case will then be developed and presented ensuring that once greater detail is included, it makes a satisfactory income yield and/or economic redevelopment and regeneration impact. When the business case is completed, if it is still compliant with the Council criteria, it will be presented to Cabinet for approval before purchase is completed. Once a purchase has been made the Director of Finance will provide quarterly reports in line with financial and monitoring reports on the status of the investment.

### **Investment Indicators**

- 4.22 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.

- 4.23 **Total risk exposure:** 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*

| <b>Total investment exposure</b> | <b>31.03.2023<br/>Actual</b> | <b>31.03.2024<br/>Forecast</b> | <b>31.03.2025<br/>Forecast</b> |
|----------------------------------|------------------------------|--------------------------------|--------------------------------|
| Treasury management investments  | 1.25                         | 1                              | 3                              |
| Service investments: Loans       | 0                            | 0                              | 0                              |
| Service investments: Shares      | 0                            | 0                              | 0                              |
| Commercial investments: Property | 0                            | 0                              | 0                              |
| <b>TOTAL INVESTMENTS</b>         |                              |                                |                                |
| Commitments to lend              | 0                            | 0                              | 0                              |
| Guarantees issued on loans       | 0                            | 0                              | 0                              |
| <b>TOTAL EXPOSURE</b>            |                              |                                |                                |

- 4.24 **How investments are funded:** Government guidance is that these indicators should include 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 and income received in advance of expenditure.

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

| <b>Investments funded by borrowing</b> | <b>31.03.2023<br/>Actual</b> | <b>31.03.2024<br/>Forecast</b> | <b>31.03.2025<br/>Forecast</b> |
|--|------------------------------|--------------------------------|--------------------------------|
| Treasury management investments        | 0                            | 0                              | 0                              |
| Service investments: Loans             | 0                            | 0                              | 0                              |
| Service investments: Shares            | 0                            | 0                              | 0                              |
| Commercial investments: Property       | 0                            | 0                              | 0                              |
| <b>TOTAL FUNDED BY BORROWING</b>       | <b>0</b>                     | <b>0</b>                       | <b>0</b>                       |

- 4.25 **Rate of return received:** 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>2022/23<br/>Actual</b> | <b>2023/24<br/>Forecast</b> | <b>2024/25<br/>Forecast</b> |
|---------------------------------------|---------------------------|-----------------------------|-----------------------------|
| Treasury management investments       | 1.9                       | 5.3                         | 5.0                         |
| Service investments: Loans            | 0                         | 0                           | 0                           |
| Service investments: Shares           | 0                         | 0                           | 0                           |
| Commercial investments: Property      | 0                         | 0                           | 0                           |
| <b>ALL INVESTMENTS</b>                | <b>1.9</b>                | <b>5.3</b>                  | <b>5.0</b>                  |