

**INVESTMENT STRATEGY – SERVICE AND COMMERCIAL 2019/20**

1.0 This strategy focusses on two purposes:

- i. To support local public services by lending to or buying shares in other organisations (service investments in sections 3 and 4), and
- ii. To earn investment income (known as commercial investments where this is the main purpose in section 5).

**2.0 TREASURY MANAGEMENT INVESTMENTS**

2.1 The council may invest its money because it has surplus cash as a result of its day to day activities and are known as treasury management investments.

2.2 The council typically receives its income in cash (eg from council tax, business rates and grants) before it pays for its expenditure in cash (eg. Through payroll and invoices). It also holds reserves for future expenditure.

2.3 These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from CIPFA. The balance of treasury management investments is expected to fluctuate throughout the year.

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

2.5 Full details of the council’s policies and plans for 2019/20 for treasury management investments are covered in the ‘Treasury Management Strategy Statement 2019/20’ and is presented to cabinet alongside this strategy.

**3.0 SERVICE INVESTMENTS: LOANS**

3.1 The council does not currently but may in the future, lend money to various organisations including: subsidiaries or trading companies; suppliers; local businesses; local charities and housing associations for example, to support local public services and stimulate local economic growth.

3.2 The main risk for the council when making a service loan, is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this future 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 has been set. These upper limits have been established on the basis of minimising risk without prohibiting the Council in lending.

<b>Category of borrower</b>	<b>2019/20 Approved Limit</b>
Subsidiaries	£10,000,000
Trading Company	£500,000
Suppliers	£100,000
Local Businesses	£2,000,000
Local Charities	£100,000
Housing Associations	£3,000,000
<b>TOTAL</b>	<b>£14,700,000</b>

3.3 To ensure that the council's interests are protected, the risk of entering into a service loan is assessed on a case by case basis by:

- Requesting a business case to support the service loan and reviewing the business case for validity and robustness.
- Completing a financial appraisal of the business case
- Seeking external advice where necessary to ensure compliance with for example, state aid regulations and creditworthiness of the counterparty seeking a service loan
- Monitoring and maintaining regular reviews of counterparties for credit risk

3.4 Accounting standards require the council to set aside a loss allowance for loans reflecting the likelihood of non-payment – i.e. a bad debt provision. The figures for loans in the council's statement of accounts from 2018/19 onwards will be shown net of this provision. However, the council will make every reasonable effort to collect the full sum owing and has appropriate credit control arrangements in place to recover any overdue repayments.

#### **4.0 SERVICE INVESTMENTS: SHARES**

4.1 The council does not currently but may in the future invest in the shares of various organisations including: subsidiaries or trading companies; suppliers; local businesses; local charities and housing associations for example, to support local public services and stimulate local economic growth.

4.2 One of the risks of investing in shares is that they fall in value, meaning that the initial outlay may not be recovered. These upper limits have been established on the basis of minimising risk without prohibiting the Council in investing commercially. In order to limit this risk, upper limits on the sum invested in each category of shares have been set. These upper limits have been established on the basis of minimising risk without prohibiting the Council in lending.

<b>Category of Company</b>	<b>2019/20 Approved Limit</b>
Subsidiaries	£5,000,000
Trading Company	£1,000,000
Suppliers	NIL
Local Businesses	NIL
<b>TOTAL</b>	<b>£6,000,000</b>

4.3 The council assesses the risk of loss, on a case by case basis, before entering into and whilst holding shares by:

- Requesting a business case to support the investment and reviewing the business case for validity and robustness;
- Completing a financial appraisal of the investment;
- Seeking external advice where necessary to ensure the creditworthiness of the counterparty; and
- Monitoring and maintain regular review of counterparties for credit risk.

4.4 To maintain liquidity, the council determines the maximum period for which funds may be prudently committed through financial planning in the Medium Term Financial Strategy and the Treasury Management Strategy Statement. The council's cash flow is monitored and reviewed to inform these strategies.

4.5 Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the Government guidance. The limits on share investments are therefore also the council's upper limits on non-specified investments. The council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

## 5.0 COMMERCIAL INVESTMENTS: PROPERTY

5.1 MHCLG defines property to be a non-financial investment which is held primarily or partially to generate a profit. The council currently holds commercial property with the intention of making a profit that will be spent on local public services.

5.2 The main property investments currently include various industrial units in the district which were acquired in the region of 20 years ago, a market hall and land.

5.3 The following table details property currently held for investment purposes

Property or Type	Value at 31 Mar 2018 £m	Net Budgeted Surplus / (Deficit) for 2018/19 £'000	Net Forecast Surplus / (Deficit) for 2018/19 £'000	Reason Held
Industrial Units	£4.8	£291	£318	Profits supplement council expenditure
Market Hall	£1.5	(£54)	(£65)	Any profit supplements council expenditure
Whitwick Business Centre	£1.7	£32	(£11)	Self-supporting – supports the local economy
Land	£4.6	£0	£0	Future economic benefit
	<b>£12.6</b>	<b>£269</b>	<b>£242</b>	

5.4 The council may in the future invest in commercial properties to earn income to further supplement spending. Non-financial investments normally have a physical asset that can be realised to recoup the capital invested but is considered on a longer term basis.

5.5 The council assesses the risk of loss before entering into and whilst holding property investments including:

- Assessment of the business case on a case by case basis, reviewing for validity and robustness;
- Financial appraisal of the business case;
- Seeking external expertise and advice where necessary; and
- Assessing the market competition including: barriers to entry or exit; market needs; nature and level of competition; ongoing investments required.

5.6 In accordance with government guidance, the council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. An assessment of the council's investment property portfolio is undertaken each year in the Statement of Accounts year end process.

- Where value in accounts is at or above purchase cost: the property investment is deemed to be secure as the property could be sold to cover the purchase cost.
- Where value in accounts is below purchase cost: the investment property portfolio is no longer sufficient to provide security against loss.

## 6.0 PROPORTIONALITY

6.1 The council plans to become less reliant upon Government grant through its journey to self-sufficiency presented in the Medium Term Financial Strategy (Cabinet 11 December 2018) and by generating profit from investment activity to achieve a balanced revenue budget. The table below shows the extent to which the council's expenditure is dependent on achieving the expected net profit from investments over the lifecycle of the MTFS.

	2018/19 Forecast £'000	2019/20 Budget £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Net Revenue Expenditure	12,878	13,399	13,736	14,427	14,565	14,982
Investment income	242	244	268	267	264	263
Proportion	1.88%	1.82%	1.95%	1.85%	1.81%	1.75%

6.2 Currently the investment income generated from commercial investments is minimal and therefore has a very small impact on the net position.

## 7.0 BORROWING IN ADVANCE OF NEED

7.1 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 has no plans to borrow in advance of need for 2019/20.

## 8.0 CAPACITY, SKILLS AND CULTURE

8.1 Organisational Roles and Responsibilities

In accordance with CIPFA guidance, the roles and responsibilities of the council's Treasury Management function are divided between several responsible officers and are summarised below:

Section 151 Officer – overall responsibility for the treasury management function to include:

Ensuring the organisation of the treasury management function is adequate to meet current requirements:

- Investment, borrowing and debt rescheduling decisions.
- Monitoring adherence to approved Treasury Management Strategy Statement.
- Regular reporting to Members on treasury management activity.

Finance Team Manager (Deputy Section 151 Officer) – ensuring that day to day treasury activities comply with the approved Treasury Management Strategy Statement.

Technical Accountant – identification of investment opportunities and borrowing requirements and acts as the council's interface with brokers and counterparties.

The needs of the council's treasury management staff for training in investment management, are assessed through the 'BEE Valued' staff appraisal process and additionally when the responsibilities of individual members of staff change.

Training courses, seminars and conferences provided by the council's treasury advisor or CIPFA, are regularly attended to refresh and enhance the knowledge of treasury management staff.

## 8.2 The Role of the Council's Treasury Advisor

The council currently employs Arlingclose Ltd as treasury advisor to provide the following services; strategic treasury management advice, advice relating to Housing and Capital finance, leasing advice, economic advice and interest rate forecasting, debt restructuring and portfolio review (structure and volatility), counterparty credit ratings and other creditworthiness indicators and training, particularly investment training, for Members and officers.

Arlingclose Ltd is authorised and regulated by the Financial Conduct Authority (FCA). Arlingclose Ltd is to provide the council with timely, clear and regular information about the financial sector to enable the council to take pro-active decisions which in turn, helps to minimise risk.

The quality of this service is monitored by officers on a regular basis, focusing on the supply of relevant, accurate and timely information across the services provided.

## 9.0 INVESTMENT INDICATORS

9.1 Government guidance prescribes three specific indicators to allow elected members and the public to assess the council's total risk exposure as a result of its investment decisions.

9.2 **Total Risk Exposure** – This indicator shows the council's total exposure to potential investment losses. This includes amounts that the council is contractually committed to lend that have not yet been drawn down, and guarantees that the council has issued over third party loans:

Total Investment Exposure	31/3/18 Actual £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000	31/3/21 Estimate £'000
Treasury Management investments*	3,000	3,000	0	0
Service Investments: Loans	0	0	0	0
Service Investments: Shares	0	0	0	0
Commercial Investments: Property	12,600	12,600	12,600	12,600
<b>TOTAL INVESTMENTS</b>	<b>15,600</b>	<b>15,600</b>	<b>12,600</b>	<b>12,600</b>
Commitments to lend	0	0	0	0
Guarantees issued on loans	0	0	0	0
<b>TOTAL EXPOSURE</b>	<b>15,600</b>	<b>15,600</b>	<b>12,600</b>	<b>12,600</b>

\*Treasury Management Investments longer than 12months

9.3 **How investments are funded** – Since the council does not normally associate particular assets with particular liabilities and coupled with the fact that the current assets (investment properties) have been held for more than 20 years, this indicator is difficult to comply with. However, the investments could be described as being funded by borrowing and therefore this is the assumption made in this table. The remainder of the council's investments are funded by usable reserves and income received in

advance of expenditure. Going forward, this measure will be monitored to reflect any future investments more accurately.

Investments funded by Borrowing	31/3/18 Actual £'000	31/3/19 Estimate £'000	31/3/20 Estimate £'000	31/3/21 Estimate £'000
Treasury Management investments	0	0	0	0
Service Investments: Loans	0	0	0	0
Service Investments: Shares	0	0	0	0
Commercial Investments: Property	10,900	10,900	10,900	10,900
<b>TOTAL FUNDED BY BORROWING</b>	<b>10,900</b>	<b>10,900</b>	<b>10,900</b>	<b>10,900</b>

9.4 **Rate of return received** – This indicator shows the net investment income received, as a proportion of the value of the property.

Investments net rate of return	31/3/18 Actual	31/3/19 Estimate	31/3/20 Estimate	31/3/21 Estimate
Treasury Management investments	0.99%	0.99%	0%	0%
Service Investments: Loans	0%	0%	0%	0%
Service Investments: Shares	0%	0%	0%	0%
Commercial Investments: Property	2.68%	1.92%	1.94%	2.13%