

Investment Strategy 2022/23

1. Introduction

- 1.1 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).
- 1.2 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.

2. Treasury Management Investments

- 2.1 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 £10 million and £24.3 million during the 2022/23 financial year.
- 2.2 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
- 2.3 **Further details:** Full details of the Authority's policies and its plan for 2022/23 for treasury management investments are covered in a separate document, the treasury management strategy.

3. Service Investments: Loans

- 3.1 **Contribution:** The Council does not currently, but may in the future, lend money to various organisations including its subsidiaries or trading companies, suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.
- 3.2 **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	31.3.2021 actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	Nil	Nil	Nil	10,000,000
Trading Companies	Nil	Nil	Nil	500,000
Suppliers	Nil	Nil	Nil	100,000
Parish councils	Nil	Nil	Nil	2,000,000
Local businesses	Nil	Nil	Nil	2,000,000
Local charities	Nil	Nil	Nil	100,000
Housing associations	Nil	Nil	Nil	3,000,000
TOTAL	Nil	Nil	Nil	17,700,000

3.3 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.

3.4 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans 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/subsidy law and creditworthiness of the counterparty seeking a service loan;
- monitoring and undertaking regular reviews of counterparties for credit risk.

4. Service Investments: Shares

4.1 **Contribution:** The Council does not currently, but may in the future, invest in the shares of its subsidiaries or trading companies, its suppliers, and local businesses to support local public services and stimulate local economic growth.

4.2 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	31.3.2021 actual			2022/23
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	Nil	Nil	Nil	5,000,000
Trading Companies	Nil	Nil	Nil	1,000,000
Suppliers	Nil	Nil	Nil	Nil
Local businesses	Nil	Nil	Nil	Nil
TOTAL	Nil	Nil	Nil	6,000,000

4.3 **Risk assessment:** The Authority assesses the risk of loss 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 **Liquidity:** 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 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

5. Commercial Investments: Property

5.1 **Contribution:** The Ministry for Housing, Communities and Local Government (MHCLG) defined 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.

Table 3: Property held for investment purposes in £ millions

Property	31.3.2021 actual		31.3.2022 expected	
	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Industrial Units	106,000	6,373,700	TBC	TBC
Market Hall	(1,245,600)	185,100	TBC	TBC

Whitwick Business Centre	21,300	1,850,000	TBC	TBC
Land	38,900	5,403,300	TBC	TBC
TOTAL	1,079,400	13,812,100	TBC	TBC

5.2 **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. An assessment of the council's investment property portfolio is undertaken each year in the Final Accounts year-end process.

- Where the value in the 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 the value in the accounts is below the purchase cost: the investment property portfolio is no longer sufficient to provide security against loss.

5.2 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by:

- 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;
- The council will also take into consideration any impact on local businesses before entering into new investments. This is to protect local business's interest in the local market.

5.3 **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 Authority has minimised this risk by holding a minimal investment portfolio.

6. **Proportionality**

6.1 The Authority is not dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan.

Table 4: Proportionality of Investments

	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000
Investment income	(662)	(770)	(859)	(865)	(868)
Net Revenue expenditure	17,604	16,374	15,783	15,783	15,783
Proportion	4%	5%	5%	5%	5%

7. 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 does not have any plans to borrowing in advance of need in 2022.23.

8. Capacity, Skills and Culture

8.1 **Elected members and statutory officers:** The Council recognises the importance of ensuring that all Elected Members and Officers involved in investment decisions are fully equipped to undertake the duties and responsibilities allocated to them and have the appropriate capacity, skills and information to enable them to make informed decisions e.g. as to whether to enter into a specific investment. There is a requirement to understand:

- the context of the Council's corporate objectives;
- the Council's risk appetite and risk assessment framework;
- the Prudential Framework;
- the regulatory regime within local authorities operate.

8.2 The Authority will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The following measures are in place:

- Identification of officer training needs on commercial investment related issues through the reflection process;
- Attendance at relevant training events, seminars and workshops; and
- Support from the Authority's treasury management advisors, Arlingclose.

8.3 Elected members' training needs are assessed through the Member Development Group. The Council will also specifically address this important issue by:

- Periodically facilitating workshops or other training for members on commercial investment issues; and
- Interim reporting and advice to members.

8.4 Where necessary the Authority will engage external advisers for investment advice, property surveys and due diligence checks. The cost of any such advice will be taken into account when developing business cases and when assessing the overall viability of projects.

8.5 **Commercial deals:** The Council has a decision-making framework which is aligned to the requirements of the Statutory Guidance Relating to Local Authority Investments. A Commercial Board would be constituted if the requirement arises that I Board will consider any future commercial opportunities. The guiding principles that will be used will require future commercial projects to:

- meet the council's corporate priorities;
- deliver community benefit
- require minimum investment for maximum return;

- be primarily within the District boundaries, consideration will be given to opportunities outside these boundaries if the benefit to the Council or North West Leicestershire is significant;
- grow the business base;
- deliver a diversified portfolio of projects that balance risk and return.

8.6 The Commercial Board will assess future commercial investment against the Investment Strategy. All investments will be subject to rigorous scrutiny and successful schemes will result in the provision of a report to Council for approval. Schemes will be considered for investment against the following criteria;

- Economic Impact - in particular; jobs, business growth and new housing;
- Impact on Market Towns - in terms of vibrancy, footfall and heritage;
- Financial Implications - value for money, affordability and return of investment; and
- Deliverability - the ability to deliver the proposals and the associated risks.

8.7 Successful applications will require appropriate legal agreements in accordance including the provision of appropriate security where required.

8.8 **Corporate governance:** It is important that the Authority has sound arrangements in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the Council's values. In terms of governance, the Commercial Board will consider all new commercial investment proposals. The Commercial Board may determine an application under delegated powers or may recommend a project to Council for approval. Full Council is responsible for the approval of the Investment Strategy and for monitoring performance against it.

9.9 The Council's values include transparency in decision-making. To facilitate that, the following arrangements are in place:

- This Corporate Investment Strategy will be made available on the Council's website;
- Meetings of the Full Council will be open to the public and the agendas and minutes from such meetings will be shown on the Authority's website.

9. Investment Indicators

9.1 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.

9.2 **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 5: Total investment exposure in £millions

Total investment exposure	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management investments	47.5	15.0	10.0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	13.8	13.8	13.8
TOTAL INVESTMENTS	61.3	28.8	23.8
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	0	0	0

9.3 **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 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management investments	0	0	0
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	8.4	8.4	8.4
TOTAL FUNDED BY BORROWING	8.4	8.4	8.4

9.4 **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 7: Investment rate of return (net of all costs)

Investments net rate of return	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Forecast £'000
Treasury management investments	0.30%	0.05%	0.50%
Service investments: Loans			
Service investments: Shares			
Commercial investments: Property	1.42%	1.75%	2.66%
ALL INVESTMENTS	0.90%	0.90%	1.60%