APPENDIX A

Investment Strategy Report 2021/22

Introduction

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).

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. This investment strategy has been created in line with the Councils Treasury Management Strategy Statement and the Councils Capital Strategy. The initial strategy may be replaced with a revised strategy at any time during the year in cases where any treasury management issues (including investment issues) need to be brought to the attention of Full Council.

Treasury Management Investments

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 (CIPFA). The balance of treasury management investments is expected to fluctuate between £19m and £49m during the 2021/22 financial year.

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

Further details: Full details of the Council’s policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

Contribution: The Council can lend money to its subsidiaries, local businesses, local charities and any other bodies to support local public services and stimulate local economic growth. Over the years the Councils main service investment loan has been via the Growth Investment Fund. These investments during 2019-20 generated £31,249 of investment income for the Council after taking account of direct costs, representing a rate of return of 5.14%.

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:

Loans for service purposes

Category of borrower	31.3.2020 actual			2021/22
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries	0.712	0	0.712	15.500
Local businesses	0.127	0.127	0	0.500
Local charities	0	0	0	0.500
Other Bodies	0.037	0	0.037	0.500
TOTAL	**0.876**	**0.127**	**0.749**	**17.000**

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 from 2020/21 onwards will be shown net of this loss allowance. 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.

Risk assessment: The Council assesses the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Director of Resources/Deputy Chief Executive or Business Manager for Financial Services. All loans will be subject to contract agreed by the Legal Business Unit and the credit risk will be determined by reference to the "expected credit loss" model for loans and receivables as set out in International Reporting Standard (IFRS) 9 Financial Instruments. All loans must be approved by full Council and will be monitored by the Director of Resources/Deputy Chief Executive, or Business Manager for Financial Services.

Service Investments: Shares

Contribution: The Council can invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth. Currently the Council does not intend to invest in any shares with suppliers or local businesses; however the Council has invested £4m of equity funding into Arkwood Development Limited for which it has received 100% of the share capital issued, making it wholly owned by the Council. The Council has also invested £500 of equity to acquire 50% of shares of the Joint Venture Company, Robin Hood Hotel Ltd (RHH).

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

Shares held for service purposes

Category of company	31.3.2020 actual			2021/22
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiaries	4.000	-0.167	3.833	5.000
Suppliers	0	0	0	0
Local businesses	0	0	0	0
TOTAL	**4.000**	**-0.167**	**3.833**	**5.000**

Shares are classed as capital expenditure and purchases will therefore be approved as part of the capital programme.

Risk assessment: The Council would assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiary will be active in; including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The Council will use external advisors as thought appropriate by Director of Resources/Deputy Chief Executive, or Business Services Manager for Finance.

Liquidity: Although this type of investment is fundamentally illiquid, in order to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits.

Non-specified Investments: 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 above 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.

<u>Commercial Investments: Property</u>

Contribution: The Council can invest in local, regional and UK commercial and residential property with the intention of making a profit that will be spent on local public services. Currently none of the Council properties meet the investment property definition as defined in International Accounting Standard 40: Investment Property.

Security: 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.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by ensuring they are prudent and has fully considered the risk implications, with regard to both the individual property and that the cumulative exposure of the council is proportionate and prudent.   The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place, before entering into any commercial property investment and the business case will balance the benefits and risks. All investments of this type will be agreed by the Policy and Finance committee.

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. The investment strategy for the Council for 2021-22 is proposed to remain broadly unchanged as it is considered overall to be well structured to limit any undue risks to the security of assets and preservation of liquidity whilst also allowing the council and delegated officers to access suitable investment opportunities.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands at the point of entry, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not provide such commitments and guarantees and this strategy does not include them for 2021/22.

Borrowing in Advance of Need

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £174 million. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with particular items of expenditure.

Capacity, Skills and Culture

Elected members and statutory officers: The Council recognises that those elected Members and statutory officers involved in the investments decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual assessments in the context of the strategic objectives and risk profile of the Council; and
- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

The Council establishes project teams from all the professional disciplines from across the Council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

The investment decisions are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Accounts Committee.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management, which includes investment decisions, receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members of the Audit and Accounts Committee received training from the Council's treasury advisers, Link Group, on 25th November 2020 and 20th January 2021. Further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

Commercial deals: The Council will ensure that the Audit and Accounts Committee, Policy and Finance Committee and officers negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

Corporate governance: Any investment decisions will be scrutinised by Senior Leadership Team before final approval by Members.

Investment Indicators

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: 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.

Total investment exposure	**31.03.2020 Actual £m**	**31.03.2021 Forecast £m**	**31.03.2022 Forecast £m**
Treasury management investments	38.459	40.248	20.900
Service investments: Loans	0.876	3.464	11.574
Service investments: Shares	4.000	4.000	4.000
Commercial investments: Property	0	0	0
TOTAL INVESTMENTS	**43.335**	**47.712**	**36.474**
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**43.335**	**47.712**	**36.474**

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

Investments funded by borrowing	**31.03.2020 Actual £m**	**31.03.2021 Forecast £m**	**31.03.2022 Forecast £m**
Treasury management investments	0	0	0
Service investments: Loans	0.712	3.300	11.410
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	**0.712**	**3.300**	**11.410**

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.

Investments net rate of return	**2019/20 Actual**	**2020/21 Forecast**	**2021/22 Forecast**
Treasury management investments	1.20%	0.90%	1.09%
Service investments: Loans	5.14%	5.14%	5.54%
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
ALL INVESTMENTS	**3.17%**	**3.02%**	**3.31%**