Subject: **Investment Strategy 2019/20**

Report to: **Policy and Resources Committee 19 March 2019**

Council 23 April 2019

Report by: **Capital Projects and Senior Accountant**

SUBJECT MATTER/RECOMMENDATIONS

This report and document presents for approval the Council's Investment Strategy for 2019/20. The document provides a framework that informs decisions in relation to the councils investments and supports other strategies including the treasury management strategy.

Recommendations:

It is recommended that Policy and Resources Committee approve and recommend to Council the 2019/20 Investment Strategy.

1. Introduction and Background

1.1 In accordance with statutory guidance, the Council is required to have an Investment Strategy. The investment strategy is informed by and also informs a number of the Councils other strategy documents, including the following:

- Treasury Management Strategy
- Capital Strategy
- Asset Management Strategy
- Medium Term Financial Strategy.

1.2 There may be some cross over between the investment strategy and some of the above, but essentially the investment strategy covers the Council's approach to the service and commercial investments as opposed to treasury management investments which are covered with the annual treasury management strategy as approved by Council in February 2019.

2. Investment Strategy 2019/20

2.1 The Investment Strategy for 2019/20 is attached at appendix A, and covers property investments, service loans and financial guarantees. The purpose of the strategy is to provide a framework to inform decisions in respect of service and commercial investments.

3. Financial Implications

3.1 The strategy sets out the framework for investments made in respect of service and commercial investment, decisions in relation to specific investments will be presented for approval through the decision making process as per the constitution and the financial implications would be determined for the investments as part of the business case for approval.

4. Risk Implications

4.1 Detailed within the Strategy document.

5. Recommendations

5.1 It is recommended that Policy and Resources Committee approve and recommend to Council the 2019/20 Investment Strategy.

6. Background Papers

6.1 Capital Strategy

6.2 Treasury Management Strategy

6.3 Asset Management Strategy

Areas of consideration: e.g. does this report raise any of the following issues and if so how have these been considered/mitigated against?

Area for consideration	**Comment**
Monitoring Officer Consultation:	N/A
Section 151 Officer Consultation:	Yes
Existing Council Policies:	Considered – detailed within the strategy
Financial Implications (including VAT and tax):	Considered – detailed within the strategy
Legal Implications (including human rights):	N/A
Risk Implications:	Considered – detailed within the strategy
Equality Issues/EQIA assessment:	N/A
Crime & Disorder:	N/A
Every Child Matters:	N/A

Investment Strategy 2019/20

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 is a new report for 2019/20, meeting the requirements of statutory guidance, and focuses on the service and commercial investments 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 (council tax and business rates), on behalf of itself and 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 £12m and £30m during the 2019/20 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 2019/20 for treasury management investments are covered in a separate document, the treasury management strategy, and is available here: https://great-yarmouth.cmis.uk.com/great-yarmouth/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1114/Committee/132/Default.aspx

3. Service Investments: Loans

3.1. **Contribution**: The Council lends money to its subsidiary (Equinox Enterprises Limited), local charities and local residents (in the form of home improvement loans), to support local public services and stimulate local economic growth.

3.2. The loans made to Equinox Enterprises Limited, as the subsidiary of the Council, form part of investment in the company to provide an initial cash injection to enable the company to become established. The company's purposes is to develop housing for sale (including affordable homes). This supports the Councils objective within The Plan 2015-2020 to provide a mix of attractive good quality housing for all sectors of the workforce and community that will be fit for purpose for all and meet both the borough's existing and future needs.

3.3. Discretionary loans are granted to local charities this will be following a decision by the Policy and Resources Committee. In line with The Plan 2015-2020 these loans are granted to support the local charities that assist in improving the communities and facilities in the borough.

3.4. The Council has a responsibility to address private sector housing that is in poor condition or needs adaptations to meet the needs of those with disabilities. The Council also has an objective within The Plan 2015-2020 to provide help early, when people need public health and care, to prevent avoidable problems and to help more people to help themselves as well as tackling challenges within communities. Home improvement loans help residents to redress housing issues that impact on their health. The home improvement loans are made from a recycling pot following repayment of loans made as part of prior year capital programme allocations.

3.5. **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

Category of borrower	**31.3.2018 actual**			**2019/20**
	Balance owing £m	**Loss allowance £m**	**Net figure in accounts £m**	**Approved Limit £m**
Equinox Enterprise Limited (subsidiary)	£1.50	£0.00	£1.50	£6.00
Local charities	£0.41	£0.00	£0.40	£0.80
Local residents (Home Improvement Loans)	£2.48	£0.02	£2.50	£0.91
TOTAL	**£4.39**	**£0.02**	**£4.40**	**£7.71**

3.6. 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 from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate loan agreements and credit control arrangements in place to recover overdue repayments. It should be noted that both the loans to local charities and local residents are equity loan agreements so the Council obtains a share of the equity of the borrower's property as collateral. This reduces the risk of the Council not recovering the loan amount from the borrower and occasionally generates a small surplus depending on the agreement type used.

4. **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by undertaking due diligence proportionate to the level of the loan being granted to mitigate as far as possible any risks of non-recovery. This will also include taking external advice as applicable, such as discussion with NP Law as part of the loan agreement process.

5. Service Investments: Shares

5.1. **Contribution:** The Council only invests in the shares of Equinox Enterprises as its subsidiary to enable the company to develop affordable and quality housing within the borough and with the aim of the company providing a return on the investment.

5.2. **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

Category of company	31.3.2018 actual			2019/20
	Amounts invested £m	Gains or (losses) £m	Value in accounts £m	Approved Limit £m
Equinox Enterprise Limited (subsidiary)	£0.5	£0.0	£0.5	£1.7

6. **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by undertaking the appropriate due diligence. As further contracts and opportunities are considered, the company's performance will inform the risk assessment.

6.1. **Liquidity:** Any new investment proposal will be considered for approval via the appropriate decision making route in line with the council's Constitution.

6.2. **Non-specified Investment**s: 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.

7. Commercial Investments: Property

7.1. **Contribution**: The Council invests in local commercial property with the intention of making a profit that will be spent on local public services. The council owns a varied portfolio of commercial properties including seafront concessions, warehouses, workshops, offices and industrial units across the borough. These form a significant element of the council's asset management strategy which is available here: https://great-yarmouth.cmis.uk.com/great-yarmouth/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1034/Committee/133/Default.aspx

Table 3: Property held for investment purposes

Property Type	31.3.2018 actual		31.3.2019 expected	
	Gains or (losses) £m	Value in accounts £m	Gains or (losses) £m	Value in accounts £m
Offices	£0.1	£ 4.8	£0.0	£ 4.8
Corporate Estates	£1.6	£ 33.3	£0.1	£33.4
Seafront Concessions	£0.4	£ 4.7	£0.0	£ 4.7
Market	£0.0	£ 0.8	£0.0	£ 0.8
TOTAL	**£2.1**	**£43.6**	**£0.2**	**£43.7**

7.2. **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.

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 2018/19 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

7.3. **Risk assessment:** The Council's internal Property and Asset Management team includes members of the Royal Institution of Chartered Surveyors (MRICS) and they assess the risk of loss before entering into and whilst holding property investments. They do this in a number of ways including engaging external advisors, agents and reference to quality financial/property press when required. In doing this they assesses the market that the investment will be competing in, the nature and level of competition, along with expectations on how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements. The strategic objectives of the Commercial Investment Strategy are designed to mitigate risk by:

- The Council's fundamental aim of an income rather than capital return (although the latter is part of the strategy).
- Adopting a portfolio approach so as to avoid concentration of risk in any one property, tenant or risk type.

Currently the Council has not entered into investing in commercial properties outside of the borough. If the Council were to invest elsewhere then risk assessments would be extended to national advice and any other relevant specialist advice dependent on the type of property to be acquired.

7.4. **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 do not rely on capital receipts to finance the capital programme. Any capital receipts received will be used to reduce the borrowing requirement within the financial year they are received.

8. Loan Commitments and Financial Guarantees

8.1. 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.

8.2. The Authority has committed to make up to £9.5m of loans to Equinox Enterprise Limited should it request it. The Council does not have any financial guarantees nor does it intend to make any.

9. Proportionality

9.1. The Authority is 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. Should it fail to achieve the expected net profit, the Authority's contingency plans for continuing to provide these services would be to undertake further review of the delivery and potential savings or to use reserves in the short-term.

Table 4: Proportionality of Investments

	2017/18 Actual £m	2018/19 Forecast £m	2019/20 Budget £m	2020/21 Budget £m	2021/22 Budget £m
Gross service expenditure	74.4	71.4	73.1	73.1	73.2
Investment income	2.0	2.1	2.2	2.0	2.0
Proportion	2.7%	2.9%	2.9%	2.7%	2.7%

10. Borrowing in Advance of Need

10.1. 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 Authority would not follow this guidance if it was financial advantageous and only after undertaking due diligence to consider risks involved. Currently the Council has not borrowed in advance of need.

11. Capacity, Skills and Culture

11.1. **Elected members:** Elected members are provided with annual investment training by our external advisors, Arlingclose. The Treasury Management Strategy and the Mid-year Treasury Management Strategy are presented to members during the financial year and should any queries arise these would be responded to by officers or advisors as applicable.

11.2. **Statutory officers:** Regular meetings are held throughout the year with our external advisors, Arlingclose. Officers working on a daily basis with investment decisions attend courses offered by both Arlingclose and CIPFA throughout the year. Arlingclose provide daily updates of changes in the market as well as providing staff with a contact for queries that arise.

11.3. **Commercial deals:** Commercial proposals would be subject to a robust business case and decision making process, including consideration by officer groups ahead of approval via the appropriate decision making process, ie to Policy and Resources Committee and/or Council. Where applicable the Council would seek to engage external professional advisors, for example financial, property and legal advice as applicable.

11.4. **Corporate governance:** The Asset Working Group consider initial property investment decisions. The group is made up of both finance and property and asset management officers who consider initial investment opportunities and obtain regular progress reports on any investment taken forward.

Business cases are completed for property investments, including undertaking due diligence and considering risks, and these form the basis for reports presented to the Policy and Resources Committee for approval.

Other investment decisions are based on the Treasury Management Strategy, with any changes reported for approval as required to Policy and Resources Committee.

12. Investment Indicators

12.1. 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.

12.2. **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

Total investment exposure	**31.03.2018 Actual £m**	**31.03.2019 Forecast £m**	**31.03.2020 Forecast £m**
Treasury management investments	£14.3	£ 16.0	£ 20.1
Service investments: Loans	£ 2.9	£ 2.9	£ 2.9
Service investments: Shares	£ 0.5	£ 0.7	£ 1.2
Commercial investments: Property	£43.6	£43.7	£46.3
TOTAL INVESTMENTS	£61.3	£63.3	£70.5
Commitments to lend	£ 0.0	£ 0.0	£ 0.0
TOTAL EXPOSURE	£48.5	£63.3	£70.5

12.3. **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

Investments funded by borrowing	**31.03.2018 Actual £m**	**31.03.2019 Forecast £m**	**31.03.2020 Forecast £m**
Treasury management investments	£ 0.0	£ 0.0	£ 0.0
Service investments: Loans	£ 2.9	£ 2.9	£ 2.9
Service investments: Shares	£ 0.5	£ 0.7	£ 1.2
Commercial investments: Property*	£ 8.8	£ 9.4	£10.6
TOTAL FUNDED BY BORROWING	£12.2	£13.0	£14.7

**Note: Commercial Investments – The majority of the asset portfolio that relates to commercial investments are historic assets which the Council own or has an interest in for which it is not possible to quantify the level of funding by borrowing. The figures quoted relate to the investments made since 2014/15.*

12.4. **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	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	1.1%	1.8%	2%
Service investments: Loans	0.0%	0.0%	0.0%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	4.2%	4.2%	3.8%

Table 8: Other investment indicators

Indicator	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Debt to net service expenditure ratio	9.5%	7.9%	9.6%
Commercial income to net service expenditure ratio	18.0%	19.6%	16.8%