

Subject INVESTMENT STRATEGY 2022/23

Report to POLICY AND RESOURCES COMMITTEE – 7 February 2023
COUNCIL – 21 February 2023

Report by: FINANCIAL SERVICES MANAGER



SUBJECT MATTER/RECOMMENDATIONS

This report and document present for approval the Council's Investment Strategy for 2023/24. The document provides a framework that informs decisions in relation to the council's investments and supports other strategies including the treasury management strategy.

Recommendations:

That Policy and Resources Committee recommend to Council the 2023/24 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 Council's 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.

2. INVESTMENT STRATEGY 2023/24

- 2.1. The Investment Strategy for 2023/24 is attached at appendix A, and covers capital expenditure and financing, treasury management and commercial activities. It reflects how previous capital investment decisions and those taken as part of the 2023/24 budget setting have ongoing implications for the Council and its financial position in the future.

3. FINANCIAL IMPLICATIONS

- 3.1. The strategy sets out the framework for investments made in respect of service and commercial investments, 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.

- 3.2. The strategy as presented is line with the approved 2023/24 budget as agreed in February 2022. As decisions are made in the year, this may impact on the investment strategy and the respective decision making and recommendations will take into account the investment strategy and recommend changes to the strategy as applicable.

4. RISK IMPLICATIONS

- 4.1. These are detailed within the Strategy document.

5. BACKGROUND PAPERS

- 5.1. Capital Strategy 2023/24
5.2. Treasury Management Strategy 2023/24
5.3. Asset Management Strategy

Area for consideration	Comment
Monitoring Officer Consultation	
Section 151 Officer Consultation	
Existing Council Policies See background papers	
Financial Implications Within existing budgets	
Legal Implications (including human rights)	
Risk Implications	
Equality Issues/EQIA assessment	
Details contained in strategy	
Crime & Disorder	
Every Child Matters	

Investment Strategy Statement 2023/24

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INVESTMENT STRATEGY 2023/24

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 and focuses on the second and third of the above 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 during 2023/24, with an average investment of £12m anticipated for the 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 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy, available here: <https://www.great-yarmouth.gov.uk/policies>

3. SERVICE INVESTMENT LOANS

- 3.1 **Contribution:** The Council lends money to its subsidiaries (GYS Limited, Equinox Enterprises Limited and Equinox Property Holdings), local charities, local businesses, 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 and Equinox Property Holdings, as the subsidiaries of the Council, form part of investment in the company to provide an initial cash injection to enable the company to become established. The purpose of Equinox Enterprises Limited is to develop housing for sale (including affordable homes) and the purpose of Equinox Property Holdings is to provide quality rental housing in the borough. This supports the Council's objective within the Corporate Plan 2020-2025 to provide a mix of attractive good quality housing for all sectors of the workforce and community that is fit for purpose for all and meet both the borough's existing and future needs.
- 3.3 The Council is providing asset to its other subsidiary, GYS Limited, via finance leases to provide it with the fleet (e.g. refuse vehicles) and other equipment to require to deliver its service to Council. The company delivers grounds maintenance, cleaning services including public toilets, streets, and beaches, and waste and recycling collection services.
- 3.4 Discretionary loans are granted to local charities and businesses, this will be following a decision by the Policy and Resources Committee and /or Council as applicable. In line with the Corporate Plan 2020-2025 these loans are granted to support the local charities and

businesses that assist in improving the communities and facilities in the borough. The rates for service loans will be set at appropriate rates that reflect counterparty risks and duration.

3.5 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 Corporate Plan 2020-2025 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.

3.6 **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	31/3/22 Actuals			2023/24
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries: GYS Limited, Equinox Enterprises Limited and Equinox Property Holdings	0.00	0.00	0.00	14.00
Local Charities	0.68	0.00	0.68	0.70
Local Businesses	0.00	0.00	0.00	0.20
Local Residents (Home Improvement Loans)	2.14	0.00	2.14	2.90
TOTAL	2.82	0.00	2.82	17.80

*loans, except for those to local residents, granted in 2023/24 will be subject to Council/Committee approval during the year.

3.7 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. 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. On occasions where a loan to a local business would clearly meet the service objectives of the council, loans would be given on market terms. These loans will be made with due attention to the risk to the council, and the rate of interest charged on the loan will be commensurate with the security provided, the duration of the loan and the risk of default (i.e., non-repayment).

- 3.8 **Risk assessment:** The Authority assesses the risk of loss before entering, 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.

4. SERVICE INVESTMENTS: SHARES

- 4.1 **Contribution:** The Council has shares in Equinox Enterprises Limited and will have shares in Equinox Property Holdings as its subsidiaries. The Council invests in its subsidiaries to enable them to develop affordable and quality housing within the borough and with the aim of them providing a return on the investment. For information GYS Limited is a company limited by guarantee, so will have Members rather than shareholders and will therefore hold no share capital.
- 4.2 company.
- 4.3 **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

	31/3/22 Actuals			2023/24
Category of company	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Equinox Enterprises Limited (Subsidiary)	2.23	0.00	2.23	5.0
Equinox Property Holdings (Subsidiary)	0.00	0.00	0.00	1.0

- 4.4 **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.
- 4.5 **Liquidity:** Any new investment proposal will be considered for approval via the appropriate decision-making route in line with the council's Constitution.
- 4.6 **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 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 plan which is available here: <https://www.great-yarmouth.gov.uk/article/3222/Plans-and-performance>

Table 3: Property held for investment purposes in £ millions

Property	31/3/22 Actual		31/3/23 Expected	
	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Offices	(1.0)	4.7	0.2	4.9
Corporate Estates	(0.2)	39.2	0.2	39.4
Seafront Concessions	0.0	4.7	0	4.7
TOTAL	(1.3)	48.6	0.4	49.0

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.

5.3 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 2022/23 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.

5.4 **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 continuing to hold the current 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 assess the market that the investment is competing in, the nature and level of competition, along with expectations on how the market/customer needs will evolve over time, barriers to exit, and any ongoing investment requirements. The strategic objectives are designed to mitigate risk by:

- The Council's fundamental aim of revenue income or a capital return;
- Having a portfolio approach to avoid concentration of risk in any one property, tenant or risk type.

The Council has not invested in commercial properties outside of the borough and does not intend to make any further investment in additional commercial property with the primary purpose of generating a yield. Changes within the prudential code have imposed restrictions on the Council's ability to borrow for capital expenditure on developing or purchasing investment properties (i.e. primarily for yield) which have influenced this decision.

5.5 **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.

6. LOAN COMMITMENTS AND FINANCIAL GUARANTEES

- 6.1 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.
- 6.2 The Authority has committed to make up to £10.5m of loans to its subsidiaries Equinox Enterprises Limited (£7.5m – approved by Council 21/07/22) & Equinox Property Holdings (£3m – approved by Council 23/06/22). These loans will be drawn down over the next three financial years in line with the companies' business plans. The Council does not have any financial guarantees, nor does it intend to make any.

7. PROPORTIONALITY

- 7.1 The Authority achieves a balanced revenue budget incorporating surpluses generated from investment activity. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or the level that 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

	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget
Gross service expenditure	68.16	67.39	68.79	70.10	70.10
Investment income	4.41	3.78	4.09	4.08	4.08
Proportion	6.47%	5.60%	5.94%	5.81%	5.81%

8. BORROWING IN ADVANCE OF NEED

- 8.1 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.

9. CAPACITY, SKILLS AND CULTURE

- 9.1 **Elected members:** Elected members are provided with annual 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.
- 9.2 **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.
- 9.3 **Commercial decisions:** Future decisions on historic commercial investments, including potential disposals, will be made following consideration of robust business cases for approval in line with the current decision-making governance arrangements. Future spend on historic

commercial investments will be capital expenditure and will therefore also be approved as part of the capital programme. Where applicable the Council would seek to engage external professional advisors, for example financial, property and legal advice.

- 9.4 **Corporate governance:** The Asset Working Group is made up of both finance and, property and asset management officers, who initially consider the future of current investment commercial properties, such as disposals or additional spend required. Regular progress reports on decisions taken are also reviewed by the group.
- 9.5 After initial consideration business cases are completed for the disposal or improvements to 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.
- 9.6 Other investment decisions are based on the Treasury Management Strategy, with any changes reported for approval as required to Policy and Resources Committee.

10. INVESTMENT INDICATORS

- 10.1 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.
- 10.2 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	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	49.78	13.00	13.00
Service investments: Loans	2.82	3.82	10.90
Service investments: Shares	2.22	2.70	5.47
Commercial investments: Property*	48.58	49.00	49.50
TOTAL INVESTMENTS	103.40	68.52	78.87
Commitments to lend	0.00	0.00	0.00
TOTAL EXPOSURE	103.10	68.52	78.87

* Through its significant asset base, the Council has invested historically in commercial property for financial gain and to support regeneration.

- 10.3 **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	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	0.00	0.00	0.00
Service investments: Loans	-	1.42	9.75
Service investments: Shares	2.23	2.71	4.98
Commercial investments: Property *	17.76	17.60	17.43
TOTAL FUNDED BY BORROWING	19.99	21.73	32.16

* Commercial Investments – The portfolio of commercial investment properties are historic assets which the Council owns 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 2008/09.

- 10.4 **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	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.16%	0.90%	1.54%
Service investments: Loans	4.35%	3.76%	5.17%
Service investments: Shares	16.84%	N/A	N/A
Commercial investments: Property	5.25%	4.40%	4.25%
ALL INVESTMENTS	26.60%	9.05%	10.97%

- 10.5 The treasury management investments returns above reflects the increase in interest rates that are expected to continue in the short to medium term. The loan return is anticipated to increase in line with new loans being provided to Equinox Enterprises Limited and Equinox Property Holdings by the end of the 2022/23 financial year, resulting in interest being paid. 2021/22 share return reflects the dividend paid by Equinox Enterprises Limited but no dividends are due to be paid by any of the Council's subsidiaries in either 2022/23 or 2023/24. fall seen in the loan return in the table reflects the repayment of the £6.2m loan to Equinox Enterprises Limited during 2020/21. Commercial returns are expected due to no significant changes in the Council's portfolio of properties in the coming financial years.

Table 8: Other investment indicators

Indicator	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Debt to net service expenditure ratio	4.91%	6.74%	10.05%
Commercial income to net service expenditure ratio	40.59%	33.63%	27.53%