

Non-Treasury Investment Strategy 2024/25 – 2028/29

#### Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash because 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 non-treasury 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.

The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

#### **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. The balance of treasury management investments is expected to fluctuate between £20m and £50m during the 2024/25 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 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy.

Treasury management investments is not covered by this strategy, please refer to the treasury management strategy.

# **Service Investments: Loans**

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.

**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: [34]

Table 1: Loans for service purposes in £ millions.

Category of	3	2024/25		
borrower	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	NIL	NIL	NIL	NIL
Suppliers	NIL	NIL	NIL	NIL
Parish councils	NIL	NIL	NIL	NIL
Local businesses	NIL	NIL	NIL	NIL
Local charities	NIL	NIL	NIL	NIL
Housing associations	NIL	NIL	NIL	NIL
Local residents	NIL	NIL	NIL	NIL
Employees	NIL	NIL	NIL	NIL
TOTAL	NIL	NIL	NIL	NIL

Loans made for service purposes will be undertaken on a case-by-case basis and require approval by Full Council. Therefore, there is no approved limit for these loans outlined in the above table, but the option is available following a proper risk and benefit review.

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 are 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 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.

## **Service Investments: Shares**

**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.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. 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	31	2024/25		
company	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	NIL	NIL	NIL	NIL
Suppliers	NIL	NIL	NIL	NIL
Local businesses	NIL	NIL	NIL	NIL
TOTAL	NIL	NIL	NIL	NIL

As in Table 1 there are no approved limits for investments of this kind. Applications will be dealt with on a case-by-case basis and require approval by Full Council following a comprehensive review.

Risk assessment: The Council assesses the risk of loss before entering 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.

**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.

**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.

## **Commercial Investments: Property**

**Contribution:** The Council invests in local commercial property with the primary aim of supporting local growth, regeneration, and efficient use of local assets. The secondary aim is investment income that will be spent on local public services. Currently the Council only holds commercial investments within the district boundaries in line with these aims.

The following table uses information from the unaudited 2022/23 accounts. Up to date information will be provided once the 2022/23 accounts have been finalised.

Table 3: Property held for investment purposes.

	31.3.2023 expected			
Property	Gains or (losses)	Value in accounts		
Industrial Units	-200,000	3,175,000		
Offices	-50,000	1,650,000		
Snooker Centre	0	98,000		
Shops	52,972	2,749,024		
Garages	-10,264	1,193,925		
TOTAL	-207,293	8,865,949		

**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.

- 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.

**Risk assessment:** The Council 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.

**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 Council has minimised this risk by diversifying it's portfolio to ensure that sufficient liquid cash is available at all times.

## **Proportionality**

The Council generates a small amount of income from investment activity. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan.

The below table outlines the investment income from commercial investments against the net service expenditure. A more appropriate measure would be the gross service expenditure as that figure would not already be adjusted for income and show a truer reflection of the extent to which income from these commercial investments support the Council's overall revenue expenditure. The gross expenditure figures are not currently available for this report. The below uses net service expenditure to give the reader an idea of the overall scale.

Table 4: Proportionality of Investments £'000

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Investment income	-752	-1,928	-847	-423	-419
Net service expenditure	17,763	15,750	19,850	20,721	21,112
Proportion	4.23%	12.24%	4.27%	2.04%	1.99%

#### **Borrowing in Advance of Need**

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 2024/25.

## Capacity, Skills and Culture

**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 operations.

The Council will, therefore, seek to appoint individuals who are both capable and experienced and 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 Council's treasury management advisors, Arlingclose.

Elected members' training needs are assessed and a training plan has been developed for 2024/25. 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.

Where necessary the Council 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.

**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. The Commercial 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.

The Commercial Board will assess future commercial investment against the Non-Treasury 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.

**Corporate governance:** It is important that the Council 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 Non-Treasury Investment Strategy and for monitoring performance against it.

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

- This Corporate Non-Treasury 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 Council's website.

## **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. [23]

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	65.417	50.207	43.303
Commercial investments: Property	8.865	8.865	8.865
TOTAL INVESTMENTS	74.282	59.072	52.168
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	74.282	59.072	52.168

**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.

These figures have been worked out by using the actual and forecast percentage of the overall capital financing requirement (CFR) that is funded by external borrowing and applying that to the value of the investments in Table 5.

Table 6: Investments funded by borrowing in £millions.

Investments funded by borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	53.081	38.815	32.743
Commercial investments: Property	7.193	6.854	6.703
TOTAL FUNDED BY BORROWING	60.274	45.669	39.446

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	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	1.15%	3.84%	1.96%
Commercial investments: Property	8.23%	8.33%	7.92%