

<b>Report to:</b>	<b>POLICY AND ORGANISATION BOARD</b>
<b>Meeting date:</b>	<b>4<sup>th</sup> February 2020</b>
<b>Title:</b>	<b>INVESTMENT STRATEGY REPORT 2020/21</b>
<b>Originator:</b>	<b>BOROUGH TREASURER</b>
<b>Status</b>	<b>FOR RECOMMENDATION TO FULL COUNCIL</b>

## **Purpose**

The approval by full Council of an Investment Strategy is a requirement of the Prudential code for Capital Finance in Local Authorities (Prudential Code), and the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) which were updated in December 2017.

## **Recommendations**

The Policy and Organisation Board recommend that Full Council to approve the Investment Strategy as detailed in this report

### **1.0 Introduction**

1.1 The Authority invests its money for two 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**); 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.

## 2.0 Treasury Management Investments

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. These activities, plus the timing of borrowing decisions, can 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 £10m and £17m during the 2020/21 financial year.

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

**Further details:** Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the treasury management strategy.

## 3.0 Commercial Investments: Property

**Contribution:** As outlined in last year's Capital Strategy, the Council has a portfolio of historic portfolio of properties that we now lease out, in part for income generation purposes. We have not, in this financial year, procured any new properties to add to this portfolio. The value of the existing portfolio is detailed in the table below. The Council is currently reviewing its commercial property portfolio to determine how it can enhance revenues (and, if not, is disposal is a viable choice). This review will include understanding where it would be financially advantageous to procure new property assets.

*Property held for investment purposes*

<b>Property held for Investment Purposes</b>	<b>Value at 31/3/2019 £000's</b>
Property portfolio	6,089
<b>TOTAL</b>	<b>6,089</b>

**Security:** If we did decide to undertake a procurement process then we would seek to provide security for the investment in the following way:

- 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.
- We undertake regular fair value assessment of the Authority's investment property portfolio and we would use this to determine if the underlying assets provide security for capital investment.
- Should the 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.

**Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by undertaking regular rent reviews on its portfolio, utilising expert property advice (particularly for material holdings) and ensuring investments are made supported in investment appraisal techniques to quantify potential risks and opportunities.

**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 maintains a range of short-term liquid investments to access as required.

#### 4.0 Proportionality

The Authority is partially dependent on investment activity returns to achieve a balanced revenue budget. The table below shows the extent to which General Fund expenditure is dependent on achieving the income from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected income, the Authority's contingency plans for continuing to provide these services are to keep under review service costs and to maintain financial resilience via its Reserves.

##### *Proportionality of Investments*

	2018/19 Actual £000's	2019/20 Forecast £000's	2020/21 Budget £000's	2021/22 Budget £000's	2022/23 Budget £000's
General Fund Net Expenditure	9,303	10,600	10,152	10,765	11,337
Commercial Property Investment Income	477	491	523	523	523
Proportion %	5.13%	4.63%	5.21%	4.86%	4.61%
The proportion is the investment income divided by the General Fund service net expenditure as shown in the budget book and forward projections					

#### 5.0 Capacity, Skills and Culture

**Elected members and statutory officers:** Investment decision making is largely the responsibility of the Accounts team. The Borough Treasurer, the Head of Accounts and the Group Accountant are qualified accountants. The team also utilise expert third-party advice regarding investment decision making and have appointed Arlingclose as its Treasury Management advisor. The team regularly utilise investment appraisal techniques to quantify investment options and their opportunities and risks.

**Commercial deals:** Any commercial deals must be submitted to the Head of Accounts for approval as well as to the Council's Borough Solicitor.

**Corporate governance:** The Policy & Organisation Board can request reports regarding the Council's investment processes, as can the Standards & Governance Committee. Investments can also be reviewed by the Council's Audit team and also by our External Auditors.

<b>Financial implications:</b>	As contained in the report.
<b>Legal implications:</b>	It is a legal requirement that an Investments Strategy Report is considered by the Council each year.
<b>Service Improvement Plan implications:</b>	This report is required in order that to fulfil statutory requirements associated with the achievement of both service improvement plan and corporate plan targets.
<b>Corporate Plan:</b>	
<b>Risk Assessment:</b>	As contained in the report
<b>Background papers:</b>	
<b>Author:</b>	Borough Treasurer