Cotswold District Council

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.

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). As a Council Tax 'billing authority' it collects local taxes on behalf of other local authorities, the Police and the Government and also holds reserves for future expenditure. 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 £15 million and £33 million during the 2021/22 financial year.

Contribution: The income from treasury management investments is used to sustainably fund local service provision.

Further details: Full details of the Council's policies and its plan for 2021/22 for treasury management investments are covered in the Treasury Management Strategy (include Link to the Strategy).

Service Investments: Loans

Contribution: The Council lends money to support local public service provision and stimulate local economic growth. Loans are available to organisations and residents within the District. Loans to residents will be in line with Council approved policies such as its Starter Home Initiative and Disabled Facilities Grant policies. Where a loan is proposed to an organisation in the District, a business case is prepared and considered by the Cabinet or the whole Council as required by the Council's Financial Rules and Constitution. The business case includes details of the alignment to Council priorities and an assessment of the risk to the Council.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal 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:

Table 1: Loans for service purposes in £

Category of borrower	**31.3.2020 actual**			**2021/22**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Charities	422,865	0	422,865	430,766
Registered Providers	31,500	0	31,500	31,500
New Loans for Charities, Registered Providers, Economic Development, or Supporting Climate Change Priorities	0	0	0	15,200,000
Local residents (equity loans)	111,012	0	111,012	145,000
Employees (car loans)	40,367	0	40,367	45,000
TOTAL	**605,744**	**0**	**605,744**	**15,852,266**

The Council has a Recovery Investment Strategy (Strategy) which sets out the Council's approach to *"deliver the much needed capital investment for our Housing, Jobs and Green Infrastructure"*. The Strategy also sets out the aim *"to ensure that the Council makes an appropriate return on capital employed to support the cost of capital and an appropriate return to support the revenue budget."* The Strategy includes a provision for capital investment of £15.2 million in 2021/22, £20 million in 2022/23 and £19 million in 2023/24. This investment will be subject to business cases for proposals which support delivery of the Council Priorities as per the Corporate Plan (Corporate Plan). Investment could include the provision of loans to third parties. Table 1 includes a provision for third party loans of £15.2 million in 2021/22. Before any funds are advanced to third parties, the Cabinet and Council will consider business cases which will include the outcome of due diligence work. It is expected that loans advanced under the Recovery Investment Strategy will be secured loans to minimise Council risk.

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The loans that the Council has made are limited to specific service areas and the likelihood of non-payment is minimal. There is no history of non-payment and no evidence to suggest that there will be any default against the loans granted. As result, no allowance for loss has been included against the loan balances. Should any indication be given that there is a risk of default then the risk will be assessed and a provision established at that time. Should a loan default, the Council will make every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

In addition to the loans granted, the Council has included provision in its Treasury Management Strategy to loan up to £500,000 to both Ubico and Publica Group (Support) Limited, should either company require support. The Council is a shareholder in Ubico and a shared owner of Publica. In both cases, the loan facility is to enable the Council to be able to provide a loan for short-term cash flow purposes. No loans were in place at 31.3.20.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding service loans by undertaking credit checks and ensuring that appropriate legal documentation is in place to secure the Council's money.

In order to assess risk, the Council will commission professional advice on proposed new investments under its Recovery Investment Strategy. This will include advice on the financial sustainability of third parties from its Treasury Advisors, Arlingclose and accounting, property and legal advice. The Council's Capital Investment Programme Board, comprising of Members from both the Administration and the Opposition Group, will consider business cases and the professional advice and will provide support to the Cabinet and Council as part of the Council's decision making process. Business cases will include: the nature of the market that the Council is investing in, the level of competition, how the market is expected to evolve over time, barriers to entry and exit, ongoing investment required, the experience and financial sustainability of any third party entities. Where financial sustainability due diligence includes the use of credit ratings, the business case will set out how frequently the credit ratings are to be monitored and the procedures for taking action if credit ratings change. Business cases will also include how performance and risk is to be monitored.

Service Investments: Shares

Contribution: The Council has a £1 shareholding in Ubico Ltd. Ubico Ltd is an environmental services company which provides household and commercial refuse collection, recycling, street cleansing, grounds maintenance and fleet maintenance services to the Council. Ubico Ltd is wholly-owned by seven local authorities and operates as a not for profit enterprise.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. The Council's investment is fixed at £1.

Table 2: Shares held for service purposes in £

Category of company	31.3.2020 actual			2021/22
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Local authority owned company	1	-	1	1
TOTAL	1	-	1	1

Risk assessment: the Council has not invested into Ubico to generate a financial return. The Council has invested in Ubico to support service delivery. Ubico is a cost sharing company – any surplus generated within Ubico is returned to the partner Councils [shareholders]. Similarly, any deficit has to be met by the Councils. Through regular budget monitoring and transparency around contract sums and performance, and regular communication with the Council, the risk of any financial loss is mitigated and minimised.

Liquidity: the Council has not invested into Ubico to generate a financial return. The Council has invested purely to facilitate service provision. The Council has no intention to dispose of its investment in the foreseeable future.

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

Investment Property is defined in the CIPFA code of practice on Local Authority Accounting as property (land or buildings, or both) held solely to earn rentals or for capital appreciation, or both. The Council holds a number of assets that it classifies as Investment Properties

Contribution: The Council owns a number of Investment Properties within the Cotswold District and three significant assets outside of the district. The properties acquired outside of the District were acquired with the intention of generating income to support the revenue budget and were funded from the Council's capital receipts and did not require the Council to undertake any borrowing.

In 2019/20, the Council acquired an investment property in Dyer Street, Cirencester. The acquisition was a strategic asset purchase linked to the potential development of the Waterloo Car Park in Cirencester and is part of the Council's place-making role for Cirencester. Other investment property in the District is typically associated with Council operational buildings such as the Corinium Museum and Moreton Area Centre, where surplus office space is leased, or other assets held for place-shaping reasons.

Table 3: Property held for investment purposes in £

Property	1.4.19	Purchases 2019/20	31.3.2020 actual		31.3.2021 expected	
	Value in accounts	Purchase Price	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Investment Property within Cotswold District	1,329,000		(63,000)	1,266,000	0	£1,266,000
Investment Property inside of Cotswold District: 27A Dyer Street, Cirencester[1]	n/a	2,183,020	(243,020)	1,940,000	0	1,940,000
Investment Property outside of Cotswold District: Superdrug, Worcester	780,000		(30,000)	750,000	0	750,000
Investment Property outside of Cotswold District:	1,550,000		(60,000)	1,490,000	0	1,490,000

[1] Purchased in 2019/20.

Wilkinsons, West Bromwich						
Investment Property outside of Cotswold District: Tesco, Seaford	1,170,000		(45,000)	1,125,000	0	1,125,000
Provision for strategic property acquisitions – linked to place shaping or economic development	0		n/a	n/a	0	980,000
TOTAL	**4,829,000**		**(441,020)**	**6,571,000**	**7,551,000**	**7,551,000**

During 2020/21, the Council approved a strategic property acquisition in Moreton-in-Marsh in partnership with Moreton-in-Marsh Town Council. The acquisition is still in progress. Table 3 reflects this acquisition, although completion before the end of the 2020/21 financial year remains uncertain at the time of preparing this Strategy.

Security: A fair value assessment of the Council's investment property portfolio is undertaken each year as part of the final accounts process. Investment property is valued at market value. Property values fell during March 2020 reflecting the valuer's assumptions of reductions in rental income expected in 2020/21 associated with Coronavirus considerations and potential void periods. The fair value of the Council's investment property portfolio is included in the Statement of Accounts; based upon 'market value'.

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. Table 3 shows fair value losses in 2019/20 which are a direct result of the valuation undertaken as at 31 March 2020, when the first Covid-19 national lockdown was in place. The proportion of the Council's Investment Property portfolio which is outside of the District, is held primarily to generate a stable income stream to support the revenue budget. The losses indicated in Table 3 will not be recognised unless the Council decides to dispose of the assets. The Council maintains sufficient liquidity so that there is no requirement to sell any of the investment properties. Over time, it is expected that the market value of investment properties will vary.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments and aims wherever possible to mitigate the risk by purchasing property with secure tenants on long leases.

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, the Treasury Management Strategy includes the provision of liquid investments should the Council be in need of cash. It is not anticipated that the Council would need to sell any Investment Property at short notice.

<u>Loan Commitments and Financial Guarantees</u>

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.

The Council is a shareholder of Ubico Ltd, owning one seventh of the company, and is a joint partner in Publica Group (Support) Limited, owning one quarter of the company. In both cases, should the company overspend, the Council would be liable for its share of the additional costs. In both companies, sound financial management and budgetary control mitigate the risk that additional sums will be required without adequate notice.

Proportionality

The Council 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, priorities and place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Strategy. Should it fail to achieve the expected net profit, the Council will be required to draw additional balances from reserves, or generate savings elsewhere within the budget to continue to provide its services. The Council is not currently including income from the Dyer Street property in its revenue budget, reflecting the strategic place shaping reason for acquiring this asset rather than acquisition of the asset for investment income generating purposes. Income from the Dyer Street property is therefore excluded from table 4.

Table 4: Proportionality of Investments

	2019/20 Actual	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
Gross service expenditure*	22,413,000	24,820,000	24,168,000	22,530,000	22,019,000
Treasury Investment income	644,253	442,203	396,000	396,000	396,000
Loans income**	14,297	13,965	12,306	12,229	11,706
Shares dividends	0	0	0	0	0
Investment Property Income	553,949	423,127	459,832	459,832	459,832
Investment Income as a proportion of expenditure	5.18%	3.54%	3.59%	3.85%	3.94%

The proportion is the investment income divided by the gross service expenditure
*Excluding Housing Benefit payments
** Excludes any income from possible new advances to Registered Providers or other third parties under the Investment Recovery Strategy.

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 will need to borrow in 2021/22 to fund new capital. Any funds borrowed will be in relation to specific schemes and based upon the cash required for the chosen schemes. There are no plans to borrow in advance of need.

Capacity, Skills and Culture

Elected members and statutory officers:

The Council employs professionally qualified and experienced staff in senior positions with responsibility for advising Council on capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 20 years' experience of working in local government finance. The Deputy Chief Finance Officer is also a qualified accountant with 17 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including Chartered Institute of Public Finance and Accountancy (CIPFA), Association of Certified Chartered Accountants (ACCA) and Association of Accounting Technicians (AAT).

Where Council staff do not have the knowledge and skills required, external advisers and consultants are engaged that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. The Council employs other specialist advisers to advise upon specific, extra-ordinary transactions as required. Examples of such transactions include property acquisitions, and loans to third parties. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

The Council has experience of investing in commercial property in recent years. The Council's property service is provided through its strategic service provider Publica Group (Support) Ltd. The team of property officers have the following qualifications:

- BSc Hons Real Estate Management
- Associate Member Royal Institute Chartered Surveyors
- Member Royal Institute Chartered Surveyors
- Royal Institute Chartered Surveyors Registered Valuer
- Member Institute Welfare & Facilities management
- Technical member for Institute for Occupational Safety and Health
- Member of Chartered Institute of Marketing

The Council's legal team have experience of carrying out due diligence checks, particularly for commercial property acquisitions, and the legal officers have the following qualifications:

- Fellow of the Charter Institute of Legal Executives (FCIlex)
- Associate Member of the Charter Institute of Legal Executives (FCIlex)
- Graduate of the Charter Institute of Legal Executives (FCIlex)
- Para-Legals
- Solicitors

The Property and Legal teams work together with the Finance team to support the Council's Chief Finance Officer and the Publica Finance Director in developing investment proposals for the Council. External specialist advice is obtained when required to support these teams.

The Council has previously invested in a range of commercial properties which are delivering a sustainable revenue stream to the Council.

Commercial deals: The Council's Chief Finance Officer, Deputy Finance Officer and the Publica Finance Director are all aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate. These Officers will work with a team of specialist officers to prepare business cases for consideration by Members under the Council's Recovery Investment Strategy. It is the responsibility of the Finance Team to ensure that the implications of the prudential framework and the regulatory regime are considered as business cases are developed.

The Cabinet and Council also includes elected Members with a wealth of experience from business, banking and financial organisations. Members will use their knowledge, skills and experience to scrutinise business cases for proposed Council investment as set out below.

Scrutiny Arrangements and Corporate Governance:

Under the Council's Recovery Investment Strategy, a Capital Investment Board, composed of Members from both the Administration and the Opposition will work with Officers on business cases for future investment. The Board will scrutinise proposals, considering the contribution to delivery of the Council Priorities and the impact upon the overall risk to the Council. The views of the Board will be considered by the Cabinet. The Cabinet will take decisions or make recommendations to the full Council on new investments that are not part of Treasury Management Activity.

Financial Performance is reported quarterly to the Council's Overview and Scrutiny Committee and to the Cabinet. This includes the financial performance of the Treasury Management function and any other revenue-generating investments.

The Audit Committee considers the draft Capital, Investment and Treasury Management Strategies and provides its views to the Cabinet for consideration. Cabinet recommends the suite of Strategies to the Council for approval. Treasury Management performance is reported at half-year and year-end to the Council's Audit Committee and to the full Council.

The Council's internal audit provider (South West Audit Partnership Ltd) regularly audits the Council's treasury management activity and its processes and procedures for approving investment and performance management. SWAP reports to the Council's Audit Committee.

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 from 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.

Table 5: Total investment exposure in £

Total investment exposure	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	24,986,584	15,159,000	15,898,000
Service investments: Loans	605,744	613,645	15,852,266[2]
Service investments: Shares	1	1	1
Commercial investments: Property	6,571,000	7,551,000	7,551,000
TOTAL INVESTMENTS	**32,163,329**	**22,771,365**	**39,301,267**

[2] This reflects the potential for new lending under the Recovery Investment Strategy, which would be subject to business cases to be approved by Council.

Commitments to lend[3]	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**32,163,329**	**22,771,365**	**39,301,267**

How investments are funded: Government guidance is that these indicators should include how investments are funded.

The Council's plans for borrowing are limited to schemes which are primarily for service delivery. Investment for service delivery does not usually form part of this report. However, as the Council's Recovery Investment Strategy was approved by Council in September 2020 and the business cases for investment are under development, the potential for any capital expenditure to be considered as "investment" have been included in this Strategy document for maximum transparency. The following could be described as "investments" being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £

Investments funded by borrowing	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	0	0	0
Service investments: Loans	0		15,200,000
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	0	0	15,200,000

The £15.2 million included in table 6 for Loans relates to service investment to enable the delivery of affordable homes, economic growth or investment in green infrastructure in the District. Whilst this loan is service related rather than a loan for investment purposes (i.e. lending made specifically to generate a revenue return for the Council) it has been included in Table 6 for transparency purposes.

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.

(Commercial Property returns are calculated based upon returns compared to the current market valuation of the asset not the purchase price).

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2019/20 Actual	2020/21 Forecast	2021/22 Forecast

[3] This excludes the potential loan facility offered to Ubico Limited and Publica Group (Support) Limited for cash flow purposes

Treasury management investments - average returns	2.2%	1.4%	1.3%
Service investments: Loans			
Charities[4]	2.7%	2.7%	2.7%
Housing Association[5]	0.0%	0.0%	0.5%
Local residents (equity loans)	0.0%	0.0%	0.0%
Employees (car loans)	2.0%	2.0%	2.0%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	7.0%	6.7%	7.3%

[4] This represents an average return based upon loans ranging from 0% to 3.5%

[5] Reflects the margin increase in interest rate over and above the interest rate that the Council would be paying on borrowing.