

Cotswold District Council
Investment Strategy Report 2022/23

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. The Treasury Management Strategy outlines the principles and arrangements in place for the first category of investment.

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 (CIPFA). The balance of treasury management investments is expected to fluctuate between £15m and £40m during the 2022/23 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 2022/23 for treasury management investments are covered in the Treasury Management Strategy.

Service Investments: Loans

Contribution: The Council lends money to local charities, local residents and its employees to support local public service provision, stimulate local economic growth and support Council Priorities of Affordable Social Housing and Green Energy and Carbon Reduction. Loans to residents will be in line with Council approved policies such as its Starter Homes Initiative and Disabled Facilities Grant policies. In the last quarter of 2021/22 the Council plans to loan £3.753m (£1.856m short term and £1.897m over 50 years) to a local Housing Association which supports the Council priorities of Affordable Social Housing and Green Energy and Carbon Reduction.

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. The business case includes details of the alignment to Council priorities and an assessment of risk to the Council.

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:

Table 1: Loans for service purposes in £

Category of borrower	31.3.2021 actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Charities	419,145	0	419,145	450,000
Registered Providers	31,500	0	31,500	3,784,500
Loans to Ubico (£500,000) or Publica (£500,000)	0	0	0	1,000,000
Local residents (equity loans)	111,012	0	111,012	130,000
Employees (car loans)	16,158	0	16,158	20,000
TOTAL	577,815	0	577,815	5,384,500

The Council has a Recovery Investment Strategy [Recovery Investment 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 included a provision for capital investment of £54.2m between 2021/22 and 2023/24. In July 2021, Council approved a loan of £3.8 million to a local housing association as part of the Recovery Investment Strategy. Further opportunities and options are being explored by officers, detailed reports seeking approval will be presented to Cabinet and Council as appropriate.

The updated 2022/23 MTFS includes an increased provision of £75 million to reflect the additional income the Council needs to generate in light of inflationary and service cost pressures and potential cuts to Government funding. Investment is profiled as £35 million in 2022/23, £20 million in 2023/24 and £20 million in 2024/25. This investment will be subject to business cases for proposals which support delivery of the Council Priorities as per the [Corporate Plan](#).

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 considered minimal. There is no history of non-payment and no evidence to suggest that there will be any default against loans granted. As a 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 are currently in place.

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.

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 is a wholly owned by eight 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	31.3.2021 actual			2022/23
	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 as 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 Councils, the risk of any financial loss is mitigated.

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 Councils 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 therefore 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 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 st April 2020	31.3.2021 actual		31.3.2022 expected	
	Value in accounts	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Investment Property within Cotswold District	1,266,000	(18,500)	1,247,500	0	1,247,500
Investment Property inside of Cotswold District: 27A Dyer Street, Cirencester	1,940,000	(225,000)	1,715,000	0	1,715,000
Investment Property outside of Cotswold District: Superdrug, Worcester	750,000	(35,000)	715,000		715,000
Investment Property outside of Cotswold District: Wilkinsons, West Bromwich	1,490,000	(60,000)	1,430,000		1,430,000
Investment Property outside of Cotswold District: Tesco, Seaford	1,125,000	(90,000)	1,035,000		1,035,000
Provision for strategic property acquisitions – linked to place shaping or economic development					4,360,000
TOTAL	6,571,000	(428,500)	6,142,500		10,502,500

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 2020/21 reflecting the valuer's assumption of the reductions in rental income expected in 2021/22 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 2020/21 which are a direct result of the valuation undertaken as at 31st March 2021. 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 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.

Loan Commitments and Financial Guarantees

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.

The Council is a shareholder of Ubico Ltd, owning one eighth 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 Plan. Should it fail to achieve the expected net profit, the Council will be required to draw on additional balances from reserves, or generate savings elsewhere within the budget to continue to provide its services.

Table 4: Proportionality of Investments

	2020/21 Actual	2021/22 Forecast	2022/23 Budget	2023/24 Budget	2024/25 Budget
Gross service expenditure*	25,158,520	24,159,000	24,470,000	22,906,000	22,639,000
Treasury Investment income	449,332	419,568	449,847	450,000	450,000
Loans income	13,202	11,579	133,174	72,729	72,134
Shares dividend	0	0	0	0	0
Investment Property Income**	439,623	427,166	561,785	573,021	584,481
Investment Income as a proportion of expenditure	3.59%	3.55%	4.68%	4.78%	4.89%

The proportion is the investment income divided by the gross service expenditure

**Excluding Housing Benefit payments*

*** Excluding any income from possible new leases to third parties under the Recovery Investment 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 future years 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 Financial Officer is also a qualified accountant with 18 years' experience. The Council pays for junior staff to study toward relevant professional qualifications, including Chartered Institute of Public Finance and Accountancy (CIPFA) 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 employs Arlingclose Limited as treasury management advisers. The Council employs other specialist advisers to advise upon specific, extraordinary transactions as required. Examples of such transactions include property acquisitions, loans to third parties and green bonds. 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 or while Council staff develop those skills.

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

Due to current vacancies within the Property Services team, external valuers are in the process of being appointed to undertake the Investment Property valuations required as part of the preparation of the 2021/22 Statement of Accounts.

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:

- Fellows of the Charter Institute of Legal Executives (CiLEX);
- Paralegal;
- 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. There are a number of changes to how the prudential framework will operate from 2023/24. One key change, which came in to effect from December 2021, related to the approach to borrowing in advance of need in order to profit from additional sums borrowed. This has been updated to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code.

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 investments as set out below.

Scrutiny Arrangements and Corporate governance:

Under the Council's Recovery Investment Strategy, a Capital Programme 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 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 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 currently 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 Officers, Members and the public to assess the Council's total risk exposure from its investment decisions.

Indicator One: Total risk exposure to potential investment losses

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	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management investments	23,575,285	20,068,000	18,875,000
Service investments: Loans	577,815	5,384,500	5,217,042
Service investments: Shares	1	1	1
Commercial investments: Property	6,142,500	10,502,500	10,502,500
TOTAL INVESTMENTS	30,295,601	35,955,001	34,594,543
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	30,295,601	35,955,001	34,594,543

Indicator Two: Total investments funded from borrowing

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 investments could include regeneration schemes, use of Council assets for economic development or investment in green energy production. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Indicator Three: 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 6: Investment rate of return (net of all costs)

Investments net rate of return	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Treasury management investments – investments average returns	1.6%	1.7%	1.7%
Service investments: Loans	0.0%	0.0%	0.0%
Charities*	3.0%	3.0%	3.0%
Housing Association	0.0%	0.0%	3.25%
Local residents (equity loans)	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	8%	7.8%	10.0

*This represents an average return based upon loans ranging from 0% to 3.5%