



Borough of Telford and Wrekin

Full Council Report

29 February 2024

2024/25 Investment Strategy

Cabinet Member:	Cllr Nathan England - Cabinet Member: Finance, Customer Services & Governance
Lead Director:	Michelle Brockway - Interim Director: Finance & Human Resources.
Service Area:	Finance & Human Resources
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Wards Affected:	All Wards
Key Decision:	Not Key Decision
Forward Plan:	17 January 2024
Report considered by:	SMT - 16 January 2024 Business Briefing - 25 January 2024 Cabinet - 15 February 2024 Full Council – 29 February 2024

1.0 Recommendations for Decision/Noting

It is recommended that Members :

- 1.1 Approve the Investment Strategy for 2024/25

2.0 Purpose of Report

2.1 The strategy gives an overview of the Council's non-treasury investments, outlining the contribution they make towards service delivery objectives, risk management arrangements and liquidity.

2.2 The strategy also includes a number of indicators which provide context and proportionality.

3.0 Background

3.1 The 2024/25 investment strategy meets the requirements of statutory guidance issued by the government. It focuses on non-treasury investments i.e. investments made to support local public services and commercial investments which primarily deliver service priorities but also provide a return to the Council.

4.0 Summary of main proposals

4.1 The Investment Strategy is attached at Appendix A.

5.0 Alternative Options

5.1 Not Applicable.

6.0 Key Risks

6.1 Risks and opportunities are considered in the Strategy.

7.0 Council Priorities

7.1 Service and Commercial investments deliver benefits to the Community as their primary objective; as well as generating income which supports the Council's overall financial position and delivery of front line services and therefore the delivery of all policy objectives.

8.0 Financial Implications

8.1 The financial implications arising from the Investment Strategy are included in the 2024/25 Medium Term Financial Strategy Report.

9.0 Legal and HR Implications

9.1 The Investment Strategy has to comply with DLUHC Investment Guidance. Legal advice will be provided on an ongoing basis in relation to any specific proposals as they are brought forward.

10.0 Ward Implications

10.1 Borough Wide

11.0 Health, Social and Economic Implications

11.1 Implications are covered in the individual papers within the overall Medium Term Financial Strategy suite of papers.

12.0 Equality and Diversity Implications

12.1 Implications are covered in the individual papers within the overall Medium Term Financial Strategy suite of papers.

13.0 Climate Change and Environmental Implications

13.1 Implications are covered in the individual papers within the overall Medium Term Financial Strategy suite of papers.

14.0 Background Papers

- 1 2024/25 Treasury Strategy
- 2 2024/25 Prudential Indicator Report
- 3 Capital Strategy
- 4 Medium Term Financial Strategy

15.0 Appendices

Appendix A Investment Strategy

16.0 Report Sign Off

Signed off by	Date sent	Date signed off	Initials
Director	16/01/2024	16/01/2024	MLB
Finance	16/01/2024	16/01/2024	PH
Legal	23/01/2024	23/01/2024	RP

INVESTMENT STRATEGY OVERVIEW – 2024/25

1.0 INTRODUCTION

1.1 Investments made by local authorities can be classified into one of two main categories: **investments made for treasury management purposes** and **other investments**.

- **Treasury Management Investments** - 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**. Treasuring Management Investments are covered in more detail in the separate Treasury Management Strategy report within the Medium Term Financial Strategy suite of papers.
- **Other Investments** – these include investment to support local public services by lending to or buying shares in other organisations, (**service investments**), and investments to earn income (known as **commercial investments**) but note, in Telford & Wrekin the main purpose of these investments is to deliver service benefits although they may also deliver a net income stream to the Council.

1.2 This investment strategy for 2024/25, meets the requirements of statutory guidance issued by the government, and focuses on the second of these categories. The Council must not, and will not, borrow to invest primarily for financial return.

1.3 Reducing dependency on Government Grants is an important part of our financial strategy and we have actively sought out opportunities that deliver a range of service objectives but which, in some cases also provide some net income to the Council. Any additional income generated helps protect front line services and delivers the Council's priorities. Invest-to-Save schemes such as the solar farm or the Housing Investment Programme and investment in the Property Investment Portfolio importantly deliver wider environmental, social or economic benefits and also earn a surplus which can be used to help protect front line services as the surplus generated helps to reduce the impact on the revenue budget of Government cuts to our grants. The Council will, however, carefully assess each potential new investment through a proper due diligence and business case process to ensure that it does not expose the Council to an unacceptable level of risk either on an individual basis or when considering the entire investment portfolio of the Council.

2.0 BACKGROUND

- 2.1 Statutory guidance on Local Government Investments sets out the requirements that local authorities are required to “have regard to” with respect to Investments.
- 2.2 The definition of investment covers all of the financial assets of a local authority together with the non-financial assets an organisation holds. This includes investments that are not managed as part of the normal treasury management delegations.
- 2.3 The Council should prepare at least one Investment Strategy each year which should be approved by Full Council. The Strategies should disclose the contribution that all **other** investments make towards the service delivery objectives and/or place making role of the local authority. They should also present the total risk exposure from both treasury management and other investments.
- 2.4 There should be a range of information, including how investments are funded and returns.
- 2.5 For Telford & Wrekin Council, Treasury Management Investments are covered in the Treasury Management Strategy and Other investments are covered in the Investment Strategy (this document).

3.0 TREASURY MANAGEMENT INVESTMENTS

- 3.1 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 normally fluctuate between £10m and £25m during the 2024/25 financial year. There may be circumstances where market conditions favour borrowing and investments will exceed £25m on a short-term basis from time to time due to differing maturity dates or certain periods of the year when markets are less liquid and it is appropriate to hold more cash investments; further, the receipt of grant funding, may result in investments being higher at points during the year.
- 3.2 Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities as part of the Council’s overall sound financial management arrangements.

3.3 Further details: Full details of the Authority’s policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy, also on this agenda.

4.0 SERVICE INVESTMENTS : LOANS

4.1 The Council has granted loans to Nuplace Ltd, its wholly owned company, AFC Telford, Ironbridge Gorge Museum Trust and Telford Hockey Club. Each makes a valuable contribution to the community, delivering services and align with the Council’s objectives:

Nuplace	Nuplace constructs and manages the delivery of private and affordable residential property for rental. Through Nuplace, the Council is increasing the quality of the private rented sector provision, regenerating brownfield land sites and stimulating economic growth.
IGMT	IGMT is a key contributor to the local economy and tourism. The Trust also provide high-quality education services for all ages, volunteer opportunities and support for inward-investment into the Borough.
AFC Telford	AFC Telford provide opportunities to enhance community and club sport, leisure and learning facilities in the Borough.
Telford Hockey Club	The Hockey Club is providing a community use hockey pitch in the borough which increases local opportunities to take part in healthy sporting activity. The Hockey Club has also agreed to provide 100 hours free hire and 100 hours of subsidised coaching for youth sport at the new hockey pitch.

4.2 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. Loans granted are considered on an individual basis, with the appropriate approvals, and include safeguards to minimise the Council’s risk:

Nuplace	The company is delivering an appreciating asset i.e. houses and ultimately the proceeds from the sale of some or all of these assets could repay the loan.
IGMT	The loan agreement includes a financial guarantee from The Ironbridge (Telford) Heritage Foundation Limited, which covers the outstanding amount of the loan. This loan was amended during 2021/22 to include a repayment holiday until January 2024 due to

	the impact of coronavirus; and in July 2023 approval was granted to extend the loan period for 2 years to support IGMT.
AFC Telford	The Council owns the freehold of the ground; the loan was granted to fund a new fire alarm system at the ground.
Telford Hockey Club	There is no financial guarantee for this loan. However, benefits from the new pitch already delivered and the surrender of the Hockey Club legal interest in the pitches at the Town Park are considered significant benefits.

4.3 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	Balance Due 31.3.2023 [Net figure in accounts]	Estimated Balance Due 31.3.24	Estimated Balance Due 31.3.25	Approved Limit
Nuplace – wholly owned company	44.832 [44.832]	52.380	80.870	£117m
IGMT	0.171 [0.131]	0.170	0.151	Balance Due
AFC Telford	0.042 [0.019]	0.041	0.040	Balance Due
Telford Hockey Club	0.049 [0.016]	0.046	0.044	Balance Due
TOTAL DUE	45.094	52.637	81.105	

International Accounting standards require the Authority to set aside loss allowances for loans, calculated to meet accounting requirements rather than any expectation of actual likely repayment issues. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance (shown in brackets in the above table). However, the Authority clearly makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. It is not currently anticipated that any of the loss allowances will be required.

- 4.4** The Authority assesses the risk of loss before entering into and whilst holding service loans on a case by case basis. This could be as part of a business case appraisal, as was the case for Nuplace, or as part of individual reports taken to Council/Cabinet for smaller loans. Where appropriate external advisors would be used to inform the decision making process. Nuplace risks are regularly monitored through the Housing Investment Programme Board.
- 4.5** The Council may grant loans to other organisations, such as Town and Parish Councils, where there is a clear contribution to the community and alignment with the Council’s objectives. A separate report will be presented to Cabinet for approval in relation to all such loans.

5.0 SERVICE INVESTMENTS: SHARES

- 5.1** The Council invests in the shares of Nuplace which contributes to its overall objectives, as described in 4.1 above.
- 5.2** 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

Company	Amounts invested	Value in accounts 31.3.2023	Forecast 2023/24	Forecast 2024/25	Approved Limit
Nuplace	18.800	18.800	22.035	34.245	49.700
TOTAL	18.800	18.800	22.035	34.245	49.700

- 5.3** The Authority assesses the risk of loss before entering into and whilst holding shares on a case by case basis. The assessment of risks in relation to Nuplace are as described in para. 4.4 above.
- 5.4** The maximum periods for which funds may prudently be committed are considered on a case by case basis as part of the business case process. The agreement with Nuplace is in place for a 30 year period, commencing 2015. Investment in Nuplace, through loan and equity is regularly monitored by senior finance officers to ensure it stays within the agreed limits.

5.5 Non-specified, Non-Treasury 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.

6.0 INVESTMENTS WHICH DELIVER SOME NET INCOME AS WELL AS SERVICE BENEFITS: PROPERTY

6.1 The Council holds a number of individual sites for regeneration and economic development purposes: which also deliver some net income e.g. the Property Investment Portfolio (PIP). The original PIP assets were received from the commission for New Towns in order to deliver income that would offset the ongoing revenue liabilities transferred to the Council as Telford Development Corporation was wound-up. The PIP is estimated to generate £8.7m income in 2023.24. The Council has established a Growth fund to strengthen and grow the PIP which is being used to invest directly into land and property enabling local businesses to expand and attracting new investors which boosts jobs and the economy, as well as delivering additional direct income and a share of additional retained business rates (between system resets). The Council has also invested in a solar farm which delivers an average of £0.2m net profit per annum as well as having broader environmental benefits through supporting the generation of renewable energy.

Table 3: Property held for Service & Investment purposes in £ millions

Property	Investment	31.3.2023	31.3.2024	31.3.2025
		Actual	Forecast	Forecast
		Value in accounts	Value in accounts	Value in accounts
Property Investment Portfolio	59.963	139.393	149.221	185.364
Solar Farm – land and equipment	3.787	8.000	7.850	7.700
TOTAL	63.750	147.393	157.071	193.064

- 6.2** 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.

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 the position will be reviewed.

- 6.3 Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments on a case by case basis. The Director: Prosperity & Investment has delegated authority to manage the PIP and make decisions in relation to PIP investments and disposals and undertakes an assessment of risk as part of this process.

- 6.4 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 at an acceptable price 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 has a process in place to plan for, manage and monitor capital receipts. Temporary borrowing may be undertaken where receipts are delayed. Updates are taken to Cabinet as part of the regular Financial Monitoring Reports.

7.0 PROPORTIONALITY

- 7.1** Income from investment activity is used to support the revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the medium term. Should it fail to achieve the expected net profit, the Authority's contingency plans for continuing to provide these services are: that the revenue budget includes a contingency; the delivery of further savings; the use of balances (in the short-term); review of investment activities and action plan to recover position/identify alternative options.

Table 4: Proportionality of Investments

	2022/23 Actual	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
Investment Income as proportion of Gross service expenditure	2.02%	2.3%	2.4%	2.5%
Investment Income as a proportion of Net service expenditure	6.4%	7.3%	7.3%	7.4%

8.0 OTHER INVESTMENTS: HCA LAND DEAL, TOWNS FUND, LEVELLING UP FUNDS

HCA Land Deal

- 8.1** The Telford Land Deal is a uniquely negotiated deal between the Council, Homes England (formerly HCA) and MHCLG through which Homes England/MHCLG have committed to invest £44.5m from the sale of Government owned land in Telford to invest in the local area supporting the delivery of new homes, jobs and commercial floor space.
- 8.2** The deal is based on a risk-reward model which requires the Council to make investment into site preparation up front, at risk, with this investment recouped from land receipts. The Council manages the delivery programme and is able to influence investment decisions through the Land Deal Board.
- 8.3** Since the Deal was established gross land sales of £48.6m have been secured, enabling the delivery of 1,535 new homes and enabling over 2,233 new jobs. The Council has facilitated spend of £22.5m in bringing forward sites for development recouped from land sales and the total profit share delivered to the Council to date is £10.2m gross, £7m after setting aside £2m for constrained/liability sites and £0.1.2m distribution to the Marches LEP.
- 8.4** The Investment and Disposal plan is continually reviewed with agreement of the Land Deal Board.

Towns Fund/Levelling Up Funds

- 8.5** In 2019, the government formed the Towns Fund, a £3.6 billion programme to regenerate towns across the country. Telford was successful in being awarded £22.3m grant funding to regenerate Telford Town Centre (Station Quarter), Wellington Conservation Area and Oakengates Theatre Quarter.
- 8.6** This investment, together with match funding from the Council will deliver a transformational programme over the next 3 years. A Town Deal Board has been established which includes representatives from the public, private and community and voluntary sectors. The Board is responsible for overseeing the delivery of the Towns Fund Programme.
- 8.7** The Medium Term Financial Strategy includes capital allocations of £35.2m, phased across 2023/24 to 2025/26, which includes Towns Fund grant and council investment.
- 8.8** The Council were also successful in securing £20m Government Levelling Up Funding and £9.8m Capital Regeneration Projects funding during 2023. This funding, together with council investment, will deliver two major projects: (i) Remodelling of Telford Theatre and the Creation of a new educational facility in Telford Station Quarter; and (ii) remodelling of Wellington Town Centre, including the acquisition and restoration of Wellington indoor Market, acquisition and refurbishment of the Orbit and public realm/highways improvements.
- 8.9** The Medium Term Financial Strategy includes capital allocations of £37.3m, phased across 2023/24 to 2025/26, which includes Levelling Up grant, Capital Regeneration grant and council investment.
- 8.10** Further information about the Telford Towns Fund, Levelling Up Fund and Capital Regeneration Fund can be found at the following web page:

Other Capital Investments

- 8.11** Other capital investments are detailed in the Capital Strategy and Capital Programme Reports within the overall suite of Medium Term Financial Strategy Reports.

9.0 CAPACITY, SKILLS & CULTURE

- 9.1 Elected members and statutory officers:** reports taken to Cabinet/Council include sections on the financial and legal implications and risks. Cabinet Members are regularly briefed by Directors. An invest to save proposal is completed for each Growth Fund investment which is approved by the Director: Prosperity & Investment after consultation with the Chief Financial Officer and the Lead Cabinet Member.

There is a Member Housing Investment Board which receives regular, detailed updates in relation to Nuplace. Officers negotiating commercial investments work closely with Finance colleagues to ensure the core principles of the prudential framework and regulatory regime are complied with.

- 9.2 Corporate governance:** where not already detailed, separate reports will be taken to Cabinet/Council in relation to new major investment decisions.

10.0 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 key investment decisions
- 10.2** This 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	31.03.2023	31.03.2024	31.03.2025
	Actual	Forecast	Forecast
Treasury management investments	38.499	15.000	15.000
Service investments: Loans	45.094	52.637	81.105
Service investments: Shares	18.800	22.035	34.245
Property investments	147.393	157.071	193.064
TOTAL INVESTMENTS	249.786	246.743	323.414
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	249.786	246.786	323.414

- 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 less straight forward. However, the following investments could be described as being funded by borrowing..

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	38.499	15.000	15.000
Nuplace	63.632	74.414	115.114
Property	63.750	72.353	107.483
Other Loans	0.262	0.257	0.235
TOTAL FUNDED BY BORROWING	166.143	162.024	237.832

10.4 Rate of return received

Nuplace is funded through a combination of debt and equity and the council receives a return on both. Net income from Nuplace, including loan interest, was £1.9m in 2022/23 and is projected to be around £2.0m in 2023/24. The long term return on the equity investment is forecast to be around 6%.

The Return on Investment relating to the PIP Growth Fund is 4.4%, after the cost of borrowing and is projected to continue at this level.

10.5 Other Investment Indicators

Table 7: Other investment indicators

Indicator	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Financing Costs to Net Revenue Stream	7.25%	8.54%	9.27%	9.42%

Note: the Council does not have any Commercial Investments held primarily for yield.

11.0 CHIEF FINANCIAL OFFICER COMMENT

11.1 The strategy sets out the Council's non-treasury investments, outlining the contribution they make towards service delivery objectives, risk management arrangements and liquidity.

11.2 The strategy also includes a number of indicators which provide context and proportionality. These indicators will be reviewed and updated annually in order to ensure that they remain appropriate for the Council in the prevailing financial climate. Currently, I am satisfied that the proposed strategy, together with the Council's plans for asset disposals reflected in the planned capital receipts assumed

within the capital programme, and the proposed capital expenditure programme combined with existing investments is affordable and sustainable.

- 11.3 No investments are made purely for financial return and no investments are made outside of the Borough. This ensures that it is local people that benefit from, for example, the improved availability of high quality homes for rent in the local private and affordable housing markets and from the jobs provided by the employers occupying Council owned industrial and commercial units. As well as the direct service benefits and incidental financial returns these projects are likely to result in the value of assets owned by the Council (and therefore its residents) increasing over the medium to longer-term as well as additional rental, council tax, business rates and new homes bonus payments. If the Council chose to sell some assets at some point in the future associated debt could be repaid/proceeds could be used to fund future capital investment.