TELFORD & WREKIN COUNCIL

CABINET – 18 FEBRUARY 2021
COUNCIL – 4 MARCH 2021

2021/22 INVESTMENT STRATEGY REPORT

REPORT OF THE CHIEF FINANCE OFFICER (DIRECTOR: FINANCE & HUMAN RESOURCES)

LEAD CABINET MEMBER – CLLR RAE EVANS

PART A – SUMMARY REPORT

1. SUMMARY OF MAIN PROPOSALS

1.1 The 2021/22 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.

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

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

2.0 RECOMMENDATIONS

2.1 Members are asked to approve the Investment Strategy for 2021/22.

3.0 SUMMARY IMPACT ASSESSMENT

COMMUNITY IMPACT	Do these proposals contribute to specific priority plan objectives?	
	Yes/ ~~No~~	Service and Commercial deliver benefits to the Community as their primary objective 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.
	Will the proposals impact on specific groups of people?	
	~~Yes~~/ No	
TARGET COMPLETION / DELIVERY DATE	Part of ongoing delivery of Service & Financial Planning Strategy and Council Plan approved by Council.	

FINANCIAL/VALUE FOR MONEY IMPACT	Yes/ ~~No~~	Where appropriate these are detailed in the body of the report**.**
LEGAL ISSUES	Yes/ ~~No~~	The Investment Strategy has to comply with MHCLG Investment Guidance.
OTHER IMPACTS, RISKS AND OPPORTUNITIES	Yes/ ~~No~~	The key opportunities and risks associated with the Investment Strategy are set out in the body of the report
IMPACT ON SPECIFIC WARDS	~~Yes~~/ No	

PART B – ADDITIONAL INFORMATION

4.0 BACKGROUND

4.1 The Authority 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 the main purpose is to deliver service benefits however they may also deliver a net income stream to the Council).

4.2 This investment strategy for 2021/22, meets the requirements of statutory guidance issued by the government, and focuses on the second and third of these categories.

4.3 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, 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.

5.0 TREASURY MANAGEMENT INVESTMENTS

5.1 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 £20m during the 2021/22 financial year. There may be exceptional circumstances where market conditions favour borrowing and investments will exceed £20m 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, such as the Government's emergency Covid funding, may result in investments being higher at points during the year.

5.2 **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.

5.3 **Further details:** Full details of the Authority's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy, also on this agenda.

6.0 SERVICE INVESTMENTS: LOANS

6.1 The Council has granted loans to Nuplace Ltd, its wholly owned company, AFC Telford and Ironbridge Gorge Museum Trust. Each makes a valuable contribution to the community and aligns 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.

6.2 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.
AFC Telford	The Council owns the freehold of the ground; the loan was granted to fund a new fire alarm system at the ground.

6.3 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	Net figure in accounts 31.3.2020	Approved Limit
Nuplace	32.559	£81m
IGMT	0.150	Balance owing
AFC Telford	0.022	Balance owing
TOTAL	**32.731**	

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. 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.

6.4 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.

6.5 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.

7.0 SERVICE INVESTMENTS: SHARES

7.1 The Council invests in the shares of Nuplace which contributes to its overall objectives, as described in 6.1 above.

7.2 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 31.3.2020	Approved Limit
Nuplace	13.300	13.300	30.142
TOTAL	**13.300**	**13.300**	

7.3 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. 6.4 above.

7.4 **T**he 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.

7.5 **Non-specified 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.

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

8.1 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 £7.5m gross income in 2020/21. 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 £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 investment purposes in £ millions

Property	Purchase Cost	31.3.2020 Actual	31.3.2021 Estimated
		Value in accounts	Value in accounts
Property Investment Portfolio	48.692	102.143	103.4
Solar Farm – land and equipment	3.787	5.519	5.4
TOTAL	**52.479**	**107.662**	**108.8**

8.2 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 2020/21 year end accounts

preparation and audit process value these properties below their purchase cost, then the position will be reviewed.

8.3 **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.

8.4 **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.

9.0 PROPORTIONALITY

9.1 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

	2019/20 Actual	2020/21 Forecast	2021/22 Forecast	2022/23 Forecast
Gross service expenditure - £m	409.9	414.5	400.7	402.7
Net Investment income - £m	7.0	7.2	7.4	7.4
Proportion	1.7%	1.7%	1.8%	1.8%

10.0 OTHER INVESTMENTS - HCA Land Deal

10.1 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.

10.2 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.

10.3 Since the Deal was established gross land sales of £31.4m have been secured, enabling the delivery of 753 new homes and over 1,400 new jobs. The Council has spent £17.1m in bringing forward sites for development recouped from land sales and the total profit share delivered to the local area to date is £4.8m.

10.4 The Investment and Disposal plan is continually reviewed with agreement of the Land Deal Board.

11.0 CAPACITY, SKILLS AND CULTURE

11.1 **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.

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

12.0 INVESTMENT INDICATORS

12.1 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 investment decisions.

12.2 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	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	30.454	20.000	20.000
Service investments: Loans	32.763	39.478	57.099
Service investments: Shares	13.300	15.668	23.601
Commercial investments: Property	107.662	108.810	123.302
TOTAL INVESTMENTS	**184.179**	**183.956**	**224.002**
Commitments to lend	0.000	0.000	0.000
Guarantees issued on loans	0.000	0.000	0.000
TOTAL EXPOSURE	**184.179**	**183.956**	**224.002**

12.3 **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. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	30.454	20.000	20.000
Nuplace	43.345	52.428	78.028
Property	52.479	53.457	67.296
Other Loans	0.204	0.204	0.158
TOTAL FUNDED BY BORROWING	**126.482**	**126.089**	**165.482**

12.4 Rate of return received

The Council receives 5.29% and 5.18% interest on the loans charged to Nuplace, per annum. Net income from Nuplace, including loan interest, was £1.2m in 2019/20 and is projected to be around £1.4m in 2020/21. The long term return on the equity investment is 6%.

The Return on Investment relating to the PIP Growth Fund is 4.6%, after the cost of borrowing and is projected to continue at this level.

12.5 Other Investment Indicators

Table 7: Other investment indicators

Indicator	2019/20	2020/21 Forecast	2021/22 Forecast
Financing Costs to Net Revenue Stream	5.06%	5.38%	6.39%
Commercial income to net revenue expenditure ratio	5.8%	5.5%	5.7%

13.0 PREVIOUS MINUTES

None

14.0 BACKGROUND PAPERS

Statutory guidance on Local Authority Investments
Treasury Strategy
Capital Strategy

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