

## AUDIT COMMITTEE – 28 JANUARY 2022

### INVESTMENT STRATEGY 2022/23

#### 1. RECOMMENDATIONS

- 1.1. The Audit Committee is recommended to request Council approve the Investment Strategy 2022/23.

#### 2. INTRODUCTION

- 2.1. The Council currently holds, and intends to increase, its exposure in a variety of Investments held in part for the purpose of generating additional income to the Council.
- 2.2. By producing this strategy report, the Council is following statutory guidance issued by the Government in January 2018.

#### 3. OVERVIEW OF WHAT IS INCLUDED IN THE INVESTMENT STRATEGY

##### 3.1. Treasury Management Investments

The Investment Strategy has regard to the Treasury Management Strategy, which sets out in detail how the Council's treasury service will invest surplus cash, taking into consideration the requirements of the Council's capital programme, and other financing needs. The balance of treasury management investments fluctuates and can exceed £100m at given points during a fiscal period.

##### 3.2. Property Investments

The Property investments section of the strategy brings together properties which have been in NFDC ownership for several years, as well as the accumulation of property investment strategies that have been adopted more recently by this Council. Although the primary purpose of these adopted strategies is to support the economic sustainability and regeneration within the District and provide additional housing to support New Forest residents and communities, the strategies also generate a revenue return, hence being prevalent to this investment strategy.

The strategy considers the contribution made by these investments, the security, the risk assessment process and liquidity.

The strategy sets out various performance indicators, designed to assist readers understand the implications of the Council's investing activities on the general fund, and the forecast yields expected from the differing investment categories.

#### 4. ENVIRONMENTAL / CRIME AND DISORDER IMPLICATIONS

- 4.1. There are no implications arising from this report.

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**Background Papers:**

Treasury Management  
Strategy 2022/23

Capital Strategy 2022/23

# Investment Strategy 2022/23

## 1.0 Introduction

The Authority invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to invest in a sustainable and vibrant New Forest Economy supporting employment and industry; investment income is also earned (known as **property investments**).

This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018, and predominately focuses on the second of these categories.

## 2.0 Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure 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 fluctuates and in the 6 months between April – September 2021, the Council's investment balance has ranged between £50.4m and £97.0m.

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

**Further details:** Full details of the Authority's policies and its plan for 2022/23 for treasury management investments are covered in a separate document; the Treasury Management Strategy.

## 3.0 Property Investments

**Contribution:** The Council invests in commercial and residential property with the intention of supporting the New Forest economy and community and returning a net income that will be spent on local public services. The Council has established a £30m fund for the purposes of investment in commercial property, inside or within areas immediately adjacent to, the District boundary, and a £10m fund exists for investment in residential property, inside or within areas immediately adjacent to the District boundary. Both funds have been established to support the local New Forest economy and community and both also have the intention of generating an income return.

The Council can own commercial property directly and has established a wholly owned group of companies for the purposes of investment in residential property. The Council intends to make equity investments into the group of companies and issue loans, on the latter of which the Council will receive interest payments. Both strategies have socio-

economic benefits, such as stimulation of local economies through investment in commercial premises and growth in the supply of housing throughout the District.

**Security:** 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. Three out of the nine investment properties owned by this Council as at 31/03/21 have been in the Council's ownership for well over a decade. The first acquisition under the Council Commercial Property Investment Strategy was completed in December 2017, two acquisitions were completed in 2019/20 and three acquisitions were made in 2020/21 and 2021/22.

The main risk when making 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 Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

*Table 1: Loans in £millions*

Category of borrower	31.3.2021 actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	1.528	0.000	1.528	8.000
<b>TOTAL</b>	<b>1.528</b>	<b>0.000</b>	<b>1.528</b>	<b>8.000</b>

*Table 2: Shares in £millions*

Category of company	31.3.2021 actual			2022/23
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	0.569	-0.021	0.548	4.000
<b>TOTAL</b>	<b>0.569</b>	<b>-0.021</b>	<b>0.548</b>	<b>4.000</b>

The figures as included in tables 1 and 2 above are in relation to the wholly owned group of housing companies. The total initial investment made up of debt and equity is to total £10m. The mix of debt and equity will be fluid, and so for the purposes of setting individual limits, the potential maximum in each instance has been shown hence equating to more than £10m.

*Table 3: Commercial Property held generating income in £millions*

Property	31.3.20	31.3.2021 actual			2021/22
	Value in Accounts	Gains or (losses)	Additions or (Disposals)	Value in accounts	Additions to date
Hythe Marina	2.696	(0.161)		2.535	
Hardley Industrial Estate	3.426	0.439		3.865	
New Forest Enterprise Centre	0.775			0.775	
New Milton Health Centre	2.331	0.212		2.543	
Land at Beaumont Park Ringwood	2.010			2.010	3.200
Ampress Car Park	2.100	0.023		2.123	
The Parade, Salisbury Road Totton		(0.022)	1.450	1.428	
Queensway, New Milton		(0.217)	1.100	0.883	
Unit 1 Nova Business Park, New Milton		0.008	0.530	0.538	
Drive Thru, Salisbury Road Totton					1.321
27 Salisbury Road, Totton					1.949
<b>TOTAL</b>	<b>13.338</b>	<b>0.282</b>	<b>3.080</b>	<b>16.700</b>	<b>6.470</b>

**Note:** The table above includes material properties denoted in the accounts as Other Land & Buildings (not used operationally by the Council) and Investment Properties, to reflect different statutory accounting definitions of these assets which all have a wider socio-economic purpose.

**Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments. Market research is undertaken regularly, and potential opportunities objectively evaluated by the in-house estates team, utilising external expertise as and when necessary.

The Authority assesses the risk of loss in its residential holdings before entering into and whilst holding loans through regular communication via the board of directors and the Council. The board has the freedom to engage with specialist consultants as and when required.

Purchases of properties and development opportunities are only completed once a full business case has been prepared and signed off by the investment panel, or board, or by the Council if above delegated financial parameters.

**Liquidity:** Compared with other investment types, property can be relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. The Council will ensure to keep suitable minimum cash balances available, for example to repay capital borrowed.

#### **4.0 Proportionality**

The Council is expecting investment activity to assist in achieving a balanced revenue budget. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Authority 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 continually review and evaluate its services, and their delivery models, ensuring the most efficient service is provided to the residents of the New Forest. Prudent use of reserves can also be considered as a suitable contingency plan for continuing to provide these services in the short term.

*Table 4: Proportionality of non-treasury Investments (£millions)*

	2020/21 Actual	2021/22 Forecast	2022/23 Budget	2023/24 Budget	2024/25 Budget
Gross service expenditure	42.000	42.000	42.000	42.000	42.000
Investment income	0.841	1.067	1.502	1.799	2.098
Proportion	2.0%	2.5%	3.6%	4.3%	5.0%

#### **5.0 Capacity, Skills and Culture**

##### **Elected members and statutory officers:**

Commercial Property investments are made pursuant to the Asset Investment Strategy approved by the Council in 2017. An experienced team formed from the Council's finance, estates and valuation and legal departments prepare initial assessments and recommendations concerning suitable properties. Prior to entry into a bidding process, approval must be secured from the Portfolio Holder: Finance, Investment and Corporate Services, the Executive Head of Governance and Regulation and the s151 Officer. Prior to entry into binding legal agreements, final approval must be secured from the Chief Executive, the Executive Head of Governance and Regulation and the s151 Officer in consultation with the Portfolio Holder: Finance, Investment and Corporate Services and the Chairman of the Corporate Overview and Scrutiny Panel for transactions up to £5m, and the approval of Cabinet for transactions above £5m. This detailed process of scrutiny and decision making by key senior officers and members ensures the strategic objectives, risk profiles and overall risk exposure for the Council are considered and fully understood.

##### **Commercial deals:**

The Cabinet report dated 20<sup>th</sup> February 2017 is clear (at para 3.8) the Council will take a prudent approach to the management of financial risk and the assessment of possible investments. The criteria for selecting investment assets set out in the Asset Investment Strategy and the steps for selecting assets set out above accord with prudent investment principles and the key decision makers, including the S151 Officer, are involved in the process to ensure compliance.

## Corporate governance:

The Asset Investment Strategy makes express reference (at para 2.1) to the Council's Corporate Plan 2016 – 2020 and was prepared in the context of seeking to deliver on those priorities. The objectives remain valid in the context of the updated Community Matters Corporate Plan 2020 – 2024. The process for selecting assets is set out above to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.

## **6.0 Investment Indicators**

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.

**Total risk exposure:** The first 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	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Budget	31.03.2024 Budget	31.03.2025 Budget
Pooled Fund T M investments	13.60	13.60	10.00	10.00	10.00
Other T M investments	36.30	20.0	0.10	0.20	0.10
Subsidiary investments: Loans	1.53	3.41	5.12	7.53	7.53
Subsidiary investments: Shares	0.54	1.14	1.67	2.40	2.40
Direct investments: Property	16.70	23.17	35.77	36.02	36.02
<b>TOTAL INVESTMENTS</b>	<b>68.67</b>	<b>61.31</b>	<b>52.65</b>	<b>56.14</b>	<b>56.04</b>
Commitments to lend		-	-	-	-
Guarantees issued on loans		-	-	-	-
<b>TOTAL EXPOSURE</b>	<b>68.67</b>	<b>61.31</b>	<b>52.65</b>	<b>56.14</b>	<b>56.04</b>

**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 difficult to comply with. However, the following investments can 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.

All investments made to date, up to and including purchases made in 2021/22 are funded through internal borrowing. Internal borrowing is also forecast to be the source of finance for acquisitions during 2022/23.

*Table 6: Investments funded by borrowing in £millions*

Investments funded by borrowing	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Budget	31.03.2024 Budget	31.03.2025 Budget
Subsidiary investments: Loans	1.53	3.41	5.12	7.53	7.53
Direct investments: Property	7.62	12.79	22.87	23.07	23.07
<b>TOTAL FUNDED BY BORROWING</b>	<b>9.14</b>	<b>16.20</b>	<b>27.99</b>	<b>30.60</b>	<b>30.60</b>

**Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of external borrowing where appropriate, as a proportion of the sum initially invested.

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

Investments net rate of return	2020/21 Actual	2021/22 Forecast	2022/23 Budget	2023/24 Budget	2024/25 Budget
Treasury management investments	1.73%	1.00%	2.50%	3.00%	3.00%
Subsidiary investments: Residential	1.62%	2.21%	2.67%	2.90%	3.83%
Direct investments: Property	4.83%	4.17%	3.69%	4.19%	4.77%

Notes to table 7:

As cash balances reduce, the overall TM investment earnings in £000's will reduce, however, the funds that are held by the Council will represent required minimum balances, and will continue to be placed within medium-longer term strategic funds, which are higher yielding, hence the forward looking % rate of return increase in comparison to 2021/22.

So as to not distort the annual percentages, investment purchases are assumed to take effect on the first day of a financial year. The reduction in the rate of return for Commercial Property is due to the incurrence of capital expenditure, principally at Crow Lane, in advance of rental income being received.

As already outlined, the authority does not associate direct borrowing with individual assets. Borrowing will be incurred in the overall context of the Capital Financing Requirement and cash balances.