

INVESTMENT STRATEGY 2023/24

- Summary:** This report sets out details of the Council's investment activities and presents a strategy for the prudent investment of the Council's resources.
- Options Considered:** Alternative investment and debt options are continuously appraised by the Council's treasury advisors, Arlingclose and all appropriate options are included within this Strategy.
- Conclusions:** The preparation of this Strategy is necessary to comply with the guidance issued by the Department of Levelling Up, Housing & Communities (DLUHC).
- Recommendations:** **To recommend that the Council be asked to RESOLVE that The Investment Strategy is approved.**
- Reasons for Recommendation:** The Strategy provides the Council with a flexible investment strategy enabling it to respond to changing market conditions.

Cabinet Member(s) Cllr E Seward	Ward(s) affected: All
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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 investments are part of the Treasury Management Strategy.

The Corporate Plan sets out what the Council intends to do between 2019 and 2023. It focuses on six main priorities which will influence how the Council moves forward:

- Local Homes for Local Need
- Boosting Business Sustainability and Growth
- Customer Focus
- Climate, Coast and Environment
- Financial Sustainability and Growth
- Quality of Life

The Council’s investments can be used to help deliver these priorities.

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). 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 fluctuate between £24m and £45m during the 2023/24 financial year.

Previous year investment balances fluctuated between £34m and £55m, but as outlined in the Treasury Management Strategy, the Council is proposing to repay £10m of long-term Pooled Fund investments to pay off the Council’s rolling short-term borrowing requirement of £5m-£7m and allow extra balance for 1-day notice investments to allow for greater cash flow flexibility.

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

Further details: Full details of the Council’s policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy, available elsewhere on this agenda.

Service Investments: Loans

Contribution: The Council lends money to housing association and community housing entities to support local public services and stimulate local economic growth. As part of the Councils “Local Homes for Local Need” agenda, these loans are made with the intention of improving the supply of affordable housing within the District.

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. 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 £ millions

Category of borrower	31.3.2022 actual	2023/24
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	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Housing Associations	2.423m	0m	2.423m	£5m
Community Housing Entities	0.193m	0m	0.193m	£2m
TOTAL	2.616m	0m	2.616m	£7m

The Treasury does not agree these loans without proposed lending having been agreed by members beforehand. This lending is not actively sought after but decided on an opportunistic basis when the Council is approached by an association asking to borrow.

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding service loans by using advisors and quality financial press to assesses the market that the investment will be competing in, the nature and level of competition, along with expectations on how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements. The quality of advice is moderated by frequently subjecting the contracts to tender. Risk assessments include reference to credit ratings, but are not the sole indicator of risk used. Credit ratings are actively monitored by advisors and changes are relayed to the Council using an alert system. Other information, such as credit default swaps, are used to assess risk.

Service Investments: Shares

Contribution: The Council may invest in the shares of its suppliers, and local businesses to support local public services and stimulate local economic growth. At the present time, the Council does not hold these type of investments.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. To limit this risk, upper limits on the sum invested in each category of shares have been set shown on the following page:

Table 2: Shares held for service purposes in £ millions

Category of company	31.3.2022 actual			2023/24
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	0	0	0	£2m
Suppliers	0	0	0	£2m

Local businesses	0	0	0	£2m
TOTAL	0	0	0	£2m

Risk assessment: The approach is very similar to that of the service loans, the Council assesses the risk of loss before entering into and whilst holding shares by using advisors and quality financial press to assesses the market that the investment will be competing in, the nature and level of competition, along with expectations on how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements. The quality of advice is moderated by frequently subjecting the contracts to tender. Risk assessments include reference to credit ratings, but are not the sole indicator of risk used. Credit ratings are actively monitored by advisors and changes are relayed to the Council using an alert system. Other information, such as credit default swaps, are used to assess risk.

Liquidity: The Council actively monitors the availability of cash, using established cash flow procedures to inform decisions around the maximum that may be committed over any given time horizon.

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

Contribution: The Council invests in local commercial property with the intention of making a profit that will be spent on local public services. The Council currently holds four investment properties which are rented to private sector businesses.

Table 3: Property held for investment purposes in £ millions

Property	Actual	31.3.2022 actual		31.3.2023 expected	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Grove Lane Depot	-	0.067m	0.520m	-	0.520m
Hornbeam (Unit D, E & F)	0.650m	2.365m	3.015m	-	3.015m
TOTAL	0.650m	2.432m	3.535m	-	3.535m

- The Grove Lane Depot (80 Grove Lane, Holt, NR25 6ED) investment property is leased to the tenant for an agreed cost of £35,000 per year. This property was not purchased for use as a commercial investment, and was previously for the NNDC's DSU (Direct Services Unit as part of Waste Management). Upon contracting the waste management service, the property was then used as a storage facility for the Council. This property was decided to be leased out as a commercial investment property since

December 2018. The original purchase cost is unknown as the purchase dates back over 30 years.

- The Hornbeam Industrial Units are leased to Howdens for business use. These properties are leased to the tenant for an agreed cost of £49,000 per year. These three units were purchased in 2021, then have been leased out since June 2022.

Security: 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.

A fair value assessment of the Council'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 an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by using advisors and quality financial/property press to assesses the market that the investment will be competing in, the nature and level of competition, along with expectations on how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements. The Council has qualified staff that will consider the local market and also have a number of external advisors and agents who we seek advice from where appropriate. This also extends to national advice although the Council's current strategy is to invest within the local area. Risk assessments include reference to credit ratings, but are not the sole indicator of risk used. Credit ratings are actively monitored by advisors and changes are relayed to the Council using an alert system.

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, for example to repay capital borrowed, the Council maintains a balanced portfolio of investments, with short term investments allowing for faster liquidation should it be required. These more liquid investments are favoured as the Council both spend and earns approximately £10m every month.

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 Council and are included here for completeness.

The Council has not currently contractually committed to make any loans or guaranteed any loans and has no current plans to do this.

Proportionality

The Council plans to develop the profit generating 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 and/or 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's contingency plans for continuing to provide these services is that in the short term the Council will use available reserve balances to meet the shortfall, while a full review of service provision is undertaken.

Table 4: Proportionality of Investments

	2021/22 Actual	2022/23 Forecast	2023/24 Budget	2024/25 Budget	2025/26 Budget
Investment income	1.054m	1.157m	1.533m	1.380m	1.226m
Gross service expenditure	104.937m	111.938m	50.147m	49.218m	49.017m
Proportion	1.00%	1.03%	3.06%	2.80%	2.50%

Actual gross expenditure for 2021/22 and 2022/23 is twice the original budgeted figures. This is because the Council has received large amounts of grant funding from central government which was used to pay Test & Trace/Household Support Grants/Business Support Grants. Corresponding income was received to fund this expenditure. Only £8.9m was a cost to the Council following a central government decision to make authorities fund part of the costs.

Capacity, Skills and Culture

Elected members and statutory officers: Statutory officers attend regular training on Treasury Investment principles and have access to informed officers who are required to keep up with CPD requirements by their professional bodies. The individual business cases allow Members to assess individual assessments in the context of the strategic objectives and risk profile of the local Council; and enable them to understand how these decisions have changed the overall risk exposure of the local authority. Members will be given the opportunity to attend a training workshop each which will be provided by the Council's treasury advisors.

Commercial deals: The Council's Asset Management Plan is closely linked to the Corporate Plan and the Capital Strategy which contains the Prudential Indicators. The Council has qualified staff and support from external advisors to support with property transactions and negotiations. The Estates team are aware of the various strategy documents and the requirements contained therein, this also covers the prudential framework and the regulatory regime in which the Council operates and is supplemented by external training and Continuing Professional Development where appropriate.

Corporate governance: Budgets for investment purchases are agreed by Full Council in line with corporate objectives. Treasury Investments are subject to governance checks through the agreement of the Treasury Strategy for the year, as well as half-yearly updates.

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 as a result of 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 has not been drawn down and guarantees the Council has issued over third-party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2022 Actual (£m)	31.03.2023 Forecast (£m)	31.03.2024 Forecast (£m)
Treasury management investments	45.375	41.725	31.725
Service investments: Loans	2.288	2.019	1.750
Commercial investments: Property	3.535	3.535	3.535
TOTAL INVESTMENTS	51.198	47.279	37.010
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	51,198	47,279	37,010

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.

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	2.29	3.59	4.48
Service investments: Loans	3.80	3.80	3.80
Commercial investments: Property	1.78	1.78	1.78

Table 8: Other investment indicators

Indicator	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Debt to net service expenditure ratio	0	0	0
Commercial income to net service expenditure ratio	0.47%	0.46%	0.39%

