Appendix A

Investment Strategy 2019/20

Background

This Investment Strategy is a new report for 2019/20, giving a high-level overview of how the Council's non-treasury commercial investments contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

This report covers the requirements of the Ministry of Housing, Communities and Local Government's (MHCLG) revised *Capital Finance: Guidance on Local Government Investments* (Third Edition), including the investment indicators.

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 focuses on the second and third of these categories.

Investment Strategy Executive Summary from the Section 151 Officer

This document sets out Central Bedfordshire Council's approach to non-treasury commercial investments for the next four years, 2019/20 to 2022/23.

Driven by long-term financial pressures, a more commercial approach to investment is being pursued by a number of local authorities. The General Power of Competence (GPOC) in the Localism Act 2011 enables the Council to invest in commercial property for a financial return.

In my opinion, the planned non-treasury commercial investments support a diversified portfolio which generates a valuable net revenue income to fund local public services. In line with CIPFA's *Prudential Code for Capital Finance in Local Authorities (2017 Edition),* the exposure to commercial risk remains proportionate to the size of the Council.

Charles Warboys
Director of Resources & Section 151 Officer

Investment Strategy Executive Summary from the Deputy Leader & Executive Member for Corporate Resources

The Council's Investment Strategy shows how the Council's profit-generating commercial investments contribute to the provision of local public services and achieving a balanced revenue budget. At 0.6% of gross service expenditure, this represents a very low level of risk for the Council.

Councillor Richard Wenham
Deputy Leader and Executive Member for Corporate Resources

A tremendous amount of work has gone into the production of the new Investment Strategy, which has involved officers throughout the Council and this document is testament to their hard work.

1. Treasury Management Investments

1.1 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 (CIPFA).

1.2 The balance of treasury management investments is expected to fluctuate between £10M and £45M during the 2019/20 financial year.

1.3 The contribution that these investments make to the objectives of the Council is to support effective treasury management activities, and generate income for both the General Fund (£0.2M) and HRA (£0.1M).

1.4 Further details of the Council's policies and its plan for 2019/20 for treasury management investments are covered in a separate Treasury Management Strategy report.

2. Service Investments: Loans

2.1 The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

2.2 There was one service investment loan outstanding for £467K as at 31st March 2018 to Stotfold Town Council, which was repaid in full on 25th May 2018.

2.3 The Council is planning to introduce a scheme for the provision of an interest-free loan to adoptive/fostering households, who wish to extend or convert their homes in order to offer a wider range or number of placements to Central Bedfordshire Council's children in care.

2.4 The scheme will support medium-term efficiency savings by increasing the number of in-house foster placements available (average weekly cost of £421), thereby reducing the need for independent foster agency placements (average weekly cost of £778).

2.5 Initially a tranche of £100K has been proposed for this scheme. If this proves to be successful, this amount could be increased in the future.

2.6 Further details are included in a Foster Carer Loans Scheme report which was presented to the Children's Services Overview & Scrutiny Committee on 20th November 2018.

2.7 The main risk when making service loans is that the borrower will be unable to repay the principal lent. To mitigate this risk, loans will be repaid via a deduction from the foster carer fees payable by the Council to the foster carer over an agreed period of time, e.g., five years. There will also be a legally binding agreement in place with each borrower.

Table 1: Loans for service purposes

	31.3.2018 actual			2019/20
Category of borrower	**Balance owing £M**	**Loss allowance £M**	**Net figure in accounts £M**	**Approved Limit £M**
Suppliers:				
Foster carers	0	0	0	**0.1**
TOTAL	**0**	**0**	**0**	**0.1**

2.8 Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's Statement of Accounts from 2018/19 onwards will be 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.

2.9 The Council is considering establishing a wholly owned Company, Joint Venture or alternative vehicle, to develop housing and commercial property, including on Council owned land to generate income and meet housing needs. If approved, this may in future require funding in the form of a loan from the Council's General Fund, in which case this will be subject to approval by the Executive following specialist external advice in order to ensure compliance with all relevant regulations

3. Service Investments: Shares

3.1 Since 1st April 2016, the Council has held a one-third ownership of LGSS Law Ltd which is a Local Authorities Trading Company (LATC). Established by Cambridgeshire County Council and Northamptonshire County Council, the company's main objective is to provide legal services to the public sector. The Council made over total payments of £2.4M to LGSS Law Ltd in 2017/18 for legal services, undertaking the role of the Council's Monitoring Officer and disbursements.

3.2 One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. Given that the Council's shareholding in LGSS Law Ltd did not require an initial capital outlay, there is no risk of financial loss. The shares cannot be traded and a new shareholder may only be included by agreement of the existing shareholders.

3.3 No value has been disclosed in the Council's Statement of Accounts in respect of its one-third shareholding ownership of LGSS Law Ltd. The latest published accounts for LGSS Law Ltd as at 31st March 2017 show a net worth of £226K, which implies a value attached to the Council's shareholding of £75K. To date, no dividends have been received by the Council although there is an expectation of dividend payments in future years as the business further develops and consolidates its operations.

4. Commercial Investments: Property

4.1 The Council invests in local commercial property with the intention of making a profit that will be spent on local public services.

Table 2: Property held for investment purposes

	31.3.2018	2017/18	2017/18
Category	**Valuation £M**	**Net investment income £M**	**Net investment return %**
Farms Estate	63.1	0.8	1.3
Industrial	3.1	0.3	9.7
Retail & Office	10.9	0.6	5.5
Business Units	3.9	0.3	7.7
Car Parks	12.8	0.6	4.7
Lime Fund *	5.5	0.2	4.1
Other **	17.4	0.2	1.1
TOTAL	**116.7**	**3.0**	**2.6**

* The Council holds an investment in Aviva Investors' Lime Property Fund Unit Trust (valued at £5.6M as at 30 November 2018). This investment is held primarily to generate an annual dividend income of around £0.2M to fund local public services and the Council intends to retain this investment for the long term.

** The 'Other' category mainly comprises surplus property assets awaiting disposal, e.g., Stratton Park.

4.2 In 2018/19, the Council commenced its £5M new build of an industrial unit at Stratton Park and £7M new build crematorium. These new assets are expected to generate net revenue income for future years. There is also a potential £2M farmland acquisition which is in the process of being finalised.

4.3 The Council plans to invest a further £32M on new commercial property investments over the four-year period from 2019/20 to 2022/23, in line with its strategic priorities over the longer term. Projects include health care hubs (£25M) to ensure health service provision in localities, strategic acquisitions principally related to extending the farms estate as further opportunities arise (£6M) and new car parks (£1M), all of which are expected to generate net revenue income for future years.

4.4 The Council will seek to identify other commercial property investment opportunities on an "invest to save" basis, e.g., associated with the promotion of Council-owned land for employment, where the investment return will more than outweigh the associated costs.

5. Loan Commitments and Financial Guarantees

5.1 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.

5.2 The Council has no contractual loan commitments and has not provided any financial guarantees to any external organisations.

6. Proportionality

6.1 The Council's profit generating investment activity contributes to achieving a balanced revenue budget. Table 3 below shows the gross service expenditure planned to meet the service delivery objectives and dependence on achieving the expected net profit from investments. This represents a very low level of risk for the Council.

Table 3: Ratio of net investment income to gross service expenditure

	2017/18 Actual £M	2018/19 Estimate £M	2019/20 Estimate £M
Gross service expenditure	561.8	571.8	581.8
Net investment income	3.0	3.1	3.2
Proportion	**0.5%**	**0.5%**	**0.6%**

7. Other Investment Items

Staff Training

7.1 The needs of the Council's staff for training in investment management are assessed regularly as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

7.2 Staff regularly attend training courses, seminars and conferences provided by CIPFA, RICS and Arlingclose Ltd. Relevant staff are also encouraged to study professional qualifications from CIPFA, RICS, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

7.3 Arlingclose Ltd is the appointed treasury management adviser providing specific advice on investment, debt and capital finance issues.

Investment of Money Borrowed in Advance of Need

7.4 The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

7.5 The total amount borrowed will not exceed the authorised borrowing limit for 2019/20 of £614.5M. The maximum period between borrowing and expenditure is expected to be two years, although the Council is not required to link particular loans with specific items of expenditure.