

**Bolsover District Council**

**Council**

**20 February 2019**

**Corporate Investment Strategy 2019/20 - 2022/23**

**Report of Cllr B Watson, Portfolio Holder Finance and Resources and  
Renewable Energy**

This report is public

**Purpose of the Report**

The purpose of this report is to provide Council with the necessary information to approve the Council's Corporate Investment Strategy 2019/20 to 2022/23.

**1 Report Details**

- 1.1 The Corporate Investment Strategy is a new style report introduced by the 2018 edition of the government's Guidance on Local Government Investments. It focuses on investments made for service purposes and commercial reasons, rather than those made for treasury management.
- 1.2 This report outlines the Authority's Corporate Investment Strategy for the years 2019/20 to 2022/23 for consideration and approval by Council before the start of each financial year.
- 1.3 The Authority's Capital Expenditure programme and Minimum Revenue Provision policy (MRP) are considered in a different report, the Capital Strategy.
- 1.4 A further report, the Treasury Management Strategy, details the Authority's plans to invest cash surpluses and borrow to cover cash shortfalls.

**Introduction**

- 1.5 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 this is the main purpose).
- 1.6 This Corporate Investment Strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

### **Treasury Management Investments**

- 1.7 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 fluctuate between £25m and £45m during the 2019/20 financial year.
- 1.8 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
- 1.9 **Further details:** Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in a separate document, the Treasury Management Strategy.

### **Service Investments: Loans**

- 1.10 **Contribution:** The Authority lends money to its joint ventures, business partners, parish/town councils, local charities, housing associations, and community groups to support local public services and stimulate local economic growth. For example we may give a loan to a parish council who are undertaking a large building project to help with cash flow until external monies are received.
- 1.11 **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. 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**

Category of borrower	31.3.2018 actual			2019/20
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Joint Ventures - Dragonfly	£0.040m	0	£0.040m	£6m
Business Partners	0	0	0	£5m
Parish / Town Councils	0	0	0	£5m
Local charities	0	0	0	£5m
Housing associations	0	0	0	£5m
Community Groups	0	0	0	£5m
<b>TOTAL</b>	<b>£0.040m</b>	<b>0</b>	<b>£0.040m</b>	

- 1.12 Accounting standards require the Authority to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.
- 1.13 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans by undertaking a comprehensive business case for each individual potential investment opportunity. This will include a market analysis focusing on competition, demand and current market trends. External advisors will be used where appropriate to ensure that the Authority has access to quality advice and expertise in specialist areas. Each potential investment will undergo qualitative and quantitative appraisal to establish its suitability to the Authorities core values and the legal and financial implications of the purchase.

#### **Service Investments: Shares**

- 1.14 **Contribution:** The Authority invests in the shares of its Joint Venture, Dragonfly Development Limited to support local public services and stimulate local economic growth by delivering housing and commercial developments whilst generating income for the Authority.
- 1.15 **Security:** 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

Category of company	31.3.2018 actual			2019/20
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Joint Venture - Dragonfly	£0.023m	0	£0.023m	£0.578m
<b>TOTAL</b>	<b>£0.023m</b>	<b>0</b>	<b>£0.023m</b>	<b>£0.578m</b>

- 1.16 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by undertaking a comprehensive business case for each individual potential investment opportunity. This will include a market analysis focusing on competition, demand and current market trends. External advisors will be used where appropriate to ensure that the Authority has access to quality advice and expertise in specialist areas. Each potential investment will undergo qualitative and quantitative appraisal to establish its suitability to the Authorities core values and the legal and financial implications of the purchase.
- 1.17 **Liquidity:** Based on the approved limit in Table 2 the funds will not be required in the short term and may prudently be committed for the periods covered by this strategy.
- 1.18 **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.

### **Commercial Investments: Property**

- 1.19 **Contribution:** The Authority's current investment in commercial property is characterised by the larger investments, Pleasley Vale Mills and The Tangent Business Hub which are aimed to provide appropriate commercial accommodation to support local small businesses to develop and grow. The Authority is in the process of developing a Commercial Property Investment Strategy which will look to expand its existing non-housing property portfolio with the intention of making a profit that will be spent on local public services.
- 1.20 **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.
- 1.21 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 2018/19 year end accounts preparation and audit process value these properties below their purchase cost, then an updated Corporate 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.

- 1.22 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding property investments by undertaking a comprehensive business case for each individual potential investment opportunity. This will include a market analysis focusing on competition, demand and current market trends. External advisors will be used where appropriate to ensure that the Authority has access to quality advice and expertise in specialist areas. Each potential investment will undergo qualitative and quantitative appraisal to establish its suitability to the Authorities core values and the legal and financial implications of the purchase
- 1.23 **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 Authority will only invest cash that is not needed in the short term based on current cash flow predictions. In addition to this a well diversified property portfolio will be held, spread across different property sectors.

#### **Loan Commitments and Financial Guarantees**

- 1.24 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.
- 1.25 The Authority has contractually committed to make up to £3.020m of loans to Dragonfly Development Limited should it request it.

#### **Borrowing in Advance of Need**

- 1.26 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

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

- 1.27 **Elected members and statutory officers:** This Authority recognises the importance of ensuring that all Elected Members and Officers involved in investment decisions are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and

maintain an appropriate level of expertise, knowledge and skills. Elected Members' individual training and development needs are addressed by a Member Development Programme. The Authority's Treasury Management Advisors Arlingclose, provide both Elected Members and Officers with training in relation to all areas of Treasury Management.

- 1.28 **Commercial deals:** The Authority has a decision making framework which is aligned to the requirements of the Statutory Guidance Relating to Local Authority Investments. A dedicated Property Investment Panel, made up of Cabinet Members and the relevant Directors / Heads of Service, including legal and financial Officers will prepare a business case for each potential Commercial Investment.
- 1.29 **Corporate governance:** The Commercial Property Investment Strategy sets out a number of core principles the Council will require in a commercial investment. All investments will need to align with Corporate Plan priorities.

### **Investment Indicators**

- 1.30 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.
- 1.31 **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 3: Total investment exposure**

<b>Total investment exposure</b>	<b>31.03.2018 Actual</b>	<b>31.03.2019 Forecast</b>	<b>31.03.2020 Forecast</b>
Treasury management investments	£36.00m	£29.70m	£23.30m
Service investments: Loans	£0.04m	£1.45m	£1.53m
Service investments: Shares	£0.01m	£0.17m	£0.19m
<b>TOTAL INVESTMENTS</b>	<b>£36.05m</b>	<b>£31.32m</b>	<b>£25.02m</b>
Commitments to lend	£2.98m	£1.53m	0
<b>TOTAL EXPOSURE</b>	<b>£39.03m</b>	<b>£32.85m</b>	<b>£25.02m</b>

- 1.32 **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 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.

**Table4: Investments funded by borrowing**

<b>Investments funded by borrowing</b>	<b>31.03.2018 Actual</b>	<b>31.03.2019 Forecast</b>	<b>31.03.2020 Forecast</b>
Joint Venture - Dragonfly	£0m	£1.62m	£1.72m
<b>TOTAL FUNDED BY BORROWING</b>	<b>£0m</b>	<b>£1.62m</b>	<b>£1.72m</b>

- 1.33 **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 5: Investment rate of return (net of all costs)**

<b>Investments net rate of return</b>	<b>2017/18 Actual</b>	<b>2018/19 Forecast</b>	<b>2019/20 Forecast</b>
Treasury management investments	0.43%	0.54%	0.75%
<b>ALL INVESTMENTS</b>	<b>0.43%</b>	<b>0.54%</b>	<b>0.75%</b>

- The Joint Venture, Dragonfly has not been included in the above table as its main focus is to support local public services and stimulate local economic growth rather than commercial investment.

## **2 Conclusions and Reasons for Recommendation**

- 2.1 This report outlines the Council's proposed Corporate Investment Strategy for the period 2019/20 to 2022/23 for consideration and approval by Council.

## **3 Consultation and Equality Impact**

- 3.1 There are no equality issues arising from this report.

## **4 Alternative Options and Reasons for Rejection**

- 4.1 Alternative options are considered throughout the report.

## **5 Implications**

### **5.1 Finance and Risk Implications**

5.1.1 These are considered throughout the report.

## 5.2 Legal Implications including Data Protection

5.2.1 As part of the requirements of the Statutory Guidance on Local Government Investments (3<sup>rd</sup> Edition) (Statutory Investment Guidance) issued by the Ministry for Housing, Communities and Local Government a Corporate Investment Strategy requires approval by full Council prior to the commencement of each financial year. This report is prepared in order to comply with these obligations.

5.2.2 There are no Data Protection issues arising directly from this report.

## 5.3 Human Resources Implications

5.3.1 There are no human resource implications arising directly out of this report.

## 6 Recommendations

6.1 It is recommended that Council approve the Corporate Investment Strategy as set out in this report.

## 7 Decision Information

<p><b>Is the decision a Key Decision?</b></p> <p>A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><i>BDC: Revenue - £75,000</i> <input type="checkbox"/></p> <p><i>Capital - £150,000</i> <input type="checkbox"/></p> <p><i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/></p> <p><i>Capital - £250,000</i> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	N/A
<p><b>Is the decision subject to Call-In?</b></p> <p>(Only Key Decisions are subject to Call-In)</p>	N/A
<p><b>Has the relevant Portfolio Holder been informed</b></p>	Yes
<p><b>District Wards Affected</b></p>	N/A

<b>Links to Corporate Plan priorities or Policy Framework</b>	This Corporate Investment Strategy is part of the Treasury Management suite of reports. This is an integral part of the Council's Medium Term Financial Plan which links our financial position to the Corporate Plan and our other service strategies.
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**8 Document Information**

Appendix No	Title
N/A	
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Finance Section	
Report Author	Contact Number
Chief Accountant	01246 242458
Principal Accountant	01246 242459