South Cambridgeshire District Council

Report to:	Scrutiny & Overview Committee 28 February 2023
Lead Cabinet Member:	Councillor John Williams (Lead Cabinet Member for Resources)
Lead Officer:	Peter Maddock, Head of Finance Anne Ainsworth, Chief Operating Officer

Investment Strategy

Executive Summary

1. To undertake a review of the existing Investment Strategy in response to wider economic changes and to consider a refreshed version of the Strategy for consideration and adoption by the Council.

Recommendations

2. It is recommended that Members:

   a) Consider and comment on the report and the Investment Strategy attached at Appendix A and recommend it to Cabinet for approval, with any amendments as required.

Reasons for Recommendations

3. To establish and approve an updated Investment Strategy that complies with CIPFA's revised Prudential Code for Capital Finance in Local Authorities (2017 edition) and Prudential Code Guidance Notes for Practitioners (2018 edition), CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 edition), revised Statutory Guidance on Local Government Investments (3rd Edition) issued in February 2018 and new rules on borrowing from the Public Works Loans Board effective from 26 November 2020.

Details

Statutory Guidance on Local Government Investments

4. The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, the CIPFA Treasury Management Code of Practice (the Code) and Investment Guidance (the Guidance) issued by The Ministry of Housing Communities and Local Government (MHCLG) in order to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5. The revised Statutory Guidance in relation to Local Government Investments, issued in February 2018, widened the definition of an investment to include all the financial assets of a local authority as well as other non-financial assets held primarily or partially

to generate a profit. This wider definition includes investment property portfolios as well as loans made to wholly owned companies or associates, joint ventures or third parties. The Guidance applies for financial years commencing on or after 1 April 2018 and was reflected in the new Investment Strategy that was considered and approved by Cabinet at its meeting on 6 December 2021.

6. Previous editions of the Guidance covered treasury investments only, but the current edition focuses on non-treasury investments including:

- Loans made for service purposes e.g. to wholly owned companies, suppliers, local businesses, to support local public services and stimulate local economic growth;
- Shares in companies bought for service purposes;
- Debt Instruments (Loans) and Equity in subsidiaries;
- Non-financial assets (e.g. property) held primarily or partially to generate profit.

7. The Guidance requires the Strategy to be approved by Full Council on an annual basis and sets out the disclosure and reporting requirements. Any mid-year material changes to the Strategy must also be subject to Full Council approval. The Strategy should also be publicly available on the local authority's website.

8. In March 2020 the Public Works Loan Board (PWLB) launched a consultation on the terms of its lending and proposed reform aimed at tackling perceived abuse of borrowing powers by some authorities. The consultation ended in July 2020 and a response was published immediately following the spending review by HM Treasury on 26 November 2020 along with guidance on the new borrowing terms. The implications of these new borrowing rules were outlined in the report to Council on 23 February 2021 in respect of the annual review of the Treasury Management Strategy.

Investment Strategy

9. The Investment Strategy seeks to ensure compliance with the Government's requirements, including the need for an Investment Strategy to include:

- the contribution that investments make towards the service delivery objectives and/or place making role of the authority, recognising that each investment can make more than one type of contribution. This could include:

    - Yield/Profit;
    - Regeneration;
    - Economic benefit/business rates growth;
    - Responding to local market failure;
    - Treasury management;

  and, where the authority, classifies an investment as contributing to regeneration or local economic growth, it should be able to demonstrate that the investment forms part of a project in its Local Plan;

- quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions;

- how investments are funded and the rate of return and, where investment decisions are funded by borrowing, the indicators should reflect the additional debt servicing costs taken on;

- indicators to assess the risks and opportunities of the investment;

- the security of the investment as a paramount consideration to protect the capital sum invested from loss. Treasury management investments should consider security, liquidity and yield in that order of importance whilst other types of investment (such as property investments) should consider the balance between security, liquidity and yield based upon the risk appetite and the contribution the investment activity makes;

- demonstration that total financial exposure to loans (e.g. to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth) is proportionate and formally setting out limits on the total level of loans;

- for investment property, with a fair value above cost, the Strategy should include a statement that a fair value assessment has been made within the past twelve months, and that the underlying assets provide security for the capital investment;

- for investment property, with a fair value below cost, the Strategy should detail of the mitigating actions that the local authority is taking or proposes to take to protect the capital invested;

- how the authority has assessed the market that it is/will be competing in, the nature and level of competition, how it thinks that the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements;

- whether and, if so how, a local authority uses external advisors be they treasury management advisors, property investment advisors or any other relevant persons; and how it monitors and maintains the quality of advice provided by external advisers;

- the sources of information used to assess and monitor risk;

- for financial investments that are not treasury management investments or loans (e.g. equity investments) the Strategy should set out procedures for determining the maximum periods for which funds may prudently be committed; what those maximum periods are; and how the local authority will stay within its stated investment limits;

- for non-financial investments (e.g. property) the Strategy should set out the procedures for ensuring that the funds can be accessed when they are needed, for example to repay capital borrowed, and the local authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions;

- the extent to which funding expenditure to meet the service delivery objectives and/or place making role of the local authority is dependent on achieving the expected net profit from investments and the local authority's contingency plans should it fail to achieve the expected net profit;

- the commitment not to borrow more than, or in advance of needs, purely in order to profit from the investment of the extra sums borrowed and, where the authority plans to borrow or has borrowed purely to profit from the investment of the extra sums borrowed, why the local authority has decided not to have regard to the Guidance and the local authority's policies for investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing;

- the steps taken to ensure that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority;

- the steps taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate;

- the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the Council's corporate values.

10. The review has identified some updates to the Investment Strategy as follows:

- The need to recognise the changing economic climate since the current version of the strategy was developed and adopted, and in particular the change in interest and borrowing rates.

- Continue to give due regard to the rules in relation to local authority borrowing from the PWLB and, in particular, the impact of borrowing for the acquisition of commercial assets on the Council's wider borrowing requirements.

- Recognise that investments may include smaller projects, if they have a regeneration or environmental impact.

- A reduction from previous versions of this strategy with regard to the amount of money (£44m) it is proposed the Council consider for Investment opportunities.

- A review of how these changes impact upon the indicators in line with the adopted 23/24 budget and Medium Term Financial Strategy

- Update the capital programme values, recognising that this will be further reviewed.

- The current position of the Minimum Revenue Provision (MRP) on investment properties to reflect the annual valuation of these properties.

- To better reflect, given experience and market factors, the profile of investment between financial years.

- To undertake the annual review and update of Prudential Indicators that are identified in the adopted Strategy (at Section 8 of **Appendix A**).

- Changes to reflect the time period of the updated Strategy and staff changes within the Council.

11. An updated version of the Investment Strategy is attached at **Appendix A** which seeks to meet the requirements of the statutory investment guidance and effective governance arrangements.

12. The Medium Term Financial strategy has recently been updated and reduced levels of investment income included as the level of investment now possible look rather less than that included in the strategy agreed in December 2021.

Options

13. The option of not reviewing the Investment Strategy is not considered to be appropriate. Local authorities are required to have regard to guidance issued in relation to investments and are accountable to their communities for the performance of them. Local politicians and officers operate within local governance frameworks of checks and balances to ensure that decision-making is lawful, informed by objective advice, transparent and consultative. Good governance means that proper arrangements are in place to ensure that intended objectives are achieved, and the security, liquidity and yield of investments are paramount commitments.

14. The Council is required to obtain approval for the Investment Strategy each financial year and, where the Council proposed to make a material change to its Strategy during the year, a revised Strategy must be presented to Council for approval before the change is implemented.

Implications

15. In the writing of this report, taking into account financial, legal, staffing, risk, equality and diversity, climate change, and any other key issues, the following implications have been considered:-

Policy

16. The Investment Strategy has been developed to fulfil the requirements of the revised Statutory Investment Guidance, and provides the framework for:

    - governance of service loans, equity investments and commercial property investment;
    - assessing risk of providing loans, equity investments and investing in commercial property;
    - borrowing in advance of need;
    - income generating investment activities.

Legal

17. The Local Authorities (Capital Finance and Accounting) Regulations 2003 provides operational detail and specifically states that Authorities must have regard to CIPFA's Prudential Code when setting and reviewing borrowing limits. Local Authorities must also have regard to the Investment Guidance issued by Secretary of State under section 15(1)(a) of the Local Government Act 2003.

Financial

18. The Investment Strategy sets out how the Council determines its capital investment priorities in particular in relation to corporate priorities taking into account the capital resources available including borrowing in line with the Council's approved Prudential Indicators. There are no additional resource requirements as a result of the refreshed Investment Strategy, but it does provide the framework for determining investment priorities for the Council from allocated capital resources.

19. The Investment Strategy currently identifies the sum of £44 million for Service and Commercial Investments as follows:

Funding Allocation	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Investment Strategy	4	10	10	10	10

20. A full review of the capital programme, including new scheme bids, was considered by Council on 21st February 2023.

Risk

21. The Investment Strategy is a key financial planning and resource management tool for the Council. An effective strategy for capital investment provides the framework for reducing the risk of approving schemes which:

- are not affordable in either capital or ongoing revenue terms.
- do not meet legal obligations or the Council's key stated priorities.

Environmental

22. There are no environmental implications arising directly from the report. The environmental impacts of each capital investment opportunity will need to be considered as part of the feasibility assessments and evaluations.

Equality Analysis

23. In preparing this report, due consideration has been given to the District Council's statutory Equality Duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relations, as set out in Section 149(1) of the Equality Act 2010. It is considered that the report has no relevance to South Cambridgeshire District Council's statutory equality duty to eliminate unlawful discrimination, advance equality of opportunity and foster good relation.

24. An equality analysis is not needed. Individual capital investments may, however, have specific equality impacts that need to be considered and evaluated.

Alignment with Council Priority Areas

25. This process does not change any of the overarching themes within the Council priority areas or Business plan but establishes the parameters for investments during the next financial year.

Background Papers

The following documents are relevant to this report:

- Corporate Asset Plan – Report to Cabinet: 2nd October 2019
- Investment Strategy – Report to Cabinet: 6th December 2021
- Medium Term Financial Strategy – Report to Cabinet: 12th December 2022
- Medium Term Financial Strategy – Report to Council: 21st February 2023
- General Fund Budget Report – Report to Cabinet: 6th February 2023
- General Fund Budget Report – Report to Council: 21st February 2023
- HM Treasury Document entitled “Public Works Loan Board: future lending terms – Response to the consultation” issued on 25 November 2020.

Appendices

Appendix A: Investment Strategy – Revised March 2023

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