

# INVESTMENT STRATEGY

## 2024/25

March 2024

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### 1. Introduction

The Council invests its cash for three broad purposes:

- (i) because it has surplus funds as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**);
- (ii) to support local public services by lending to or buying shares in other organisations (**service investments**); and
- (iii) 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.

### 2. Treasury Management Investments

The Council typically receives its income (e.g. from taxes and grants) before it pays for its expenditure (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 the Council's treasury management investments is expected to fluctuate between £13.0m and £32.4m during the 2024/25 financial year.

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

**Further details:** The Council's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy, at Annex 1.

### 3. Service Investments: Loans

**Contribution:** The Council lends money to its subsidiaries to support local public services and stimulate local economic growth. The largest loan currently is to a Council Subsidiary to provide a vehicle for economic regeneration to support corporate objectives.

**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 Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes	31.3.2024 Estimated 2023/24			2024/25
	Balance Owing	Loss Allowance	Net Balance In Council Accounts	Approved Limit
Category of borrower	£000	£000	£000	£000m
Subsidiary <sup>1</sup>	13,258	(3,880)	9,378	13,258
<b>TOTAL</b>	<b>13,258</b>	<b>(3,880)</b>	<b>9,378</b>	<b>13,258</b>

Note 1 Greensand Holdings Limited

**Loss allowance:** 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 and mitigates the risk of loss before entering into and whilst holding service loans by:

- Assessing the markets in which the Council is looking to invest, to ascertain why the market is currently not delivering the outcomes the Council requires through its Corporate Objectives. If this is due to financial reasons the Council will then assess whether a service loan would provide the means to achieve the desired outcome.
- Upon determining that a service loan may be required, the Council will then seek external advice where necessary, this will include the use of external legal, financial and tax advice as appropriate.
- A credit check and analysis of the beneficiary's financial statements will also be carried out to determine their financial strength. Loans will only be entered into should the beneficiary be of a suitable strength, and additional security may be sought, for instance, through a charge on land, should the Council require this.
- In order to ensure the objectives of the Council are delivered, the terms of the loan may oblige the borrower to meet certain criteria, for instance to provide additional affordable housing on a housing development.
- Where possible, the Council will also place a representative on the board of the project, in order to ensure effective on-going monitoring of the project is maintained; and

- Once the loan has been made, the Council will continue to monitor credit ratings and financial statements of the beneficiary to ensure loss adjustments can be made accurately and in a timely manner should the beneficiary's credit rating or financial performance decrease.

#### 4. Service Investments: Shares

**Contribution:** The Council invests in the shares of its subsidiaries to support local public services and stimulate local economic growth.

The Council has a 10% share in Pathway for Care Limited: a supported living company that provides housing and care to people with complex health needs. In January 2024 the company was placed into administration.

**Security:** Shares can 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	31.3.2023 Estimated value			2024/25
	Amounts Invested	Gains Or Losses	Value In Accounts <sup>1</sup>	Approved Limit
Category of company	£000	£000	£000	£000
Subsidiaries	1,100	-	1,100	1,100
<b>TOTAL</b>	<b>1,100</b>	<b>-</b>	<b>1,100</b>	<b>1,100</b>

Note 1: Before provision for credit loss.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding shares by:

- Assessing the markets in which the Council is looking to invest, to ascertain why the market is currently not delivering the outcomes the Council requires through its Corporate Objectives. If this is due to financial reasons the Council will then assess whether a service loan would provide the means to achieve the desired outcome;
- A credit check and analysis of the beneficiary's financial statements will also be carried out to determine their financial strength. Shares will only be bought if the beneficiary is of a suitable strength, and additional security may be sought, for instance, through a charge on land, should the Council require this; and
- In order to ensure the objectives of the Council are delivered, the terms of the agreement may oblige the company to meet certain criteria, as the council has significant influence.

**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.

## 5. Commercial Investments: Property

The Department for Levelling Up, Housing and Communities defines property to be an investment if it is held primarily or partially to generate a profit.

**Contribution:** The Council has invested in local commercial and residential property with the primary intention for regeneration and housing development either directly or indirectly within the wider region by providing additional income that is then spent on regeneration, economy and housing within the local area.

Properties that fall into the investment asset category are listed in the table below.

Table 3: Property held for investment purposes	Actual	31.3.2023		31.3.2024	
	Purchase Cost	Gains or (Losses)	Estimated Value	Gains or (Losses)	Estimated Value
Property	£000	£000	£000	£000	£000
Units 1-5 Redhill Distribution Centre, Salbrook Road, Salfords RH1 5DY	15,903	(973)	15,882	(1,387)	14,495
Regent House, 1-3 Queensway, Redhill, RH1 1QT	16,313	(450)	11,983	(1,074)	10,903
Forum House, 41-51 Brighton Road, Redhill RH1 6YS	6,067	(170)	5,072	(980)	4,092
Beech House, 35 London Road, Reigate RH2 9PZ	6,305	(122)	3,789	(923)	2,866
55-57, 59, 61 & 63 Victoria Road, Horley RH6 7QH	1,135	(22)	1,019	(50)	969
<b>TOTAL</b>	<b>45,725</b>	<b>(1,737)</b>	<b>37,745</b>	<b>(4,414)</b>	<b>33,331</b>

**Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than the debt currently outstanding for the asset. The Council did not borrow to fund the above assets and is not expected to require significant borrowing for them in future. Therefore, the Council is content that the properties meet the definition of being secure.

The condition of the Council's property portfolio is closely monitored by the Property Services Team, and the cost of maintaining the buildings is covered by the approved maintenance budget.

Asset values are reviewed by an independent valuer on a regular basis, investments properties valuations are carried out annually.

**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. The Council recognised that these assets are illiquid and therefore ensures that adequate cash is available in other more liquid investments in order to meet short term cash flow needs.

## **6. Proportionality**

Whilst the Council is dependent on some profit generating investment activity from treasury management and commercial property investments to achieve a balanced revenue budget, this amounts to less than 1% of the overall gross revenue budget and therefore is considered proportionate.

The assumptions around profit-generating investment activity are reviewed as part of the annual budget monitoring process and, if necessary, revised as part of the following year's budget forecasts.

## **7. Borrowing in Advance of Need**

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.

The Council is not planning to borrow in advance of need purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward-approved CFR estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

## **8. Capacity, Skills and Culture**

### **Elected Members and officers:**

The Council arranges annual training for Members on Treasury Management and the current borrowing and investment environment; the most recent training took place in March 2024 led by the Council's treasury advisers and the Finance team. Participants are encouraged to ask questions to further their understanding of the approach to decision-making for both investments and borrowing. Further briefings may be arranged in consultation with lead Members.

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

Where Council officers do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective and practical than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

**Commercial deals:** Officers with relevant professional disciplines are involved in negotiating such arrangements and are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate and considerable due diligence is undertaken in all instances. Alongside the internal teams the Council also uses, where appropriate, external advisors to complete due diligence processes.

**Corporate governance:** All decisions regarding new loans or investments of this nature are considered by the Chief Finance Officer before being recommended for approval at Council. Reports to Members will have been through a fully costed business case that includes any investment/loan requirements and financial/risk implications. A significant amount of due diligence work is undertaken in each case to ensure that business cases are robust.

## 9. Investment Indicators

The Council has set quantitative indicators to allow 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 total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down.

<b>Table 4: Total investment exposure</b>	<b>31.03.2023 Estimated</b>	<b>31.03.2024 Estimated</b>	<b>31.03.2025 Forecast</b>
<b>Total investment exposure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Treasury management investments	16,000	16,500	13,000
Service investments: Loans	8,982	9,378	6,633
Service investments: Shares (at cost)	1,100	1,100	1,100
Commercial investments: Property	37,745	33,331	29,433
<b>TOTAL INVESTMENTS</b>	<b>63,827</b>	<b>60,309</b>	<b>50,166</b>
Commitments to lend	-	652	656

<b>Table 4: Total investment exposure</b>	<b>31.03.2023 Estimated</b>	<b>31.03.2024 Estimated</b>	<b>31.03.2025 Forecast</b>
<b>Total investment exposure</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>TOTAL EXPOSURE</b>	<b>63,827</b>	<b>60,961</b>	<b>50,822</b>

**How investments are funded:** Government guidance is that these indicators should include information about how investments are funded.

Since the Council does not normally associate particular assets with particular liabilities, this guidance is not straightforward to comply with. To date these investments have been funded by usable reserves and income received in advance of expenditure. It is planned that this approach will continue in the medium term as internal resources allow.

**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.

<b>Table 5: Investment rate of return (net of all costs)</b>			
	<b>2022/23 Actual</b>	<b>2023/24 Forecast</b>	<b>2024/25 Forecast</b>
<b>Investments net rate of return</b>			
Treasury management investments	2.21%	2.49%	2..36%
Service investments: Loans	2.69%	2.55%	2.42%
Service investments: Shares	-	-	-
Commercial investments: Property	5.92%	5.66%	5.41%

The indicators used to report on the risks and opportunities associated with investment decisions will be kept under review as the Council's Investment Strategy and activities evolve over time.