Investment Strategies

Overview Select Committee 7th February 2019

14299

Leicester City Council 1

Purpose of Presentation

To describe:

- The Treasury Investment Strategy
- The "Commercial" Investment Strategy

To present the underlying investment principles.

14299

Leicester City Council 2

Why Two Strategies?

Treasury Investment Strategy

- Governs how we manage cash balances
- Part of Treasury Strategy for many years
- Security of money is paramount
- Over £200m at any one time

"Commercial " Investment Strategy

- Governs investments such as commercial property and loans to businesses
- New requirement for a strategy
- Investments need not be solely for financial reasons

14299

Leicester City Council 3

Treasury Investments

14299

Leicester City Council 4

Why do we have cash to invest?

Previous Capital Programmes:-

- Government used to support borrowing
- Have to raise money in budget to repay debt
- Actually repaying debt is too expensive

Cash Flow:-

- Council tax raised before spent
- Capital grant in advance
- Reserves

It is not money we can add to the budget.

14299

Leicester City Council 5

Cash Availability

Balances fluctuate considerably.

Some money has to be available at short notice.

Over £150m will always be invested.

We would prefer to repay debt with this but can't.

14299

Leicester City Council 6

Treasury Investment : Priorities

- **Security** : we must ensure we can get our money back.
- **Liquidity** : money available when we need it.
- **Return** : the interest rate (lowest priority).

14299

Leicester City Council 7

Security Issues

Strength of lender:-
- Government/local authorities
- Banks/building societies

Additional security sometimes available:-
- Government underwriting
- Charges on assets

Regulatory changes and "Bail In".
Diversification.
Length of investment : shorter term is more secure.
Credit ratings/treasury advisors.

14299

Leicester City Council 8

Liquidity

We must be sure we can get money back when we need it – e.g. pay day.

Some money is therefore held in short term deposits/money market funds.

We must ensure investments don't all mature at the same time.

14299

Leicester City Council 9

Return

We want to maximise our income, consistent with security and liquidity.

Generally:-
Higher return
= Less liquidity
= More risk

If something looks too good to be true, it usually is.

14299

Leicester City Council 10

Some Lessons from the Past

BCCI.

Iceland.

Importance of member scrutiny.

14299

Leicester City Council 11

"Commercial" Investments

14299

Leicester City Council 12

Commercial Investments: Why a Strategy?

New Government requirement.

Response to some authorities making big investments:-

- Often outside own area
- Borrowing substantial sums

Government believes transparency and member oversight crucial.

For example : Spelthorne BC

Net revenue budget £11m.

Borrowing from PWLB of £1bn.

Investments made/proposed:-

- £360m for BP business centre in Spelthorne
- £170m for offices in Hammersmith
- £160m for office development in Battersea
- £140m for 100, Cheapside

What does the Strategy Cover?

Assets, such as investment property
and
Loans to third parties
which
"the Council holds primarily or partially to generate a profit".

What have we got?

The corporate estate:-

- Over 300 local properties
- Held for decades

Some loans to businesses.

Strategy doesn't cover:-

- Growing Places Fund
- Acquisition of York House

Big loan recently repaid (Blue Tower).

There are opportunities to do more.

Where does the money come from?

Options include:-

- Mainstream capital programme
- "Prudential Borrowing"

"Borrowing" really means using the investments covered by the treasury strategy.

Priorities

Security : balanced with service considerations (e.g. new jobs).

Return : the amount we get back – more complex than interest.

Liquidity : less important than for treasury investments.

Our Principles

Seek to maximise income on corporate estate.

Investment outside LLEP area highly unlikely.

External expert advice where necessary.

14299 19

Controls

Future investment must comply with this strategy (but decisions still taken in normal manner).

Financial evaluations.

Maximum external debt permitted (backstop).

Controls over prudential borrowing:-
- In aggregate;
- By project.

Formal reporting to members.

Strategy changes need Council approval.

14299 20

Corporate Estate

Officers encouraged to invest/disinvest.

Some borrowing permitted.

Routine monitoring:-
- Yield
- Voids

Comparison with benchmarks.

14299 21

Other Allowable Investments

Commercial/Industrial Properties.

Non-HRA housing.

Development land and infrastructure.

Economic development loans to businesses.

Loans to/on behalf of LLEP.

14299 22

Monitoring of Other Investments

Achieved returns.

Capital growth.

Money paid back on time.

Write offs or loss of value.

Service benefits.

14299 23

Summary

These areas of work have always been important.

New Government interest due to behaviour of some authorities.

Approach now more regularised/greater member oversight.

Transparency.

14299 24