Investment Strategies

Overview Select Committee

12th February 2020

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Purpose of Presentation

To describe our investment strategies.

Since 2019, we have been required to have two:

- Treasury strategy (as always)
- Commercial investment strategy

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Treasury Investment Strategy

- Governs how we manage cash balances
- Security of money is paramount

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"Commercial" Investment Strategy

- Governs investments such as commercial property and loans to businesses
- Investments need not be solely for financial reasons
- We can take greater risk to secure other aims

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Treasury Investments

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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.

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Cash Availability

Balances fluctuate considerably: £250m to £300m.

Some money has to be available at short notice.

We would prefer to repay debt with the rest, but can't.

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Treasury Investment : Priorities

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

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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.

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Some Changes

Balances continue to grow.
We can lend more to other authorities.
PWLB rate rise.

Municipal Bonds Agency
- LGA creation
- Years in development
- First loan agreed (Lancashire)
- We are more likely to lend than to borrow

Environmental and Socially Responsible Investment – investment being considered.

Smaller building societies.

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Some Lessons from the Past

BCCI.

Iceland.

Importance of member scrutiny.

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"Commercial" Investments

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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.

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For example : Spelthorne BC

Net revenue budget £11m.

Borrowing from PWLB of £1bn, spent on offices (Spelthorne and London).

Income set to exceed council tax revenue in 20/21.

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Other Examples

Woking, Runnymede and Eastleigh: borrowed more than 10 times net revenue (LGC).

Asda in Ystalyfera, Wales: owned by Mole Valley DC (Surrey) (£11.5m).

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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".

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What have we got?

The corporate estate:-
- Over 300 local properties
- Held for decades
- Valued at £122m
- Net profit for general fund of £6.3m

Some loans to businesses.

Strategy doesn't cover:-
- Growing Places Fund
- HRA

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Where does the money come from?

Options include:-
- Mainstream capital programme
- "Prudential Borrowing"
- "Income Strips"

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

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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.

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Our Principles

Seek to maximise income on corporate estate.

Apart from corporate estate, investment is never solely for financial reasons.

Investment outside LLEP area highly unlikely.

Expert advice where necessary.

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Controls

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

Financial evaluations.

Concept of "exposure" – borrowing and other underwriting of risk.

Controls over exposure:-
- In aggregate;
- By project.

Formal reporting to members.

Strategy changes need Council approval.

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Corporate Estate

Officers encouraged to invest/disinvest.

Some borrowing permitted.

Routine monitoring:-
- Voids
- Return
- Bad debt
- Change in capital value

Comparison with benchmarks.

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Other Allowable Investments

Commercial/Industrial Properties.

Non-HRA housing.

Development land and infrastructure.

Economic development loans to businesses.

Loans to/on behalf of LLEP.

Low carbon.

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Summary

These areas of work have always been important.

New Government interest due to behaviour of some authorities.

Approach now more regulated/greater member oversight.

Transparency.

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