

POLICY AND RESOURCES COMMITTEE

Wednesday, 15 February 2023

REPORT TITLE:	INVESTMENT STRATEGY 2023/24
REPORT OF:	DIRECTOR OF FINANCE

REPORT SUMMARY

In February 2018, the former Ministry for Housing, Communities and Local Government (MHCLG), (now Department for Levelling Up, Housing and Communities (DLUHC)) published updated 'Guidance on Local Government Investments'. The previous edition covered only Treasury Management investments. In recent years local authorities have had an increasing focus on commercial activities including but not exclusive to property. Such activity has the potential to bring both increased returns and increased positive and negative risk. The revised Guidance on Local Authority Investments requires that a separate Investment Strategy focusing on non-treasury investments is produced and approved annually by Council.

This report fulfils the requirement of DLUHC to produce an investment strategy that covers non-treasury activities.

The Investment Strategy supports the Council in the achievement of the Wirral Plan 2021 – 2026 by contributing to the available funding of the Council to support the achievement of the five Wirral Plan priorities.

This matter affects all Wards within the Borough.

The decisions in this report are key decisions.

RECOMMENDATIONS

The Policy and Resources Committee is requested to recommend to Council the approval of the Investment Strategy for 2023/2024 which includes potential investment in the following activity areas:

1. Service Investments: Loans (including the Approval Limit detailed in Table 1)
2. Service Investment: Shares (non-currently held)
3. Commercial Property
4. Loan Commitments and Financial Guarantees

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATIONS

- 1.1 To fulfil the requirement of DLUHC to produce an investment strategy that covers non-treasury activities.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 This report fulfils the requirement of DLUHC to produce an investment strategy that covers non-treasury activities. Should the Council not produce a strategy this would conflict against DLUHC guidance. The guidance on investments is issued under section 15(1) of the 2003 Local Government Act and authorities are therefore required to have regard to it. An annual strategy is standard practice and should it become appropriate to amend any key elements of this strategy during the period covered, a revised report will be produced. There is therefore no other option but to produce an investment strategy.

3.0 BACKGROUND INFORMATION

- 3.1 The Council invests its money for three broad purposes:

- there is 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)

- 3.2 This investment strategy report meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the second and third of these categories. DLUHC have acknowledged the increase in commercial activities local authorities are engaged in. The revised guidance requires local authorities to clearly define their approach and risk appetite for such activity and to gain approval from Council on an annual basis.

- 3.3 A separate report covering the Treasury Management Strategy is contained within the agenda of this meeting and fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code and DLUHC guidance.

Service Investments: Loans

- 3.4 The Council lends money to its subsidiaries e.g., Edsential Community Interest Company (by way of a credit facility), and local businesses (e.g., We Are Juno CIC) to support local public services and stimulate local economic growth. All loan arrangements the Council provides to subsidiaries or local businesses include an interest rate, therefore generating a return on investment.

3.5 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. Appropriate due diligence is undertaken on loan applications and where appropriate, collateral sought to offset risk. To further 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 per the table below. Loans should be self-financing with returns covering financing and administrative costs plus any return.

Table 1: Loans for service purposes.

Category of borrower	31.03.2023 Estimated	2023/24
	Balance Owing £000	Approved Limit £000
Subsidiaries	1,107	10,000
Local businesses	1,017	10,000
TOTAL	2,124	20,000

3.6 International Financial Reporting Standards require the Council to apply an expected credit loss model to set aside a loss allowance (where appropriate) for loans, which will be reflected in the Council's statutory accounts.

3.7 Risk assessment: The Council assesses the risk of loss before entering and whilst holding service loans. Prior to offering any loan facility, the following factors are considered:

- Financial appraisal based on evidence obtained from credit agencies.
- Independent external advisor appointed in conjunction with procurement.
- Analysis of business plans.
- Appropriate interest rate calculation, including potential state aid implications; and
- The availability of any securities/collateral.

Service Investments: Shares

3.8 The Council currently does not hold any shares in its subsidiaries, suppliers, or local businesses.

Commercial Investments: Property

3.9 DLUHC defines property to be an investment if it is held primarily or partially to generate a profit. The Council invests in local commercial and residential property with profits generated spent on local public services. Although there is increased national focus on property, councils have a long history of owning investment properties. Wirral's portfolio includes industrial estates, commercial and leisure properties.

3.10 The values in the table below show the purchase cost of various investment properties. Budgeted rental income and assumed financing costs relating to the assets are also included. The Council incurs Minimum Revenue Provision (MRP) costs against assets financed from borrowing. The excess income over interest will be applied against the relevant MRP charge. Any rental income not recovered would need to be reflected within the Council's bad debt provision.

Table 2: Property held for investment purposes

Property	Purchase cost £000	Rental Income Budget £000	Annual Financing Costs Interest and MRP £000
Europa Boulevard	8,400	719	580
Vue Cinema	6,800	510	469
Other Investment Properties	9,286	652	641
TOTAL	24,486	1,881	1,690

Note: For simplicity MRP has been calculated on a straight-line basis and average interest rates have been applied in the table above.

- 3.11 It is prudent to note that whilst these properties are held as investment properties in the Council's asset register, the properties were not acquired specifically for income generation. Most of these investment assets are owned for historic reasons. Later acquisitions are linked to regeneration opportunities whilst also generating rental returns.
- 3.12 An Asset Strategy 2022-2027 was presented and approved at Policy and Resources Committee on 9th November 2022. The strategy details six key priority areas for managing Council assets and sets out how the Council will make the best use of its buildings and land in the future. Future property purchase or disposals will consider this strategy as part of the evaluation process.
- 3.13 Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.
- 3.14 Where value in the accounts is at or above purchase cost: an annual fair value assessment of the Council's investment property portfolio is undertaken, and the underlying assets provide security for capital investment.

- 3.15 Where value in accounts is below purchase cost: the fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and in these circumstances the Council will take mitigating actions to protect the capital invested.
- 3.16 Risk assessment: The Council assesses the risk of loss before entering and whilst holding property investments as outlined in 3.7.
- 3.17 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.

Loan Commitments and Financial Guarantees

- 3.18 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.
- 3.19 The Council has committed itself to make available a credit facility of up to £2 million to Edsential Community Interest Co. To date £0.25 million has been advanced. Under the terms of the existing agreement Edsential has until March 2026 to call upon the balance. Interest is earned by the Council on any sums advanced and is charged at an appropriate market rate.
- 3.20 In addition to the credit facility of £2m, a request for financial assistance was made to the two shareholders of Edsential - Wirral Council, and Cheshire West and Chester Council, to assist Edsential in managing financial pressures arising from the COVID-19 pandemic. Both shareholders agreed to provide an additional £857k to Edsential (£1.714m total). Policy and Resources Committee on 10th November 2021 agreed following a Shareholder Board recommendation of October 2021 to provide the additional loan financing. This loan is separate from the credit facility, and as such, has its own separate terms and conditions.
- 3.21 In October 2021, a report was presented to Children, Young People and Education Committee which recommended the approval of the issue of a commercial loan facility to We Are Juno CIC in the sum of up to £1m, in order to assist with the construction and operation of four children's centres. During 2022, the loan agreement was finalised. To date, £705k of the £1m facility has been utilised.

Proportionality

- 3.22 The table below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan. Regular budget monitoring and review of income to be achieved will highlight if expected net profit is in any doubt and if so, that corrective budgetary action needs to be taken to minimise any potential impact on services.

Table 3: Proportionality of Investments

	2022/23 Forecast £000	2023/24 Budget £000	2024/25 Budget £000	2025/26 Budget £000
Gross service expenditure	555,000	593,000	612,000	629,000
Investment income	3,000	2,500	2,500	2,500
Proportion	0.54%	0.42%	0.41%	0.40%

The proportion is the investment income divided by the gross service expenditure.

Capacity, Skills, and Culture

- 3.23 Elected members and statutory officers: The Council’s Policy and Resources Committee reviews and approves key financial matters. The Committee meets regularly with support from the statutory officers to review and approve reports; raise questions; and receive briefings on latest developments. Financial training has been provided to all Members to aid decision making. Regular reporting and discussion of financial matters occurs with meetings of the Policy and Resources Sub-Committee and with the Strategic Leadership Team. Formal reporting is provided to Council via the Policy and Resources Committee and to the Policy and Services committees. Committee Co-ordination and Oversight Group review all reports to ensure content is suitably detailed and relevant implications have been identified. In response to the recommendations detailed in the External Assurance Reviews commissioned by DLUHC, the Chief Executive requested the Independent Panel support the Council in delivery of the Implementation Plan.
- 3.24 Finance officers are members of appropriate professional bodies such as the Chartered Institute of Public Finance and Accountancy (or equivalent). Membership requires officers undergo continuous professional development and are subject to compliance with the regulatory frameworks laid down by the professional institute. Officers are supported by properly regulated advisors and have access to the latest guidance and best practice. Strategies and policies are approved to provide a framework for investment decisions to be made within.
- 3.25 Commercial agreements: Commercial agreements require initial approval from the Director of Finance. Governance arrangements include oversight from the Investment and Change Board (ICB), chaired by the Director of Finance. ICB membership includes senior officers from a range of disciplines including legal services. Decisions are also subject to member approval with governance arrangements in place to ensure reports contain appropriate detail to enable decisions to be made. Where appropriate, external advice will be sought from experienced and suitably qualified experts.

- 3.26 Corporate governance: The Director of Finance has statutory responsibility for overseeing the Council's financial affairs and for ensuring that robust controls are in place. The Director is supported by officers across the Council, including legal services. The Investment and Change Board assists with ensuring governance and oversight is in place. At member level, there is a Policy and Resources Committee with responsibility for financial matters. The Council maintains appropriate risk registers and an Internal Audit function is maintained to provide appropriate challenge and review.

Investment Indicators

- 3.27 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.
- 3.28 Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over potential annual headlease costs, and other development guarantees.

Table 4: Total investment exposure

Total investment exposure	31.03.2022 Actual £000	31.03.2023 Forecast £000	31.03.2024 Forecast £000
Service investments: Loans	2,357	1,107	1,107
Commercial investments: Property	19,033	18,915	18,915
TOTAL INVESTMENTS	21,390	20,022	20,022
Commitments to lend	500	2,045	2,045
Guarantees issued on loans	9,793	9,793	9,793
TOTAL EXPOSURE	31,683	31,860	31,860

- 3.29 How investments are funded: Government guidance is that these indicators should include how investments are funded. The following investments can be described as being funded from borrowing, with the remainder of the Council's investments being funded by usable reserves and income received in advance of expenditure.

Table 5: Investment by type

Investments	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Service investments: Loans	2,357	1,107	1,107
Commercial investments: Property	19,033	18,915	18,915
TOTAL	21,390	20,022	20,022

- 3.30 Rate of return received: This indicator shows the investment income received less the associated running costs, 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 6: Investment rate of return (net of running costs)

Investments net rate of return	2021/22 Actual %	2022/23 Forecast %	2023/24 Forecast %
Treasury management investments	0.70	1.46	1.46
Service investments: Loans	3.32	3.77	3.80
Commercial investments: Property	6.64	4.71	4.11
ALL INVESTMENTS	2.47	2.47	2.82

4.0 FINANCIAL IMPLICATIONS

- 4.1 Approval and implementation of this strategy will limit financial risks, while helping to minimise financing costs and maximise investment returns.

5.0 LEGAL IMPLICATIONS

- 5.1 The Department for Levelling Up, Housing and Communities guidance is issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section, local authorities are required to “have regard” to “such guidance as the Secretary of State may issue.” The Council has adopted the requirement of DLUHC to produce an investment strategy that covers non-treasury activities. This requires the annual production of Investment Indicators and an Investment Strategy Statement.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 There are none arising out of this report.

7.0 RELEVANT RISKS

- 7.1 The Council is responsible for investment decisions and activity and none of these decisions are without risk. The successful identification, monitoring and control of risk are important, and the main risks and mitigations are:

Risk	Mitigation
Fluctuations in interest rate levels	Borrowing and investment profiles are balanced both in terms of maturity (utilising short- and long-term instruments) and in terms of the nature of the interest rate of the portfolio (fixed rate and variable interest rate products).
Exposure to inflation	Wherever possible, investments are entered into at inflation equalling

Risk	Mitigation
	levels of interest. This depends entirely on the nature and purpose of the proposed investment.
Legal and Regulatory Risk	Appropriate legal advice is sought on new opportunities to ensure adherence to relevant legislation and regulation.
Credit and Counterparty Risk (Security of investments)	Any potential counterparty is subjected to suitable due diligence to ascertain appropriateness for investment and investment criteria.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no consultation undertaken or proposed for this strategy report.

9.0 EQUALITY IMPLICATIONS

9.1 There are none arising directly from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 As part of future investment strategy, consideration will be given to potential opportunities to invest in environmentally focussed instruments or organisations. 'Ethical, Social and Governance' (ESG) investment criteria will be considered and, where viable in adherence to the policies laid out in this strategy, will only be entered into following satisfactory assessment of the instrument and/or organisation.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 There are none arising directly from this report. The investment strategy however supports the development of the Wirral economy and services which will benefit communities.

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BACKGROUND PAPERS

International Financial Reporting Standards – IFRS9 Financial Instruments
Asset Management Strategy 2022-2027
Department for Levelling Up, Housing and Communities Investment Guidance

TERMS OF REFERENCE

This report is being considered by the Policy and Resources Committee in accordance with Part 3 Section B of its Terms of Reference:

Policy and Resources Committee

- (b) provide a co-ordinating role across all other service committees and retain a 'whole council' view of performance, budget monitoring and risk management, which includes responsibility for a decision:
- (v) regarding companies or limited liability partnerships including acquisition and disposals,
- (vi) which is deemed significant in terms of impact on the Council's revenue or capital (to be determined by the Head of Paid Service and/or Section 151 Officer in consultation with the Leader).

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Investment Strategy Statement 2020-21	17 th February 2020
Investment Strategy Statement 2021-22	17 th February 2021
Investment Strategy Statement 2022-23	15 th February 2022