



AUDIT AND RISK MANAGEMENT COMMITTEE

Tuesday, 27 June 2023

Report Title:	SOCIAL IMPACT FUND INVESTMENT
Report of:	DIRECTOR OF FINANCE (SECTION 151 OFFICER)

REPORT SUMMARY

This report provides an update on the Council's investment in the Altana Social Impact Fund (formerly known as the Public Sector Social Impact Fund). In response to Grant Thornton's External Audit Annual Report 2020-21, and Value For Money Review of Governance of Company and Other Investments 2021-2022, Audit and Risk Management Committee requested in July 2022 that a number of reports be brought back to future meetings of the Committee. This report is the third of the series following previous reports in respect of financial guarantees and minimum revenue. provision.

Appendix 1 of this report contains exempt information as defined in Schedule 12A of the Local Government Act 1972. It is in the public interest to exclude the press and public during consideration of these items under Paragraph 3 'information relating to financial or business affairs of any particular person (including the authority holding that information)'.

RECOMMENDATION

The Audit and Risk Management Committee is requested to note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 To provide Members with relevant information regarding the Council's investment in the Altana Social Impact Fund (formerly known as the Public Sector Impact Fund).

2.0 OTHER OPTIONS CONSIDERED

- 2.1 There is the option not to report on this matter. This would however not be in accordance with the recommendation of the 20th July 2022 Audit and Risk Management Committee made in response to the Council's external auditor Grant Thornton's External Audit Annual Report 2020-21.

3.0 BACKGROUND INFORMATION

- 3.1 Grant Thornton, the Council's external auditors presented reports to the July 2022 meeting of this committee in respect of the External Audit Annual Report 2020-21, and Value For Money Review of Governance of Company and Other Investments 2021-2022 . Committee requested in July 2022 that a series of reports be brought back to future meetings of the Committee. This report is the third of the series and follows reports in respect of financial guarantees and minimum revenue provision presented to the October 2022 and January 2023 meetings of this committee.
- 3.2 The Council is required to hold various reserves and provisions (a number of which are long term in nature), capital receipt balances held prior to application, receipts of funding received in advance and other general cashflows. The result is that the Council maintains a positive cash balance. As there are underlying longer term uses for the monies, the cashflow balance cannot be used to fund services but can be invested to make a return. The daily cashflow balances of the Council in recent years have ranged typically between £30 million to £50 million depending on income and expenditure commitments.
- 3.3 Interest rates over the last decade were until fairly recently low. Annual investment returns with financial institutions were typically below well 1% with money market funds generating returns of around 0.4% per annum during 2020-21 and 2021-22. Although options for investment were fairly constrained there was desire to invest in areas that had social and environmental benefits.
- 3.4 In 2019 the Council was approached jointly by Altana Wealth Management and Warrington Council regarding the establishment of the Public Sector Social Impact Fund (PSSIF) . The fund aimed to invest in projects with UK businesses to improve the lives of UK residents. Investment would be considered in areas such as social housing, renewables, forestry, local lending vehicles and any other investments that are deemed to have a high social impact. The investment period was for a minimum 10 year period with the option of extension for a further two years. The longest term investment period would allow for greater investment returns although returns in early years would be low as investment opportunities would need to be identified and necessary checks and due diligence undertaken.
- 3.5 After conducting necessary due diligence including associated legal agreement review the Council invested £10 million with PSSIF in February 2020. The fund

currently has a total of £46 million invested within it meaning the council investment represents 21.7% of the fund.

- 3.6 Progress in the identification and agreement of investments from the fund has been slower than originally anticipated. The pandemic and associated economic downturn suppressed investment opportunities and caused delays in due diligence processes. There has also been increased competition within investment markets as other investors increasingly place emphasis on environmental and ethical investment opportunities.
- 3.7 The fund made its first project investment in the quarter ending 30th June 2022. This was a £10 million investment into an ethical lending platform My Community Bank. My Community Bank operates on a national basis and is committed to tackling financial exploitation allowing customers to access affordable finance and therefore delivering a positive financial impact. The investment has been in tranches which were completed by February 2023. The investment is forecast to produce a high single digit return. Further detail of the investment and details of the due diligence undertaken by the fund before placing the investment is contained within appendix A. Appendix A is exempt due to the commercially confidential information contained within the appendix.
- 3.8 The fund has recently exercised its option to extend the period for the placing of investments to January 2024 with the subsequent return of invested principal confirmed in or before January 2032. Monies may however be returned before the above date subject to placement and investment periods. The fund investment managers are currently working on a number of potential investment opportunities. These include a number based on the theme of decarbonisation within the built environment / net-zero targets such as:
- a partnership with a specialist commercial and industrial rooftop solar installer has recently been finalised. This will provide the fund with renewable energy sector investment opportunities over the coming months
 - the investment team is continuing to focus on a pipeline of other opportunities within the renewable energy sector.
 - a proposal for investment in a project improving energy efficiency through the retrofitting of older buildings has been completed but is now unlikely to proceed after a review of real estate risks in the current market conditions
- 3.9 Returns were expected to be low in the early years as there is a lead in period for sourcing suitable opportunities and conducting appropriate due diligence. Returns have been lower than anticipated due to delays partly from the pandemic and the economic downturn. Approximately £80,000 of return has been received to date. Notification of the distribution of the returns from the first investment and bond / UK treasury bills and returns for the latter part of 2022/23 is imminent. Funds held pre-project investment are held in treasury bills, money market funds and corporate bonds. Returns on these investments have covered any agreed administrative fees with surplus then available for distribution.
- 3.10 Future returns will increase as the investment fund is deployed into investment projects. The high single digit return on the first investment will begin to be reflected in distributions to the Council and will be added to as projects are committed to. The impact of recent bond and investment growth will also be reflected.

- 3.11 In May 2022 investors were requested to agree a number of changes to the fund operation. The investment manager in place at inception was replaced by two new investment managers. There were amendments to the investment limits allowing for a higher investment limit per deal. Altana advised there were likely to be more opportunities within acceptable risk levels at these levels. For marketing purposes ahead of future investment rounds and to appeal to the wider investment market the fund name was changed to the Altana Social Impact Partnership. The Council accepted these changes after consultation with our treasury adviser.
- 3.12 In their 2020-21 VfM Review Governance of Company and Other Investments 2021-22 report Grant Thornton made a number of comments
- The investment is a long term investment although the Council did undertake due diligence before investing
 - At the time of the report publication no investment had been made into projects (the first investment has now been made per above with others currently undergoing due diligence)
 - As the fund is externally managed the Council appears to have limited control over investments made by the fund
 - The investment was made using the delegated powers of the Section 151 Officer and was in accordance with the terms of the agreed Treasury Management Policy and there appeared to be appropriate governance in relation to the investment decision and monitoring of the fund
 - There is some risk given the long term nature of the investment and there is requirement to monitor the long term success of the fund particularly as the Council has on-going financial challenges.
- 3.13 In response, the investment is a significant amount for a long term. The amount invested has been determined as appropriate for a long term placement given known cashflows and reserve requirement levels. The Council holds a greater proportion of investments in shorter term including daily deposits providing balance to our investment funds. The expected profile was for lower returns in early years before funds are fully deployed and then increased returns in later years of the investment.
- 3.14 Altana Wealth is a fund management company authorised and regulated by the Financial Conduct Authority. The Altana Social Impact Partnership Fund is managed by experienced investment managers and appropriate due diligence on investments and protection of invested monies are key priorities for the fund managers. Altana Wealth have also invested a significant sum within the fund and therefore share any risks and rewards from the fund.
- 3.15 The fund has a number of operational and governance arrangements involving externally Apex Depository UK providing depository and investment administrative services, legal advice via Freeths LLP, whilst the fund auditor is Grant Thornton.
- 3.16 The Council relies on the expertise of the fund managers to identify investment opportunities and undertake necessary due diligence. Investors are also able to suggest opportunities for the fund to consider. The fund managers stress that they consider a number of opportunities but will only invest where they are satisfied that

there is the necessary security to safeguard invested sums and seek to place investments where there are suitably experienced management teams in place.

3.17 The fund has an investment advisory committee which contains representation from the local authority sector including those with wide investment and section 151 experience. The committee also includes Altana Wealth and Independent members.

3.18 In term of monitoring quarterly reports on the fund activities are provided and follow up calls held with the investment managers. The fund provides all necessary accounting information for inclusion within the Council’s statutory accounts.

4.0 FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from this report which is for noting. The subject matter involves investments which are intended to produce a rate of return and full repayment of invested sums at a point in the future. As with any investment, there is a risk to capital invested and therefore appropriate mitigation and processes are required to minimise risk.

5.0 LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the report.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 There are no direct resource, staffing, ICT or asset implications from this report.

7.0 RELEVANT RISKS

7.1 This report is for noting and in itself does not involve risk. The underlying investment the report discusses does involve treasury risk

Risk	Mitigation
Credit and Counterparty Risk (Security of investments).	That any potential counterparty is subjected to suitable due diligence to ascertain appropriateness for investment and investment criteria
Legal and Regulatory Risk	That appropriate legal advice is sought on investments to ensure adherence to relevant legislation and regulation.
Liquidity Risk (monies may be required)	Invested sums are considered against cashflow forecast and assessment of longer term reserve balances
Exposure to inflation	That wherever possible investments are entered into at inflation equalling levels of interest. This depends entirely on the nature and purpose of the proposed investment.

Opportunity Risk (Return may be higher or lower if alternative investments made)	Investments made within agreed parameters of treasury investment strategy. Balanced suite of investments over short and medium term with appropriate due diligence
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8.0 ENGAGEMENT/CONSULTATION

8.1 This report is an update on the existing investment in the Altana Social Impact Partnership and is for noting.

9.0 EQUALITY IMPLICATIONS

9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The report is for noting. The Altana Social Impact Fund seeks to deploy its funds in investments which deliver positive social and environmental benefits.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The report is for noting. The Altana Social Impact Fund seeks to deploy its funds in investments which deliver positive social and environmental benefits which would include improving the wealth of the community.

REPORT AUTHOR: **Name: Peter Molyneux**
 Senior Finance Manager
 telephone: 0151 666 3389
 email: petemolyneux@wirral.gov.uk

APPENDICES

Appendix A: Social Impact Fund Investment and Due Diligence. Appendix 1 of this report contains exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 being ‘Information relating to the financial or business affairs of any particular person (including the authority holding the information).’

BACKGROUND PAPERS

ASIF (PSSIF) LP –Quarterly Reports and Capital Account Statements

TERMS OF REFERENCE

This report is being considered by the Audit and Risk Management Committee in accordance with Sections C ((iv), (v) and F (i) of its Terms of Reference,

- (c) (iv) : Receive assurances that action is being taken on risk related issues identified by both internal and external auditors and other inspectors.
- (c) (v) : Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk.
- (f) (i) : Consider any other reports of external audit and other inspection agencies.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Audit and Risk Management	20th July 2022