WIRRAL

POLICY AND RESOURCES COMMITTEE

Tuesday, 13 February 2024

REPORT TITLE:	**NON – TREASURY INVESTMENT STRATEGY 2024/25**
REPORT OF:	**DIRECTOR OF FINANCE (S151 OFFICER)**

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 the DLUHC to produce an investment strategy that covers non-treasury activities.

The Investment Strategy indirectly assists the Council in achievement of the Council Plan: Wirral Working Together 2023-2027, as it contributes to the available funding of the Council to support the achievement of the 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 2024/2025 which includes potential investment in the following activity areas:

1. Commercial Property
2. Service Investments: Loans;
3. Service Investment: Shares (non-currently held); and
4. Loan Commitments and Financial Guarantees

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATIONS

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

2.0 OTHER OPTIONS CONSIDERED

2.1 This report fulfils the requirement of the 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.

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 non-treasury 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.

3.3 The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority’s definition of an investment with that in the 2021 edition of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, a more recent piece of statutory guidance.

3.4 A separate report covering the Treasury Management Strategy is listed on the agenda for this Committee that fulfils the Council’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code of Practice for Treasury Management in Public Services (the “CIPFA TM Code”) and the DLUHC guidance.

Treasury Management Investments

3.5 The Council typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes (Precepts) on behalf of other public bodies (Police, Fire, Liverpool City Region Combined Authority) and Central Government. These activities, plus the timing of borrowing decisions, may lead to a cash flow surplus which is invested in accordance with guidance from CIPFA. The daily balance of treasury management investments is expected to fluctuate between £20m and £50m during the 2024/25 financial year.

3.6 The Council defines its treasury management activities as:

“the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.” (CIPFA Treasury Management in Public Services Code of Practice)

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

3.8 Further details: Full details of the Council’s policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the Treasury Management Strategy.

Service Investments: Loans

3.9 Contribution: The Council lends money to its subsidiaries e.g., Edsential Community Interest Company (by way of a credit facility), and local businesses 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.

3.10 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	**31.03.2024 Estimated**			**2024/25**
	Balance Owing £000	**Loss allowance £000**	**Estimated Net figure in accounts £000**	**Approved Limit £000**
Subsidiaries	982	225	757	10,000
Local businesses	1,239	442	797	10,000

TOTAL	**2,221**	**667**	**1,554**	**20,000**

(N.B. **-** the figures in Table 1 can change due to timing differences between the date of the report and the Statement of Accounts).

3.11 Accounting standards require the Council to set aside a loss allowance (where appropriate) 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.

3.12 Risk assessment: The Council assesses the risk of loss before entering and whilst holding service loans. If in the future the Council actively markets itself as a provider of finance, it would need to assess the market that it would be competing in e.g., other local authorities and financial institutions. 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 the procurement team;
- Analysis of business plans;
- Appropriate interest rate calculation, including potential subsidy control implications; and
- The availability of any securities/collateral.

Service Investments: Shares

3.13 Contribution: The Council can invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth. At present there are no such investments in place.

3.14 Security: One of the risks of investing in shares is that they 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 will be determined as the need arises.

3.15 Risk assessment**:** The Council will assess the risk of loss before entering and whilst holding shares by the approach referred to in paragraph 3.12 of this report.

3.16 Liquidity: The maximum period for non-subsidiaries which funds may prudently be committed would initially be 12 months, but this would be subject to an ongoing review to best avoid the likelihood of capital losses.

3.17 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 on share investments will therefore also be 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 covered by this requirement.

Commercial Investments: Property

3.18 Contribution: 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. The Council's portfolio includes industrial estates, commercial and leisure properties. Properties currently held for investment purposes have been detailed below.

3.19 The estimated values in the table below, specifically Europa Boulevard and Vue Cinema, represent the latest valuations as per the Statement of Accounts (as at 31.03.2023), and reflect the specific circumstances at that time, directly attributable to pressures arising due to the economic climate. These valuations are to be reviewed again this year and the prevailing market conditions factored in.

Table 2: Property held for investment purposes

Property	**Actual**	**31.3.2024 Estimate**	
	Purchase cost £000	**Gains or (losses) £000**	**Estimated Value in accounts £000**
Europa Boulevard	8,400	(4,270)	4,130
Vue Cinema	6,800	(1,700)	5,100
The Pyramids and The Grange Shopping Centre	10,590	0	10,590
Other Investment Properties	9,286	1,042	10,328
TOTAL	**35,076**	**(4,928)**	**30,148**

3.20 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, but subsequent acquisitions (Europa Boulevard and Vue Cinema) are linked to regeneration opportunities. In respect of The Pyramids and The Grange Shopping Centres, a revaluation will be undertaken as part of the 2023-24 Statement of Accounts process.

3.21 The Asset Strategy 2022-2027 was presented and approved by 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.

3.22 Security: In accordance with government guidance (former MHCLG Guidance on Local Government Investments 2018), 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.

3.23 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. Should the 2023/24 year-end accounts preparation and audit process value these properties significantly below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

3.24 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.

3.25 Risk assessment: The Council assesses the risk of loss before entering and whilst holding property investments as outlined in 3.12 of this report.

3.26 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

3.27 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.

3.28 The Council has committed itself to make available a credit facility of £2 million to Edsential Community Interest Co. To date £0.125 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.

3.29 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 their financial pressures because of the COVID-19 pandemic. Both shareholders agreed to provide an additional £857k to Edsential (£1.714m total). Council agreed to provide the funding at a meeting of Shareholder Board in October 2021. It should be noted that this loan is separate from the credit facility, and as such, has individual terms and conditions.

3.30 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

3.31 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

	2023/24 Forecast £000	**2024/25 Budget £000**	**2025/26 Budget £000**	**2026/27 Budget £000**
Gross service expenditure	676,208	690,024	707,750	732,930
Investment income	2,000	2,000	3,000	3,000
Proportion	0.30%	0.29%	0.42%	0.41%

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

Borrowing in Advance of Need

3.32 Government guidance (former MHCLG Guidance on Local Government Investments 2018) is that local authorities must not borrow more than, or in advance of their needs, solely to profit from the investment of the extra sums borrowed. The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. At present, any borrowing arrangements in place have been made solely to meet cashflow requirements, and not to profit from the investment of the extra sums borrowed. Furthermore, all borrowing is undertaken once an analysis of approved lending counterparties has taken place. These risks will be managed as part of the Council's overall management of its treasury risks, in addition to the consideration of the recommendations contained within the CIPFA/DLUHC Local Government Finance Review (November 2021).

Capacity, Skills and Culture

3.33 Elected members and statutory officers: The Council has a dedicated 'Policy & Resources Committee' to review key financial matters. The Committee meets regularly with officer support from the Director of Finance 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 frequent meetings of the Policy and Resources Finance Sub-Committee via weekly workshops 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. Reports undergo extensive review to ensure content is detailed and appropriate for the circumstance, 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.

3.34 Decisions which have a financial impact must be approved by the Director of Finance (Section 151 Officer) or one of their authorised officers. Finance Officers are members of appropriate professional bodies such as the Chartered Institute of Public Finance and Accountancy (or equivalent). Membership requires that 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.

3.35 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.

3.36 Corporate governance: The Director of Finance has statutory responsibility for overseeing the Council's financial affairs and ensuring that robust controls are in place. The Director is supported by officers within and outside the directorate. The Investment and Change Board assists with ensuring governance and oversight is in place. At member level there is a Policy & 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

3.37 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.

3.38 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 third-party loans.

Table 4: Total investment exposure

Total investment exposure	**31.03.2023 Actual £000**	**31.03.2024 Forecast £000**	**31.03.2025 Forecast £000**
Treasury management investments	63,368	50,000	50,000
Service investments: Loans	2,124	2,221	2,221
Commercial investments:	18,915	30,148	30,148

Total investment exposure	31.03.2023 Actual £000	31.03.2024 Forecast £000	31.03.2025 Forecast £000
Property			
TOTAL INVESTMENTS	**84,407**	**82,369**	**82,369**
Commitments to lend	2,045	2,170	2,170
Arrangements issued on loans	9,793	0*	5,780*
TOTAL EXPOSURE	**96,245**	**84,539**	**90,319**

* Arrangements issued on loans include a potential one-off payment of £4.9m which expires after December 2024; and one arrangement which could be paid between January 2024 and November 2026. These do not appear likely to be requested prior to 31st March 2024, and therefore have been included as an estimated payment in 2025.

3.39 How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 5: Investments funded by borrowing

Investments funded by borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Service investments: Loans	2,124	2,221	2,221
Commercial investments: Property	18,915	30,148	30,148
TOTAL FUNDED BY BORROWING	**21,039**	**32,369**	**32,369**

3.40 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.

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Actual %	2023/24 Forecast %	2024/25 Forecast %
Treasury management investments	1.98	5.37	5.37
Service investments: Loans	4.78	5.55	5.66
Commercial investments: Property	7.10	3.17	3.17
ALL INVESTMENTS	**3.57**	**4.59**	**4.59**

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 (DLUHC) 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 - Fluctuations in interest rates will impact the authority’s finances. While a rise in interest rates would be beneficial for short-term investments which could be reinvested at higher rates, it would be a cost for variable rate borrowing, existing borrowing that needs to be refinanced, and any new borrowing. Higher interest rates can also improve debt rescheduling opportunities by increasing discounts/lowering premiums. Conversely, a fall in interest rates is beneficial for variable rate debt, existing borrowing which needs to be refinanced and new borrowing, but not for variable rate investments which would generate lower returns. Increased costs due to changes in interest rates would negatively impact the revenue position of the council.	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 - Where the Authority’s returns/cash flows from investments are lower than the prevailing rate of inflation, those	Wherever possible, investments are entered into at inflation equalling levels of interest. This depends entirely on the nature and purpose of

Risk	Mitigation
investments/cash flows will be worth less in the future because of the erosion in their purchasing power due to inflation. Such a reduction in value would increase pressure on the council’s revenue budget.	the proposed investment.
Legal and Regulatory Risk - Failure to comply with any legal requirements or regulations could lead to the council gaining a poor reputation, which in severe cases could have wider implications than treasury management. This could lead to cause increased scrutiny from central government, and the possibility of the installation of commissioners to oversee the council’s functioning. Not adhering to the PWLB lending arrangements could mean being locked out of accessing funding from them as lender of last resort. Also, counterparties may choose not to deal with the authority, limiting the council’s access to investment opportunities and/or sources of borrowing, and as a minimum increasing borrowing costs due to the higher perceived risk of dealing with the council.	Appropriate legal advice is sought on new opportunities to ensure adherence to relevant legislation and regulation.
Credit and Counterparty Risk (Security of investments) - Should a counterparty fail to meet its contractual obligations to the council, particularly as a result of the counterparty’s diminished creditworthiness, this could have a detrimental effect on the authority’s capital or revenue resources. This impact could come from a loss of principal and/or interest on an investment, such as from a counterparty defaulting or a bank being ‘bailed-in’, with the latter likely to mean the authority loses a proportion of its investment (a ‘haircut’) in order to recapitalise the failing bank. For investments with other local authorities, while a loss of	Any potential counterparty is subjected to suitable due diligence to ascertain appropriateness for investment and investment criteria.

Risk	Mitigation
principal is considered unlikely, there is likely to be a delay in the council getting its money back. Both actual and expected credit losses would negatively impact the council as they would need to immediately be charged to revenue.	

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.

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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:

<u>Policy and Resources Committee</u>
(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 2021-22	17th February 2021
Investment Strategy Statement 2022-23	15th February 2022
Investment Strategy Statement 2023-24	15th February 2023