

COUNCIL
5 March 2020

Report of the Head of Resources

CORPORATE INVESTMENT STRATEGY AND COMMERCIAL INVESTMENT STRATEGY FOR 2020/21

PURPOSE OF REPORT

This report seeks approval for the Corporate Investment Strategy and Commercial Investment Strategy for 2020/21.

RECOMMENDATION

1. That the Corporate Investment Strategy for 2020/21 be approved.
2. That the Commercial Investment Strategy for 2020/21 be approved.

WARDS AFFECTED

All

STRATEGIC LINK

Income from investments will contribute to the achievement of all of the Council's Corporate Plan Priorities.

1. REPORT

1.1 BACKGROUND

1.1.1 Elsewhere on the agenda for this Council meeting is a report that recommends that the Council sets a corporate savings target to achieve savings of £250,000 by 2023/24. At the Council meeting on 5 March 2018, the Council considered a report on the potential for operating on a more commercial basis to help achieve a sustainable financial future. The report set out an approach for the Council to explore commercial opportunities. Property Investment is now commonly undertaken by local authorities, acquiring assets both within and outside of their governance boundaries. Property investment is capable of generating returns above the usual treasury investment rates, creating positive income. It was agreed that a Commercial Investment Strategy would be required and that the primary purpose of the Strategy would be to create additional revenue streams for the Council to enable the Council to sustain its long-term financial future enabling it to maintain its current services and to add value to the communities of the Derbyshire Dales.

1.1.2 It was also agreed that the Council's preferred approach in meeting this primary purpose is to consider any future commercial opportunities that can be assessed using the following guiding principles where projects should:-

- meet the Council's Corporate Priorities;
- deliver community benefit;
- require minimum investment for maximum return;
- are primarily within the District boundaries, consideration will be given to opportunities outside these boundaries if the benefit to the Council or Derbyshire Dales is significant:
- grow the business base;
- deliver a diversified portfolio of projects that balance risk and return.
- be in accordance with statutory guidance and best practice issued by CIPFA.

1.1.3 At its meeting on 24 May 2018, the Council approved the functions for the Commercial Board, which include:

1. Continually review the Commercial Investment Strategy and advise Council on its relevance.
2. Act as the Initial Assessment Board and advise Council or appropriate Committee on projects to take forward, in accordance with the Scheme of Delegation.
3. Manage use of the Council's Investment Fund and determine or advise on allocations from it in accordance with the Scheme of Delegation.
4. To spend up to £150k in a single transaction for a project / feasibility study / pump priming (in accordance with assessment criteria) that delivers a return in accordance with the Commercial Strategy.
5. Keep under review the criteria to be used in determining projects to take forward, advising Council on any changes to be made.

1.1.4 At its meeting on 7 March 2019 the Council approved a Commercial Investments Strategy and a Corporate Investments Strategy for 2019/20. These strategies have been reviewed, and no significant changes are recommended for 2020/21.

1.1.5 The Council has established an investment reserve that currently has a balance of £564,950, which is available for commercial investment projects.

1.1.6 When investing in property, local authorities must comply with statutory guidance. This includes the Ministry for Housing Communities and Local Government (MHCLG) February 2018 publication, providing updated statutory guidance on capital finance (on local government investments and on minimum revenue provision (MRP)). Two codes of practice (Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and The Prudential Code for Capital Finance in Local Authorities) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) contain additional investment guidance, which complements the MHCLG guidance.

1.1.7 This guidance includes requirements for councils to prepare an annual investment strategy which must be approved before the start of the forthcoming financial year. This document must include:

1. details of the processes used to ensure effective due diligence, defining the authority's risk appetite, including proportionality in respect of overall resources.

2. an explanation of arrangements for independent and expert advice and scrutiny.
3. disclosure of the contribution that investments make *“towards the service delivery objectives and / or place making role of the local authority”*.
4. indicators that enable councillors and the public to assess the authority’s investments and the decisions taken.

The investment guidance is clear that Councils may not “borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed”. The definition of investment has recently been extended to include investment in property and the granting of loans to third parties.

In recognition of the importance of commercial income to councils at a time when government funding has been in decline, a council can choose to disregard the Prudential Code and this part of the guidance. In this case its investment strategy should set out why this is the case and what the council’s relevant policies are.

1.1.8 For Derbyshire Dales District Council there are three separate elements to the Strategy:

- i. The annual treasury management investment strategy, which covers all cash investments;
- ii. The annual Corporate Investment Strategy, which meets the guidance issued by central government in 2018 and focuses on service investments and commercial investments;
- iii. The annual Commercial Investment Strategy, which covers the Council’s approach to commercial investments (especially property in more detail),

1.1.9 The Council currently has several other statements and strategies that relate to Capital and Investments, including:

- a Treasury Management Strategy for 2019/20, which includes the Annual Investment Strategy for 2019/20 (approved March 2019 – the draft strategy for 2020/21 is elsewhere on the agenda for this Council meeting),
- a Capital Strategy (approved in March 2019; a revised version for 2020/21 is included elsewhere on the agenda for this meeting for Members’ consideration), and
- a Minimum Revenue Provision (MRP) Statement (the statement for 2019/20 was approved in March 2019; the statement for 2020/21 is included elsewhere on the agenda for this meeting for Members’ consideration); and
- an Asset Management Plan (approved in January 2019).

1.2 PROPOSED INVESTMENT STRATEGIES FOR 2020/21

1.2.1 The proposed Corporate Investment Strategy for 2020/21 is included at Appendix 2 to this report. It reflects the governance arrangements, guiding principles and assessment criteria already approved by Council, the CIPFA Prudential Code for Capital Finance in Local Authorities, the CIPFA Code of Practice on Treasury Management, as well as the government guidance issued in February 2018.

1.2.2 The proposed Commercial Investment Strategy for 2020/21 is included at Appendix 3 to this report. The objective of the Commercial Investment Strategy is to establish a framework for the identification of commercial investments which, if made, would provide

the Authority with an income stream and potential business growth, regeneration or housing opportunities.

1.2.3 The proposed strategies:

- should ensure that the Council does not expose itself to too much financial risk through borrowing and investment decisions by placing security and liquidity of investments above yield;
- ensure that the council does not borrow more than or in advance of its needs purely in order to profit from the investment of the sums borrowed;
- provide transparency and accountability in investment decisions;
- disclose the steps taken to ensure that those elected members and statutory officers involved in the investments decision-making process have appropriate capacity, skills and information to enable them to take informed decisions;
- include an investment evaluation process. Commercial Investment projects will be considered by the commercial board, using the assessment criteria approved by Council and the risk matrix shown as Appendix B to the Commercial Investment Strategy. The commercial board may determine an application under delegated powers or may recommend a project to Council for approval.

1.2.4 It is acknowledged that commercial investment opportunities may require agile and quick decision making. However, in order to ensure appropriate governance arrangements are maintained, investment decisions will be made in accordance with the Council's existing decision making process, limits of authority and Scheme of Delegation contained within the Council's Constitution. It may be appropriate to consider whether it is necessary to make changes to the Council's Constitution, especially its Scheme of Delegation, to allow investments (such as the purchase of commercial property) to take place without undue delay. Officers will examine this and will reflect any proposed changes in the review of the Scheme of Delegation to be considered at the Annual Council meeting. Where there is no delegated authority and it is not possible to wait until the next Council meeting, an extra-ordinary meeting will be arranged as soon as practicably possible.

1.2.5 During 2020/21, the Council will be considering a number of new commercial opportunities linked to projects already under consideration including a council house building programme and the redevelopment of the Market Hall site on Bakewell Road, Matlock. In addition, it is proposed that Members will be engaged on a fundamental review of the Council's ambitions and approach to commercialisation which will set the future agenda.

2 RISK ASSESSMENT

2.1 Legal

Statutory guidance issued under S15(1)(a) of the Local Government Act 2003 regulates local government Investments. An 'investment' covers 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. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The Strategy has been prepared in compliance with the Guidance and all accounting procedures which follow. The legal risk is therefore low.

2.2 Financial

The financial risks and rewards of individual projects will be assessed as they are considered by the Commercial Board or Council. The financial risk of this report is assessed as low.

2.3 Corporate

By their nature, it is expected that commercial investments might involve more risk than the Council has previously been exposed to; on the other hand, the rewards could be greater. The framework set out in the proposed Investment Strategies provides transparency and should ensure that the Council does not expose itself to too much financial risk through its commercial investment decisions. The risk is therefore assessed as medium.

3 OTHER CONSIDERATIONS

In preparing this report the relevance of the following factors has also been considered prevention of crime and disorder, equalities, environmental, climate change, health, human rights, personnel and property.

4 CONTACT INFORMATION

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5 BACKGROUND PAPERS

None

6 ATTACHMENTS

Appendix 1: Investment Assessment Criteria Approved May 2018

Appendix 2: Draft Corporate Investment Strategy 2020/21

Appendix 3: Draft Commercial Investment Strategy 2020/21

ASSESSMENT CRITERIA FOR INVESTMENT PROJECTS

(Approved 24 May 2018)

Overriding Requirement

- Any project to be considered for investment must be presented with a full Business Case and Risk Assessment.
- The Board can allocate funds (within Scheme of Delegation) for feasibility studies to help deliver a Business Case if the proposed project has the potential to deliver significant value to the Derbyshire Dales' community.

Proposed Criteria for Individual Projects

(the Board may wish to prioritise / weight these)

1.	Council has necessary legal powers to support the project.
2.	Project / opportunities supports Council priorities and the main aim of the Board and Commercial Investment Strategy.
3.	Project / opportunity provides community benefit.
4.	Financial return and risk is balanced against social and economic return.
5.	Projects / opportunities arising outside Authority boundaries will be considered where rates of return justify the investment.
6.	Projects / opportunities make best use of Council assets / resources.
7.	Rates of return better than investing through Treasury Management processes.
8.	Invest to Save projects that lead to a reduction in costs in service delivery for the Council, e.g. introduction of new technologies.
9.	Priority given to investments that contribute to the growth of Council business rate income.
10.	Projects where it is considered that the relationship would have a negative impact on the Council will not be considered. Examples of specific exclusions – Projects linked with the promotion:- <input type="checkbox"/> Alcohol products where over 25% of those attending or using the services are under 18 <input type="checkbox"/> Tobacco products <input type="checkbox"/> Unhealthy food or unhealthy lifestyles <input type="checkbox"/> Weaponry <input type="checkbox"/> Gambling <input type="checkbox"/> Racism <input type="checkbox"/> Messages of a sexual nature <input type="checkbox"/> Political parties
11.	State Aid implications should be assessed before any investment in a project is agreed.