

COUNCIL
04 MARCH 2021

Report of the Director of Resources

CORPORATE INVESTMENT STRATEGY AND COMMERCIAL INVESTMENT STRATEGY FOR 2021/22

PURPOSE OF REPORT

This report seeks approval for the Corporate Investment Strategy and Commercial Investment Strategy for 2021/22.

RECOMMENDATION

1. That the Corporate Investment Strategy for 2021/22 be approved.
2. That the Commercial Investment Strategy for 2021/22 be approved.

WARDS AFFECTED

None

STRATEGIC LINK

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

1 BACKGROUND

- 1.1 Elsewhere on the agenda for this Council meeting is a report on the Medium Term Financial Strategy (MTFS) that indicates that the Council has to make significant savings in the medium term, unless government funding levels turn out much better than expected. 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.
- 1.2 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.

1.3 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.

1.4 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.

1.5 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).

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

- a Treasury Management Strategy for 2020/21, which includes the Annual Investment Strategy for 2020/21 (approved March 2020 – the draft strategy for 2021/22 is elsewhere on the agenda for this Council meeting),
- a Capital Strategy (approved in March 2020; a revised version for 2021/22 is included elsewhere on the agenda for this meeting for Members' consideration), and
- a Minimum Revenue Provision (MRP) Statement (the statement for 2020/21 was approved in March 2020; the statement for 2021/22 is included elsewhere on the agenda for this meeting for Members' consideration); and
- an Asset Management Plan (approved in January 2019).

1.7 During 2020/21, the Council used the Commercial Investment Strategy when considering a commercial opportunity for the redevelopment of the Market Hall site on Bakewell Road, Matlock.

2 REPORT

2.1 The current Commercial Investments Strategy and Corporate Investments Strategy were approved on 5 March 2020. These strategies have been reviewed, and no significant changes are recommended for 2021/22.

2.2 The proposed Corporate Investment Strategy for 2021/22 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.

2.3 The proposed Commercial Investment Strategy for 2021/22 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.

2.4 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 relevant policy committee or Council, using the assessment criteria approved by Council and the risk matrix shown as Appendix B to the Commercial Investment Strategy.

3 RISK ASSESSMENT

3.1 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.

3.2 Financial

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

3.3 Corporate Risk

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.

4 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.

5 CONTACT INFORMATION

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6 BACKGROUND PAPERS

None

7 ATTACHMENTS

Appendix 1: Investment Assessment Criteria Approved May 2018

Appendix 2: Draft Corporate Investment Strategy 2021/22 - **To follow**

Appendix 3: Draft Commercial Investment Strategy 2021/22 - **To follow**

ASSESSMENT CRITERIA FOR INVESTMENT PROJECTS

Overriding Requirement

- Any project to be considered for investment must be presented with a full Business Case and Risk Assessment.
- Council or a relevant policy committee 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

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| 1. | Council has necessary legal powers to support the project. |
| 2. | Project / opportunities supports Council priorities and the main aim of the 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. |