



CORPORATE INVESTMENT STRATEGY 2022/23

1. Background and Introduction

- 1.1 This strategy outlines the Authority's Investment Strategy for 2022/23 for consideration and approval by Council before the start of the financial year.
- 1.2 The Authority's Treasury Management Strategy, Capital Programme, Capital Strategy and Minimum Revenue Provision (MRP) Policy are addressed elsewhere.
- 1.3 The Authority invests its money for three broad purposes:
 - because it has 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).
- 1.4 This Corporate Investment Strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

2. Treasury Management Investments

- 2.1 The Authority 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 to suppliers, benefit claimants etc.). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £8m and £21m during the 2022/23 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities and to generate income while having regard to security and liquidity.

Further details: Full details of the Authority's policies and its plan for 2022/23 for treasury management investments are covered in a separate document, the Treasury Management Strategy, available on the Authority's website.

3. Service Investments

3.1 Service Investments: Loans

3.1.1 **Contribution:** The Authority has powers to lend money to any subsidiaries, its suppliers, business partners, parish and town councils, local charities, registered providers (formerly known as housing associations), its employees and to community groups to support local public services and stimulate local economic growth. For example, the Authority may give a loan to a local community group who are undertaking a project to deliver affordable housing. The capital programme approved in March 2022 includes one service loan of £110,000 (£40k in 2021/22 and £70k in 2022/23).

3.1.2 **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. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes

Category of borrower	31.3.2021 Actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0	0	0	£500,000
Town and parish councils	0	0	0	£500,000
Business partners	0	0	0	£1m
Local charities	0	0	0	£500,000
Local community groups	0	0	0	£500,000
Registered Providers (Housing associations)	0	0	0	£1m
TOTAL	0	0	0	£4m

3.1.3 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. In respect of the loan mentioned above, the value in Authority's statement of accounts from 2021/22 onwards will be shown net of this loss allowance. However, officers will make every reasonable effort to collect the full sum lent and will put in place appropriate credit control arrangements in place to monitor payments and to recover overdue payments.

3.1.4 **Risk assessment:** The Authority will assess the risk of loss before entering into and whilst holding service loans, using the following approach:

1. The Authority will consider a comprehensive business case and business plan for each individual potential investment opportunity. This will include a market analysis focussing on competition, demand and current market trends.

2. To ensure that it has access to quality advice and expertise in specialist areas, the Authority will use external advisers where appropriate. This may include an assessment of the particular market that the Authority will be competing in, the nature and level of competition, an assessment of how the market/customer needs will evolve over time, barriers to entry and exit, legal and taxation issues and any ongoing investment requirements (such as a credit reference check). Each potential investment will undergo qualitative and quantitative appraisal to establish its relevance to the Authority's Corporate Plan priorities and the legal and financial implications of the purchase.

3.2 Service Investments: Shares

3.2.1 **Contribution:** The Authority currently has an equal share in the Derbyshire Building Control Partnership, along with 5 other local authorities, to support local development by delivering a local service. The Authority has powers to invest in the shares of any subsidiaries, its suppliers, and business partners to support local public services and stimulate local economic growth.

3.2.2 **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 of shares have been set as follows:

Table 2: Shares held for service purposes

Category of company	31.3.2021 Actual			2022/23
	Amount invested	Gains or losses	Value in accounts	Approved Limit
Derbyshire Building Control Partnership	£1	0	£1	£1
Business Partners	0	0	0	£500,000
TOTAL	£1	0	£1	£500,001

3.2.3 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by using the following approach:

1. The Authority will consider a comprehensive business case and business plan for each individual potential investment opportunity. This will include a market analysis focussing on competition, demand and current market trends.
2. To ensure that it has access to quality advice and expertise in specialist areas, the Authority will use external advisers where appropriate. This may include an assessment of the particular market that the Authority will be competing in, the nature and level of competition, an assessment of how the market/customer needs will evolve over time, barriers to entry and exit, legal and taxation issues and any ongoing investment requirements (such as a credit reference check). Each potential investment will undergo qualitative and quantitative appraisal to establish its relevance to the

Authority's core values and the legal and financial implications of the purchase.

3.2.4 **Liquidity:** Based on the approved limit in Table 2 the funds will not be required in the short term and may prudently be committed for the periods covered by this strategy.

3.3 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

4. Commercial Investments: Property

4.1 The government (DLUHC) defines property to be an investment if it is held primarily or partially to generate a profit.

4.2 **Contribution:** The Authority currently holds three retail sites with the intention of generating income that will be spent on local public services. The main property investments that are held are shown in the table below:

Table 3: Property held for investment purposes

Property	Actual	Actual 31.03.21		Expected 31.03.22	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Retail Site 1	n/a*		£1,210,000		£1,210,000
Retail Site 2	n/a*		£112,000		£112,000
Retail Site 3	n/a*		£128,000		£128,000
TOTAL			£1,450,000		£1,450,000

*The council acquired ground leases for investment properties in 1974.

4.3 **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

Where the value in accounts is at or above purchase cost a fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2021/22 year end accounts preparation and audit process value these properties 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.

4.4 **Risk Assessment:** The risk is low as there are no outstanding borrowing associated with their acquisition.

4.5 **Future commercial Investments:** With effect from 1st April 2022, the Council shall not acquire Commercial Assets bought primarily for yield.

Acquisition and development of property will be with the primary aim of strategic regeneration, business growth, job creation and enhancing social or economic value with secondary aims of achievement of a financial return in order to contribute to the costs of investment and provide for whole-life asset maintenance costs and future fluctuations in property income.

5 Loan Commitments and Financial Guarantees

5.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and, therefore, are included in this Strategy for completeness.

5.2 The Authority has contractually committed to make a Loan of £110,000 to Hurst Farm Social Club in 2021/22 to support regeneration of the building, this will be repaid to the council by March 2023.

6 Proportionality

6.1 For 2022/23 the Authority's revenue budget includes some income arising from profit-generating investment activity. Table 6 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan. Should it fail to achieve the expected net profit, the Authority's contingency plan for continuing to provide these services is to use the General Reserve, which is forecast to have a balance of £900,000 at 31 March 2022.

Table 6: Proportionality of Investments

	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Budget £'000	2023/24 MTFP £'000	2024/25 MTFP £'000
Gross service expenditure	31,726	30,264	29,301	29,887	30,485
Investment income	101	101	101	101	101
Proportion	0.32%	0.33%	0.34%	0.34%	0.33%

7 Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

8 Capacity, skills and culture

8.1 This Authority recognises the importance of ensuring that all Elected Members and Officers involved in investment decisions are fully equipped to undertake the duties and responsibilities allocated to them and have the appropriate capacity, skills and information to enable them to make informed decisions e.g. as to whether to enter into a specific investment. There is a requirement to understand:

- the context i.e. the Authority's corporate objectives
- the Authority's risk appetite and risk assessment framework
- the prudential framework
- the regulatory regime in which the council operates.

8.2 Officers: The Authority will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The following measures are in place:

- Identification of officer training needs on commercial investment related issues through the Performance Development and Review process;
- Attendance at relevant training events, seminars and workshops; and
- Support from the Authority's treasury management advisors, Arlingclose.

8.3 Elected Members: Elected members' training needs are assessed through the Member Development Group. The Authority will also specifically address this important issue by:

- Periodically facilitating workshops or other training for members on investment issues;
- Interim reporting and advice to members.

8.4 Where necessary the Authority will engage external advisers for investment advice, property surveys and due diligence checks. The cost of any such advice will be taken into account when developing business cases and when assessing the overall viability of projects.

8.5 It is important that the Authority has sound arrangements in place to ensure accountability, responsibility and authority for decision making on investment

activities within the context of the Authority's values. Full Council is responsible for the approval of the Corporate Investment Strategy and for monitoring performance against it.

8.6 The Authority's values include transparency in decision-making. To facilitate that, the following arrangements are in place:

- This Corporate Investment Strategy will be made available on the Authority's website;
- Meetings of Policy Committees and Full Council will be open to the public and the agendas and minutes from such meetings will be shown on the Authority's website.

9. Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

9.1 **Total risk exposure:** The indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 7: Total investment exposure £ Millions

Type of investment	31.03.21 Actual £ Millions	31.03.22 Forecast £ Millions	31.03.23 Forecast £ Millions
Treasury management investments	22.5	19	13
Service investments: Loans	0	0.04	*0
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL INVESTMENTS	22.5	19.04	13
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	22.5	19.04	13

*Loan to repaid before end of 2022/23.

10 How investments are funded

The Authority does not have any investments which are funded by borrowing.

10.1 **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.

Table8: Investment rate of return (net of all costs)

Type of investment	31.03.21 Actual	31.03.22 Forecast	31.03.23 Forecast
Treasury management investments	0.16%	0.15%	0.15%
Service investments: Loans	0	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	6.9%	6.9%	6.9%