Appendix 3

Investment Strategy 2021/22

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1.0 Introduction

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).

This investment strategy meet2 the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

2.0 Treasury Management Investments

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 invoices). 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. The balance of treasury management investments is expected to fluctuate between £2.5m and £31.0m during the 2021/22 financial year.

2.1 Contribution

The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

2.2 Further Details

Full details of the Authority's policies and its plan for 2021/22 for treasury management investments are covered in a separate document, the treasury management strategy.

3.0 Service Investments: Loans

3.1 Contribution

The Council lends money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth.

Luminus – Together with Cambridgeshire County Council and health partners a need has been identified for extra care for older people in St Ives. A loan was provided to Luminus to develop a new health care scheme for frail older people at Langley Court, St Ives; which consists of 55 1 and 2 bedroom flats.

Cambridge Regional College (formerly Huntingdonshire Regional College) – A loan was provided to CRC for the redevelopment of their campus. It will ensure students are able to access quality courses and facilities; it will also be financially beneficial to both the Council and College.

Huntingdon Gymnastics Club – A loan was provided to Huntingdon Gymnasium Club to fund building a second gymnasium. At its current capacity they were not able to meet demand. The club considered the expansion of the facility at Huntingdon will serve the community as a whole and consolidate the reputation of Huntingdon Gymnastics Club as a centre of excellence.

Urban and Civic Loan – A loan was provided to Urban and Civic to fast forward the construction of Incubator II on the Enterprise Zone at Alconbury.

3.2 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 in £'000

Borrower	**31.3.2020 actual**			**2021/22**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Luminus	4,917	0	4,917	**Limit not split across categories**
Cambridge Regional College	582	0	582	
Huntingdon Town Council	800	0	800	
Huntingdon Gymnastics Club	26	0	26	
Urban and Civic	1,984	0	1,984	
Improvement Loans	530	0	530	
Employee Loans	36	0	36	
Rental Deposits	173	0	173	
TOTAL	**9,048**	**0**	**9,048**	**15,000**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2019/20 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.3 Risk assessment

The Authority assesses the risk of loss before entering into and whilst holding service loans by:

1. A robust acquisition due diligence process and subsequent approvals
2. Liability management (reviews of debt levels and terms)
3. Borrower (financial exposures, potential defaults, changing business plans, credit rating)
4. Delivery partners (suitability, performance levels and financial stability)
5. Market factors (with periodic advice from appropriate professionals)
6. State Aid considerations
7. Professional advisors

The Dun and Bradstreet Credit Reportes are used to provide credit reports on the borrowers. The reports provide the following:

- Risk Assessment
- Trade Payments
- Legal Events
- Corporate Linkage
- Company Profile
- Financials
- Registry Info

The credit reports have a tracking feature which notifies the Council regarding any updates on a borrower's credit. Other sources such as Companies House and news sites provide the Authority with extra information to assess and monitor risk.

4.0 Service Investments: Shares

4.1 Contribution

The Council will invest in the shares of its subsidiaries, to support local public services and stimulate local economic growth. The Council will be the sole shareholder of its subsidiary HDC Ventures Limited. The purpose of HDC Ventures is to enable the Council to participate in commercial trading activities.

4.2 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 in £'000

Category of company	31.3.2020 actual			2021/22
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries	100	0	100	1,000
TOTAL	**100**	**0**	**100**	**1,000**

4.3 Risk assessment

The risk will be assessed as the company matures and contracts are developed.

4.4 Liquidity

Each investment will be considered by Cabinet and the maximum period set will be on a case by case basis.

4.5 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.

5.0 Commercial Investments: Property

MHCLG defines property to be an investment if it is held primarily or partially to generate a profit.

5.1 Contribution

The Council faces considerable financial challenges over the medium term. To achieve financial sustainability, the Commercial Investment Strategy was approved. The Council invests in local and regional UK commercial property with the intention of income generation which will help fund public services. Over the last 3 years the Council has bought properties in Huntingdon, Wilbury, Sudbury, Fareham, St Neots and Wakefield.

Table 3: Property held for investment purposes in £'000

Property	Actual	31.3.2020 actual		31.3.2021 expected	
	Purchase cost	**Gains or (losses)**	**Value in accounts***	**Gains or (losses)**	**Value in accounts**
Existing Portfolio	19,644	1,581	21,225	0	21,225
2 Stonehill	1,300	400	1,800	0	1,800
80 Wilbury Way	2,185	(330)	1,870	0	1,870
Shawlands Retail Park	6,500	(2,000)	4,500	0	4,500
1400 & 1500 Parkway	5,425	(1,025)	4,400	0	4,400
Units 21a, 21b,23a,b,c Little End Road, St Neots	3,200	(300)	2,900	0	2,900
Rowley Arts Centre, St Neots	7,200	(1,850)	5,750	0	5,750
Tri-link, Wakefield	13,750	(1,250)	12,500	0	12,500
TOTAL	**59,204**	**(4,774)**	**54,945**	**0**	**54,945**

** Current valuations of investment properties are subject to 'material valuation uncertainty'. Consequently, less certainty and a higher degree of caution should be attached to these valuations than normal due to the impact of Covid 19 on the property market.*

5.2 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 price.

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.

5.3 Risk assessment

The Authority assesses the risk of loss before entering into and whilst holding property investments. The strategic objectives of the Commercial Investment Strategy are designed to mitigate risk by:

- Having the fundamental aim of an income rather than capital return (although the latter is part of the strategy)
- Adopting a portfolio approach so as to avoid concentration of risk in any one property, tenant or risk type

In addition, CIS risk will be managed having regard to the following factors:

1. A robust acquisition due diligence process and subsequent approvals
2. Asset management plans and on-going reviews
3. Liability management (reviews of debt levels and terms)
4. Tenants (financial exposures, potential defaults, changing business plans, credit rating)
5. Portfolio factors including occupancy levels, operating costs.
6. Delivery partners (suitability, performance levels and financial stability)
7. Market factors (with periodic advice from appropriate professionals)
8. State Aid considerations
9. Professional advisors

External advisors are used when appropriate e.g. to undertake independent valuations prior to acquisition, asset valuation or when there is a lack of expertise in-house regarding an industry.

The Dun and Bradstreet Credit Reporter are used to provide credit reports on the tenants. The reports provide the following:

- Risk Assessment
- Trade Payments
- Legal Events
- Corporate Linkage
- Company Profile
- Financials
- Registry Info

The credit reports have a tracking feature which notifies the Council regarding any updates on a tenant's credit. Other sources such as Companies House and news sites provide the Authority with extra information to assess and monitor risk.

5.4 Liquidity

Compared with other investment types, property is relatively difficult to sell and convert to cash at very short notice. To ensure that the invested funds can be accessed or liquidated the Council will review investments regularly to ensure rental income is maximised (through rent reviews and lease renewals) and undertake asset management (re-letting, repairs, improvements etc) to ensure any proceeds from sale are maximised if assets are liquidated. Regular review of the property investment market will identify potential changes in market conditions and identify optimum opportunities to sell assets.

6.0 Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority. At this moment in time the Council doesn't have any financial guarantees.

7.0 Proportionality

The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. Table 4 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 plans for continuing to provide these services, are to use reserves where necessary to offset any negative variances in the final outturn. Unallocated general fund balances and budget surplus reserve can be used in case of a downturn in investment income to meet any detrimental effect.

Table 4: Proportionality of Investments in £'000

	2019/20 Actual	**2020/21 Forecast (December)**	**2021/22 Budget**	**2022/23 Budget**	**2023/24 Budget**
Gross service expenditure	76,067	74,905	71,922	60,661	61,209
Investment income	3,670	3,759	3,848	3,805	3,829
Proportion	4.82%	5.01%	5.35%	6.27%	6.25%

8.0 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.

The Authority has chosen not to follow this guidance and has previously borrowed to invest in commercial property, and may continue to do so in the future. Despite reduced central government funding, the Council still wants to provide a cost effective service to the district. By using the income streams from it property investments it is able to do this. The risks of commercial investment are satisfactorily managed by precautions outlined within the commercial investment strategy, and this strategy. Also The Capital Strategy includes as an Appendix (Capital Strategy Appendix A) a list of the risks and mitigations of commercial investments.

Loans financing CIS purchases are required to be directly linked to the commercial investment strategy asset and the link can only be broken by a specific decision of full council. The risks of commercial investment are satisfactorily managed by precautions outlined within the commercial investment strategy.

9.0 Capacity, Skills and Culture

9.1 Elected members and statutory officers

Through quarterly formal Treasury and Capital Management Group meetings, members are provided with updates on:

- The property investment market.
- Performance of current property assets – income growth, capital values, voids and debt.
- Review of investment opportunities investigated.
- Analysis of the investment portfolio by value, location, and property type.

More informal and regular updates are provided on the progress of individual key transactions, opportunities and market changes.

Key staff are appropriately professionally qualified, maintain annual CPD and maintain professional networks with other investors and advisors.

9.2 Commercial Deals

The Commercial Estates and Finance teams are co-located and work closely to ensure the core principles of the prudential framework are maintained, co-authoring guidance notes and reviewing any revision to published guidelines.

9.3 Corporate governance

The Commercial Investment Strategy has published delegated authority levels and process for investment decisions, these are adhered to.

The Treasury and Capital Management Group are consulted early on any investment opportunities and provided with regular progress reports in addition to formal approval reports and a further report on due diligence findings prior to formal commitments. A report to Cabinet in relation to the purchase is made before the deal is finally completed.

10.0 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.

10.1 Total risk exposure

The first 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 5: Total investment exposure in £'000

Total investment exposure	**31.03.2020 Actual**	**31.03.2021 Forecast**	**31.03.2022 Forecast**
Treasury management investments	7,759	5,000	5,000
Service investments: Loans	9,048	9,048	9,048
Service investments: Shares	100	100	100
Commercial investments: Property	54,945	54,945	54,945
TOTAL INVESTMENTS	**71,852**	**69,093**	**69,093**
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**71,852**	**69,093**	**69,093**

10.2 How investments are funded

Government guidance is that these indicators should include how investments are funded. Since the Authority 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 Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £'000

Investments funded by borrowing	31.03.2020 Actual	31.03.2021 Forecast	31.03.2022 Forecast
Treasury management investments	0	0	0
Service investments: Loans	5,709	5,178	4,647
Service investments: Shares	0	0	0
Commercial investments: Property	24,255	24,255	24,255
TOTAL FUNDED BY BORROWING	**29,964**	**29,433**	**28,902**

10.3 Rate of return received

This indicator compares the investment income received to the purchase price of the investment. 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 7: Investment yield (net of all costs)

Investments yield	2019/20 Actual	2020/21 Forecast	2021/22 Forecast
Treasury management investments	0.43%	0.1%	0.1%
Service investments: Loans	3.96%	3.89%	3.89%
Service investments: Shares	0%	0%	0%
Commercial investments: Property	6.7%	6.8%	7.0%
ALL INVESTMENTS	**5.9%**	**6.4%**	**6.4%**

Table 8: Other investment indicators

Indicator	**2019/20 Actual**	**2020/21 Forecast**	**2021/22 Forecast**
Interest Cover Ratio	3.7	3.11	3.5
Loan to Value Ratio	93.8%	93.8%	93.8%
Gross Rent Multiplier	12.3	12.4	12.5