

## Investment Strategy 2024/25

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## 1.0 Introduction

The Council 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 meets the requirements of statutory guidance issued by the government in December 2021, and focuses on the second and third of these categories.

## 2.0 Treasury Management Investments

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 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 £25.0m and £55.0m during the 2024/25 financial year.

### 2.1 Contribution

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

### 2.2 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.

## 3.0 Service Investments: Loans

### 3.1 Contribution

The Council has lent to local organisations to support local public services and stimulate local economic growth.

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 loaned 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 Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

<b>Borrower</b>	<b>31/03/2023 Actual £000s</b>	<b>31/12/2023 Actual £000s</b>	<b>2024/25 Limit £000s</b>
Cambridge Regional College	88	0	<b>Not split across categories</b>
Huntingdon Gymnastics Club	4	0	
Urban and Civic Ltd	1,984	1,984	
Somersham Parish Council	5	4	
Improvement Loans (DFGs)	300	273	
Employee Loans	8	8	
Rental Deposits	28	28	
<b>Total</b>	<b>2,417</b>	<b>2,297</b>	<b>15,000</b>

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. However, the Council makes every reasonable effort to collect the full sum loaned and has appropriate credit control arrangements in place to recover overdue repayments.

### 3.3 Risk assessment

The Council 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. Counterparty risk (financial exposures, potential defaults, changing business plans, credit rating)
4. Market factors (with periodic advice from appropriate professionals)
5. State Aid considerations
6. Use of professional treasury and financial advisors

The Dun and Bradstreet Credit Reports 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 Council 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.

<b>Shares Held</b>	<b>31/12/2023 Invested £000s</b>	<b>31/12/2023 Gain/Loss £000s</b>	<b>31/12/2023 Value £000s</b>	<b>2024/25 Limit £000s</b>
Subsidiary	0	0	0	1,000
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,000</b>

##### **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**

The Council has limited the amount that can be invested in non-specified investments, this limit is £10m. The investments are categorised as non-specified because the term of the investment is or likely to be longer than 1 year. There is more detail in the Treasury Management Strategy (TMP1).

## 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. For fulling listing of properties see Annex A.

<b>Commercial Investment Property (Summary)</b>	<b>31/03/2022 Value £000s</b>	<b>31/12/2023 Gain/(Loss) £000s</b>	<b>31/03/2023 Value £000s</b>
Legacy Properties;			
Huntingdon	24,796	(3,197)	21,599
St Ives	1,564	(149)	1,415
St Neots	7,605	(291)	7,314
	<b>33,965</b>	<b>(3,637)</b>	<b>30,328</b>
<b>CIS Properties</b>			
2 Stonehill	2,338	143	2,481
80 Wilbury Way	1,775	98	1,873
Shawlands Retail Park	5,523	532	6,055
1400 & 1500 Parkway	4,150	(113)	4,037
Rowley Arts Centre, St Neots	3,303	3,338	6,641
Little End Road, St Neots	3,290	31	3,321
Tri-link, Wakefield	14,200	548	14,748
Alms Close	1,522	(75)	1,447
	<b>36,101</b>	<b>4,502</b>	<b>40,603</b>
<b>Total</b>	<b>70,066</b>	<b>865</b>	<b>70,931</b>

### 5.2 Security

In accordance with government guidance, the Council considers a property investment to be secure if in the long-term its accounting valuation is generally at or higher than its purchase price.

A fair value assessment of the Council's investment property portfolio is made on an annual basis.

### **5.3 Risk assessment**

The Council 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' assessments (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 Council 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 Council. At this moment in time the Council does not have any financial guarantees.

#### 7.0 Proportionality

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. 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 Strategy. Should it fail to achieve the expected net profit, the Council'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.

<b>Proportionality of Investments</b>	<b>2022/23 Actual £000s</b>	<b>2023/24 Forecast £000s</b>	<b>2024/25 Budget £000s</b>	<b>2025/26 Budget £000s</b>	<b>2026/27 Budget £000s</b>
Gross service expenditure	83,412	82,619	81,168	78,839	75,936
Net Investment income	4,269	2,774	3,450	3,667	3,735
Proportion	<b>5%</b>	<b>3%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>

## **8.0 Borrowing in Advance of Need**

Government guidance is that Councils 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 Council has previously borrowed to invest in commercial property however the Council now expects not to invest in property in future purely for yield.

## **9.0 Capacity, Skills and Culture**

### **9.1 Elected members and statutory officers**

Through 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 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 Council 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 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.

### 10.1 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.

<b>Investment Exposure</b>	<b>31/03/2023 Actual £000s</b>	<b>31/03/2024 Forecast £000s</b>	<b>31/03/2025 Forecast £000s</b>
Treasury management investments	51,521	40,000	45,000
Service investments: Loans	2,080	2,000	2,000
Service investments: Shares	0	0	100
Property Fund	4,000	4,000	4,000
Commercial investments: Property	70,931	70,931	70,931
<b>Total Investments</b>	<b>128,532</b>	<b>116,931</b>	<b>122,031</b>
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
<b>Total Exposure</b>	<b>128,532</b>	<b>116,931</b>	<b>122,031</b>

### 10.2 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.

<b>Investments Funded by Borrowing</b>	<b>31/03/2023 Actual £000s</b>	<b>31/03/2024 Forecast £000s</b>	<b>31/03/2024 Forecast £000s</b>
Treasury management investments	0	0	0
Service investments: Loans	83	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	24,255	24,255	24,255
<b>Total Funded by Borrowing</b>	<b>24,338</b>	<b>24,255</b>	<b>24,255</b>

### 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.

<b>Investment Yields</b>	<b>2022/23 Actual %</b>	<b>2023/24 Forecast %</b>	<b>2024/25 Forecast %</b>
Treasury management investments	3.8	2.5	2.5
Property Fund	4.0	5.0	6.0
Service investments: Loans	4.2	3.0	2.5
Commercial investments: Property	7.6	5.9	6.7
<b>All Investments</b> (simple average)	<b>4.9</b>	<b>4.1</b>	<b>4.4</b>

### 10.4 Commercial Investment Indicators

<b>Commercial Investment Indicators</b>	<b>2022/23 Actual</b>	<b>2023/24 Forecast</b>	<b>2024/25 Forecast</b>
Interest Cover Ratio	2.9	1.7	2.1
Loan to Value Ratio	104.9%	104.9%	104.9%
Gross Rent Multiplier	14.3	12.7	13.6

Interest cover ratio is used to measure how readily a business can pay the interest due on loans. The higher the number, the increased likelihood that the interest will be paid. The reduction from 2022/23 to 2023/24 is due to the Fareham units being vacant. Loan to value is the value of the loan to the value of the property. If the percentage is over 100% that means the value of loan is more than the value of the property. Gross rent multiplier is the value of a property compared to its annual rental income the lower the number the more attractive the investment is.

## Commercial Investment Property Listing

## Annex A

Commercial Investment Property	31/03/2022 Value £000s	31/12/2023 Gain/(Loss) £000s	31/03/2023 Value £000s
<b>Legacy Properties;</b>			
<b>Huntingdon</b>			
Cinema and Shops	329	211	540
Oak Drive Shops	906	71	977
Mayfield Road Shops	888	(138)	750
Pub Site Sapley Square	150	43	193
Oak Tree Health Centre	14,074	(2,288)	11,786
Clifton Road Industrial Units	2,065	(240)	1,825
Alms Close Industrial Units	1,706	(253)	1,453
Land Clifton Road	137	7	144
Land St Peters Road	4,075	(1,145)	2,930
Land Redwongs Way	406	(26)	380
Phoenix Court Units	60	561	621
	<b>24,796</b>	<b>(3,197)</b>	<b>21,599</b>
<b>St Ives</b>			
Library Row Shops	482	50	532
Enterprise Centre	1,082	(199)	883
	<b>1,564</b>	<b>(149)</b>	<b>1,415</b>
<b>St Neots</b>			
Queens Gardens Shops	482	(52)	430
Naseby Gardens Shops	293	(20)	273
Leys Road Shops	146	(29)	117
Cambridge Street Shops	128	12	140
Cambridge Street Warehouse and Yard	790	(71)	719
Levellers Lane Industrial Units	5,092	128	5,220
Caravan Site Rush Meadows	555	(298)	257
Café Riverside Park	119	39	158
	<b>7,605</b>	<b>(291)</b>	<b>7,314</b>
<b>Total</b>	<b>33,965</b>	<b>(3,637)</b>	<b>30,328</b>
<b>CIS Properties</b>			
2 Stonehill, Huntingdon	2,338	143	2,481
80 Wilbury Way, Hitchin	1,775	98	1,873
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	<b>36,101</b>	<b>4,502</b>	<b>40,603</b>
<b>Total</b>	<b>70,066</b>	<b>865</b>	<b>70,931</b>