

Investment Strategy Report 2020/21 (DRAFT)

West Oxfordshire District Council

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 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 the statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

In general, the Council receives its income (e.g. from taxes and grants) before it pays for its expenditure (e.g. through payroll and invoices). As a Council Tax 'billing authority' it collects local taxes on behalf of other local authorities and the Police and also holds reserves for future expenditure. These activities lead to a cash surplus at various points of the year 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 £49.0m and £23.7 million during the 2020/21 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to provide income to fund operational activity in support of the Council's priorities.

Further details: Full details of the Council's policies and its plan for 2020/21 for treasury management investments are covered in a separate document - the Treasury Management Strategy - which is available via the Council's website.

Service Investments: Loans

Contribution: The Council lends money to support local public services and stimulate local economic growth. These include loans to organisations and residents within the district which support the priorities of the Council.

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

Table 1: Loans for service purposes in £

Category of borrower	31.3.2019 actual £			2020/21 £
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Local businesses	500,000	0	500,000	500,000
Town & Parish Councils	131,716	0	131,716	147,000
Housing associations	0	0	0	10,000,000
Local residents (equity loans)	232,114	0	232,114	232,114
Employees (car loans)	40,730	0	40,730	51,000
TOTAL	904,560	0	904,560	10,930,114

The Council's 'approved limit' for 2020/21 includes estimates for an additional £10,000,000 loan to Housing Associations, £15,000 for Parish Council loans, and an additional £10,000 in employee car loans.

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The loans that the Council has made are limited to specific service areas where the risk of non-payment is minimal. There is no history of non-payment and no evidence to suggest that there will be any default against the loans granted. As a result, no allowance for loss has been included against the loan balances. Should any indication be given that there is a risk of default then the risk will be assessed and a provision established at that time. Should a loan default, the Council will make every reasonable effort to collect the full sum lent and recover any overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding service loans by undertaking credit checks and ensuring that appropriate legal documentation is in place to secure the Council's money.

The Council also receives independent financial advice on its financial dealings from Arlingclose.

Service Investments: Shares

Contribution: The Council has a £1 shareholding in Ubico Ltd. Ubico Ltd is wholly-owned by seven local authorities and operates as a not for profit enterprise. Ubico Ltd is an environmental services company which provides household and commercial refuse collection, recycling, street cleansing, grounds maintenance and fleet maintenance services to the Council.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.

The Council has no other shareholdings.

Table 2: Shares held for service purposes in £

Category of company	31.3.2019 actual £			2020/21 £
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Local authority-owned company	1	-	1	1
TOTAL	1	-	1	1

Risk assessment: the Council has not invested into Ubico to generate a financial return. The Council has invested purely to support service provision. Ubico is a cost sharing company - any surplus generated within Ubico Ltd is returned to the partner Councils [shareholders] similarly with any deficit met by the Councils. Through regular budget monitoring and sound financial management by Ubico and transparency within calculation of contract sums, the risk of any financial loss is mitigated.

Liquidity: the Council has not invested into Ubico to generate a financial return. The Council has invested purely to support service provision. The Council has no intention to sell its investment in the foreseeable future.

Non-specified Investments: Shares are the only investment type that the Council 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 Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

Investment Property is defined in the CIPFA code of practice on Local Authority Accounting as property (land or building, or both) held solely to earn rentals or for capital appreciation, or both. The Council holds a number of assets which it classifies as Investment Properties.

Contribution: The Council invests in Investment Property within West Oxfordshire and outside of the district with the intention of generating a revenue income to support the revenue budget.

Investment Property performance is reported to the Council's Finance and Management Overview and Scrutiny (FMOS) Committee on an annual basis.

Table 3: Property held for investment purposes in £

Property	01.4.18	31.3.2019 actual £		31.3.2020
	Value in accounts £	Gains or (losses)* £	Value in accounts £	Expected value £
Investment Property within West Oxfordshire	21,763,050	1,437,452	23,200,502	23,200,502
Investment Property outside of West Oxfordshire	16,513,500	4,556,500	21,070,000	21,070,000
Leased Industrial Sites	264,750	(29,750)	235,000	235,000
Garages	92,640	11,360	104,000	104,000
Ground Rents - retail sites, Witney	6,512,200	897,800	7,410,000	7,410,000
TOTAL	45,146,140	6,873,362	52,019,502	52,019,502

* All movements in 2018/19 are as a result of revised asset valuations. There were no asset purchases or disposals in the year.

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

A fair value assessment of the Council's investment property portfolio is made each year as part of the final accounts process. Investment Property is valued at market value.

The fair value of the Council's investment property portfolio is currently less than the purchase price of the assets in a number of cases. The Council's Investment Property is held primarily to generate a stable income stream to support the revenue budget. Should a property be sold any 'loss' will be recognised at that point. The Council has no immediate plans to dispose of any Investment Property.

Risk assessment: The Council aims to generate a revenue return from its Investment Property assets which is greater than the return generated by its Treasury Management activity. It is understood that the fair value of property will fluctuate. The Council assesses the risk of movement in asset values before entering into and whilst holding property investments and aims wherever possible to mitigate the risk by purchasing property with secure tenants on long leases.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the Council has cash funds that can be accessed when they are needed, the Treasury Management Strategy includes the provision of liquid investments should the Council be in need of cash. It is not anticipated that the Council would need to sell any Investment Property at short notice.

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 and are included here for completeness.

The Council is a shareholder of Ubico Ltd (one seventh) and is a joint partner in Publica Group (Support) Limited (one quarter owner). In both cases, should the company overspend the Council would be liable for its share of the additional costs. In both companies, sound financial management and budgetary control mitigate the risk that additional sums will be required without adequate notice.

Proportionality

The Council is dependent on 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 of the Council is dependent on achieving the expected income from investments over the lifecycle of the Medium Term Financial Strategy. Should it fail to achieve the expected income targets, the Council will be required to draw additional balances from reserves, or generate savings elsewhere within the budget to continue to provide its services.

Table 4: Proportionality of Investments

	2018/19 Actual £	2019/20 Forecast £	2020/21 Budget £	2021/22 Budget £	2022/23 Budget £
Gross service expenditure*	39,990,685	37,376,855	41,840,196	37,795,924	36,223,851
Treasury Investment income	717,420	680,000	680,000	710,000	700,000
Loans income	25,990	25,000	25,000	24,000	23,000
Shares dividends	0	0	0	0	0
Investment Property income	3,616,867	3,571,000	3,739,000	3,739,000	3,739,000
Investment income as a proportion of expenditure	10.90%	11.44%	10.62%	11.83%	12.32%

* Excluding Housing Benefit payments.

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 Council has plans to borrow in 20/21 to finance its capital programme. Any funds borrowed will be in relation to specific schemes and based upon need. There are no plans to borrow in advance of need.

Capacity, Skills and Culture

Summary of knowledge and skills available to the Council:

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Finance Officer is a qualified accountant with over 20 years' experience of working in local government finance. The Deputy Chief Finance Officer is also a qualified accountant with 17 years' experience. The Council pays for junior staff to study towards relevant professional qualifications including Chartered Institute of Public Finance and Accountancy (CIPFA), Association of Certified Chartered Accountants (ACCA) and Association of Accounting Technicians (AAT).

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. The Council employs other specialist advisers to advise upon specific, extra-ordinary transactions as required. Examples of such transactions include property acquisitions, and loans to third parties. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

The Council has experience of investing in commercial property in recent years. The Council's property service is provided through its strategic service provider Publica Group (Support) Ltd. The team of property officers have the following qualifications:

- Christine Cushway - BSc Hons Estates Management, ARICS
- Jasmine McWilliams - BSc Hons Estate Management, ARICS
- David Thurlow - BSc Hons Estate Management, MRICS, Registered Valuer

External consultants are also employed as necessary to provide specialist advice on acquisition and management of investment properties.

The Council's legal team have experience of carrying out due diligence checks, particularly for commercial property acquisitions.

The property and legal team work together with the Finance team to support the Council's Chief Finance Officer and the Publica Finance Director in developing investment proposals for the Council. External specialist advice is obtained when required to support these teams.

The Council has previously invested in a range of commercial properties which are delivering a sustainable revenue stream to the Council. Any further investment in non-treasury management transactions will be set out in this, or future iterations of this strategy.

Scrutiny Arrangements:

The Cabinet will make recommendations to full Council on new investments that are not considered to be covered under the Treasury Management strategy.

Financial Performance is reported quarterly to the Council's three Overview and Scrutiny Committees and to Cabinet. This will include the performance of all income and expenditure against budget.

An annual report on Commercial Property is presented to Finance and Management Overview and Scrutiny Committee which will include yield; valuation and risk to future revenue. Treasury Management performance is reported regularly to the Council's Finance and Management Overview and Scrutiny Committee and at half-year and year-end to full Council.

The Council's internal audit provider (South West Audit Partnership Ltd) regularly audits the Council's treasury management activity and its processes and procedures for approving investment and performance management. SWAP report to the Council's Audit and General Purposes Committee.

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.

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.

The Council has issued no guarantees to any third party loans.

Table 5: Total investment exposure in £

Total investment exposure	31.03.2019 Actual £	31.03.2020 Forecast £	31.03.2021 Forecast £
Treasury management investments	32,716,267	24,900,000	23,600,000
Service investments: Loans	904,560	905,000	10,930,000
Service investments: Shares	1	1	1
Commercial investments: Property	52,019,502	52,020,000	52,020,000
TOTAL INVESTMENTS	85,640,330	77,675,001	86,700,001
Commitments to lend: loans	0	10,000,000	0
TOTAL EXPOSURE	85,640,330	87,675,001	86,700,001

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 loan 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 cash balances.

Table 6: Investments funded by external borrowing in £

Investments funded by borrowing	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
Treasury management investments	0	0	0
Service investments: Loans	0	10,000,000	4,400,000
Service investments: Shares	0	0	0
Commercial investments: Property	0	0	0
TOTAL FUNDED BY BORROWING	0	10,000,000	4,400,000

The £10 million and £4.4 million included in Table 6 for loans related to service investment is to enable the delivery of affordable homes in the District. Whilst this loan is service related rather than a loan for investment purposes (i.e. lending made specifically to generate a revenue return for the Council), it has been included Table 6 for transparency purposes.

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.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Treasury management investments	1.7%	1.7%	1.8%
Service investments: Loans			
Local businesses	4.5%	4.5%	4.5%
Town & Parish Councils	1.4%	1.4%	1.4%
Housing associations	NA	3.2%	3.2%
Local residents (equity loans)	0.0%	0.0%	0.0%
Employees (car loans)	2.0%	2.0%	2.0%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	6.5%	7.5%	7.5%

The Councils £1 share in Ubico Ltd is not held to generate any return via a dividend or growth in value. Ubico is a profit sharing company and any savings or surplus generated results in lower contract fees for shareholders.