Investment Strategy Report 2024/25

West Oxfordshire District Council

Introduction

The Council invests its money for three broad purposes:

- to generate additional revenue from surplus cash as a result of timing differences in its day-to-day activities. These are referred to as treasury management investments and are typically short to medium term cash funds with high liquidity but can be invested with the expectation of a longer term if our cashflow forecasting shows no medium term requirement for the cash.
- to support local public services by lending to other organisations or purchasing assets which generate no return but are used solely for the delivery of services (service investments), and
- to earn investment income (known as commercial investments) where, alongside the achievement of Council priorities, the objective is also to earn a return – although that may not be the primary purpose.

This Investment Strategy meets the requirements of the statutory guidance on Investments for Local Government which came into effect on 1 April 2018.

We are the custodians of third-party monies such as external grants and developer contributions through S106. We also have a portfolio of commercial investments which further Council priorities while providing crucial support to our revenue budget and therefore the delivery of our services.

Cuts in funding over a number of years have placed extreme pressures on the Council's budget. Single year settlements have exacerbated this financial strain, restricting our ability to confidently plan for more than one year in advance. Added to the long running uncertainty over the timing of the Business Rates reset, which has been delayed since 2020, and the phasing out of New Homes Bonus, this makes financial planning very difficult. The size of some of these uncertain elements in our funding, in relation to total funding requirements, make the Council vulnerable to sudden shifts. Our ability to generate investment income is therefore a key factor in our financial stability.

The Council endorsed a framework recovery investment strategy in October 2020 which laid out the criteria, in terms of yield and alignment with priorities, that any potential investment would be judged on. All investments must combine the delivery of the Council's priorities with revenue returns over and above the cost of borrowing that will provide additional funding to the Council to deliver services not only in the immediate year but over the life of the Medium-Term Financial Strategy (MTFS).

While everything the Council does relates to serving the residents of the district by furthering the Council's stated priorities, the investment strategy was also designed to generate new revenue streams for the Council.

It has always been important for the Council to generate its own income as much as possible and the investment strategy agreed by Council was designed to increase that capacity. However, two things have become apparent since its inception. Firstly, that the available options for investment are limited and therefore the amount of revenue that can be developed through the strategy is limited. Secondly, with the huge inflationary impacts we have seen recently, the investment strategy, even at its most ambitious, may not be enough to close the budget gap.

The Council has a good track record of investments, having purchased a portfolio of commercial property in the past from existing capital receipts that provides a healthy net revenue stream that is crucial to supporting our budget today.

In line with the aspirations of this strategy, we take a commercial view to all potential projects to ensure that revenue is generated where possible. This does not mean that we are seeking to charge for services where we would not have otherwise, rather it means that opportunities to generate income should not be ignored and that where income is able to be generated in a situation, the Council seeks to retain an appropriate proportion of it.

There has been however, a move in recent years by HM Treasury's PWLB lending facility (PWLB) – formerly the Public Work Loans Board to severely restrict what Councils are allowed to invest in. This is in response to a very small number of Councils investing large sums and apparently destabilising their finances as a result. Since the PWLB is a vital source of relatively low cost loans for the Council, it would be unwise to contravene its requirements unless we could be absolutely sure that we did not need to call on it. The requirements are so stringent however that the very act of "investing primarily for yield" is enough to render the Council ineligible to access their funds, even if the investment in question was not made using their funding.

It is permissible to purchase property for the purpose of regeneration or housing, and property purchased should be within the boundaries of the Council's area but any asset bought primarily for yield will preclude the authority from accessing PWLB funds. The recent purchase of Marriotts Walk in Witney for the purpose of regeneration of the Town Centre has had a significant positive impact on the area. Not only in terms of the units occupied in the shopping centre but also the increased footfall in the high street which benefits all retailers and residents.

Whilst the previous prudential code stated that authorities must not "borrow more than or in advance of need" this new tightening of restrictions is much more prescriptive. There is some allowance for financing capital expenditure primarily related to the delivery of the authority's functions, temporary cashflow management or the refinance of current borrowing (including internal borrowing). This would allow us to borrow for example to replace the waste fleet – which helps with the timing of cashflow. There is no return on these vehicles and they do not repay the money spent on them. They are a cost that is paid for annually from our revenue budget as part of our delivery of services. The more we spend on the vehicles, the higher the cost of service delivery.

The PWLB supports investment in Housing which includes spending on delivering new homes, improving existing homes and purchasing built homes to deliver housing services. The Council transferred its housing stock to an affordable housing provider decades ago so the skill sets required to build and manage housing has not been maintained within the Council. For this reason, any projects we are considering need to be in conjunction with an experienced partner to reduce the risk inherent in the construction process. The addition of a Strategic Housing Development Manager post in the 2024/25 budget will provide appropriate resource and knowledge to oversee the key Council priority of delivering more affordable housing in the district.

It is important to note that all projects are required to serve Council priorities, meet the criteria set out above and also be cash generating, providing returns that equal or better the rate agreed in the Council's investment strategy.

The Prudential Code does not require us to sell existing assets to fund new investments but does require us to consider that as an option when pursuing new opportunities. Capital receipts from asset sales can only be used for capital expenditure.

It also requires the S151 officer to confirm that the Council has no intention, either now, or in the next three years, to invest primarily for financial return.

In accordance with this, we can confirm that West Oxfordshire District Council has complied with paragraphs 51 to 53 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement than an authority must not borrow to invest for the primary purpose of financial return and that our capital programme includes no such plans.

The Council is currently considering the possibility of equipping our Council owned properties with rooftop solar, local regeneration projects and small scale affordable housing developments.

Treasury management investments

In general, the Council receives the bulk of its funding (for example, from taxes and grants) before it pays for its expenditure (for example, 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. Any cash surplus is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

Events in the financial markets in the last two years have meant that many of our pooled funds lost a material amount of capital value while producing a significantly higher revenue return. The capital value has started to recover over the last quarter with current advice from our treasury advisors being a complete recovery over the next 18 months to 2 years as interest rates fall, barring any further unprecedented economic events. To avoid crystallising the remaining losses, the expectation is that for the short to medium term, our treasury investments will remain relatively static in terms of where they are invested.

When the capital values have recovered, the use of pooled funds rather than external borrowing for capital expenditure will be carefully weighed against the prevailing economic conditions at the time.

These investments contribute to the objectives of the Council by providing income to fund operational activity in support of the Council's priorities.

Details of the Council's policies and its 2024/25 plans for treasury management are covered in the Treasury Management Strategy in Annex P.

Service investments: loans

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

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:

Loans for service purposes £m

	Actual at 31st March 2023			Forecast at 31st March 2024	
Category of Borrower	Balance Owing	Loss Allowance	Figure in Accounts	Balance Owing	Approved Limit
	£	£	£	£	£
Local Businesses	2.58	0.00	2.58	2.30	2.30
Town/Parish Councils	0.12	0.00	0.12	0.11	0.11
Housing Associations	7.66	0.00	7.66	7.47	7.47
Local Residents (Equity Loans)	0.23	0.00	0.23	0.23	0.23
Employees (Car loans)	0.00	0.00	0.00	0.00	0.00
Total	10.59	0.00	10.59	10.11	10.11

Accounting standards require the Council to set aside a 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. 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.

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.

Service investments: shares

The Council has a £1 shareholding in Ubico Ltd. Ubico Ltd is wholly-owned by eight 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.

One of the risks of investing in shares is that they potentially could fall in value meaning that the initial outlay may not be recovered. This is not relevant with the share held in Ubico for the reasons discussed below. The Council has no other shareholdings. The Council also owns Publica along with Cotswold District Council, Forest of Dean District Council and Cheltenham Borough Council but it is limited by guarantee and has no share capital. The same potential for upside or loss exists as with Ubico.

Shares held for service purposes

Category of Company	Amount Invested	Gains or losses	Value in Accounts	Approved Limit
Local Authority owned company	£1	£0	£1	£1

The Council has not invested into Ubico to generate a financial return. It has invested purely to support service provision. Ubico is a cost sharing company and any surplus generated within Ubico Ltd is returned to the partner Councils (shareholders) but any deficit would also be met by the Councils. This means that the Council's investment in Ubico carries with it an obligation to underwrite the costs of the service and that, while a budget is agreed each financial year, the Council must cover in cash any overspend to that budget which relates to the services delivered in West Oxfordshire. This is the material risk in the Ubico investment, not the £1 shareholding. This risk is being mitigated through regular communication with Ubico who are happy to give complete transparency. We are also working with them collaboratively on a service transformation programme to find new efficiencies and more cost effective ways of working.

The shareholding in Ubico does not appreciate in value due to the cost sharing nature of the company, it merely gives a shareholders stake in the control of the company, although the board of Ubico does not include all stakeholder Councils and does not currently include West Oxfordshire District Council or any of the other "Publica" stakeholder Councils. The Council has no intention to sell its investment in the foreseeable future and arguably the principal of teckal precludes ownership by third parties.

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 in 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, for capital appreciation, or both. The Council holds a number of assets which it classifies as Investment Properties.

The Council has historically invested in Investment Property both within West Oxfordshire and outside of the district, funded through capital receipts, with the intention of generating ongoing income to support the revenue budget.

Investment Property performance is reported to the Council's Overview and Scrutiny Committee on an annual basis.

With the tightening of PWLB's restrictions on allowable investments, the existing property portfolio is extremely valuable to the Council. Were we to sell any of it we would realise an immediate cash gain in the form of capital receipts but would not be able to use that to support our revenue budget and, for all the reasons outlined above, would find it difficult to find another replacement investment that would deliver ongoing revenue budget support in the way that the existing portfolio does.

Properties held for investment purposes in £m

Type of Property	Inside District £m	Outside District £m	Inside County £m	Outside County £m
Commercial Investment Property	15.85	27.90	40.23	3.52
Industrial Estates	7.57	0.00	7.57	0.00
Subtotal	23.41	27.90	47.79	3.52
Total Held	**51.31**		**51.31**	

The table above shows the value of the properties held by the Council at 31st of March 2023. The valuations at 31st March 2024 will be assessed by our ongoing valuation process and by external audit. The table shows the geographical split of properties inside the district and outside it and which of those properties are located inside the county. It should be noted that while just over half of the portfolio are outside of West Oxfordshire, virtually all properties are within Oxfordshire itself.

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 dropped in 2022/23 due mostly to the reclassification of the interest held in Marriotts Close prior to purchasing the development. The demand for larger office spaces since the pandemic has declined with the Council's office building at Between Towns Road now vacant and unlikely to be let as a single building in the future. We are therefore exploring, with a partner, the redevelopment of the site for temporary emergency accommodation.

No valuation has yet been undertaken for March 2024 when further updates will be available. 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.

In order to maximise returns, the Council aims to generate a revenue return from its Investment Property assets which is greater than the return able to be generated by its Treasury Management activity. It is understood that the fair value of property will fluctuate. The Council aims wherever possible to secure its ongoing revenue streams by letting to tenants on long leases of 10 to 15 years. The return available from Treasury investments is also subject to change as interest rates rise and fall.

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. We currently have a Treasury Management Investment portfolio with good short term access to liquidity so we anticipate no circumstance where the Council would be required to sell Investment Property to raise money quickly.

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 eighth) 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, transparency of reporting to the Council mitigates the risk that additional sums will be required without adequate notice.

The Council has made the following commitment in terms of cash flow cover to both Publica and Ubico and the expectation is that these will continue for 2024/25.

- Publica Group - £500k up to one year duration
- Ubico - £500k up to one year duration

The Council needs investment generated income to fund its revenue budget. The table 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 (MTFS). If it cannot generate sufficient income to fund its budget, the Council will be required to draw additional balances from reserves, or generate savings elsewhere within the budget to continue to provide its services.

The table below includes the hoped for return generated by the investment strategy outlined above and in the MTFS, albeit that this is a reduced and hopefully more attainable level than that projected previously.

Proportionality of investments

	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	2026/27 Budget £m
Gross Service Expenditure*	41.88	30.01	32.60	33.58	34.42
Treasury Investment Income	1.14	1.20	1.04	1.02	1.00
Loans Income	0.18	0.19	0.19	0.20	0.21
Commercial Investments: Property	4.06	3.33	3.66	3.66	3.66
Total	5.39	4.72	4.89	4.88	4.86
Investment income as a proportion of expenditure	12.86%	15.74%	15.00%	14.52%	14.13%

* excluding Housing Benefit payments

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 24/25 to finance the replacement of the Waste fleet but has no plans to borrow in advance of need.

Scrutiny arrangements

The Executive 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 Overview and Scrutiny Committee and to the Executive. This includes the performance of all income and expenditure against budget.

An annual report on Commercial Property is presented to the Overview and Scrutiny Committee which will include yield; valuation and risk to future revenue. Treasury Management performance is reported quarterly to the Council's Overview and Scrutiny Committee and Executive.

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 Governance 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.

The table below shows the Council's total exposure to potential investment losses. This would include amounts the Council is contractually committed to lend but have yet to be drawn down, but no such obligations exist at this point in time.

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

Total investment exposure £m

	31st Mar 2023 Actual £m	31st Mar 2024 Forecast £m	31st Mar 2025 Forecast £m
Treasury Management investments	31.60	29.84	29.84
Service Investments: Loans	10.59	10.11	9.81
Property investments	51.31	51.31	51.31
Total investments / exposure	93.50	91.26	90.96

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 and future investments may require external borrowing because of previous internal borrowing, this guidance is difficult to comply with. The capital financing requirement (CFR) gives an indication of how much internal borrowing the Council has undertaken so far and also shows how that funding position is expected to move towards external borrowing over time.

Currently, all of the Council's investments have been funded by usable reserves, capital receipts and cash balances but the refinancing of some internal borrowing will be required in 2024/25 to fund the capital programme.

Forecast borrowing requirement £m

	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Capital Financing Requirement (CFR)	30.74	33.57	35.19	33.22	31.34
Less external borrowing	0.00	(3.50)	(6.11)	(5.13)	(4.15)
Internal borrowing	30.74	30.07	29.08	28.09	27.18
Usable reserves	(25.89)	(24.31)	(22.51)	(18.43)	(13.30)
Working capital	(22.00)	(16.00)	(14.00)	(14.00)	(14.00)
Cash available for investments	17.15	10.24	7.44	4.34	0.11

The table below shows the investment income received, less the associated costs, 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. It is also worth noting that while all of these investments have previously been funded by internal borrowing, and therefore currently have no cost of borrowing associated with them, new investments will be financed by external borrowing and some current investments may also have to be refinanced with external borrowing and the interest rate associated with that will reduce their return accordingly.

Investment net rate of return

	2022/23	2023/24	2024/25
Treasury Management	4.09%	4.85%	4.75%
<u>Service investments: Loans</u>			
Local Businesses	3.85%	3.85%	3.85%
Town & Parish Councils	1.40%	1.40%	1.40%
Housing Associations	2.56%	2.56%	2.56%
Local Residents (equity loans)	0.00%	0.00%	0.00%
Commercial investments	6.75%	6.50%	7.13%

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

The Treasury Management return is diluted by the relatively large amount of cash held as short term, highly liquid funds. For returns on higher interest earning pooled funds, please see the Treasury Strategy paper.

The table above shows the importance to the support of the Council's revenue budget of the current commercial investment portfolio.

Summary of knowledge and skills available to the Council:

The Council employ (directly or through Publica Ltd), professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Chief Finance Officer and several members of the finance team are qualified accountants with extensive experience. The Council pays for junior staff to study towards relevant professional qualifications such as the Chartered Institute of Public Finance and Accountancy (CIPFA).

Where Council staff do not have the knowledge and skills required, external advisers and consultants that are specialists in their field are utilised. The Council currently employs Arlingclose Limited as treasury management advisers. The Council employs other specialist consultants 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 as and when needed.

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:

- BSc Hons Real Estate Management
- Associate Member Royal Institute Chartered Surveyors
- Member Royal Institute Chartered Surveyors
- Royal Institute Chartered Surveyors Registered Valuer

- Member institute welfare & facilities management
- Technical member of institute for occupational safety and health
- CIMA cert BA

The Council's legal team have experience of carrying out due diligence checks, particularly for commercial property acquisitions, and the legal officers have the following qualifications:

- Fellows of the Chartered Institute of Legal Executives (CILEx)
- Student Member of the Chartered Institute of Legal Executives
- Solicitors

The Property and Legal teams work together with the Finance team to support the Council's Chief Finance Officer in developing investment proposals for the Council.

Overview of Strategies

The Council's Capital Strategy is concerned with its future plans for investments in a broad range of projects, the funding for these is underpinned by the Treasury Management Strategy while the Investment Strategy considers the type of investments the Council might make in the context of the risk profile and return of those it already holds.