Investment Strategy Report 2022/23

West Oxfordshire District Council

Summary

West Oxfordshire District Council invests for a variety of reasons. We invest in the delivery of our services. 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.

In the last year alone, the Council has made loans to local registered providers to enable the development of affordable housing, has used S106 monies to facilitate play parks, repair local village halls, deliver community projects and work in collaboration with developers to deliver further affordable housing. It has used government grant funding to assist the rollout of high speed broadband to rural areas on the district and has invested in in cab technology in the waste service to improve efficiency and reduce missed collections. It has bought and renovated a local building to provide emergency accommodation (pictured below) and invested in a new database and resource to work more closely with parish and town Councils to deliver community projects funded by housing developments.

The Council also invests constantly in its waste and cleansing fleet to enable the delivery of its waste and recycling service. The next large scale investments required in this area are the replacement of the bulk of the fleet in 2024/25 and the sourcing of a new depot when the lease on the current location runs out. These both present challenges with the fleet replacement of particular significance as, while our ambition is to move away from diesel vehicles, electric vehicles of that size present challenges in terms of purchase cost which is circa double the current budget, range achievable on one charge (given the rural nature of the district) and the operational infrastructure and time required to charge them. Other alternative fuels are being investigated.

Expected funding cuts have placed new pressures on the Council's budget and in response to that, 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. These projects will combine the delivery of the Council's priorities with revenue returns that will help to close the funding gap in the Medium Term Financial Strategy (MTFS). These investments will be primarily for service purposes but the importance of the revenue they will generate to our MTFS cannot be underestimated. The creation of a stable and sustainable financial future for the Council is also one of its listed priorities.

While increasing restrictions on what the Council is allowed to invest in (discussed in more detail below) have made the recovery strategy very difficult to deliver, it's importance remains and the Council continues to search for investment opportunities that align with its service priorities and deliver much needed support to our budget over the medium term.

In line with the aspirations of this strategy, we are taking 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.

Affordable housing in Blenheim Park View

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. Given the current rates of interest on offer, expectation of the level of return on these funds is usually linked to the length of time that the funds can be invested for.

- 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.

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.

In October 2020, the Council approved a recovery investment strategy. 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.

Large scale funding cuts have been expected for several years now and in each government spending review for the last couple of years, the message has been that these have been deferred because of the situation Councils have found themselves in on the frontline, assisting and protecting residents through the pandemic. The amount that central government has spent in the last couple of years on grants and support mean that it's all the more likely that the anticipated funding cuts will finally materialise. A move towards more self reliant sources of income gives the Council the opportunity to plan more easily beyond the horizon of a one year settlement and makes us more robust and less affected by large swings in funding from central government.

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.

There has been however, a move in recent years by HM Treasury's PWLB lending facility (PWLB) – formerly the Public Work Loans Board to drastically 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 money.

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.

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 – but that only helps with the timing of cashflow. There is no return on those vehicles and they do not repay the money spent on them.

They are a cost that is paid for annually from our 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. While housing is an area we remain interested in and are seeking opportunities, the Council transferred its housing stock to an affordable housing provider decades ago so the skill sets required to build and manage housing no longer exist in the Council and would be expensive to buy in for small scale development. 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 other category of investment we are exploring is regeneration which is defined as direct investments into assets to generate additional social or economic benefits. It does however caveat that it should fall into one or more of the following categories:

- The project addresses an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector
- That the authority is making a significant investment in the asset beyond the purchase price, developing them to improve them and / or change their use, or otherwise making a significant financial investment
- That the project involves or generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value

Gigaclear engineers installing a cabinet

All of these are worthy objectives that align with the Council's plan but it is proving difficult to find projects that meet these criteria and are also cash generating. It's very easy to find additional things to simply spend money on but very difficult to find income generating projects to actually invest in.

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.

It also required 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 new business parks in the District to attract more employers to the area, equipping our commercial properties with rooftop solar, investment in ground mount solar farms, local regeneration and small scale housing.

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. These activities will typically lead to a natural cash surplus at various points of the year which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

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 2022/23 plans for treasury management are covered in the Treasury Management Strategy in Annex I.

Service investments: loans

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.

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 in £

Category of Borrower	Actual at 31st March 2021 Balance owing £	Loss allowance £	Net figure in accounts £	31st Dec 2021 Balance owing £	Approved limit £
Local Businesses	2,844,647	0	2,844,647	2,743,924	2,865,000
Town/Parish Councils	145,933	0	145,933	142,533	153,931
Housing Associations	7,821,039	0	7,821,039	7,739,829	10,000,000
Local Residents (Equity Loans)	232,114	0	232,114	232,114	232,114
Employees (Car loans)	5,059	0	5,059	998	16,157
Total	11,048,792	0	11,048,792	10,859,398	13,267,202

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.

A Cottsway Housing development in Lavender Place, Bampton

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

	31st March 2021 actual			2022/23
Category of Company	Amount Invested	Gains or losses	Value in Accounts	Approved Limit
Local Authority owned company	£1	£	£1	£1

Delivering waste and cleansing services in West Oxfordshire

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. The Council has no intention to sell its investment in the foreseeable future.

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 Finance and Management Overview and Scrutiny (FMOS) 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	Outside District	Inside County	Outside County
Investment	12.63	27.96	37.26	3.33
Industrial Estates	11.37	0.00	11.37	0.00
Subtotal	24.00	27.96	48.63	3.33
Total Held	**51.96**		**51.96**	

The table above shows the value of the properties held by the Council at 31st of March 2021. The valuations at 31st March 2022 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 due to the impact of the pandemic and was less than the purchase price of the assets in a number of cases. No valuation has yet been undertaken for March 2022 but we do anticipate a recovery. 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. 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 strong 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.

Des Roche Square, Witney

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 2022/23

- 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). The Council is already forecasting shortfalls in funding and is hoping to generate further investment income to reduce the gap. 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.

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

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m
Gross Service Expenditure*	35.40	26.04	27.94	29.05	29.93
Treasury investment income	0.79	0.79	1.14	1.01	0.92
Loan income		0.18	0.19	0.19	0.20
Share dividends	0.00	0.00	0.00	0.00	0.00
Investment property income	3.74	3.96	4.24	4.26	4.28
Investment strategy income				0.69	2.40
Total	4.53	4.93	5.56	6.15	7.79
Investment income as a proportion of expenditure	12.80%	18.92%	19.91%	21.16%	26.04%

* 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 22/23 to finance its investment strategy but there are no plans to borrow in advance of need.

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

An annual report on Commercial Property is presented to the 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.

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

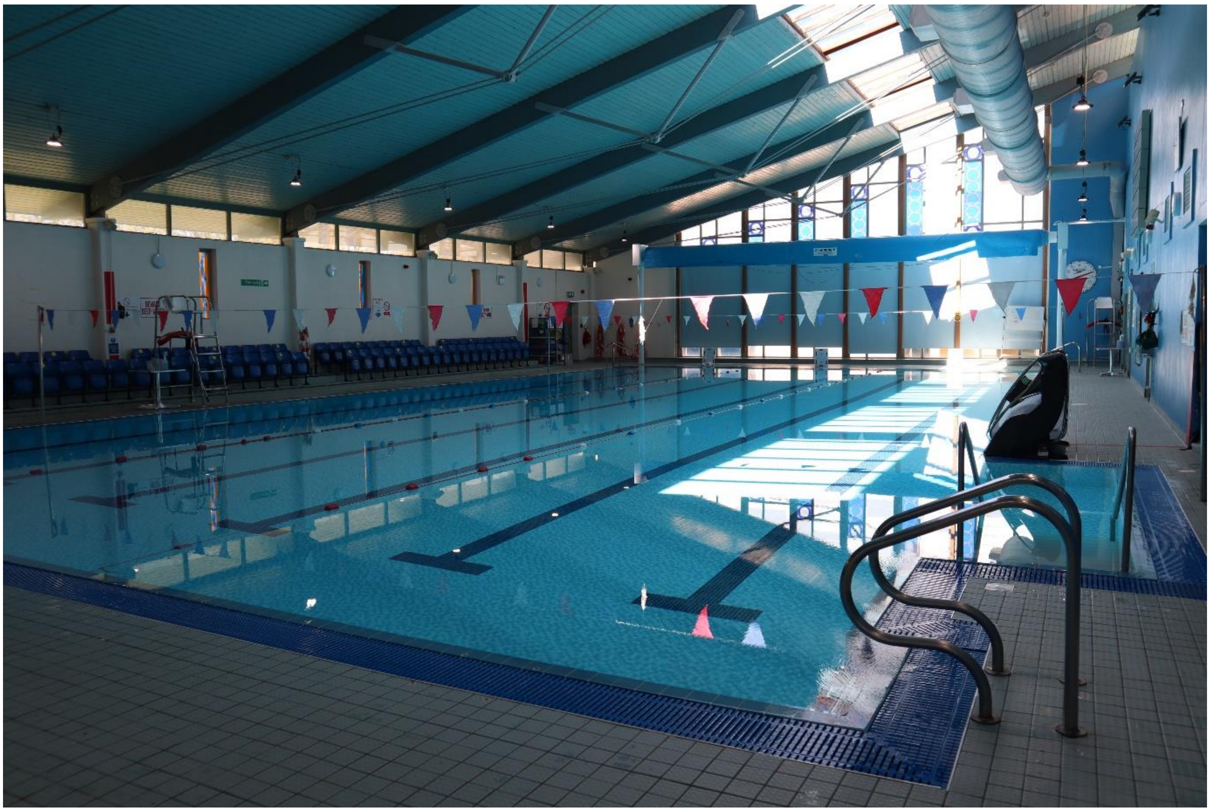
	2020/21 actual	2021/22 forecast	2022/23 budget
	£m	£m	£m
Treasury Management investments	30.45	31.60	31.60
Service Investments: Loans	11.05	10.87	10.68
Service Investments: Shares (£1)	0.00	0.00	0.00
Commercial Investments: Property	51.96	51.96	51.96
Total Investments / exposure	93.46	94.43	94.24

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 has not yet engaged in external 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 internal borrowing is expected to result in external borrowing over time.

Currently, all of the Council's investments have been funded by usable reserves, capital receipts and cash balances.

Forecast borrowing requirement

	2020/21 actual £m	2021/22 forecast £m	2022/23 budget £m	2023/24 forecast £m	2024/25 forecast £m
CFR	23.37	25.56	35.90	64.27	67.30
Less external borrowing	0.00	0.00	(10.00)	(35.00)	(35.00)
Internal borrowing	23.37	25.56	25.90	29.27	32.30
Usable reserves	(46.10)	(38.01)	(37.07)	(34.74)	(33.17)
Average working capital	(7.72)	(19.15)	(20.43)	(19.03)	(17.63)
Investments	30.45	31.60	31.60	24.50	18.50



Carterton swimming pool

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, the expectation is that in the future new investments may have to 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.

Net rate of return on investments

	2020/21	2021/22	2022/23
Treasury Management	1.77%	2.12%	2.56%
Service investments: Loans			
Local Businesses	3.85%	3.85%	3.85%
Town & Parish Councils	1.40%	1.40%	1.40%
Housing Associations	2.58%	2.45%	2.52%
Local Residents (equity loans)	0.00%	0.00%	0.00%
Employees (car loans)	2.00%	2.00%	0.00%
Service investments: Shares	0.00%	0.00%	0.00%
Commercial investments	6.38%	6.38%	6.38%

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 her 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, 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 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 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:

- 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 for 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:

- Fellow of the Charter Institute of Legal Executives (FCIlex)
- Associate Member of the Charter Institute of Legal Executives (FCIlex)
- Solicitors

The Property and Legal teams 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.