INVESTMENT STRATEGY 2024/25

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as ***treasury management investments***);
- to support local public services by lending to or buying shares in other organisations (***service investments***); and
- to earn investment income (known as ***commercial investments*** where this is the main purpose).

This Investment Strategy meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

The statutory guidance defines investments as '*all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios'*. The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

Treasury Management investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other authorities and central government. These activities, plus the timing of borrowing decisions, can lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to broadly fluctuate between £20M and £60M during the 2024/25 financial year.

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

Further details: Full details of the Authority's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the Treasury Management Strategy, to be presented to Executive Board on 7th March 2024 for consideration and approval.

Non-Treasury Management investments

The Council may also make loans and investments for service purposes. The investment strategy focuses on these other investments, which are included within the second and third categories above.

- **Service Investments: Loans**

Contribution: The Council may advance loans to its subsidiaries and joint ventures, local businesses and charities, local residents and its employees to support local public services and stimulate local economic growth.

The Council currently advances relatively small loans to local businesses and local residents for community and economic benefits. For example, the capital programme includes a number of schemes where loans are given to support homeowners unable to fund essential property repairs to bring properties back into use.

The Council has also advanced loans to joint venture companies, which are contributing towards local economic growth through regeneration of areas within the Borough. The main examples are Maple Grove Blackburn Limited, which is involved in the development of the former Thwaites site in Blackburn town centre and Barnfield Blackburn Limited which is involved in the regeneration of various sites across the Borough.

The Council has also previously advanced loans to a local business, Lancashire County Developments Limited, which is supported by Lancashire County Council, to improve the economic performance within Lancashire.

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, the loans to homeowners are registered as a charge against the property at the Land Registry which will be removed by the Council once full repayment of the loan has been made. To limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for Service Purposes in £ millions

Category of Borrower	31 March 2023 Actual			2024/25
	Balance Owing	Loss Allowance	Net Figure in Accounts	Approved Limit
Subsidiaries	-	-	-	2.5
Joint Ventures	1.988	-	1.988	5.0
Local Businesses	0.435	-	0.435	1.0
Local Residents	0.021	-	0.021	0.1
Total	**2.444**	**-**	**2.444**	**8.6**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's Statement of Accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans. Loans are made where they support the Council's Corporate Plan and other relevant strategies. This is usually where the market appetite for such advances or services is limited.

External advisors are used where appropriate, to provide specialist services where the Council does not hold the knowledge. This includes services such as: the preparation and review of business cases, financial advice and legal advice. Where loans are provided to businesses the financial statements for the Company are obtained and reviewed annually. Subsidiary and joint venture companies are usually subject to an annual external audit in respect of their financial statements.

- **Service Investments: Shares**

Contribution: The Council may invest in the shares of its partners and subsidiaries to support local public services and stimulate local economic growth.

The Council has a minority shareholding in two Special Purpose Vehicles (SPVs) together with local developers.

Barnfield Blackburn Limited is a SPV set up for the purpose of acquiring a specific vacant site, which had a history of stalled development activity and incidents of anti-social behaviour, vandalism and trespass. The SPV has prepared the site for development by third parties which comprises a mix of employment and residential end uses directly support growth in jobs and housing.

Maple Grove Blackburn Limited is a SPV set up for the purpose of acquiring a Blackburn Town Centre site, which was vacant following the demolition of the former Thwaites Brewery. The site has been acquired and the SPV will prepare it for future development by third parties, with potential end uses including both commercial and residential properties, which will directly support growth in jobs and housing.

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, an upper limit of £100,000 has been set in relation to investment in company shares where there is no direct service benefit arising.

Risk assessment: The Authority assesses the risk of loss before entering into such shareholdings by ensuring the Council's risk exposure is quantified and capped at the proposed initial investment. The main purpose of these shareholdings is not to make a financial rate of return for the Council; it is to support the key priorities in the Council's Corporate Plan and the service delivery objectives of its Growth agenda.

Detailed business plans are produced for any such investments, including the use of external advisors where appropriate, which are rigorously challenged by Council Officers prior to being brought forward for approval by Members. Financial information is reviewed regularly for existing investments and the current SPV companies both have external audits performed on their financial statements annually.

Liquidity: The expected period of investment in company shareholdings is reviewed prior to approval of a business case, to ensure that the funds to be invested may be prudently committed for that period. The expected maximum period for investment in shares is 50 years.

Non-specified Investments: Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the Government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

- **Commercial Investments: Property**

The Chartered Institute of Public Finance and Accountancy (CIPFA) define investment property as *property held **solely** to earn rentals or capital appreciation or both.* Commercial properties owned by the Council are held for regeneration, planning reasons and estate management purposes in addition to earning rental income, and have therefore they have been classified as property, plant and equipment – and not Investment Properties – within the Statement of Accounts.

Government guidance in the context of this investment strategy has a different view and defines property to be an investment if it is held **primarily or partially** to generate a profit.

Contribution: The Council invests in local commercial property with the dual purpose of supporting the local economy and generating rental income to support expenditure spent on local public services. The main categories of property investments held are as follows:

- Industrial estates, business centres, shops and sundry commercial property – these properties have the purpose of regenerating areas of the borough as well as supporting the local economy and creating/retaining jobs;
- Agricultural tenancy – this land is used for the purpose of supporting the local economy; and
- Development sites and vacant land – these assets will be used to regenerate areas of the borough to ultimately provide housing or commercial property to support the local economy and job creation.

Table 2: Property Held in £ millions

Property type	Actual Purchase Cost	31 March 2023	
		Gains or (Losses)	Value in Accounts
Industrial Estates	9.4	4.3	15.3
Business Centres	4.0	0.7	2.7
Sundry Commercial Property	12.9	(4.2)	9.6
Sundry Shops	2.6	(0.2)	2.7
Agricultural Tenancy	2.6	1.5	10.3
Industrial/Commercial Development Sites	10.3	-	3.8
Residential Development Sites	15.7	(0.6)	8.4
Vacant Land	1.2	0.4	1.4
Total	**58.7**	**1.9**	**54.2**

Security: In accordance with Government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. As the properties noted in the table above are held primarily for service purposes (mainly regeneration, planning or supporting the local economy), with the side benefit of obtaining rental income, the Council is willing to accept that there may be downward changes in the valuation of properties, but the properties are not held for their capital appreciation.

Risk Assessment: The Council is willing to accept that there may be downward changes in the valuation of properties, but the properties are not held for their capital appreciation but are held for other benefits they provide within the Borough. Any acquisition of land or property is considered alongside the service benefits it will provide or the income it would generate if that were to be the primary reason for the acquisition.

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. The Council's Growth and Property teams review the property portfolio regularly to compile the list of sites and properties for potential sale, which is updated regularly with the likeliness of the sale going through and expected date for receipt of funds.

- **<u>Loan Commitments and Financial Guarantees</u>**

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 would be included here for completeness.

Excluding those guarantees associated with pension obligations for transferred staff, the Council does not have any such liabilities at present.

- **<u>Capacity, Skills and Culture</u>**

Elected Members and Statutory Officers: The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

The Council pays for Accountancy staff to study towards relevant professional accountancy qualifications and the staff within the Treasury Team, who are all qualified accountants, attend treasury seminars and workshops provided by CIPFA and other external service providers.

Training is provided to Councillors to aid informed decision-making and effective scrutiny.

The Councils appoints external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and other appropriate advisors as required.

The intention is that by building a solid knowledge base for both Officers and Members, they are fully informed when taking decisions to realise corporate objectives. Specialist support from external advisors strengthens the decision making process and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Commercial Deals: The Council undertakes business case analysis of potential investments which are considered by chief officers and elected members.

In recent years, the Council has not acquired any properties for the sole gain of generating a profit or return to contribute to net service costs.

Corporate Governance arrangements ensure that all decisions on Commercial investments are made in line with the criteria and limits approved by Council in line with Financial Regulations and the Constitution.

- **<u>Investment Indicators</u>**

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total Risk Exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 3: Total Investment Exposure in £ millions

	31 March 2023 Actual	31 March 2024 Forecast	31 March 2025 Forecast
Treasury Management Investments	50.8	64.8	20.0
Service Investments: Loans	2.4	2.5	2.5
Service Investments: Shares	0.0	0.0	0.0
Commercial Investments: Property	54.2	56.9	59.8
Total Investments	**107.4**	**124.2**	**82.3**
Commitments to Lend	-	-	-
Guarantees Issued on Loans	-	-	-
Total Exposure	**107.4**	**124.2**	**82.3**

How Investments are Funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing.

The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 4: Investments Funded by Borrowing in £ millions

	31 March 2023 Actual	31 March 2024 Forecast	31 March 2025 Forecast
Service Investments: Loans	1.8	1.7	1.6
Service Investments: Shares	0.0	0.0	0.0
Commercial Investments: Property	40.1	39.3	38.2
Total Funded by Borrowing	**41.9**	**41.0**	**39.8**

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.

Note: These properties are held primarily for their contribution to the local economy and regeneration of the Borough but have the added benefit of achieving income for the Council.

The table below takes into account all costs of holding these properties, including:

- Rental income;
- Interest paid on borrowings and minimum revenue provision charged;
- Revaluation gains and losses; and
- All property running costs.

Table 5: Investment Rate of Return (net of all costs)

	31 March 2023 Actual	31 March 2024 Forecast	31 March 2025 Forecast
Commercial Investments: Property	1.5%	4.5%	4.6%