

## APPENDIX H

### INVESTMENT STRATEGY REPORT 2023/24

#### 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.

#### Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of the Police, Fire, Parishes and Central Government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

**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 Council's policies and its 2023/24 plan for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix F of this report.

#### Service Investments: Loans

**Contribution:** The Council can lend money to its subsidiaries, its suppliers, local businesses, local charities, housing associations, local residents and its employees to support local public services and stimulate local economic growth. Details of the loans provided as at 31<sup>st</sup> March 2022 are shown in table 1 below.

**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 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	31.3.2022 actual			2023/24
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries / Joint Ventures	0.555	0.001	0.555	5.000
Local businesses	0.589	0.000	0.589	2.000
Local residents	0.207	0.000	0.207	1.000
Employees	0.000	0.000	0.000	0.050
<b>TOTAL</b>	<b>1.351</b>	<b>0.001</b>	<b>1.352</b>	<b>8.050</b>

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:** In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. The Council therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Council is proportionate and prudent.

The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

### **Service Investments: Shares**

**Contribution:** The Council invests in the shares of its subsidiaries, its suppliers, and local businesses if required to support local public services and stimulate local economic growth. The Council has limited shareholdings at present. The only shareholdings are, Teesside Airport (value in the accounts £0), Hotel Company (Value in the accounts £1) Stockton Holding Company (Value in the accounts £1).

**Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows;

*Table 2: Shares held for service purposes in £ millions*

Category of company	31.3.2022 actual			2023/24
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiaries / Joint Ventures	0	0	0	5.000
Local businesses	0.377	0	0.377	2.000
<b>TOTAL</b>	<b>0.377</b>	<b>0</b>	<b>0.377</b>	<b>7.000</b>

**Risk assessment:** The Council will assess the risk of loss before entering into a purchase and whilst holding shares by;

- Assessing the market that we will be competing in, the nature and level of competition, how the market will evolve over time, the barriers to entry and exit and any ongoing investment requirements.
- Utilise external advisors be they treasury management advisors, property investment advisors or any other relevant persons.
- Utilise credit ratings to assess risk and monitor these ratings on a regular basis.

**Liquidity:** Where the financial commitment is linked to a contractual arrangement then the contract period will determine the length of the financial commitment.

**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**

**Contribution:** The Government defines property to be an investment if it is held primarily or partially to generate a profit. The Council has for a number of years owned investment properties that meet this definition and these make profits which are spent on local public services. Details of these are included in table 3 below.

*Table 3: Property held for investment purposes in £ millions*

<b>Property</b>	<b>31.3.2022 Value £m</b>
Estate Shops	0.473
Hampton by Hilton Hotel	10.800
Town Centre	1.982
Ground Leases	3.200
Garages	0.011
Agricultural	0.900
Advertising Hoardings	0.041
<b>TOTAL</b>	<b>17.407</b>

During 2019/20 the Council purchased Wellington Square and Castlegate shopping centres. These properties do not meet MHCLG definition of investment properties as they were purchased for regeneration purposes. Therefore these are not included within the figures in the table above.

**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. Some of the Investment Properties have been held by the Council for a number of years and it is prudent to assume that current valuations exceed original purchase price.

A fair value assessment of the Council's investment property portfolio has been made by the Council's Valuer and a specialist external valuer as at 31st March 2022. These assets are valued on a rolling programme at the end of every year as part of the closure of accounts process.

**Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by ensuring they are prudent and has fully considered the risk

implications, with regard to both the individual property and that the cumulative exposure of the council is proportionate and prudent.

The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place, before entering into any commercial property investment and the business case will balance the benefits and risks. All investments of this type are agreed by Cabinet / Council.

**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.

### **Proportionality**

The Council is not materially dependent on profit generating 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 net profit from investments over the lifecycle of the Medium Term Financial Plan.

*Table 4: Proportionality of Investments*

	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>
Gross service expenditure	454.580	421.447	438.308
Investment income	1.981	2.466	2.023
<b>Proportion</b>	<b>0.44%</b>	<b>0.59%</b>	<b>0.46%</b>

### **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 not and has no plans to borrow in advance of need.

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

**Elected members and statutory officers:** The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that Cabinet members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post (as per the job description). All staff are required to undertake basic training prior to undertaking day to day treasury business and will, in addition, be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA’s Ethics Standard on Professional Practice (SOPP) which includes a section in relation to treasury management.

**Commercial deals:** The Council’s in-house Land & Property team is represented by chartered surveyors who have the necessary knowledge and skills to undertake commercial transactions and they undertake this work in accordance with internal procedures as well as compliance with Local Government Act 1972 and RICS Practice Statements.

**Corporate governance:** The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Council had adopted and has implemented the key recommendations of the CIPFA Prudential Code. This, together with the other arrangements such as the production of Treasury Management Practices and Treasury Management Strategy are considered vital to the achievement of proper corporate governance in treasury management, which the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

### **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 and guarantees the Council has issued over third party loans.

*Table 5: Total investment exposure in £millions*

<b>Total Investment Exposure</b>	<b>2021/22 Actual £m</b>	<b>2022/23 Forecast £m</b>	<b>2023/24 Budget £m</b>
Treasury management investments	46.910	14.331	14.331
Service investments: Loans	1.352	0.727	0.627
Service investments: Shares	0.377	0.000	0.000
Commercial investments: Property	17.407	17.407	17.407
<b>TOTAL INVESTMENTS</b>	<b>66.045</b>	<b>32.464</b>	<b>32.364</b>

**How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority’s investments are funded by usable reserves and income received in advance of expenditure.

*Table 6: Investments funded by borrowing in £millions*

<b>Investments funded by borrowing</b>	<b>31.03.2022 Actual £m</b>	<b>31.03.2023 Forecast £m</b>	<b>31.03.2024 Forecast £m</b>
Treasury management investments	0	0	0
Service investments: Loans	1.335	0	0
Service investments: Shares	0	0	0
Commercial investments: Property	17.000	17.000	17.000
<b>Total Funded by Borrowing</b>	<b>18.335</b>	<b>17.000</b>	<b>17.000</b>

**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)*

<b>Investments net rate of return</b>	<b>2021/22 Actual</b>	<b>2022/23 Forecast</b>	<b>2023/24 Forecast</b>
Treasury management investments	1.1%	2.4%	5.5%
Service investments: Loans	2.8%	4.7%	4.8%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	5.0%	3.3%	3.3%
<b>ALL INVESTMENTS</b>	<b>2.1%</b>	<b>2.6%</b>	<b>4.3%</b>