

## APPENDIX 7

**INVESTMENTS STRATEGY 2022/23 to 2024/25**1. 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 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 and focuses on the second and third of these categories.

2. Treasury Management Investments

The Council typically receives its income in cash (such as from taxes, grants and fees) before it pays for its expenditure in cash (such as the payroll or the payment of invoices from suppliers). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government.

The activities outlined, 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 (CIPFA). The balance of treasury management investments is expected to fluctuate between £12.0m and £25.0m during 2022/23.

The contribution that treasury management investments make to the Council’s priorities is to support effective treasury management activities. The Council’s approach to treasury management investments is set out in the Treasury Investments Strategy that forms part of the Capital Strategy 2022/23 - 2024/25 in appendix 5.

3. Service Investments

Service investments can be in either loans or shares. Further details of the approach adopted by the Council are as follows:

(i) Loans

The Council does not lend money to any subsidiaries, suppliers, local businesses, local charities, housing associations or local residents to support

local public services or stimulate local economic growth. The Council does provide 'soft' loans to some employees through a car loan scheme. The balance outstanding on these at 31 March 2020 was £55,475 and the interest paid by employees totals around £1,100 per annum. Monthly deductions for both principal and interest are made from the salaries of the employees with these loans and any risk of default is considered to be minimal.

(ii) Shares

The Council does not invest in the shares of subsidiaries, suppliers and businesses to support local public services or stimulate economic growth.

The Council does have a wholly owned local authority trading company, Liberty Leisure Limited, that was incorporated on 1 October 2016. Liberty Leisure Limited is a company limited by guarantee and its operations are overseen by a board of directors. Liberty Leisure Limited was established, amongst other things, to:

- Provide leisure, sports, cultural and heritage services for the benefit of the public
- Ensure sustainability of services by maximising income and seeking all possible avenue of funding for the services
- Promote, maintain and improve access to suitable services, activities and facilities
- Improve health and well-being by promoting increased participation to reduce obesity, anti-social behaviour and the health inequality gap
- Promote jobs and strengthen the local economy.

The Council maintains control over the company through retained decision making powers and through the scrutiny of the Leisure and Health Committee (or equivalent) which reviews the financial and operational performance of the company. The Council pays the company an annual management fee for the provision of the services outlined and, in 2022/23, this will be £845,000.

The Council also jointly owns Bramcote Crematorium in association with Erewash Borough Council. The operation is overseen by the Bramcote Bereavement Services Joint Committee with the management of all operations undertaken by this Council. The Joint Committee pays a management fee for this arrangement.

Each year a distribution agreed by the Joint Committee is paid to the respective local authorities. In 2022/23 this will be £400,000 to both Broxtowe and Erewash Borough Councils. This is fixed for the year and any failure by the Crematorium to meet their targets for 2022/23 will be reflected in the distribution for 2023/24.

#### 4. Commercial Investments

Among the most common forms of commercial investments are property and loan commitments / financial guarantees. Further details of the approach adopted by the Council are set out below:

##### (i) Property

The Council does not presently invest in local, regional, national or international commercial and residential property with the intention of making a profit that can be spent on the provision of local services. Any decisions to make such investments would be undertaken in accordance with the Capital Strategy 2022/23 to 2024/25 set out in appendix 5.

The purchase by the Council in May 2016 of the long-term lease in respect of an area of Beeston town centre already owned by the Council was for regeneration as opposed to investment purposes.

The ongoing development of Beeston town centre in The Square and other land owned by the Council is also considered to be for the regeneration of the area to make it attractive for residents, visitors and businesses and not for single objective generating returns that can help underwrite the cost providing Council services.

The Council had no investment properties on its balance sheet at 31 March 2021 and a similar position is anticipated as at 31 March 2022 and 31 March 2023.

##### (ii) Loan Commitments and Financial Guarantees

Although they are not strictly regarded by many as investments due to no money changing hands until various conditions are met, loan commitments and financial guarantees carry similar risks to investments in property.

The Council has not made any such commitment and presently has no intentions of doing so. Any proposed changes will be reported to members for their consideration.

#### 5. Investment Indicators

A new requirement of the investment guidance issued by the former MHCLG in January 2018 was the need for local authorities to develop quantitative indicators to allow elected Members and the public to assess the total risk exposure resulting from the Council's investment decisions. The indicators for treasury management investments are set out in appendix 7.

If the Council decides to make commercial investments in property designed to generate revenue income and fund this through borrowing, then the following indicators will be calculated and reported to Members on an annual basis:

Indicator	Definition
Debt to Net Service Expenditure (NSE) Ratio	Gross debt as a percentage of net service expenditure (where net service expenditure is a proxy for the size and financial strength of a local authority)
Commercial Income to NSE Ratio	Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate net service expenditure
Investment Cover Ratio	Total net income from property investments compared to the interest expense
Loan to Value Ratio	Amount of debt compared to the total asset value
Target Income Returns	Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.
Benchmarking of Returns	As a measure against other investments and against other council's property portfolios
Gross and Net Income	Income received from the investment portfolio at a gross level and net level (less costs) over time
Operating Costs	Trend in operating costs of the non-financial investment portfolio over time as the portfolio of non-financial investments expands
Vacancy Levels and Tenancy Exposures for Non-Financial Investments	Monitoring vacancy levels (voids) to ensure the property portfolio is being managed (including marketing and tenant relations) to ensure the portfolio is as productive as possible

These indicators are based on those set out in the government's investment guidance. Should the Council make such non-financial investments then suitable target values will be attached to these indicators and progress will be monitored accordingly. Further indicators will be developed, target set and progress reported as necessary.

The guidance also set out a number of indicators the Council should produce to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

(i) Total risk exposure

The first indicator shows the Council's total exposure to potential investment losses. The guidance states that this should include 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.

The Council has no contractual obligations to lend and none are included in the below table. The entirety of these loan balances are made up of 'treasury

management investments' in that they are made up of usable reserves and income received in advance of expenditure.

<b>Total Investment Exposure</b>	2021/22 Revised £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Investments at 1 April	18,842	10,533	12,000	10,000
Expected Change in Investments	(8,309)	1,467	(2,000)	0
Investments at 31 March	10,533	12,000	10,000	10,000

(ii) How investments are funded

Government guidance is that these indicators should include how investments are funded. As stated above all of the Council's investments are considered 'treasury management investments' and are made up of usable reserves and income received in advance of expenditure. The Council does not presently borrow purely to fund investments.

(iii) 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. It should be noted 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.

<b>Rate of Return</b>	2020/21 Actual £000	2021/22 Forecast £000	2022/23 Forecast £000
Average Total Investments	17,237	11,684	11,000
Total Interest Less Costs	242	174	250
Rate of Return	1.40%	1.49%	2.27%