

Investment Strategy Report 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 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 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 local authorities 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. The balance of treasury management investments is expected to fluctuate between £30m and £10m 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 Appendix A of this report.

Service Investments: Loans

Contribution: The Authority from time to time may lend money to local businesses, local charities or housing associations to support local public services and stimulate local economic growth.

The Council currently has four active service loans. The first two are loans to Staveley Town Council that were made in April 2020 and March 2023, which currently have outstanding balances of £30,000 and £371,000 respectively. The third is a loan to support the acquisition and operation of CFC 2001 Limited, trading as Chesterfield Football Club, which was made in July 2020, which has an outstanding balance of £402,000. The fourth is a loan to Baylight Properties in respect of Peak Resort which was provided in October 2022 to accelerate the development, de-risk the project and bring certainty to the proposals. This loan has a current outstanding balance of £500,000.

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.

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, on a case-by-case basis. A thorough examination of the borrowers' accounts and/or business plans is undertaken by the Service Director - Finance. The services of external advisors will be sought for any areas requiring specific expertise.

Commercial Investments: Property

Contribution: The Council owns local industrial and commercial properties which are held primarily for service purposes such as economic regeneration, but which in addition generate a profit that will be spent on local public services. These properties can be split into three main categories: industrial units and trading estates, retail and office and undeveloped land. The majority of these properties have been held for a substantial period of time, more than 30 years in the case of some assets.

Table 1: Property held for investment purposes in £ millions

Type of Property	Value in accounts 31.03.2023
Industrial Units and Trading Estates	26.3
Retail and Office	8.5
Undeveloped Land	2.7
TOTAL	37.5

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 / construction cost.

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2023/24 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

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. As the main purpose of owning these properties is for service reasons, the Authority does not need to rely on selling these assets for investment purposes, for example to repay capital borrowed.

Income: The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. The net amount of investment income (after operating expenses) received in 2022/23 was £2.2m, this equated to 4.0% of all general fund income received. This amount is expected to reduce in 2024/25. Income received is monitored on a regular basis and any expected shortfall would be reported as part of the budget monitoring reports.

Risk assessment of future commercial investments: The Service Director - Finance will assess the risk of loss before entering into and whilst holding commercial property investments. Due consideration will be given to the risks relating to failure to create income/exposure to market

changes, ongoing maintenance/management of the asset, possibility of arrears and exposure in one sector or locality. External advice will be sought for any investments requiring specific expertise.

Commercial property investments will be evaluated on a case-by-case basis and it must be demonstrated that the level of risk is acceptable for the expected yield, including benchmarking against alternative investment products. Full contingency plans are required to be in place before entering into any commercial property investments, in the event that the investment will fail to meet the expected yield.

Capacity, Skills and Culture

Elected members and statutory officers: All investment and commercial decisions will be taken with the involvement of the Service Director - Finance, who will ensure that all elected members and other officers are fully aware of the risks involved and how the decision could change the overall risk exposure of the Authority. All decisions made will also have regard to the principles of the prudential framework and of the regulatory regime in which local authorities operate.

Investment Indicators

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.

Table 2: Total investment exposure in £millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	15.1	10.0	10.0
Service investments: Loans	1.6	1.7	1.4
Commercial investments: Property	37.5	37.5	37.5
TOTAL EXPOSURE	54.2	49.2	48.9

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. The Authority does not have any investments that could be described as being funded by borrowing. All of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

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 3: Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	4.03%	4.90%	4.75%
Service investments: Loans	3.31%	4.97%	4.97%
Commercial investments: Property	5.86%	5.86%	5.86%