

**Investment Strategy  
(For Non-Treasury Investments)**

Warwickshire County Council

2022/23

## **1. Introduction**

- 1.1 Local Authorities may make investments of two types:
- Treasury Investments.
  - Other Investments (also referred to in this strategy as “non-treasury investments”).
- 1.2 This Investment Strategy covers “Other Investments” and is prepared according to statutory guidance issued under the Local Government Act 2003, the Treasury Management Code of Practice, and The Prudential Code for Capital Finance in Local Authorities. Non-Treasury Investment are policy investments made to deliver Corporate objectives as set out in the Capital Strategy and Medium Term Financial Strategy.
- 1.3 For the purposes of this Investment Strategy, an investment is any financial or non-financial asset of the authority which is held partially or primarily to generate a return. Investments include loans made by the local authority to wholly-owned companies or associates, to a joint venture, or to a third party. For the avoidance of doubt, the strategy does not include pension fund or trust fund investments which are subject to separate regulatory regimes, or treasury investments which are detailed separately in the Treasury Management Strategy.
- 1.4 Non-treasury management investments may take a number of forms, for example holding shares in companies, issuing loans to companies, promoting economic development, or holding non-financial assets (e.g. property). Details of the Council’s existing and planned non treasury investments are set out in Section 12 and 13 of this strategy.

## **2. Transparency and Democratic Accountability**

- 2.1 This Investment Strategy is a public document and must be approved annually by full Council, and any material changes during the year also being presented to Council for approval.
- 2.2 The more specific and detailed governance arrangements for any new funds will also be subject to Member approval through Cabinet or Council. For example, arrangements for the governance of the Warwickshire Property and Development Group (WPDG) and Warwickshire Recovery and Investment Fund (WRIF).
- 2.3 Under Regulation 17 of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 as amended overview and scrutiny committee members have right of access to any confidential information relating to any decision by the executive or any member

of the executive of their council where relevant to a review or scrutiny being undertaken by the committee or included in its work programme.

- 2.4 Any fundamentally new or additional levels of investment outside of those specified in or delegated by this Investment Strategy for investment for non-treasury purposes will be required to have direct Council approval that would be set out in an updated Investment Strategy.
- 2.5 The Section 151 Officer has delegated authority to implement this Investment Strategy, with the following overarching responsibilities highlighted.
- Ensuring that due diligence is carried out on investment proposals in accordance with the risk appetite of the authority.
  - Ensuring the proportionality of investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
  - Ensuring an adequate governance process is in place for the approval, monitoring, and ongoing risk management of non-treasury investments.

### **3. Investment Objectives**

- 3.1 The primary objective of all non-treasury investments will be to contribute towards the Council's core organisational objectives for Warwickshire:
- "A county with a vibrant economy and places with the right jobs, skills, and infrastructure.";
  - "A place where people can live their best lives; where communities and individuals are supported to live safely, healthily, happily and independently";
  - "A county with sustainable futures which means adapting to and mitigating climate change and meeting net zero commitments.".
- 3.2 In Addition, all non-Treasury investments will be required to demonstrate how they contribute towards the objectives specified in the Department for Levelling Up, Housing and Communities (DLUHC), previously Ministry of Housing, Communities & Local Government (MHCLG) guidance which will control local authority access to Public Works Loan Board (PWLB) lending by the withdrawal of PWLB lending to authorities when not met. These objectives are harmonious with the Council's overarching strategic objectives and powers, and are summarised below and detailed in Annex 1:
- Service
  - Housing
  - Regeneration
  - Treasury management
  - Prevention of social or economic decline

3.3 The principles of security, liquidity, and yield must be considered when making any investment. When considering treasury management investments, security is the highest priority, followed by liquidity, and yield is a low priority. However, for non-treasury investments, whilst all three principles matter, there is more flexibility around the relative priorities depending upon risk appetite and investment objectives. The following sections set out these principles in detail.

#### **4. Security**

4.1 The principle of security relates to the preservation of capital, i.e. Ensuring that the original investment is returned.

4.2 Non-treasury investments will be categorised as a means of indicating and controlling risk as follows:

- Specified Investments
- Loans
- Non-Specified Investments

4.3 Annex 2 describes these in detail and Annex 3-5 sets out how these will be managed.

4.4 Total exposure to investments will be capped as specified by this Investment Strategy, including detailed limits specifying ceilings on different types of investment, in order to limit risk exposure. This is summarised in Section 11 and detailed in Annex 5 and Annex 6.

4.5 All investments will have a specified end date and a documented process for review and, where contractually possible, early closure and realisation of capital should the circumstances performance, or risk profile require it. Investments which are of a nature that do not have a contractual end date, for example equity, will still have a planned holding duration.

4.6 Investment cash or non-treasury assets will not be issued in advance of need, minimising third party treasury management risk and the risk of cash or assets being used for objectives other than the investment objective.

4.7 A review will be undertaken in 2022/23 to assess the value of security held against non-treasury investments and to report on their sufficiency.

## **5. Liquidity**

- 5.1 The principle of liquidity relates to how quickly investments can be returned to the Council.
- 5.2 In order to manage liquidity risk, this Investment Strategy will specify the maximum durations for which financial investments may be committed.
- 5.3 The default arrangement for loans will be annuity repayments, i.e. the payment of principal in even instalments throughout the duration of the loan term. Other profiles may be considered on an exceptional basis, however the risk of alternative profiles must be considered alongside how the profile would help to meet organisational objectives.
- 5.4 The contractual terms of investments made will specify repayment conditions and timing.
- 5.5 For non-treasury investments, medium and long-term financial planning will be used to ensure that funds can be accessed when needed to repay capital borrowed.
- 5.6 The level of liquidity of non-treasury assets will be assessed and monitored.
- 5.7 The capital programme, capital financing requirement, and treasury management activity will have regard to the planned repayment of investments relating to non-treasury investments, for example capital receipts and the repayment of loan principal.
- 5.8 The new investments in the Warwickshire Property Development Group (WPDG) will be relatively long term and illiquid in nature. Annex 2 to 8 set out arrangements and controls which will be used to manage this risk.

## **6. Yield**

- 6.1 Investments will not be made purely or primarily for yield. This will mean that the Council will have access to PWLB lending at the low rates available from this source. Should the Council want to consider investments purely or primarily for yield, this would require a review of the overall capital financing position for the Council, because the Council would lose access to PWLB rates and capital financing costs would foreseeably be expected to increase.
- 6.2 However, where investments are made, the expected rates of return will have regard to the nature of investment and the level of risk been taken by the Council. Investment returns cannot be so low as to breach state aid/subsidy rules and cannot be so high as make an appropriate investment unviable to

appropriate counterparties. Investment returns will seek to align with market norms.

- 6.3 Net yield will be calculated after having regard to costs, fees, and expected credit loss.

## **7. Borrowing**

- 7.1 The Council will not borrow purely for profit and will not borrow more than or in advance of need purely or primarily to profit.

- 7.2 However, the Council may borrow in advance of need primarily for risk management or borrowing efficiency reasons (for example to lock into low interest rates if interest rates are expected to rise significantly).

- 7.3 Capital receipts shall not be repurposed from the acquisition of assets that contribute to service delivery in order to fund the purchase of investments solely to avoid borrowing in advance of need.

## **8. Risk**

- 8.1 Any investment, by its nature, involves a risk that the rate of return may not be achieved, and the original investment may not be repaid. It also carries the potential risk that more than the original investment is lost if an investor for whatever reason subsequently puts additional money in above the original investment, for example if unsuccessfully attempting to turn around a failing investment.

- 8.2 The financial risks involved in the non-treasury investments relating to the WPDG and WRIF are of a different nature and greater than the financial risks relating to traditional capital expenditure and treasury investments. The reasons for the differences are:

- Treasury investments prioritise security and liquidity in order to serve the primary objective of treasury management which is to ensure that cash is available when needed to serve the purpose for which that cash is held. To achieve this treasury objective, relatively safe and secure investments are chosen, and consequently low rates of return are accepted.
- Traditional capital spending is expenditure by nature and is fully funded as such. A capital asset provides benefits over its financial life and the cost of the asset is spread across the life of the asset, reflecting its consumption and use. At the end of the life of the asset, a new asset would be required if the same benefits are required to continue, and in order to pay for a new asset new money is needed. This new money is prudently provided for by the Council making an annual provision called the Minimum Revenue Provision (MRP). This means that money will be available to purchase a new asset

when the time comes. There is no assumption that the asset will retain its financial value, or that the asset will provide a financial return, and therefore there is no risk of either of these assumptions not happening.

- Non-Treasury investment risks are different in that:
  - They are assumed to retain or increase their original asset value, and they are assumed to provide a financial return. Therefore, there is exposure to the risk of those assumptions not happening.
  - The objectives of non-treasury investments by their nature are not the same as treasury investments, and therefore they may not prioritise security and liquidity as highly as treasury investments do.

8.3 Although the Council will not pursue investments purely for the objective of financial return, the Council will pursue investments in order to meet objectives as set out in Section 3, and in doing so accepts higher risks with respect to security and liquidity.

8.4 Higher risk is associated with higher reward. Investors will seek to find opportunities receiving higher returns for lower risk, while organisations seeking investment will seek opportunities paying lower returns for higher investor risk. These competing requirements result in a market-norm rate of return for a given level of risk. Rates of return will have regard to this, ensuring that rates of return are not so low as to breach state aid/subsidy rules and not so high as to be unviable to counterparties. Rates should be market normative and enough to reward the investment risk taken.

8.5 The majority of traditional treasury management investment (currently approximately £405m) is very low risk and very low return, for example loans to other local authorities, and money market funds designed to preserve capital. There are some small investments in higher risk investments including the Threadneedle Social Bond Fund (currently £34m) and CCLA Property Fund (currently £10m). These two investments are held over a longer timeframe in order to provide access to higher rates of interest in return for accepting less liquidity and higher risk. The WPDG and WRIF investments will be further up the risk/return spectrum, however this positioning is driven by the objectives of the WPDG and WRIF being different to treasury objectives.

8.6 Before entering into an investment, and whilst an investment is in place certain protocols will be followed to manage risks. These are detailed at Annex 3.

## **9. Proportionality**

9.1 Any particular investment will carry its own risks, driven by the investment itself and the counterparty it relates to. The risk and return associated with any particular investment will vary.

- 9.2 In addition, there is the aggregate risk that the Council is exposed to when considering all investments in totality. This is a function of the total amount of assets and income at risk of loss, and the extent to which the Council is dependent upon those assets and that income.
- 9.3 This Investment Strategy sets out maximum limits for non-treasury investments in order to limit total risk exposure.
- 9.4 The Medium-Term Financial Strategy sets out the extent to which the overall Council budget is supported by income from non-treasury investments. However, when considering exposure to financial risk, there is also the risk of loss of principal, and where this occurs this may impact on the income and expenditure account directly.
- 9.5 Two indicators are required by Government guidance to be used to set limits that cannot be exceeded in order to manage proportionality. These measures are:
- Gross debt as a proportion of net service expenditure
  - Commercial income as a percentage of net service expenditure
- 9.6 These measures are incorporated into the indicators detailed in Annex 5 and Annex 6.

## **10. Capacity, Skills and Culture**

- 10.1 Non-Treasury investments carry particular risk, and the nature and scale of proposed investments in the WPDG and WRIF create new risks. We will ensure we have the appropriate capacity, culture, and skills to manage non-Treasury investments through a range of specific actions and policies as set out in Annex 4.

## **11. Prudential Indicators and Limits**

- 11.1 A range of measures will be used to report on and control exposure to financial risk exposure from investment decisions. Annex 5 sets out definitions of the measures that will be used.
- 11.2 Measures are classified as either “Indicators” or “Limits” and the distinction is set out below:
- Indicators (Annex 6) – these are measures to monitor a particular financial parameter which will provide insight into performance and/or risk.
  - Limits (Annex 7) - these measures which set hard limits on certain financial parameters in order to control and limit exposure to risk.



- 11.3 The most important measures are the limits on gross investment set out in Annex 7. These provide the fundamental control over maximum exposure to risk.
- 11.4 Over time, the use of measures will be reviewed and measures that are initially used for monitoring purposes may in the future be used for control purposes.
- 11.5 The measures used, and any targets or limits, will be updated at a minimum annually when the Investment Strategy is updated.
- 11.6 The indicators have been chosen having regard to MHCLG guidance.

## **12. Warwickshire Property Development Group**

- 12.1 In 2019/20 Council approved a commercial strategy setting out the intention to explore new approaches to the delivery of organisational objectives.
- 12.2 During 2021/22, the Warwickshire Property Development Company (WPDG) was launched.
- 12.3 WPDG has been launched with the following objectives:
- To undertake regeneration and place making activities within the county of Warwickshire. This should include delivery of major schemes, prioritising regeneration activities and delivering specific regeneration plans across the county.
  - To undertake activities that progress Warwickshire County Council's key policy objectives, for example mitigating climate change, promoting sustainable and inclusive economic growth in Warwickshire, improving quality of life, and improving Warwickshire's 5G network and connectivity.
  - To undertake activities with a view to generating new short- and long-term financial returns from the Council's property assets as appropriate and establishing and maintaining momentum in such activities.
  - To operate in effective partnership with public sector stakeholders, in particular district and borough councils, NHS bodies, Warwickshire Police, universities, West Midlands Combined Authority, Coventry and Warwickshire Local Enterprise Partnership and Homes England.
- 12.4 WPDG investments may be of the following nature:
- Equity Investment
  - Commercial Loans
  - Corporate Guarantees
  - Partnerships (Joint Venture)

- 12.5 The value of any loan guarantees will be included in counting of the total value of loans issued as they allow a third party to call on a loan unilaterally.
- 12.6 Any investments of a convertible nature between equity and debt will be counted as the actual type of investment that they are at the given time.
- 12.7 The detailed proposals for the WPDG are being reported in the WPDG Business Plan to Cabinet in January 2022. This includes detailed arrangements for the proposed governance of the fund. The arrangements for the governance of the fund must comply with the requirements of this Investment Strategy. If there are any areas of discrepancy, the Investment Strategy will be followed until and unless it is changed by Council.
- 12.8 For the management of risk, limits will be set by the Investment Strategy controlling the following:
- How much can be invested in each year.
  - How much may be equity, capital, and revenue in nature.
  - The maximum duration of investments will be as set out in the detailed business plan.
- 12.9 Annex 7 specifies the limits for investment in the WPDG. These limits are specific for the next year, and indicative for the following 4 years.
- 12.10 The WPDG business plan includes potential investments over a significantly longer period of time, however actual approval for it is subject to viable detailed business cases for each individual investment and is also subject to the approval of an Investment Strategy with appropriate investment limits being approved at the necessary time. For completeness, the indicative total gross investment profiles proposed for the WPDG are set out in the table below. The table shows the *planned* investment. Annex 7 also sets out the *maximum* investment per year. The headroom this provides enables the Council and the company to function efficiently and effectively without the need for disproportionate governance approvals should circumstances change or opportunities arise, but at the same time keeping a hard limit to provide Council with certainty and assurance as to the maximum level of investment exposure that could be taken without further approval from members.

**Table 1 – WPDG Gross Investment**

| <b>Indicative Gross Investment £m</b> | <b>2022/23</b> | <b>5 years</b> | <b>Whole Life</b> |
|---------------------------------------|----------------|----------------|-------------------|
| Equity                                | 14.75          | 28.18          | 45.61             |
| Capital Loans                         | 4.07           | 67.74          | 79.63             |
| Working Capital Loans (Revenue)       | 0.60           | 10.92          | 12.28             |
| <b>Total</b>                          | <b>19.42</b>   | <b>106.83</b>  | <b>137.52</b>     |

- 12.11 All individual investments will be subject to bespoke business cases and due diligence as required by the specified governance arrangements.
- 12.12 The investment profile will be updated each year on a rolling basis. For example, before the actual investment limits for 2023/24 are proposed in the next annual Investment Strategy, they will be informed by experience to date of investments made in 2022/23.
- 12.13 At the time of writing this report £150,000 of working capital loans had been lent to WPDG from the Council.

### **13. Warwickshire Recovery and Investment Fund**

- 13.1 A business case and strategy have been approved by Council in June 2021 to set up a Warwickshire Recovery and Investment Fund (WRIF) with the objective of providing finance to support business start-ups and business growth within Warwickshire and supporting the Council's strategic goals and priorities as set out in the Warwickshire Council Plan, Covid 19 Recovery Plan, Economic Strategy, Commercial Strategy, and Place Shaping Programme. Activity to launch this fund has been under way in 2021/22 with the first investments being expected in Quarter 4.
- 13.2 Although the primary objective of this fund is to deliver service objectives (specific examples being job creation and job safeguarding, leveraging additional resources funding into the county, and increasing social value) the fund will operate on a commercial basis and will therefore plan to generate financial returns for the council.
- 13.3 The majority of investments are expected to be senior debt in nature, other forms of investment including mezzanine debt and equity will be considered. A detailed business plan and investment strategy specifically relating this to this fund have been developed and require member approval in order for the fund to proceed to make investments.
- 13.4 The business plan and investment strategy for this specific fund must fit within all of the controls and governance requirements set out in this overarching non-Treasury Investment Strategy. For the avoidance of doubt, should there be any conflict this strategy/policy would prevail, and should there be a need or desire to invest outside of the boundaries set out in this policy, that would require bringing this policy back to Council to approve the changes first. In this way members and full council retain direct control of the overall level of risk being taken.
- 13.5 Annex 7 sets out the limits on gross investment within each fund each year. These limits are designed to control exposure to risk. The WRIF is made up of

three sub funds with different risk profiles and therefore each sub fund has its own limit as follows:

|   | Maximum Investment Over The 5 Year Period |
|---|---|
| Business Investment Growth Fund (BIG)   | £90m                                      |
| Property and Infrastructure Fund (PIF)  | £40m                                      |
| Local Communities Enterprise Fund (LCE) | £10m                                      |
| Total                                   | £140m                                     |

13.6 The business plan for the WRIF sets out an explanation of the nature and risks to do with these funds in detail.

13.7 In addition to having a limit on the amount that can be invested over the five-year period, other constraints are also placed on investment activity in order to control exposure to risk as follows:

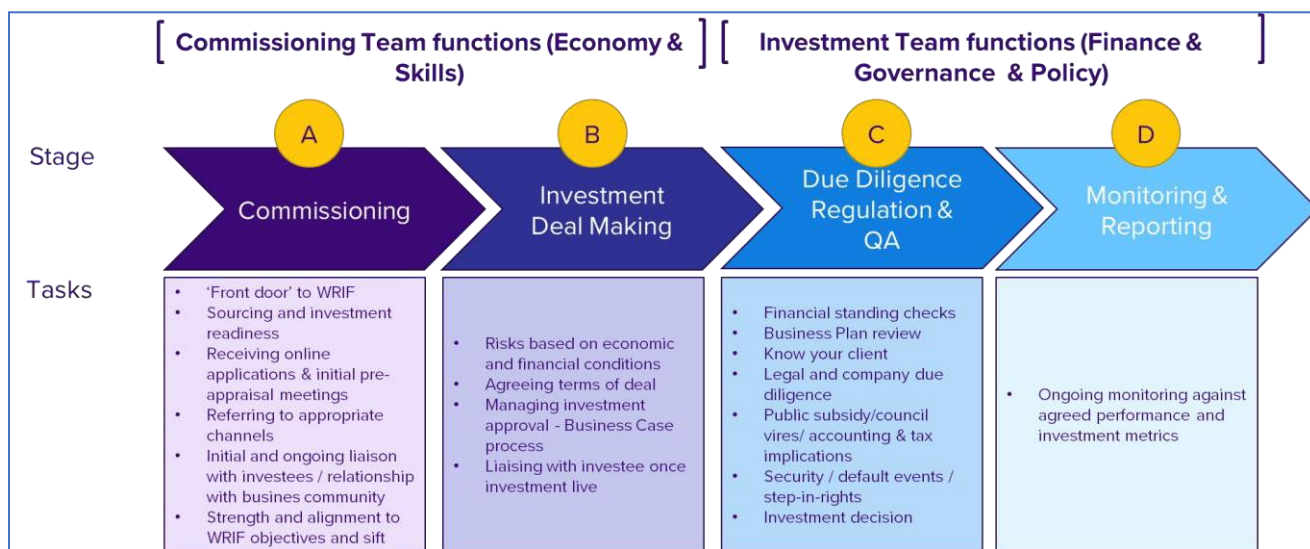
- Limits for the amount that can be invested in each financial year (Annex 7.3)
- Limits on how much investment may be equity or working capital loans, which carry different risk profiles to debt invested in capital (Annex 7.3, 7.4 and 7.5)
- Limits on how long a loan may stay out with a third party before it must be paid back (Annex 7.4)
- Each fund will have tailored governance arrangements and individual investments will be assessed against specified criteria that include consideration of risk and the financial strength of the counterparty as well as the benefits in terms of delivering Council objectives.

13.8 No limits will be set on net debt however net debt will be monitored, and in addition to the monitoring of these strategic indicators there will be detailed monitoring of the investment portfolio.

13.9 **WRIF Launch** - The below table shows the launch dates of each of the funds within the WRIF.

| WRIF Fund Pillar | Launch Date    |
|------------------|----------------|
| BIG              | September 2021 |
| LCE              | Spring 2022    |
| PIF              | Spring 2022    |

13.10 **WRIF Process and Pipeline** - The progression from first contact with a potential bidder, through to investment is set out in the chart below.



## 14. Other Non-Treasury Investments

14.1 The Council already holds a number of investments that are non-treasury by nature. These investments are managed under existing procedures and protocols. This section sets out these investments.

### **Company Shares**

14.2 The Council currently holds shares and debt with the following companies for the purposes of promoting the achievement of organisational objectives. These companies may provide a return on investment but that is not the primary reason for their existence.

- Warwickshire Legal Services Trading Ltd
- Educaterers Ltd
- University of Warwick Science Park Innovation Centre Ltd
- Warwick Technology Park Management Company Ltd
- Warwick Technology Park Management Company (No2) Ltd
- Eastern Shires Purchasing Organisation (ESPO)
- SCAPE Group Ltd
- Coventry and Warwickshire Local Enterprise Partnership
- Coventry and Warwickshire Waste Disposal Company
- UK Municipal Bond Agency PLC
- Border to Coast Pension Partnership Ltd

14.3 The share value relating to the above companies recorded in the 2020/21 accounts was £2.151m, with dividend income of £0.702m.

### **Company Loans**

- 14.4 In addition to the above the Council currently operates two wholly owned Local Authority Trading Companies:
- Warwickshire Legal Services Trading Ltd
  - Educaterers Ltd
- 14.5 There is a £1.8m loan facility in place with Educaterers at a rate of return of base rate + 5.75% to provide support to the company's cash flow.
- 14.6 Local authority-controlled company activity has been an area of particular interest to CIPFA and the government, and CIPFA are developing further guidance around the governance of these entities. We will keep up to date with developments and have regard to any new guidance as appropriate.
- 14.7 The capital programme already includes allocations available for the purposes of making loans to local businesses who cannot raise funds through other means such as banks. This includes the following capital programme forecasts as at Quarter 2 for 2021/22.

**Table 2 – Capital Programme Loans**

| Forecast £m                                   | Up to 2021/22 | 2022/23      | 2023/24 Onwards | Total        |
|---|---------------|--------------|-----------------|--------------|
| Capital Growth Fund Business Loans and Grants | 1.909         | 0.200        | 0.391           | 2.500        |
| Capital Investment Fund/Duplex Fund           | 1.900         | 0.100        | -               | 2.000        |
| Capital Investment Fund/Small Business Grants | 1.452         | 0.098        | 0.200           | 1.750        |
| <b>Total</b>                                  | <b>3.809</b>  | <b>0.300</b> | <b>0.391</b>    | <b>4.500</b> |

- 14.8 Loans and grants are managed via the Coventry and Warwickshire Reinvestment Trust (CWRT), this includes arrangements for assessing loans, issuing loans, and recovery.
- 14.9 In addition to the above established lending arrangements, loans to the value of £3m have been committed to in respect of Coronavirus Business Interruption Scheme (CBILS). This strategy sets a limit of £5m for lending of this nature (Annex 7.1).

***Property Investment***

- 14.10 The Council does not currently invest in property for the purposes of generating commercial income, however the Council does currently hold some assets for the purpose of generating future capital receipts.

**Table 3 – Property Investment**

| <b>£m</b>  | <b>31/03/2021</b> |
|--|-------------------|
| NUNEATON/Land at former Magistrates Courts, Vicarage Street        | 0.272             |
| NUNEATON/Land Adjoining 51 Queens Road, Queens Road                | 0.002             |
| Attleborough Fields Industrial Estate Slingsby Close               | 0.519             |
| NUNEATON/Former Manor Park Community School, Beaumont Road         | 1.575             |
| ARLEY/ARC School (Former Herbert Fowler Junior School)             | 0.903             |
| RUGBY/Great Central Industrial Estate, Great Central Way           | 1.100             |
| ALCESTER/Former Area Library, Priory Road                          | 0.301             |
| ALCESTER/Meadow View H.E.P. (Independently funded), Kinwarton Road | 0.000             |
| Kineton/ River Meadows Care Home                                   | 0.244             |
| <b>Total</b>   | <b>4.915</b>      |

14.11 The value of these assets can change, and these assets generate a small amount of incidental income (approximately £50k in 2020/21). The properties classified as investment property had an asset value of £4.915m as at March 2021, which is 0.4% out of a full asset value in the balance sheet of £1.14bn.

14.12 Where any of these properties in future come under the auspices of the WPDG, the governance arrangements in place for the WPDG will apply.

## **15. Environmental, Social, and Governance Policy**

15.1 As a responsible investor, the Council is committed to considering environmental, social, and governance issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

15.2 The impact of an investment in respect of climate change may be a consideration for investment decisions, with investments that help to prevent climate change, or help to cope with its impact, or which are resilient to its effects being desirable. Measurement of impact such as via carbon footprint will be undertaken where practical.

15.3 Investments that have a social impact benefit, either on a local scale or more widely may be considered.

15.4 The ESG policy of fund managers and investment partners may be considered when making decisions, with the preference being for fund managers and partners who share similar values around ESG.

## Public Works Loan Board – Lending Objectives

| Type                                     | Description  |
|--|--|
| Service                                  | Normal local authority capital spending, for example education, highways, transport, social care, public health, cultural services, environmental services, regulatory services, and Fire and Rescue Services, as would be captured in the MHCLG Capital Outturn Return.   |
| Housing                                  | Normal local authority general fund or housing revenue account activity, as would be captured in the housing sections of the DLUHC Capital Outturn Return. In principle this includes land release, housing delivery, and subsidising affordable housing.  |
| Regeneration                             | <ul style="list-style-type: none"> <li>• Addressing economic or social market failure by providing services, facilities, or other amenities of value to local people which would not otherwise be provided by the private sector</li> <li>• Preventing negative outcomes including through buying and conserving assets of community value that would otherwise fall into disrepair</li> <li>• Investing significantly in assets beyond the purchase price, developing assets to improve them and/or change their use</li> <li>• Generating significant additional activity that would not otherwise happen without the local authority's intervention, for example creating jobs and/or social or economic value</li> <li>• Investments that recycle income to related projects with similar objectives rather than income being applied to wider services</li> </ul> |
| Treasury Management                      | Restructuring or extending existing debt from any source, including the restructuring of internal financing  |
| Prevention of Social or Economic Decline | <ul style="list-style-type: none"> <li>• Investments that prevent a negative outcome, for example conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease</li> <li>• Investment where there is no realistic prospect of support from any other source</li> <li>• investments with a defined exit strategy so that investments are not held for any longer than is necessary to achieve their objective</li> </ul>   |

DLUHC issued guidance following the 2020 PWLB consultation stating that authorities that invest make Non-Treasury investments for the above reasons will have access to PWLB lending.

Local authorities that choose to invest for other reasons, or who choose to invest purely or primarily for yield will not be allowed to access PWLB lending for a period of time. In these cases, lending will be available from other sources, however it is foreseeable that the credit rating and risk profile of a local authority will be adversely impacted where it been refused access to the PWLB, and this would foreseeably impact on the lending rates and terms made available to the local authority.



## Investment Categories

| Investment Type           | Description  |
|---------------------------|--|
| Specified Investments     | <p>Generally lower risk. These are sterling denominated, short-term, not capital by nature, and are made with counterparties with high credit ratings</p> <p>The Investment Strategy, will use the same criteria for the determination of specified investments as the Treasury Management Strategy</p>  |
| Loans                     | <p>Generally higher risk than specified investments. In order to mitigate risk:</p> <ul style="list-style-type: none"> <li>• Credit risk and expected credit loss models will be used for loans and receivables.</li> <li>• Documented credit control arrangements will be used.</li> <li>• The value of loan guarantees will be counted against total lending exposure, whether or not a loan facility has been fully utilised.</li> <li>• Where a loan may be convertible to equity this can only be at the Council's discretion. No loans will be offered with any contractual commitment to convert them to equity.</li> </ul>   |
| Non-Specified Investments | <p>This category covers all investments which are not specified investments, for example equity.</p>   |
| Non-Treasury Investments  | <p>This relates to physical assets which can be realised to recoup the capital invested. In order to mitigate risk:</p> <ul style="list-style-type: none"> <li>• The Council will monitor on an annual basis whether assets retain sufficient value to provide security.</li> <li>• Where security is sufficient, a statement should be made to this effect.</li> <li>• Where security is insufficient, a plan detailing the mitigating actions being taken to protect capital invested should be produced.</li> <li>• Where a loss is recognised in the accounts, the impact of this loss should be reported in an updated Investment Strategy.</li> <li>• Where the initial directly attributable purchase costs are greater than the realisable value of an asset, a statement setting out the timescales expected for the asset value to provide security for the sums invested will be made.</li> </ul> |

## Risk Management

| Risk   | Risk Management  |
|--|--|
| Business market itself is not sound                      | <ul style="list-style-type: none"> <li>• Review of the wider market in which the counterparty operates</li> </ul>  |
| Counterparty is not financially sound or well governed   | <ul style="list-style-type: none"> <li>• Use of independent credit ratings or credit assessments</li> <li>• Review of published financial reports and accounts</li> <li>• Review of the wider business plans of the organisation</li> <li>• Review of the counterparty's business case for seeking Council investment</li> <li>• Undertaking bespoke due diligence on the counterparty's financial and governance position where appropriate.</li> <li>•</li> </ul>  |
| The counterparty investment plan is not sound            | <ul style="list-style-type: none"> <li>• Reviewing the specific investment business case methodology, rationale, and assumptions</li> <li>• Review of the specific market environment</li> <li>• Undertaking bespoke due diligence where appropriate.</li> </ul>   |
| The investment is not repaid                             | <ul style="list-style-type: none"> <li>• Establishing security against counterparty assets where appropriate</li> <li>• Including appropriate wordings in loan agreements</li> <li>• Regular monitoring of loan repayments, with the information required from the counterparty being specified</li> <li>• Use of credit control processes</li> <li>• Regular monitoring of counterparty financial metrics</li> <li>• Use of shareholder powers in respect of shareholdings, for example voting rights, reserved shareholder powers, board membership rights, and access to company information.</li> <li>• Utilising internal expertise and external expertise to monitor and review investment risk.</li> <li>• Where appropriate providing information, guidance, and support to counterparties to assist them in navigating difficulties in making repayments.</li> <li>• Use of the expected credit loss model to account for investments.</li> <li>• Having exit strategies built into the investment plan.</li> </ul> |
| The Council does not adequately understand an investment | <ul style="list-style-type: none"> <li>• Commissioning of experts and external advisers where internal expertise is not available.</li> <li>• Use of competitive procurement processes to secure external advisers.</li> <li>• Use of specified contract terms and objectives, and proactive contract management, to direct external advisers.</li> <li>• Investments in new markets or endeavours will be profiled with lower investments in the initial years to provide proof of concept and organisational learning before investment levels are scaled up</li> </ul>  |

## Capacity, Skills, and Culture - Policies and Actions

|          | Actions  |
|----------|--|
| Capacity | <ul style="list-style-type: none"> <li>• For investment funds ensuring adequate capacity is resourced at conception to deliver the fund objectives.</li> <li>• For individual investments, ensuring business cases include regard to the capacity required to deliver investment objectives for the Council and the counterparty.</li> <li>• Ensuring that investment costs are accounted for and covered by gross investment returns before net returns are counted.</li> </ul>   |
| Skills   | <ul style="list-style-type: none"> <li>• An annual training plan for Members closely involved in investment governance but noting that Members are not expected to be investment experts and require appropriate support and advice from experts.</li> <li>• Specific training on the prudential framework for officers and other stakeholders involved in negotiating investments</li> <li>• Commissioning of external expertise where internal expertise is not available</li> <li>• The use of appropriately qualified and experienced internal staff where necessary</li> </ul>  |
| Culture  | <ul style="list-style-type: none"> <li>• Reporting to Members and senior officers of lessons learned from other local authorities, where public reports are made available.</li> <li>• Ensuring no investment or counterparty is ever perceived to be “too big to fail”.</li> <li>• Ensuring that unsuccessful investments are identified and accepted as such as early as possible and that robust decisions are taken to prevent further losses, for example by investing further into an unviable project.</li> <li>• Ensuring a positive support and challenge culture.</li> <li>• A robust culture promoting consistent application of investment controls</li> <li>• Investment appraisals consider the long-term and the whole investment life-cycle.</li> <li>• Investment funds consider intergenerational fairness.</li> <li>• Conflicts of interest are transparent and proactively managed.</li> <li>• Risk management and performance management will be evidence based.</li> </ul> |

## Indicator Definitions

| Title  | Purpose   |
|--|---|
| Gross debt as a proportion of net service expenditure<br><br>(to be monitored)                       | Demonstrates the scale of debt in comparison to the financial size and strength of the authority<br><br>Indicates proportionality and whether the authority is taking too much risk in aggregate  |
| Commercial income as a proportion of net service expenditure<br><br>(to be monitored)                | Demonstrates the dependence of the authority on commercial income associated with investments<br><br>Indicates proportionality and whether the authority is taking too much risk in aggregate<br><br>Note this indicator only relates to commercial income associated with non-treasury investments, therefore for example it excludes income from normal trading with third parties such as schools.   |
| Loan to value ratio<br><br>(to be monitored)   | Demonstrates the amount of debt issued compared to the total associated underlying asset value<br><br>Indicates risk of exposure to losses  |
| Gross investment limits  | To manage risk, limits will be set with respect to how much can be invested in non-treasury investments profiled across the medium term financial planning horizon at a high level, and provide a more detailed limits around investment durations for investments to be made in the coming year<br><br>Gross limits are a hard limit in-year<br><br>Net lending will be monitored and will inform the gross limits updated for following years |
| Non-treasury investment net borrowing as a percentage of net financing need<br><br>(to be monitored) | Total non-treasury investments as a proportion of total capital financing requirement, assuming non-treasury related capital receipts reduce non-treasury related borrowing.  |
| The expected net rate of return<br><br>(to be monitored)   | The overall expected net rate of return for investments<br><br>This is the gross rate of return, less costs and fees, and less expected credit loss<br><br>Returns are not risk-free, therefore higher rates of return indicate higher levels of risk   |

## Investment Strategy Indicators

### 6.1 Gross debt as a proportion of net service expenditure

|  |    | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|--|----|---------|---------|---------|---------|---------|
| Gross Debt                                 | £m | 321.406 | 321.406 | 331.406 | 381.406 | 431.406 |
| Net Service Expenditure                    | £m | 519.079 | 524.996 | 532.982 | 543.612 | 564.502 |
| Gross debt as % of net service expenditure | %  | 61.9%   | 61.2%   | 62.2%   | 70.2%   | 76.4%   |

### 6.2 Income as a proportion of net service expenditure

|   |    | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|----|---------|---------|---------|---------|---------|
| Income (gross)                                    | £m | 2.380   | 3.878   | 4.700   | 5.442   | 7.040   |
| Net Service Expenditure                           | £m | 519.079 | 524.996 | 532.982 | 543.612 | 564.502 |
| Commercial income as % of net service expenditure | %  | 0.46%   | 0.74%   | 0.88%   | 1.00%   | 1.25%   |

Note - gross income represents income before having regard to costs

### 6.3 Loan to value

|                       |    | 2022/23         | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|-----------------------|----|-----------------|---------|---------|---------|---------|
| Total Loans (Capital) | £m | 48.819          | 41.511  | 42.575  | 61.883  | 28.726  |
| Asset Value           | £m | to be monitored |         |         |         |         |
| Loan to value         | %  |                 |         |         |         |         |

Note - asset values will depend on lending opportunities, these will initially be monitored rather than a limit being set.

### 6.4 Non-treasury investment net borrowing as a percentage of net financing need

|   |    | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|----|---------|---------|---------|---------|---------|
| Net Borrowing Relating to Non Treasury Activity | £m | 34.071  | 68.506  | 57.308  | 91.666  | 61.219  |
| Total Net Borrowing Requirement                 | £m | 67.229  | 60.049  | 51.022  | 63.769  | 55.233  |
| Non Treasury Borrowing as % of Total            | %  | 50.7%   | 114.1%  | 112.3%  | 143.7%  | 110.8%  |

Note - in 2025/26 repayment of principal exceeds loans issues hence a net negative figure

### 6.5 Expected Gross Rate of Return

|                      | Average Rate of Return |
|----------------------|------------------------|
| WPDG                 | 6%                     |
| WRIF - BGF           | 5%                     |
| WRIF - Property Fund | 6.5%                   |
| WRIF - LCEF          | 6%-15%                 |

## Investment Strategy Plan and Prudential Limits

### 7.1 Annual Gross Investment Plan - Medium Term

|                          |           | 2022/23       | 2023/24       | 2024/25       | 2025/26       | 2026/27       | Total          |
|--------------------------|-----------|---------------|---------------|---------------|---------------|---------------|----------------|
| WPDG - Equity            | £m        | 14.748        | -             | 3.672         | 9.756         | -             | 28.176         |
| WPDG - Development Loans | £m        | 4.071         | 11.511        | 8.904         | 22.127        | 21.126        | 67.739         |
| WPDG - Revenue Loans     | £m        | 0.600         | 0.656         | 0.012         | 6.713         | 2.934         | 10.915         |
| <b>Sub Total - WPDG</b>  | <b>£m</b> | <b>19.420</b> | <b>12.167</b> | <b>12.587</b> | <b>38.595</b> | <b>24.060</b> | <b>106.829</b> |
| WRIF - BGF               | £m        | 20.000        | 20.000        | 20.000        | 20.000        | 7.600         | 87.600         |
| WRIF - LCEF (Revenue)    | £m        | 2.000         | 2.000         | 2.000         | 2.000         | 1.800         | 9.800          |
| WRIF - Property          | £m        | 10.000        | 10.000        | 10.000        | 10.000        | -             | 40.000         |
| <b>Sub Total - WRIF</b>  | <b>£m</b> | <b>32.000</b> | <b>32.000</b> | <b>32.000</b> | <b>32.000</b> | <b>9.400</b>  | <b>137.400</b> |
| <b>Total</b>             | <b>£m</b> | <b>51.420</b> | <b>44.167</b> | <b>44.587</b> | <b>70.595</b> | <b>33.460</b> | <b>244.229</b> |

| Other Revenue Loans |    | 2022/23      | 2023/24      | 2024/25      | 2025/26      | 2026/27      |
|---------------------|----|--------------|--------------|--------------|--------------|--------------|
| Other LATC Loans    | £m | 2.500        | 2.500        | 2.500        | 2.500        | 2.500        |
| CWRT                | £m | 3.000        | 3.000        | 3.000        | 3.000        | 3.000        |
| <b>Total</b>        |    | <b>5.500</b> | <b>5.500</b> | <b>5.500</b> | <b>5.500</b> | <b>5.500</b> |

### 7.2 Cumulative Gross Investment Plan - Medium Term

|                          |           | 2022/23       | 2023/24       | 2024/25        | 2025/26        | 2026/27        |
|--------------------------|-----------|---------------|---------------|----------------|----------------|----------------|
| WPDG - Equity            | £m        | 14.748        | 14.748        | 18.420         | 28.176         | 28.176         |
| WPDG - Development Loans | £m        | 4.071         | 15.582        | 24.486         | 46.613         | 67.739         |
| WPDG - Revenue Loans     | £m        | 0.600         | 1.256         | 1.269          | 7.981          | 10.915         |
| <b>Sub Total - WPDG</b>  | <b>£m</b> | <b>19.420</b> | <b>31.587</b> | <b>44.174</b>  | <b>82.770</b>  | <b>106.829</b> |
| WRIF - BGF               | £m        | 20.000        | 40.000        | 60.000         | 80.000         | 87.600         |
| WRIF - LCEF (Revenue)    | £m        | 2.000         | 4.000         | 6.000          | 8.000          | 9.800          |
| WRIF - Property          | £m        | 10.000        | 20.000        | 30.000         | 40.000         | 40.000         |
| <b>Sub Total - WRIF</b>  | <b>£m</b> | <b>32.000</b> | <b>64.000</b> | <b>96.000</b>  | <b>128.000</b> | <b>137.400</b> |
| <b>Total</b>             | <b>£m</b> | <b>51.420</b> | <b>95.587</b> | <b>140.174</b> | <b>210.770</b> | <b>244.229</b> |

### 7.3 Maximum Investment

|                     | £m        | 2022/23       | 2023/24       | 2024/25       | 2025/26       | 2026/27       |
|---------------------|-----------|---------------|---------------|---------------|---------------|---------------|
| WPDG Capital Loans  | £m        | 5.000         | 15.000        | 10.000        | 27.500        | 26.250        |
| WRIF Capital Loans  | £m        | 50.000        | 50.000        | 50.000        | 50.000        | 40.000        |
| WPDG Revenue Loans  | £m        | 2.800         | 2.800         | 2.800         | 2.800         | 2.800         |
| WRIF Revenue Loans  | £m        | 3.000         | 3.000         | 3.000         | 3.000         | 3.000         |
| Other Revenue Loans | £m        | 6.875         | 6.875         | 6.875         | 6.875         | 6.875         |
| <b>Total</b>        | <b>£m</b> | <b>67.675</b> | <b>77.675</b> | <b>72.675</b> | <b>90.175</b> | <b>78.925</b> |

\*Annual investment limits are for in year spend only. These will be amended per year as necessary based on actuals.

### 7.4 Maximum Duration Limits

|                          |    |   |
|--------------------------|----|---|
| WPDG - Equity            |    | Investment durations will be specified by each business case, subject to the investment limits set out in this strategy. The net investment limits above align with investment duration limits over the period of the MTF5. |
| WPDG - Development Loans |    |   |
| WPDG - Revenue Loans     |    | Revenue loans are short term by nature. The balance each year represents the lending facility available.  |
| WRIF - BGF               | £m | 10 years  |
| WRIF - LCEF              | £m | 5 years   |
| WRIF - Property          | £m | 10 years  |

### 7.5 Equity Limits

|      | Equity Limits   |
|------|---|
| WPDG | As specified by each business case, and subject to the specific limits set out in this strategy. If an equity investment is in the form of pre-existing owned property then the investment may go ahead if a higher value is due to revaluation only. |
| WRIF | No more than 10% of the gross investment budget for each year may be equity in nature   |

### 7.6 Maximum Investment Per Counterparty

|                 |   |
|-----------------|---|
| WPDG            | As per the gross investment values in Table 7.1 |
| WRIF - BGF      | £10m  |
| WRIF - LCEF     | £500k   |
| WRIF - Property | £10m  |