

Appendix 2 - Investment Strategy

1. Introduction

This Investment Strategy considers non-treasury management investments made for service or commercial purposes:

- **Service Investments** – where an investment is primarily for the purpose of supporting the delivery of an organisational or service objective.
- **Commercial Investments** – where an investment is primarily for the purpose of generating an income stream or return to support the overall financial position of the local authority.

The government definition of an investment covers 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. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

The definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party. The term does not include pension funds or trust fund investments, which are subject to separate regulatory regimes.

This strategy sits alongside the Council's Treasury Management Strategy Statement which covers all investments made for treasury management purposes.

This document sets out:

- Non treasury investments currently held.
- New developments around non treasury investments.
- Potential metrics and measures.

2 Non Treasury Management Investments

2.1 Non treasury management investments may take a number of forms:

- Holding shares in companies, for example companies that promote organisational objectives such as protecting the environment.
- Issuing loans to companies, for example promoting economic development.
- Holding non-financial assets (e.g. property) for the sole or primary purpose of making a financial return.

3 Company Shares

3.1 The Council holds shares and debt with some 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. At the time of writing this report such investments included:

- 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

The share value relating to the above companies recorded in the 2018/19 accounts was £2m, with dividend income of £0.8m.

4. Company Loans

In addition to the above the Council currently operates two wholly owned Local Authority Trading Companies:

- Warwickshire Legal Services Trading Ltd
- Educaterers Ltd

The total shareholder value of these companies in their most recent accounts is £147k and there is a £1.5m loan facility in place with Educaterers at a rate of return of 6% until August 2020 to provide support to the company's cash flow.

The capital programme includes allocations available for the purposes of making grants or loans to local businesses who cannot raise funds through other means such as banks. This includes the following capital programme allocations:

- Capital Growth Fund Business Loans and Grants
- Capital Investment Fund / Duplex Fund
- Capital Investment Fund/Small Business Grants

As at Quarter 3 2019/20, £1.5m of funds are planned in the capital programme to invest in 2020/21. Loans and grants are managed via the Coventry and Warwickshire Reinvestment Trust.

5. Property Investments

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. The value of these assets can change and these assets generate a small amount of incidental income. The properties classified as investment property in 2018/19 had an asset value of £25.6m as at March 2019, out of a full asset value in the balance sheet of £1.128bn.

The Council does receive rental income in relation to some of its properties but properties are not currently acquired or held solely for the purpose of generating income. Total income generated from Investment properties for 18/19 stood at £0.01m.

Table 1 – Investment Land/Property

Description of Investment Property held	Value @ 31st March 2019 £m
NUNEATON/Land at former Holly Tree Farm,	16.3
NUNEATON/Land at former Magistrates Courts, Vicarage Street	0.3
NUNEATON/Land Adjoining 51 Queens Road, Queens Road	0.0
Attleborough Fields Industrial Estate Slingsby Close	0.5
NUNEATON/Former Manor Park Community School, Beaumont Road	1.6
ARLEY/ARC School (Former Herbert Fowler Junior School)	0.9
GRENDON/Former Sparrowdale Special School, Spon Lane	2.1
GRENDON/Former Island Household Waste Facility, Watling Street	0.3
Land at Meadow Farm	0.0
RUGBY/Great Central Industrial Estate, Great Central Way	1.1
ALCESTER/Former Area Library, Priory Road	0.3
ALCESTER/Meadow View H.E.P. (Independently funded), Kinwarton Road	0.0
ASTON CANTLOW/3 The Gables, Burbage Road	0.2
Kineton/ River Meadows Care Home	0.0
WARWICK/Land At Heathcote Hill Farm (Europa Way)	0.0
WARWICK/Former Ridgeway Special School, Montague Road	2.1
	25.6

6. Commercial Strategy

The Council has approved a commercial strategy during 2019/20 that sets out a new approach to operating commercially considering commercial approaches to assist in the achievement of organisational objectives by:

- Optimising our financial sustainability by generating more income, reducing costs and maximising use of our assets: through investment in projects that provide good financial returns, enhancing our traded services and taking a commercial approach to management of costs and assets.
- Doing this in a way that delivers wider outcomes for Warwickshire: commercialism is not an end in itself; as a County Council, our strategic role makes commercialism a key lever for our role in shaping Warwickshire as a great place to live, work and do business, and to maximising social impact and outcomes.

Individual commercial investments/ initiatives will be assessed against their social and environmental benefits in addition to their financial benefits and will be subject to business cases and member approval as necessary. Some potential developments may require changes to the treasury management strategy or the investment strategy and therefore updates to these strategies

will accompany new proposals where required.

7 Measures

To support risk management in the development of future potential investments, measures will be developed to monitor the Council's position and some measures may be used to set controls and limits in alignment with the Council's risk appetite. Examples of key measures may include:

- Total Investment Related Commercial Income. This would provide an indication of the financial value of commercial income upon which the Council revenue budget is reliant.
- Ratio of Investment Related Commercial Income to Net Service Expenditure. This would provide an indication of the proportionality of reliance on commercial income.
- Ratio of Total Debt to Net Service Expenditure.
- Total Assets At Risk – This would provide a measure of the total assets owned for commercial or service purposes which are at risk of loss in value.

8 Investment Policies

- a. The Council currently does not have a policy of making investments primarily for the purpose of receiving a financial return, however this position is being kept under review.
- b. The Council has no plans to borrow in 2020/21 purely to profit from the investment of the sums borrowed.
- c. The Council owns shares and issues debt to companies for service purposes, and holds some investment related property. Existing policies and controls will remain in place for the management of these.
- d. New proposals for investment for non-Treasury Management purposes will be required to have direct Council approval or be approved through a delegated framework of controls that would be set out in an updated Investment Strategy and/or Treasury Management Strategy.

- e. Section 151 Officer responsibilities in respect of non-treasury management investments are set out in Annex 1.
- f. New investment proposals will be formally documented and assessed, including a financial appraisal, and an assessment of risk and risk management which must include consideration of credit risk. External expertise and advice will be sought where appropriate, and monitoring arrangements will include credit risk monitoring.

9.0 Environmental, Social, and Governance Policy

- 9.1 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.
- 9.2 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.
- 9.3 Investments that have a social impact benefit, either on a local scale or more widely may be considered.
- 9.4 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.

Responsibilities of S151 Officer

- 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-financial investments.