**Annexe 1**

**Investment Strategy (Non-Financial Investments)**

**Investment Types**

1.1 Authorities may invest in other financial assets, including loans and property primarily for financial return, which are not part of treasury management activity.

Other investments may include:

- service investments held clearly and explicitly in the course of the provision and for the purposes of operational services, including regeneration

- commercial investments which are taken for mainly financial reasons, including investments arising as part of business structures, such as shares and loans in subsidiaries or other outsourcing structures such as IT providers or building services providers; or investments explicitly taken with the aim of making a financial surplus for the organisation; commercial investments also include non-financial assets which are held primarily for financial return such as investment properties. These are termed **"non-financial investments"**

1.2 Where authorities invest in other financial assets and property primarily for profit (also known as "debt for yield"), these investments should be proportional to the level of resources available to the authority, and the authority should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions as would be applied to any other decision. Robust and transparent governance procedures and decision making remain critical in all investments the authority makes and the following section set out the Councils governance procedures around such proposals.

1.3 In February 2020 Parliament reformed the statutory basis of the PWLB, transferring its lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect these new governance arrangements, and to end the situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets primarily for yield. The government published its response to this consultation and implemented these reforms in November 2020.

1.4 On 25th November 2020 the Government ended access to the PWLB for Local Authorities that wish to buy commercial assets primarily for yield. Part of the assurance process introduced is for Local Authorities to submit their spending plans for the next 3 years, including their expected use of PWLB and the S151 officer must certify that the authority is not borrowing in advance of need and does not intend to buy investment assets primarily for yield. (as assessed against guidance)

1.5 Authorities that wish to buy commercial assets primarily for yield remain free to do so but are unable to take out new loans from the PWLB for any purpose in that financial year, either for new investments or for re-financing existing debt.

1.6 If Swindon Borough Council were to continue to invests in assets purely for a financial return, there is a clear and robust governance process in place for such investments which is set out below:

**Governance Processes**

1.6.1 All Commercial Investment proposals must be taken through the Commercial Investment Strategy Board ("CISB") in the form of a business case which sets out the financial implications and the risks.

1.6.2 The Board, which is chaired by the Cabinet Member for Commercialisation, Education and Skills and is attended by the Chief Executive and Corporate Director of Finance and Assets, meets monthly to review all proposals. If successful they either proceed to Cabinet for approval if the investment required is greater than £10m, or through a Cabinet Member Decision Note process if less than £10m. In addition, there is a CMAG (Cabinet Member Advisory Group) for additional scrutiny and comment.

1.6.3 The CISB will also obtain external expert advice if required, including additional legal advice if required, and has procured expert commercial property advice for this purpose as it continues to look for commercial property investments to support the budget.

1.6.4 The CISB has also approved a Property Acquisition and Disposal Strategy which sets out a number of criteria by which property acquisition proposals will be assessed. This is attached at Annexe 2.

1.6.5 Proposals other than those assessed against the criteria in the Property Acquisition and Disposal Strategy will be assessed against the following criteria:

- Is the overall profit acceptable to the risk?
- Are the timescales for returns realistic and acceptable?
- Are the risks acceptable and/or controllable?
- Is the investment required proportional to the level of resources available to the Authority?
- Is external expertise required to fully understand the business case proposal and risks?

1.6.6 The purpose of the criteria set out above is to set a framework by which to assess commercial proposals and ensure consistency is applied when making decisions.

**Risk Appetite and Indicators**

1.7 In general, the Council's risk appetite is assessed through its tolerance to risk in respect of capital preservation, meaningful liquidity and income volatility. In terms of Treasury Investments, this is through the primary considerations being Security and Liquidity, with yield being a secondary consideration.

1.8 For non-financial investments, the Council seeks to minimise its exposure to risks that are unwanted and unrewarded.

1.9 The Council is exposed to a wide range of risks, key ones being:

- Financial risks related to the investment of the Council's assets and cash flow, market volatility, currency etc.
- Economic risks related to the performance of the economy, nationally and locally, interest rates and inflation.
- Credit and counterparty risks related to investments, loans to institutions and individuals and counterparties in business transactions.
- Strategic risks related to key initiatives undertaken by the Council such as significant purchases, new ventures, commercial interests and other areas of organisational change deemed necessary to help the Council meet its objectives.
- Reputational risks related to the Council's dealings and interests, and the impact of adverse outcomes on the Council's reputation and public perception.
- Governance risks related to ensuring that prudence and careful consideration sit at the heart of the Council's decision-making, augmented by quality independent advice and appropriate checks and balances that balance oversight and efficiency.

1.10 All business case proposals will clearly identify risk to ensure these are acceptable to the Council with a clear focus on the impact of the downside risk on the overall sustainability of the authority.

1.11 Managing the Council's risks is an area of significant focus for senior management and members, and risk management is at the heart of all investment as well as operational decisions.

1.12 The Council aims to minimise its exposure to unwanted risks – those risks that are not actively sought and which carry no commensurate reward for the Council – through a range of mitigation strategies to the extent that it is cost-effective to do so. Specifically, the Council has no appetite for reputational risk, governance risk and currency risk.

1.13 The following local indicators will be used to assess the Councils total risk exposure as a result of its **commercial investment decisions** and will form part of the treasury management out-turn report.

- Total Investment in commercial undertakings by Property/Other
- Total Investment funded through borrowing
- Average investment return before financing costs
- Total investment income as a proportion of the Councils Net General Fund budget

- Investment borrowing as a proportion of total external debt as measured by the Capital Financing Reserve (excl lease liabilities and HRA)
- Fair value of property investments as a proportion of all Council property assets

1.14 In considering risk, it is vital that not only the risks of individual investments are considered but also the cumulative impact of all the investments made by the authority and the interaction of individual risks. The Commercial Investment Strategy Board will therefore review the overall portfolio in light of current market and other risks.

1.15 Returns from treasury management investments are fully detailed in the bi-annual treasury management reports which are scrutinised at Audit Committee.

**Ongoing Management and Reporting**

1.16 The Commercial Investment Strategy Board will receive regular reports setting out the performance and current risk in relation to the overall investment portfolio.

1.17 Regular monitoring of the portfolio will identify any changes in Security, Liquidity and Yield and will also identify any lifecycle costs required to maintain the income potential of any property based assets. Values will also be regularly assessed to identify any significant changes in the value of the investments and market conditions that might impact upon this.

1.18 Any material change in the investment risk or threat to ongoing yield will be reported immediately to the next Board meeting (or immediately to the Chair if urgent action is required) so that mitigating action can be established.

**Local Indicators**

1.19 The Strategy includes quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. The following indicators have been calculated for 20/21 and relate to all purchases for a pure commercial purpose since April 2017.

| Non-Treasury investments - Property | actual 31/03/20 £m | current 31/12/20 £m |
|---|---|---|
| No of Properties | 1 | 1 |
| Property | 7.7 | 7.7 |
| Amount Funded through borrowing | 0.0 | 0.0 |
| Average investment return before financing costs | 7.5% | 7.5% |
| Total investment income as a proportion of the Councils Net General Fund budget | 0.4% | 0.4% |
| Investment borrowing as a proportion of total external debt as measured by the Capital Financing Reserve (excl. lease liabilities and HRA) | 0.0% | 0.0% |

| | | |
|---|---|---|
| Fair value of property investments as a proportion of all Council property assets (excl. HRA) | 1.5% | 1.5% |

These currently are based on assumptions as to the level of year end debt and the fair value of assets and will be updated as part of the Treasury out-turn reports in the new year.

In addition to the above, the guidance also requires authorities to have regard to the guidance if it makes loans to local enterprises, local charities, wholly owned companies and joint ventures and can demonstrate that the overall exposure to these loans is proportionate. At the end of March 2020, the Council had outstanding loans of this type totalling £24.5m and this is considered proportionate in relation to the Councils net general fund budget, £145.3m, and its overall debt level of £350.8m. In addition, these loans are to wholly owned companies with direct control and oversight from the Council.

The limits on loans by type are as follows:

- Wholly owned companies and joint ventures - £51m
- Local Enterprises and charities - £1m