

## Investment Strategy 2020/21

### Introduction

1. This strategy sets out Surrey County Council's approach to managing its capital investment for the next five years. The Council invests its money for three broad purposes:
  - As a result of surplus cash from 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 setting up, 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).
2. 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. The Investment Strategy sits alongside three other key documents that set out the Council's approach to Capital, Investment and Treasury Management:
  - a. The Capital Strategy (an overarching summary) (Annex G)
  - b. The Treasury Management Strategy Statement (Annex J)
  - c. The Minimum Revenue Provision (MRP) Policy (Annex H)

### Treasury Management Investments

3. The Council 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. 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.
4. **Further details:** Full details of the Council's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the Treasury Management Strategy Statement (TMSS).

### Service Investments: Loans

5. **Contribution:** The Council lends money to its subsidiaries and other organisations to support local public services and stimulate local economic growth. Subsidiaries of this nature include:
  - a. SE Business Services Ltd – a Local Authority Trading Company (LATC) wholly owned by the Council for the provision of business services.
  - b. Surrey Choices Ltd – a LATC, wholly owned by the Council to deliver day services and community support options for people with disabilities and older people.

6. **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. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

**Table 1 - Loans for service purposes in £ millions**

Category of borrower	31.3.2019 actual		
	Balance owing £m	Loss allowance £m	Net figure in Accounts £m
Subsidiaries	3	-	3

7. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's Statement of Accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum advanced and has appropriate credit control arrangements in place to recover overdue repayments.
8. **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding service loans by reference to their financial position, past experience and other factors. We wholly own our subsidiaries for service purposes and so their financial position is subject to the same rigour and control as that of the council.

#### Commercial Investments: Property

9. **Contribution:** The Council invests in local commercial property; office space, leisure and retail, with the intention of making a surplus that will be spent on local public services. The table below shows the value of our investments by main category, including those under construction where the ultimate use is to be determined.

**Table 2 - Property held for investment purposes in £ millions**

Property	Actual	31.3.2019 actual	
	Purchase cost £m	Gains or (losses) £m	Closing Value £m
Office	118	12	130
Retail	6	(2)	4
Leisure	1	0	1
Under Construction	5	0	5
<b>TOTAL</b>	<b>130</b>	<b>10</b>	<b>140</b>

10. **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.
11. A fair value assessment of the Councils investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. The Council holds investment properties for long-term rental income, and short-term fluctuation in investment values can be expected. Our investment properties operate in a challenging commercial environment, with particular pressure on retail. Should the 2019/20 year-end Accounts preparation and audit process value these properties below their purchase cost, we will take mitigating actions to protect the capital invested, such as exploring alternate uses where appropriate.
12. **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments through a thorough analysis of the market and economic conditions using external advisors where necessary. Separately, the Council has a comprehensive risk management strategy to mitigate risks of over spend or income shortfalls to the base budget position.
13. **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. The Council is not reliant on investments in property to maintain its liquidity and manages liquidity through other investments and borrowing. The Council has Reserves and Contingencies to maintain stability over a period of inadequate returns from its investment portfolio.

#### Commercial Investment – Equity Investments and Loans

14. The Council fully owns Halsey Garton Ltd which has a portfolio of national investment properties used to generate a return to the Council. The financial return takes the form of interest on the outstanding loan and dividend payments. The value of our investment in Halsey Garton Ltd as at 31<sup>st</sup> March 2019 is set out below.

**Table 3 - Equity and Loans to Halsey Garton Ltd in £ millions**

Category of Investment	31.3.2019 actual		
	Balance outstanding	Loss allowance	Net figure in Accounts
	£m	£m	£m
Equity Shares	93	-	93
Loans	234	(1)	233

15. Accounting standards require the Council to set aside loss allowance for investments, reflecting an assessment of risk. The figures in the Council's Statement of Accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum advanced and has appropriate credit control arrangements in place to recover overdue repayments.
16. The value of property owned by Halsey Garton Ltd at 31<sup>st</sup> March 2019 was assessed as being £27m lower than cost, representing an 8% reduction, largely due to pressures on the retail environment. Halsey Garton is holding the assets for long-term rental income and short-term variations in fair value do not currently affect the value of the Council's investment.
17. Surrey County Council also holds shares of £0.5m in the UK Municipal Bonds Agency (UKMBA) whose aim is to reduce the long-term borrowing costs of Local Authorities who join together to issue local authority bonds. The Council does not currently have a bond-issue with UKMBA but is taking regular advice from its Treasury advisors, Arlingclose on the most appropriate source of finance for its long-term capital spending plans.

#### **Loan Commitments and Financial Guarantees**

18. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.
19. We do not currently extend financial guarantees to other organisations, however if we chose to be part of a bond issue with UKMBA, we would be liable for defaults of other Local Authorities in proportion to our share of the total amount of the bond. It is highly unlikely that another Local Authority would default in this way and so the risk is theoretical rather than a practical reality.

#### **Proportionality**

20. The Council's revenue budget includes an element of profit generating investment activity to support services. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the MTFS. Investment activity is forecast to remain at approximately 2% of the Council's gross spend over the medium-term. Should we fail to achieve the expected net profit, the Council would manage the impact on budget through use of Contingency in the current financial year and a re-assessment of efficiency plans for the remainder of the medium-term.

**Table 4 - Proportionality of Investments**

	<b>2018/19 Actual</b>	<b>2019/20 Forecast</b>	<b>2020/21 Budget</b>	<b>2021/22 Budget</b>	<b>2022/23 Budget</b>	<b>2023/24 Budget</b>	<b>2024/25 Budget</b>
Gross service expenditure (£m)	1,321.1	1,362.9	1,431.6	1,428.5	1,413.5	1,403.9	1,388.7
Investment income (£m)	23.3	20.9	24.0	22.2	26.2	28.2	26.2
Proportion	1.8%	1.5%	1.7%	1.6%	1.9%	2.0%	1.9%

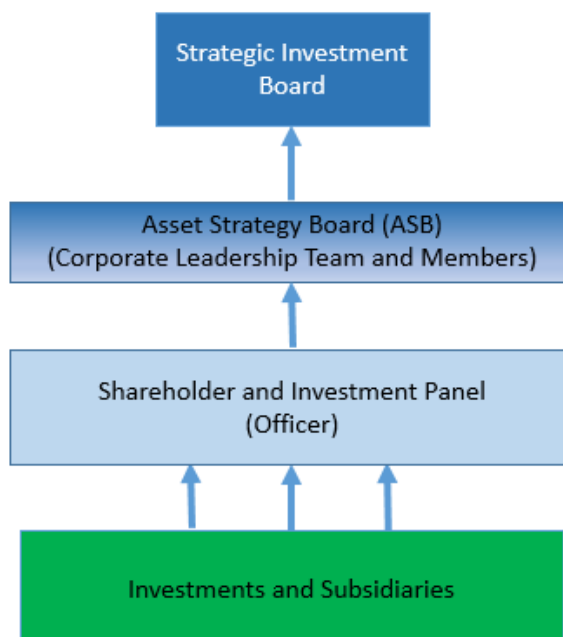
**Capacity, Skills and Culture**

21. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for officers to study towards relevant professional qualifications including CIPFA.
22. All officers involved in the Treasury and Investment management function have access to relevant technical guidance and training to enable them to acquire and maintain the appropriate level of expertise, knowledge and skills to undertake the duties and responsibilities allocated to them. The Council currently employs Treasury Management advisers, and seeks external legal and property related advice and due diligence as required. The Council's commercial investment strategy is supported by guidance from our advisors, CBRE.
23. Those charged with governance (Members of the Audit and Governance Committee and the Resources & Performance Select Committee) recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The Section 151 Officer will ensure that elected members tasked with Treasury Management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and responsibilities.
24. The Orbis partnership enables the creation and development of specialist resources. Centres of Expertise have been established for key areas of finance, and central teams of pooled expertise have been created to provide robust services which are resilient to meet the changing service needs of partners.
25. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

**Corporate Governance**

26. The governance arrangements for Treasury and Capital investments are set out in the Treasury Management Strategy and Capital Strategy respectively. Commercial investments are taken through a rigorous Officer and Member led process to ensure that decisions are taken with an

adequate level of scrutiny. The diagram, below, shows the governance groups charged with delivering commercial investments:



### Investment Indicators

27. The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.
28. **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes 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.

**Table 5 - Total investment exposure in £millions**

Total investment exposure	31.03.2019	31.03.2020	31.03.2021
	Actual £m	Forecast £m	Forecast £m
Treasury management investments	31	40	40
Service investments: Loans	3	3	3
Commercial investments: Property	140	147	160
Commercial investments: Loans	233	233	233
Commercial investments: Shares	93	93	93
<b>TOTAL INVESTMENTS</b>	<b>500</b>	<b>516</b>	<b>529</b>

29. **How investments are funded:** Government guidance states that our indicators should include an analysis of how investments are funded. Councils, including SCC, do not generally associate

borrowing with individual assets, since we borrow as required to fund the whole portfolio of capital spend. However, the following investments could be described as being funded from capital sources, including borrowing and receipts. The remainder of the Council's investments are funded by usable Reserves and income received in advance of expenditure.

**Table 6 - Investments funded by borrowing in £millions**

<b>Investments funded by borrowing</b>	<b>31.03.2019 Actual £m</b>	<b>31.03.2020 Forecast £m</b>	<b>31.03.2021 Forecast £m</b>
Commercial investments: Property	140	147	160
Commercial investments: Loans	233	233	233
Commercial investments: Shares	93	93	93
<b>TOTAL FUNDED FROM CAPITAL SOURCES</b>	<b>466</b>	<b>473</b>	<b>486</b>

30. **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. Income from service investments was higher in 2018/19 due to income from Babcock 4S which was sold during 2018/19.

**Table 7 - Investment rate of return (net of all costs)**

<b>Investments net rate of return</b>	<b>2018/19 Actual £m</b>	<b>2019/20 Forecast £m</b>	<b>2020/21 Forecast £m</b>	<b>2020/21 Forecast %</b>
Treasury management investments	0.7	0.3	0.3	1
Service investments	2.0	0.6	0.6	2
Commercial investments: Property	6.8	7.3	8.8	37
Commercial investments: Shares and Loans	13.8	12.7	14.3	60
<b>ALL INVESTMENTS</b>	<b>23.3</b>	<b>20.9</b>	<b>24.0</b>	<b>100</b>

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