

INVESTMENT STRATEGY REPORT 2020/21

1.0 Introduction

- 1.1 This investment strategy meets the requirements of statutory guidance issued by the government in February 2018. It focuses on non-cash investments as shown in the table below.

| Type of Investment | Strategy |
|--|------------------------------|
| Day to day investment of surplus cash balances – Treasury Management Investments | Treasury Management Strategy |
| Loans and acquisition of shares in wholly owned companies, joint ventures and other organisations for service purposes | Investment Strategy |
| To earn investment income | Investment Strategy |

2.0 Treasury Management Investments

- 2.1 The Council holds cash balances for day to day use, to make payments to suppliers, contractors and payroll. Balances arise as there are timing differences between Council Tax and Business Rates collected and distributed, and between other income generated and the associated service or debt management costs. The timing of long term borrowing will be determined depending on the interest rates available which may mean that funds are held for a short period before they are required. The Council also holds reserves for future expenditure.
- 2.2 The consequential cash surpluses are invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). The balance of treasury management investments is expected to fluctuate between £0m and £50m during the 2020/21 financial year. Higher cash balances will be held if long term borrowing rates fall and funds are secured for ongoing projects.
- 2.3 Cash surpluses are invested to ensure security, liquidity and some income generation from these Council resources in line with the Treasury Management Code.
- 2.4 Treasury Management Investments are reported each month in the Council's Performance and Financial Monitoring report, the 'Green Book', available on the Council's website.

3.0 Loans for Service purposes

- 3.1 The Council lends money to its subsidiary companies and joint ventures, suppliers, local businesses and charities, other local service providers, local residents and its employees to support local public services and stimulate local economic growth.
- 3.2 Provision of loan finance to another organisation can be an effective way for the Council to achieve its objectives whilst benefiting from the expertise or capacity of that organisation.

- 3.3 These loans are treated as capital expenditure and are financed by borrowing or other available resources. Where capital expenditure is funded by borrowing Minimum Revenue Provisions (MRP) are set aside for repayment of the borrowing. This MRP may be calculated to match the repayment of the funds advanced as loans by the Council.
- 3.4 The most significant loans are to the Thameswey Group (wholly owned subsidiary) and Victoria Square Woking Ltd. At 31 March 2019 the Council had made £146m of loans to Thameswey Housing to provide housing in the Borough, £70m to Thameswey Developments Ltd, £44m to Thameswey Energy and Thameswey Central Milton Keynes, to further the Council's energy efficiency policies, £37m to the Thameswey group relating to the Sheerwater project, and £199m to Victoria Square Woking Ltd for the town centre regeneration project.
- 3.5 Other loans have been advanced to the Peacocks to enable the improvement of the shopping centre, Woking Hospice to enable the development of the new hospice site, and Freedom Leisure for improvements at the Pool in the Park.
- 3.6 The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. Loans are generally secured against assets which means the Council could take the assets in the event of default. The business case for the underlying investment is also considered before funds are loaned.
- 3.7 The table below sets out the loans for service purposes, as at 31 March 2019, together with commitments for loans for service purposes included in the February 2020 Investment Programme. It is considered that, this remains an acceptable level given the diversification of loans advanced and the asset backed nature of loans. These total advances are the upper limits on the outstanding loans to each category of borrower approved by the Council and any additional loan advances would have to be subject to further consideration by the Council.
- 3.8 To facilitate the delivery of housing the Council allows for 50% of the following years Thameswey Housing approved budget to be drawn in advance. This ensures delivery of new properties is not constrained by changes in the timing of project costs.

Table 1: Loans and Loan Commitments for Service Purposes

| Category of Borrower | Actual | Investment Programme February 2020 | | | | |
|---------------------------------------|---------------------|------------------------------------|------------------|------------------|------------------|------------------|
| | 31/03/2019 £'000 | 2019/20 £'000 | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 | 2023/24 £'000 |
| Subsidiaries | | | | | | |
| Thameswey Energy Ltd | 13,213 | | | | | |
| Thameswey Central Milton Keynes Ltd | 30,816 | 2,038 | 3,162 | 3,000 | 2,500 | 3,500 |
| Thameswey Housing Ltd | 146,310 | 57,000 | 71,700 | 46,700 | 56,700 | 79,900 |
| Thameswey Solar Ltd | 1,314 | | | | | |
| Thameswey Developments Ltd (THL) | 67,750 | | | | | |
| Thameswey Developments Ltd (TEL) | 2,000 | 750 | 18,750 | 1,000 | 750 | |
| Thameswey Developments (Sheerwater) | 5,000 | 13,000 | 36,500 | 27,500 | | |
| Thameswey Housing (Sheerwater) | 32,183 | 17,199 | | | | |
| Victoria Square Woking Ltd | 198,587 | 155,557 | 172,469 | | | |
| Rutland Woking | 1,565 | 435 | | | | |
| Peacocks | 6,350 | | | | | |
| Woking Hospice | 8,407 | | | | | |
| Greenfield School | | 7,000 | 4,000 | | | |
| Goldev (Woking) Ltd | | 20,683 | 50,240 | 43,494 | 60,543 | |
| Freedom Leisure | 905 | 950 | | | | |
| Kingfield Community Sports Centre Ltd | | 1,500 | | | | |
| Local Residents (Mortgages) | 1,669 | | | | | |
| Other | 280 | | | | | |
| TOTAL | 516,349 | 276,112 | 356,821 | 121,694 | 120,493 | 83,400 |

3.9 If loans are expected not to be repaid in full, accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. From 2018/19 onwards the Statement of Accounts show the loan balance 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.

3.10 The Council assesses the risk of loss before entering into, and whilst holding, service loans and undertakes further work where necessary to assess:

- who the loan is to be made to - with appropriate enquiries to fully understand the entity where the entity is not already known/associated with the Council
- the revenue stream associated with the loan to be made
- the loans will be secured against capital assets where possible to ensure the Council receives the assets in the event of non-repayment. Covenants or legal bonds may be taken against capital assets

3.11 Credit ratings are not routinely used for known associated entities, but would be used for supplier loans.

4.0 Shares for Service Purposes

4.1 The Council may invest in the shares of its subsidiaries, its suppliers, local businesses and organisations and other jointly owned public sector led activities, to support local services and stimulate local economic growth.

4.2 All investment in shares is treated as capital expenditure and is financed by available resources or borrowing. Where capital expenditure is funded by borrowing Minimum Revenue Provisions (MRP) are set aside for repayment of the borrowing which may be

calculated to match asset life, or over a shorter period in line with the Council's MRP policy (Appendix A).

- 4.3 Shares have been used to provide subsidy into Thamesway Housing Ltd. As the shares do not have interest payable on them, the company is able to provide rents at sub market rates. The shares in Woking Necropolis and Mausoleum Ltd relate to the acquisition of the Cemetery. Whilst the cemetery business generates some income it would not be sufficient to meet financing costs associated with the purchase.
- 4.4 At 31 March 2019 the Council held shares in Dukes Court Owner – Tsarl. These were the result of the acquisition of the company which owned the Dukes Court office building in 2017. The asset was transferred into the Council during 2018/19, and the company was liquidated, with the net assets transferred to Woking Borough Council as sole shareholder, on 31 December 2019.
- 4.5 The Council has also invested in shares to support activity where the funding could otherwise have been through provision of a grant. The Municipal Bonds Agency (Local Capital Finance Company) is one example of this, where the Council has supported a sector wide initiative. The Credit Union investment is another example. In some circumstances it may be beneficial, for service and partnership reasons, to acquire an interest in the organisation as well as providing financial support.
- 4.6 If shares were being held as an investment, to achieve dividend income and for future sale, a fall in value whereby the initial outlay may not be recovered would be a risk. However, since the Council's investments in shares have been financed with any associated borrowing being repaid over time, it is not considered that this is a significant risk.

Table 2: Shares for Service Purposes

| Investment | Actual 2018/19 £'000 | Investment Programme February 2020 | | | | |
|---------------------------------------|----------------------------|------------------------------------|--|------------------|------------------|------------------|
| | | 2019/20 £'000 | 2020/21 £'000 | 2021/22 £'000 | 2022/23 £'000 | 2023/24 £'000 |
| Thamesway Ltd | 31,193 | | | | | |
| Woking Necropolis & Mausoleum Ltd | 6,000 | | | | | |
| Victoria Square Ltd | 14 | | | | | |
| Dukes Court Owner T-Sarl | 12,001 | - 12,001 | No further share capital planned in Investment Programme February 2020 | | | |
| Local Capital Finance Company | 50 | | | | | |
| Boom Credit Union | 50 | | | | | |
| Woking Town Centre Management | 1 | | | | | |
| Kingfield Community Sports Centre Ltd | | 500 | | | | |
| TOTAL | 49,309 | - 11,501 | - | - | - | - |

- 4.7 The Authority assesses the risk of loss before entering into and whilst holding shares depending on the long term objective of the funding provided.
- 4.8 As shares are treated as capital expenditure, rather than investments for the purpose of financial income, investments in shares are not considered to be liquid in nature. That is, they cannot be readily converted back to cash through sale.
- 4.9 The Authority does not invest in any non-specified investment types. The government defines a non-specified Investment as a financial investment that is not a loan and does not meet the criteria to be treated as a specified investment. See Appendix D for definitions of specified and non-specified investments. Shares are treated as capital investment and therefore do not meet this definition.

5.0 Strategic Property Investments

- 5.1 The Ministry of Housing, Communities & Local Government (MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit. The Council's Strategic Property portfolio, including assets held for future redevelopment are included in this category.
- 5.2 As the Council does not currently have significant levels of surplus funds for long term investment, the Council does not invest in property as an Investment Strategy solely to achieve financial income.
- 5.3 The Council does invest in property if there is a strategic reason for the acquisition. Strategic property assets may be affordable to hold in the long term if they also generate a profit that can be spent on local public services. Strategic properties may be held for a variety of reasons including:
- Proposed redevelopment of the site or surrounding area
 - Future potential redevelopment of a site or surrounding area
 - To influence commercial use of a site
 - Consolidation of interests in a site
 - To acquire part of a site for an alternative use
 - To maintain a property with an existing use, or to make it available for an alternative use
 - As a result of a relationship with a strategic partner, other public sector body or business within the Borough
- 5.4 The Council's commercial property portfolio has been acquired over time and comprises office, retail and industrial assets within Woking.
- 5.5 Since 2016/17 the Council has allocated borrowing to secure specific strategic property within the Borough. The financial position of these assets is reported in the Green Book each month. Properties are held for long term strategic purposes and are treated as capital expenditure with the financing interest and repayment costs charged to revenue budgets.

Table 3: Strategic Property acquired since 2016/17 and held partially for investment purposes
(For financial performance see monthly Green Book reporting)

| Property | Date of Acquisition | Net Income (Dec 2019) £'000 | Acquisition Costs £m | Additional Investment £m | Accounts 31.3.2019 | |
|----------------------|---------------------|-----------------------------------|----------------------------|--------------------------------|--------------------------|----------------------------|
| | | | | | Gains or Losses £m | Value in Accounts £m |
| Cleary Court | 2016/17 | 96 | 3.6 | 0.5 | -1.0 | 3.1 |
| Morris House | 2016/17 | -127 | 4.7 | 1.3 | -4.3 | 1.6 |
| 6 Church St West | 2016/17 | 186 | 11.5 | 0.4 | -4.1 | 7.8 |
| Orion Gate | 2016/17 | 924 | 22.7 | 0.2 | -1.7 | 21.2 |
| Dukes Court | 2017/18 | 1,662 | 71.4 | | -12.4 | 59.0 |
| The Clocktower | 2018/19 | 199 | 6.3 | | | 6.3 |
| CMS House | 2018/19 | 48 | 2.0 | | | 2.0 |
| Victoria Gate | 2018/19 | 478 | 37.9 | | | 37.9 |
| Midas House | 2018/19 | 483 | 25.3 | | | 25.3 |
| Albion House | 2018/19 | 378 | 30.0 | | | 30.0 |
| Commercial Buildings | 2019/20 | 98 | 4.0 | | | |
| 1 Christchurch Way | 2019/20 | 248 | 11.5 | Acquired during 2019/20 | | |

- 5.6 Within the base commercial rents originating prior to 2016/17, the most significant assets were the Council's interests in the Wolsey Place and Peacocks shopping centres, industrial estates across the borough and town centre office buildings.
- 5.7 The government guidance considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. Valuations vary depending on many factors including the local, national and global economic climate. For property investments the valuation is directly related to the rental income achieved, a vacant area may therefore have a significant impact on the valuation. Whilst it is important to monitor the property valuations, the Council has treated these acquisitions as capital expenditure and appropriately funded these assets. Repayment of the costs is being provided on an annuity basis. The property assets are not being held for sale as a means to repay borrowing, the intention is for them to be held for the long term.
- 5.8 All properties are valued on an annual basis to provide a fair value for the preparation of the Council's accounts. Any impact of a change in valuation will be reported following the completion of the annual accounts.
- 5.9 The Council assesses the risk of loss before entering into and whilst holding property investments. Consideration is given to the operational service or strategic benefit/opportunity provided by acquisition of the asset set against the risk of loss of income to service the capital expenditure. In each case the Council/Executive will receive information on the tenancies and likely income to be achieved from any vacant areas. Investment is in the context of the long term development plans and vision for Woking, the Medium Term Financial Strategy and level of reserves to mitigate any downturn.
- 5.10 Property is held as a long term strategic asset and not a short term financial asset. It is funded as capital expenditure and it is not therefore being held with a view to being able to convert to cash at short notice, as a treasury investment would be. Where funding is by borrowing, the borrowing is long term to correspond with the long term nature of the asset. The Council's policy for repayment of the borrowing (MRP) can be found at Appendix A and determines that repayment is on an annuity basis for commercial

property. This ensures that there is sufficient resource set aside to repay the borrowing as it becomes due. As borrowing is repaid, the debt associated with the asset reduces.

6.0 Proportionality

- 6.1 The Council has been able to increase service activity and support to the local community in recent years through use of the income generated from investments in group companies and strategic commercial income. Without this income, services would have had to be reduced at a time when they have been needed most as other support for the vulnerable is under pressure.
- 6.2 Income has also supported the Council's long term redevelopment of Woking Town Centre, achieving a better offer for local people, attracting businesses and employers to the Borough and contributing towards housing needs. This is a long term vision and the development continues with further town centre improvements to assets and infrastructure which in the long term aims to achieve a sustainable place.
- 6.3 The Council is dependent on profit generating investment activity to maintain this level of regeneration whilst achieving a balanced revenue budget. Table 4 below shows the balance between expenditure planned to meet the service delivery objectives and/or place making role of the Authority, interest costs on borrowing and investment/commercial rental income.

Table 4: Proportionality of Investments

| | 2018/19 Actual £m | 2019/20 Forecast £m | 2020/21 Budget £m | 2021/22 Budget £m | 2022/23 Budget £m | 2023/24 Budget £m |
|------------------------------------|-------------------------|---------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Gross Service Expenditure (GSE) | 69.0 | 71.1 | 70.0 | 71.1 | 72.6 | 73.2 |
| Interest & Repayment (MRP) costs | 28.8 | 38.2 | 52.4 | 63.4 | 70.9 | 77.2 |
| Treasury Investment Income | -18.1 | -23.3 | -33.2 | -40.9 | -46.0 | -51.3 |
| Commercial Rental Income | -16.9 | -21.3 | -28.1 | -28.5 | -28.5 | -28.5 |
| (Treasury + Commercial income)/GSE | -51% | -63% | -88% | -98% | -103% | -109% |

- 6.4 The Council has reserves in place to mitigate temporary reductions in rental income, and to provide time for any long term adjustment in rents to be managed. Should there be a significant permanent reduction in income, service provision would need to be reviewed. Despite the government reductions in funding it has been possible to maintain and increase services to the community.
- 6.5 The Council's borrowing has been spread over many assets with residential property as well as strategic commercial properties in different sectors (retail, office) and let to a variety of tenants across different industries. This reduces the impact of an issue with an individual tenant.

7.0 Capacity, Skills and Culture

- 7.1 The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Finance Director, Financial Services Manager and senior members of the Finance team are qualified accountants with many years' experience. The Council has a Strategic Asset Manager and Estates Management team with experience in managing properties, and valuation. The Council also has an in-house legal team led by the Head of Democratic and Legal Services (Monitoring Officer).

- 7.2 External advisors and consultants are used where the Council does not have the technical knowledge, experience or skills required. They are also used to supplement the internal resource if Council staff do not have the capacity to manage the Council's requirements.
- 7.3 The Council supports training towards professional qualifications and for staff to attend relevant training courses for continued professional development. A management training programme is also being completed by senior members of staff. There is a Members' development programme and the Council has the Charter mark for Member Learning and Development. In October 2019 the Council was awarded the Investors in People Silver accreditation and the Health and Wellbeing Good Practice Award. Specific training and briefing sessions are organised on subjects or projects as needs are identified.

8.0 Investment Indicators

- 8.1 The Authority has set the following quantitative indicators to provide information on the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure and funding

- 8.2 Total risk exposure is the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down.

Table 5: Total Investment Exposure

| Total Investment Exposure | 31.3.2019 Actual £m | 31.3.2020 Forecast £m | 31.3.2021 Forecast £m |
|---|---------------------------|-----------------------------|-----------------------------|
| Treasury Management including Money Market Funds and Bank balance | 146 | 2 | 2 |
| Service Investments: Loans | 509 | 785 | 1,142 |
| Service Investments: Shares | 49 | 38 | 38 |
| Commercial Investments: Property (at valuation) | 330 | 507 | 532 |
| TOTAL Investments | 1,035 | 1,332 | 1,713 |

- 8.3 The Council is generally in an underborrowed position due to the ongoing borrowing requirement. This means that the Council's reserves and working capital balance was being used to reduce the actual borrowing taken. This has been the Council's approach for some years as current low interest rates mean that funds held in reserve as treasury investments would not achieve a significant return. Instead those funds enable the Council to delay drawing and paying the interest costs on long term borrowing. In setting the annual revenue budget it is assumed that the underborrowing position is corrected and that long term borrowing is taken to re-instate those reserves temporarily used.

Rate of return

- 8.4 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.

Table 6: Investment Rate of Return (net of all costs)

| Investments net rate of Return | 2018/19 Actual | 2019/20 Forecast | 2020/21 Budget |
|--|--|---------------------|-------------------|
| Treasury Management Investments | 0.67% | 0.75% | 0.9% |
| Service Investments: Loans | 0% - 2% | | |
| Service Investments: Shares | Nil - do not expect any return on shares | | |
| Strategic Property Investments since 2016/17 | 1.5% | 1.4% | 1.5% |

Consideration of Other Indicators

- 8.5 The Capital Strategy and Treasury Management Strategy include additional focussed indicators which are not replicated here.
- 8.6 Monthly reporting through the Green Book enables performance to be assessed during the year and for the up to date position to be tracked. The Strategic Property performance shows the current status of newly acquired assets.
- 8.7 Consideration will be given to further performance indicators, to be included in future years, which would complement the information included in this report.