**INVESTMENT STRATEGY 2024/25**

## 1. INTRODUCTION

1.1 The Investment Strategy is a requirement of the Department for Levelling Up and Housing and Communities (DLUHC) *Statutory Guidance on Local Government Investments.* The DLUHC Guidance also requires local authorities to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) publications of *The Prudential Code for Capital Finance in Local Authorities* and *Treasury Management in the Public Services* which both complement it.

1.2 The authority invests its money for three broad purposes:

- because it has surplus cash as a result of 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 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).

1.3 The main purpose of the strategy is to identify the level of the Council's service and commercial investments and to set risk management parameters around these. It is based on the authority's existing and planned service-related and commercial investments and is consistent with the General Fund Medium Term Capital Programme due to be approved by full Council on 22 February 2023.

1.4 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.

1.5 The statutory guidance defines investments as "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; for example, investment property portfolios." The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

1.6 During 2020 the Council created the Otterpool Park Limited Liability Partnership (LLP) as a wholly owned subsidiary to deliver the Otterpool Park development. Otterpool Park will provide up to 10,000 much needed new homes over a 30 year period, creating significant economic benefits to the district. The Council, as principal land owner, also expects to gain a financial return from its investment in the development.

1.7 Cabinet approved the latest business plan for the LLP on 26 January 2022 (minute 74 refers). This requires the Council to make an investment of up to £75m in the LLP through a combination of equity, in the form of a capital contribution, and loan funding and work is currently taking place to determine the optimum mix for this. For the purposes of this strategy, it has been assumed that funding will be 10% equity and 90% loan. The loans will be advanced at a premium of 3% over the cost of borrowing to the Council. Over time the Council expects to receive returns on its equity investment in the LLP largely generated from the sales of land to housing developers and this will be governed by the terms of the Members' Agreement.

1.8 On 18 October 2023, Cabinet considered a report providing an update on Otterpool Park detailing the outcomes of the governance, finance, and management reviews to ensure the successful continuation of the key project of the Council. Cabinet resolved that the Council explores third-party investment (public and/or private sector) on a joint venture basis, reporting the outcome to Cabinet for further consideration and decision.

## 2. TREASURY MANAGEMENT INVESTMENTS

2.1 The authority 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 and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the CIPFA. The balance of treasury management investments is expected to fluctuate between about £15m and £30m during the 2024/25 financial year.

2.2 **Contribution:** The contribution that these investments make to the objectives of the authority is to support effective treasury management activities. These investments also contribute an income stream to support the General Fund budget position annually.

2.3 **Further details:** Full details of the authority's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the Treasury Management Strategy Statement (TMSS), due to be approved by

Cabinet on 31 January 2024 as part of the budget process for 2024/25. The approved TMSS will be published on the Council's website.

## 3. SERVICE INVESTMENTS: LOANS

3.1 **Contribution:** The authority can lend money to its subsidiaries, its charities where the council is the trustee, its external service providers, local residents and its employees to support local public services and stimulate local economic growth. In the future the Council may also lend money to joint ventures it decides to enter into to help deliver its major corporate investment initiatives. Examples of loans the authority makes are shown in the table below:

**Table 1 –** Example of Loans Made for Service Investments

| Organisation | Relationship | Purpose | Service Objective |
|---|---|---|---|
| Oportunitas Ltd | Housing and Regeneration subsidiary company | Primarily for the acquisition of residential property for rent | Provision of good quality homes for rent<br><br>Generate additional revenue stream for the General Fund |
| Folkestone Parks and Pleasure Grounds Charity | Council is the trustee | Refurbishment and replacement of Beach Huts | Improve the appearance of the district and to improve the financial resilience of the Charity through additional income generated |
| Local property owners | Jointly funded empty homes initiative with Kent County Council | Interest free loans to property owners to bring empty properties across the district back in to residential use | Bringing empty residential properties back into use and the provision of additional good quality homes |
| Otterpool Park LLP | Otterpool Park Delivery Vehicle subsidiary company | Delivery of the Otterpool Park Garden Town development | Provision of new homes, generate economic benefits and provide a financial return to the Council |

3.2 **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 authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 2 - Loans for service purposes

| Category of borrower | 31.3.2024 (Forecast) | | | 2024/25 |
|---|---|---|---|---|
| | Balance owing £m | Loss allowance £m | Net figure in accounts £m | Approved Limit £m |
| Subsidiary – Oportunitas Ltd | 6.7 | (0.1) | 6.6 | **6.6** |
| Subsidiary – Otterpool Park LLP | 18.6 | (1.2) | 17.4 | **69.3** |
| FPPG Charity | 0.4 | - | 0.4 | **0.4** |
| Local residents/landlords (Housing) | 2.4 | - | 2.4 | **3.1** |
| **TOTAL** | **28.1** | **(1.3)** | **26.8** | **79.4** |

3.3 The approved limits for 2024/25 not only include the estimated amounts to be lent in the year but also provide for any accrued interest, future loan commitments within the loan agreement and the repayment of principal expected to be received.

3.4 The proposed loan limit in 2024/25 for Oportunitas Limited, the Council's wholly owned housing and regeneration company, includes the additional loan of £2.47m approved by full Council on 28 February 2018. This loan is expected to fully be utilised during 2023/24 in line with the latest approved business plan for the company.

3.5 The proposed loan limit for Otterpool Park LLP assumes the Council will provide loan funding of up to 90% from the budget provided for the Otterpool Park delivery within the Medium Term Capital Programme. Expert legal advice has been commissioned to ensure the loan to the LLP provides the Council with the optimum level of security to mitigate against the risk of default.

3.6 Accounting standards require the authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. No loss allowance has been made for the loans made to local property owners as the majority of these have been secured against property with a low risk of default. However, the authority is required to keep the position under review and the figures for loans in the

Council's statement of accounts will continue to be shown net of any loss allowance made if applicable. The authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.7 **Risk assessment:** The authority assesses the risk of loss before entering into and whilst holding service loans. This includes:

3.7.1 Ensuring the authority has the legal power to make the loan to the entity in the first place.

3.7.2 Assessing loan applications against the type of market the entity is operating and competing in:

i) Loans to the Council's subsidiary company, charities where it is the trustee, joint ventures or external service providers require a business case and, possibly, business model to be prepared in advance. This needs to demonstrate the entity's long term financially viability, its ability to meet the loan repayment terms and also the internal governance arrangements in place to support their operations. The entity also needs to demonstrate how it will evolve over time against both market conditions and its customer needs. The entity needs to identify any ongoing or future investment requirements to support it over the term of the loan. The authority's loan agreement may require the entity to provide regular performance information to enable an assessment to be made of their ability to continue to meet its terms and conditions. Unless otherwise agreed, loans made are secured against the property or other assets of the entity to help mitigate the risk of default.

ii) Loans to local property owners for housing improvements schemes are made in accordance with the criteria of the specific scheme agreed by the Council. All previous and existing housing improvement schemes offer interest free loans (soft loans) with the requirement that the principal sum is repaid to the authority at an agreed trigger point such as after an agreed period of time or when the property is eventually sold. Loans are secured as a charge against the property to help mitigate the risk of default.

3.7.3 External advisors can be used to support the authority in assessing investment opportunities and preparing loan agreements. This can include advising on investment options appraisal, business plan or case submissions, relevant commercial lending terms, compliance for State Aid, taxation and other statutory issues and reporting obligations for the borrower.

3.7.4 The authority has established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses. This can involve; -

- interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,
- liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,
- focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and
- utilising our own professional judgement to consider the advice received.

3.7.5 Credit ratings are not currently applicable as part of the assessment process for checking the financial status of entities or individuals who apply for a loan. This may alter if the nature and scope of loans made was to change in the future.

3.7.6 The authority may require other sources of information to help assess the suitability of the entity requesting a loan such as financial accounts or a bank reference.

## 4. SERVICE INVESTMENTS: SHARES AND OTHER EQUITY

4.1 The authority has invested in share equity for Oportunitas Limited and Otterpool Park LLP. In the future the authority may also acquire shares in either other subsidiaries companies it may choose to establish or joint venture companies it decides to enter into to help deliver its major corporate investment initiatives.

4.2 **Contribution Oportunitas Limited:** The authority's investment in the shares of Oportunitas supports its operational trading activities including its acquisition of residential property to increase the supply of good quality housing for rent to local people. No dividend return is expected in the medium term from this investment, however the authority's overall investment in Oportunitas provides an additional revenue stream to the General Fund.

4.3 **Contribution Otterpool Park LLP:** The authority's equity investment in Otterpool Park LLP, as a capital contribution through the Members' Agreement, support its operational activities to act as the Master Developer for the proposed scheme. The LLP's main income stream will be from selling serviced parcels of land to housing developers and this will provide the opportunity to make a return to the Council. No capital receipts or contributions from the development have been anticipated for the period of the latest Medium Term Financial Strategy (MTFS) to 2027/28.

4.4 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows.

Table 3 - Shares and Capital contributions held for service purposes.

| Category of company | 31.3.2024 (Forecast) | | | 2024/25 |
|---|---|---|---|---|
| | Amounts invested £m | Gains or losses £m | Value in accounts £m | Approved Limit £m |
| Subsidiary – Oportunitas Ltd | 4.9 | (4.9) | - | **4.9** |
| Subsidiary – Otterpool Park LLP | 2.4 | (1.0) | 1.4 | **7.5** |
| **TOTAL** | 7.3 | (5.9) | 1.4 | **12.4** |

4.5 The approved limit for 2024/25 includes;

i) the cash value of the Council's share equity investment in Oportunitas Limited, and

ii) the proposed equity in Otterpool Park LLP being a maximum of 10% of the agreed total equity and loan funding package profiled for the period to 31 March 2024, outlined in section one, above.

4.6 **Risk assessment:** The authority assesses the risk of loss before entering into and whilst holding shares of its subsidiaries or joint ventures. This includes:

4.6.1 Ensuring the authority has the legal power to acquire the share capital or make the equity investment in the entity in the first place.

4.6.2 Preparing a long term business case and business model for the company identifying the level, structure and time scale of the investment required to enable it to become financially viable and sustainable and provide the authority with an appropriate financial return.

4.6.3 Requiring the company to develop and maintain a business plan outlining how it will meet the objectives of the authority as shareholder including identifying associated risks, including market conditions, and measures to mitigate these.

4.6.4 Requiring the company in the event it was to cease trading or become insolvent to dispose of its assets and transfer the net receipt to the authority or transfer the assets to the control of the authority itself, to help mitigate the risk of financial loss.

4.6.5 Using external advisers if required to support the authority in preparing its business planning and modelling to support the creation and development of the company and also structure the shareholder agreement.

4.6.6 Using the authority's established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses. This can involve; -

- interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,
- liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,
- focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and
- utilising our own professional judgement to consider the advice received.

4.6.7 Credit rating checks are not applicable as a risk assessment check to support the authority's investment in its wholly owned subsidiary company. This may alter if the nature and scope of the Council's acquisition of share capital made was to change in the future.

4.7 **Liquidity:** The authority's equity investments in Oportunitas Limited and Otterpool Park LLP are both long term commitments with no specified end date. The business cases and model supporting the authority's investment in Oportunitas and Otterpool are based on original 45 year and 30 year periods, respectively. The authority's future capital investment plans do not require the repayment of the equity investments. However, in the case Otterpool the long term modelling assumes the authority's total investment in the project can be met from the schemes projected net proceeds. The Council has overall control of both companies and can decide if it wants to review the level of its equity investment. For any future share or equity investment in other subsidiary companies or joint ventures it is likely these will also be a long term commitment, however this will be determined at the time the investment is being considered for approval.

4.8 **Non-specified Investments:** Shares are the only investment type that the authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the authority's upper limits on non-specified investments. The authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

## 5. COMMERCIAL INVESTMENTS: PROPERTY

5.1 **Contribution:** The authority invests in local commercial and residential land and property with the intention of making a capital gain or generating a new revenue stream that will be spent on local public services. The authority currently holds investment property for the following main reasons;

i) Residential property and minor parcels of land to support the proposed Otterpool Park Garden Town development of up to 10,000 new homes over an approximate 30 year period. The major land holdings of Otterpool Farm and the former Folkestone Racecourse site have both been reclassified as Property, Plant and Equipment – Surplus Assets from 2020/21 as they are no longer viewed as being held solely for their investment return. Both sites will equally contribute towards the housing development and the wider community aspects of the Otterpool Park Garden Town development. Similarly, Westenhanger Castle, which while part of the Garden Town development, is planned to be used for its community benefit rather than a direct financial return and is not classified as an Investment Asset.

ii) Land for other commercial and residential development

iii) Commercial and light industrial units for local businesses providing employment opportunities and the authority with a net rental stream.

iv) The Connect 38 office accommodation in Ashford to provide the authority with an additional net revenue stream.

5.2 The table below summarises the value of the Council's investment assets grouped by property type measured against the original purchase or construction cost. For some assets, the original purchase or construction cost data is not available in which case the value of the asset at 1st April 2014 has been used as a proxy value with changes since then shown as a gain or loss.

Table 4 - Property held for investment purposes.

| | **31/03/2024 (Forecast)** | | | **31/03/2025 (Projection)** | | |
|---|---|---|---|---|---|---|
| **Property Type** | **Actual Purchase Cost** | **Accrued Gains (Losses)** | **Value in Accounts** | **Actual Purchase Cost** | **Accrued Gains (Losses)** | **Value in Accounts** |
| | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| Commercial and Light Industrial (existing) | 1.3 | 1.3 | 2.6 | 1.3 | 1.3 | 2.6 |
| Other Land | 2.9 | (0.9) | 2.0 | 2.9 | (0.9) | 2.0 |
| Otterpool land and property | 10.2 | 0.2 | 10.4 | 10.2 | 0.2 | 10.4 |
| Connect 38 Offices | 17.9 | (0.4) | 17.5 | 17.9 | (0.4) | 17.5 |
| **Total** | **32.3** | **0.2** | **32.5** | **32.3** | **0.2** | **32.5** |

* Includes assets where a proxy value has been used based on their value at 1st April 2014

5.3 All land and property classified as Investment Assets is required to be measured at its market value as at 31 March each year for inclusion in the authority's Statement of Accounts. At the time of writing, no information was available regarding potential changes in the market value of these assets as at 31 March 2024 meaning, where appropriate, they are shown at either their value as at 31 March 2023 (subject to Audit of Statement of Accounts) or purchase cost if planned to be acquired or constructed in 2023/24 or 2024/25 in table 4, above. Similarly, the accrued gains and losses only reflect those recorded at 31 March 2023.

5.4 **Security:** In accordance with government guidance, the authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. However, it is recognised the authority is acquiring land and property for development reasons and therefore its existing use value as an investment asset may be significantly lower than its future potential value.

5.5 A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2023/24 year end accounts preparation and audit process value these properties below their purchase cost and there is no reasonable prospect of this being reversed as a result of the authority's investment plans, then an updated investment strategy will be presented to full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

5.6 **Risk assessment:** The authority assesses the risk of loss before entering into and whilst holding property investments by preparing a business case to support the proposed investment. This includes:

5.6.1 Assessing the current and expected future market demand and need for relevant property by reference to local, regional, or national data, including rental and occupancy levels.

5.6.2 Assessing the current and expected future market competition for the type of property being considered.

5.6.3 Identifying the relevant legal power the authority is using to undertake the purchase and whether or not it may need to purchase and operate it through a separate entity such as a company or joint venture.

5.6.4 Identifying how the authority can recover or dispose of its interest in the property without financial loss.

5.6.5 Undertaking a whole-life financial assessment for the proposed scheme to identify any on-going investment that may be required.

5.6.6 Using specialist external advisors such as, valuers, surveyors, property agents, solicitors and taxation and other finance specialists to help evaluate the proposed investment if required.

5.6.7 Using the authority's established procurement and contract management procedures to appoint and monitor the performance of external advisors it uses. This can involve; -

- interviewing potential consultants to gain a better understanding of their breadth of experience and knowledge in the specific area,
- liaising with other local authorities through established groups and channels to discuss the suitability of consultants being considered where it is known they have been used before,
- focusing advice on larger firms with the breadth and depth of expertise to minimise risk, and
- utilising our own professional judgement to consider the advice received.

5.6.8 Using credit checks if required to assess the financial strength of third parties the authority could be exposed to, for instance where the authority proposes to purchase an investment property which has existing commercial tenants. Credit ratings are not applicable as part of the assessment process for property investment.

5.6.9 The authority has established a proactive risk management culture within the organisation, including all key projects being required to consider risks, as well as quarterly monitoring and reporting of key corporate risks which includes, at times, key investment plans such as the delivery of Otterpool.

5.7 **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.

5.8 The authority's commercial and light industrial units' portfolio is viewed as a long term commitment providing valuable local jobs and supporting the local economy. Any decision to dispose of existing units would need to be balanced against providing alternative employment opportunities, continuing to support the local economy as well as the direct financial impact to the authority.

5.9 Where property is held for future development reasons the authority will identify how it intends to recover or access the cost of its capital investment as part of any proposal for the specific development.

## 6. PROPORTIONALITY

6.1 The current MTFS does include property and service investment income as part of its projections from schemes and initiatives already in place or agreed. The

MTFS anticipates accrued interest from the capital funding being made available to Otterpool Park LLP but excludes the benefit from any potential capital gains or other new revenue streams from the proposed Otterpool Park development. However, the MTFS is over the medium term (2025/26 to 2027/28) in a deficit position of about £2.8m and the authority is continuing to explore investments to support the closure of this gap. As the authority's wider investment plans continue to develop further consideration will be given to its approach to proportionality in respect of investment income to gross service expenditure. Table 5 below shows the extent to which the service delivery objects of the authority is dependent on achieving the expected net return from its investments over the life of the MTFS.

Table 5 - Proportionality of Investments

| | **2022/23 Actual £m** | **2023/24 Forecast £m** | **2024/25 Budget £m** | **2025/26 Budget £m** | **2026/27 Budget £m** |
|---|---|---|---|---|---|
| Gross service expenditure | 100.3 | 102.5 | 104.8 | 106.7 | 108.8 |
| Net investment income to General Fund | 2.6 | 4.1 | 5.2 | 6.0 | 7.1 |
| Proportion | 2.6% | 4.0% | 5.0% | 5.7% | 6.6% |

## 7. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

7.1 In line with statutory guidance and the CIPFA Treasury Management Code, the proposed TMSS 2024/25 includes an Environmental, Social and Governance (ESG) Policy for the authority's treasury investments. When investing in banks and funds, the authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

7.2 For service investments the authority has committed to reducing its own carbon footprint to a net zero target by 2030 and will take the opportunity to be an influencer of change within the district and plans to support local communities, organisations and businesses in the implementation of measures designed to reduce the CO2e footprint to net zero by 2030 of the district as a whole.

7.3 This Carbon Action Plan sits within the framework provided by the council's draft Corporate Plan 2021-30, 'Creating Tomorrow Together' that sets out guiding principles and service ambitions that have helped influence the Carbon Action Plan which has been developed alongside it. The purpose of which is to identify an evidence-based pathway to deliver cleaner growth, and specifically, strategies and actions to eliminate poor air quality, reduce fuel poverty and deliver an affordable, clean, and secure energy supply.

7.4 Implementing carbon reduction actions and specific targeted measures may have a significant cost as well as many benefits (social, economic, environmental). Sourcing of funding to deliver the Carbon Action Plan objectives for the Council's own estate and to support / encourage the transition across the district will require careful and deliberate targeting of funds.

## 8. CAPACITY, SKILLS, AND CULTURE

### 8.1 Elected members and statutory officers:

8.1.1 All members have previously been provided with training on treasury management and investments by the authority's Treasury Management advisors (Arlingclose Ltd). It is planned to provide further training on this subject later in 2024 and will encompass all members and not just those on the relevant committees. Training is also held on specific issues for nominated councillors (such as on Investment Appraisals) and there are ongoing briefings for individual members with specific responsibilities such as the Finance Portfolio holder, the Chair of the Audit and Governance Committee and the Group Leaders of the political parties represented on the Council. All members have a wide exposure to investment decisions and are able to interrogate officers either formally or informally.

### 8.2 Commercial deals:

8.2.1 The authority has a process in place whereby all proposed capital investment decisions are referred to Financial Services and Legal Services to ensure compliance with the principles of the prudential framework and of the regulatory framework for local authorities. For individual major projects, including commercial property investments, a project board or working group is established at the outset which includes officers from Financial Services and Legal Services who advise on compliance with statutory guidance and regulatory issues.

### 8.3 Corporate governance:

8.3.1 The authority has a clearly articulated corporate plan and associated values which have recently been refreshed as part its transformation programme. It also has a long standing practice of regular and transparent decisions in relation to investments held for both treasury management purposes and for investment purposes. The governance structure includes scrutiny of certain decisions, including those relating to the Council's budget-setting process, through the Overview and Scrutiny Committee or its Finance and Performance Scrutiny

Sub-Committee prior to these being considered by Cabinet. Any new investment decisions need to be approved by Full Council with a full explanation of the benefits, opportunities and risks associated with any proposal. The ongoing performance of investments is regularly reported back to Members and is subject to ongoing review and monitoring.

## 9. INVESTMENT INDICATORS

9.1 The authority proposes to 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.

9.2 **Total risk exposure:** The first indicator shows 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 and guarantees it has issued over third party loans.

Table 6 - Total investment exposure

| **Total investment exposure** | **31.03.2023 Actual £m** | **31.03.2024 Forecast £m** | **31.03.2025 Forecast £m** |
|---|---|---|---|
| Treasury management investments | 24.3 | 15.0 | 15.0 |
| Service investments: Loans | 15.9 | 25.9 | 33.9 |
| Service investments: Shares | 0.5 | 1.4 | 2.2 |
| Commercial investments: Property | 29.6 | 32.5 | 32.5 |
| TOTAL INVESTMENTS | 70.3 | 74.8 | 83.6 |
| Commitments to lend | 63.0 | 52.8 | 44.2 |
| **TOTAL EXPOSURE** | **133.3** | **127.6** | **127.8** |

9.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by external borrowing. The remainder of the authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 7 - Investments funded by external borrowing.

| Investments funded by borrowing | 31.03.2023 Actual £m | 31.03.2024 Forecast £m | 31.03.2025 Forecast £m |
|---|---|---|---|
| Service investments: Loans | 7.4 | 15.1 | 20.3 |
| Service investments: Shares | 4.4 | 5.4 | 5.9 |
| Commercial investments: Property | 23.7 | 24.2 | 23.8 |
| **TOTAL FUNDED BY EXTERNAL BORROWING** | **35.5** | **44.7** | **50.0** |

9.4 **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. This indicator includes the impact of (unrealised) valuations gains and losses. 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.

Table 8 - Investment rate of return (net of all costs)

| Investments net rate of return | 2022/23 Actual | 2023/24 Forecast | 2024/25 Forecast |
|---|---|---|---|
| Treasury management investments | 3.0% | 4.8% | 4.5% |
| Service investments: Loans | 2.3% | 2.4% | 2.8% |
| Service investments: Shares | (1.7)%* | (6.9%)* | (6.8%)* |
| Commercial investments: | | | |
| Otterpool Land and Property | (1.2)% | (5.7%)* | (5.0%)* |
| Connect 38 Offices | 1.1%* | 0.9%* | 0.4%* |
| Other Commercial & Light Industrial Property | 6.4%* | 5.0%* | 5.5%* |
| **ALL INVESTMENTS** | **1.3%** | **1.2%** | **1.3%** |

* Net returns exclude unrealised valuation losses or adjustments which do not impact on the net cost to the General Fund.

9.4.1 The net return on loans made for service investments includes those that are interest free and are accounted for as ‘soft loans’, including private sector housing improvement loans.

------------------------------------------- End -----------------------------------------------