Investment Activities

The Council invests for three broad purposes:

- because it has surplus cash as a result of the reserves it holds and its day to day activities such is when income is received in advance of expenditure (known as **treasury management investments** – further detail including associated limits and indicators is reported in CAB3133);
- to support local public services by undertaking regeneration projects, by lending to, and by buying shares in other organisations (**service investments**); and
- to earn investment income (**commercial investments**)

Service Investments: Loans

Contribution: The Council considers lending money to its subsidiaries, housing associations, and other entities to support local public services and stimulate local economic growth. The Council currently has outstanding loans with Housing Associations which help to meets its objective of providing affordable housing and preventing homelessness. It has no subsidiaries currently but is exploring the potential to set up a wholly owned Housing Company.

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 1: Loans for service purposes in £ millions

Category of borrower	31.3.2018 actual			2019/20
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0m	0m	0m	10m
Housing associations	0.14m	0.1m	0.04m	1m
Other entities*	-	-	-	1m
TOTAL	**0.14m**	**0.1m**	**0.04m**	**12m**

**loans to other entities will be considered on a case by case basis by the Treasury Investment Group (TIG). Further information on TIG is provided in CA3133*

Accounting standards require the Authority to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown 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. Included in loans to housing associations are 0.87m of loans which have an allowance of the full amount; these loans are in respect of asset purchases for the provision of temporary accommodation to prevent homelessness and are only repayable in the event the asset is sold or its use changes.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans by considering any loans on a case by case basis. This includes, where appropriate, completion of a business case, assessing the purpose of the loan, the entity to which the loan is made, the use of credit ratings, and the procurement of external advice.

Service Investments: Shares

The Council does not actively consider the purchase of direct shares. It has, however, purchased one hundred and twenty five ordinary shares at a cost of £125,000 in Hampshire Community Bank for the purpose of assisting the local economy.

Commercial Investments: Property

Contribution: The Council owns an investment property portfolio (assets held solely for rental income or capital appreciation) which was valued at £47.7m as at 31 March 2018 and generated gross income of £2.6m and net income after costs of £1.8m in 2017/18. This income helps contribute to the Council Strategy outcomes.

No investment property enhancements are planned in 2018/19 but £2m is budgeted for acquisitions in respect of the Partnered Home Purchase scheme (open-market shared ownership) and £3.1m for the phased transfer of garages from the HRA.

Table 3: Property held for investment purposes in £ millions

1 April 2017	**46.4**
Acquisitions	0.0
Enhancements	0.1
Gains/(losses) in fair value	1.3
Transfers to PPE (operational assets)*	-0.1
31 March 2018	**47.7**
Budgeted	
Acquisitions	2.0
Garage transfer from HRA	3.1
Enhancements	0.0
Gains/(losses) in fair value**	-
31 March 2019	**52.8**

**an investment property is held for rental income and/or capital appreciation; when the continued purpose of holding the asset changes to meeting a service objective it is transferred to Property Plant & Equipment or vice versa*

***valuations are carried out at the balance sheet date and so it is not possible to forecast future changes in fair value*

The Council has a mixed investment property portfolio with the largest single element being in the retail sector. This is primarily due to historic holdings on Winchester's High Street with some assets being held by the Council and its predecessor organisations for over a hundred years.

Table 4: Investment properties by type

As at 31 March 2018	Retail	Offices	Industrial	Residential / Garages	Other	Total
Value £000s	31,941	8,790	4,133	1,881	969	**47,714**

Security: Investment property values are subject to fluctuation and so, in some years, the Council may make a loss in fair value. However, the Council is not reliant on capital receipts from the sale of its investment property assets and so any short or medium term loss is unrealised.

Risk assessment: The Council generates significant income from its portfolio and, in order to ensure continued revenue streams, the portfolio is kept under rolling review as part of the Asset Challenge programme and, where appropriate, assets are identified for sale. The Council does not plan to undertake borrowing to purchase new investment properties. It has, however, used prudential borrowing (also known as Capital Financing Requirement (CFR)) to undertake the refurbishment of property in its existing portfolio to enable it to continue to generate rental income. When any such refurbishment is planned, it is subject to a business case and approval in accordance with the governance arrangements outlined in the Capital Strategy. As at 31 March 2018, the Council had £2.3m of CFR in relation to investment properties.

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 the sale of investment property for short-term liquidity purposes.

Proportionality

The income the Council generates from its investment activities helps it deliver its objectives. The table below details the proportion of investment income as a proportion of gross service expenditure. In order to set the budget and include realistic forecasts in the Medium Term Financial Plan, prudent estimates of Treasury Management income are included which reflect forecast capital expenditure and reserve balances, and the Council's investment property portfolio is actively managed as detailed elsewhere in the Capital Strategy.

Table 5: Proportionality of Investments

	2017/18 Actual £000	2018/19 Forecast £000	2019/20 Budget £000	2020/21 Budget £000	2021/22 Budget £000
Gross service expenditure	30,922	33,694	32,104	32,050	32,518
Investment income*	2,617	3,272	2,980	3,332	3,380
Proportion	8.5%	9.7%	9.3%	10.4%	10.4%

**Investment income includes income from treasury investments and investment properties*

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total investments and therefore its exposure to potential investment losses. The Council seeks to minimise its risk of loss and how it achieves this is detailed in the Capital Investment Strategy and the Treasury Management Strategy (CAB3133).

Table 6: Total investment exposure in £millions

Total investment exposure	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	39.0m	15.0m	15.0m
Service investments: Loans	0.1m	0.1m	0.6m
Service investments: Shares	0.1m	0.1m	0.1m
Commercial investments: Property	47.7m	52.8m	56.0m
TOTAL EXPOSURE	**86.9m**	**68.0m**	**71.7m**

How investments are funded: The following table details which investments are funded by external borrowing. The Council's borrowing need (known as its Capital Financing Requirement or CFR) reflects capital expenditure that hasn't been financed from other sources – CFR increases with additional unfinanced capital expenditure and reduces with annual provisions from revenue (known as Minimum Revenue Provision or MRP) over the life of each asset. The Council is able to internally borrow a proportion of its borrowing need due, for example, to the usable reserves it holds and income received in advance, but will borrow externally when its need exceeds cash balances available.

Table 7: Investments funded by external borrowing in £millions

Investments funded by external borrowing	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	0.0m	0.0m	0.0m
Service investments: Loans	0.0m	0.0m	0.5m
Service investments: Shares	0.0m	0.0m	0.0m
Commercial investments: Property	0.0m	0.0m	6.4m
TOTAL FUNDED BY EXTERNAL BORROWING	**0.0m**	**0.0m**	**6.9m**

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 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.

Table 8: Investment rate of return (net of costs) %

Investments net rate of return	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	1.1%	1.0%	1.0%
Service investments: Loans	0.0%	0.0%	0.0%
Service investments: Shares	0.0%	0.0%	0.0%
Commercial investments: Property	3.9%	4.5%	4.4%
ALL INVESTMENTS*	**2.6%**	**3.3%**	**3.6%**

**weighted average return*

Capital financing requirement (CFR) to total fixed assets value: Capital Financing requirement represents the total borrowing need of the Council. This indicator shows the CFR as a percentage of total fixed assets and forecasts assume the full delivery of the capital programme. The Council is able to internally borrow an element of its need and actual external borrowing stood at £156.7m at 31 March 2018. Further detail on borrowing is included in the Treasury Management Strategy (CAB3133)

Table 9: Capital Financing Requirement to total fixed assets value

Capital Financing Requirement to total fixed assets value	2017/18 Actual	2018/19 Forecast*	2019/20 Forecast*
General Fund - total fixed assets (£m)	114.3	140.1	198.0
Outstanding CFR (%)	**11.5%**	**22.9%**	**37.9%**
Housing Revenue Account - total fixed assets (£m)	456.5	465.6	493.2
Outstanding CFR (%)	**35.9%**	**35.2%**	**34.9%**

**excludes future changes in valuation*