Appendix E2: Investment Strategy 2023/24

1. **Introduction**

1.1. The council invests its money for three broad purposes:

- To achieve a return (in accordance with sector guidance) on the surplus cash it has from 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).
- To earn investment income (known as commercial investments where this is the main purpose).

1.2. 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.

2. **Treasury Management Investments**

2.1. 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 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 Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2. Contribution: The contribution that these investments make to the objectives of the council is to support effective treasury management activities.

2.3. Full details of the council's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy (see Appendix E5).

3. **Service Investments: Loans**

Contribution

3.1. The council lends money to its subsidiaries, local businesses, local charities, local residents and its employees to support local public services and stimulate local economic growth.

3.2. The council has lent £0.050m to its wholly owned subsidiary, Islington Limited (iCo), at market rate. The loan serves to support the working capital of iCo where the timings of its payments and receipts do not coincide.

3.3. In addition, as at 31 March 2022, the council had lent £0.642m (including accrued interest) to three private companies responsible for managing schools under the Building Schools for the Future programme (Transform Islington Phase 1 Holdings Limited, Transform Islington Phase 2 Holdings Limited and Transform Islington Limited). All loans were issued at market rates.

3.4. Where loans are advanced at below market rates they are classed as 'soft loans'. As at 31 March 2022 the council had also issued around £1.104m of soft loans, mainly to employees (e.g. travel season ticket, gym membership, home computer loans).

Security

3.5. The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. 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 (£m)

Category of borrower	31/03/22 actual Balance owing	Loss allowance	Net figure in accounts	2023/24 Approved Limit
Subsidiaries	0.050	(0.021)	0.029	0.100
Local businesses	0.642	0.000	0.642	0.750
Local charities	0.084	0.000	0.084	0.200
Employees	1.104	0.000	1.104	1.500
TOTAL	**1.880**	**(0.021)**	**1.859**	**2.550**

3.6. 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 lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk Assessment

3.7. The council assesses the risk of loss before entering into and whilst holding service loans:

- In relation to iCo, the council has representation (councillors and senior officers) on the board and regularly monitors performance and financial risks.
- Regarding the soft loans available for employees, there is a process in place whereby employees can apply for the loans (season tickets, gym membership and a home computer scheme) and a monthly deduction is taken from salaries to repay this loan. There are procedures in place to deduct any remaining amount due in the event the employee leaves the organisation in their final pay cheque.
- In relation to the loan to a local charity, we provide grants to this organisation annually in excess of the loaned amount. In the eventuality of a default, the organisation would reclaim payments through deductions grants or any other payments we make to them.
- In relation to the three private companies responsible for managing schools under the Building Schools for the Future programme, the council has representation (a senior officer) on the board and regularly monitors performance and financial risks.

4. **Service Investments: Shares**

Contribution

4.1. The council invests in the shares of its subsidiaries and local businesses to support local public services and stimulate local economic growth.

4.2. The council holds equity investments in Islington Limited (iCo), a wholly owned subsidiary providing local services, and minority (10%) equity investments in three private companies responsible for managing schools under the Building Schools for the Future programme (Transform Islington Phase 1 Holdings Limited, Transform Islington Phase 2 Holdings Limited and Transform Islington Limited). The fair value of these shares is nil, and the shares are not traded in an active market. The council has no current plans to dispose any of these shareholdings.

4.3. 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 2: Shares Held for Service Purposes (£m)

Category of company	31/3/22 actual			2023/24
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Local businesses	n/a	0.099	0.099	0.150
TOTAL	**n/a**	**0.099**	**0.099**	**0.150**

4.4. Risk assessment: The council assesses the risk of loss before entering into and whilst holding shares. The council has no current plans to purchase any new shareholdings. In relation to the three private companies responsible for managing schools under the Building Schools for the Future programme, the council has representation (a senior officer) on the board and regularly monitors performance and financial risks.

4.5. Liquidity: Liquidity risk is considered low due to the nature of the shares held, their low value in the 2020/21 Statement of the Accounts (£98.5k for Transform Islington Limited and nil for all others) and the service reasons for holding the shares over the long term.

4.6. Non-specified Investments: Shares are the only investment type that the council 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 council's upper limits on non-specified investments. The council 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 council invests in local, regional, commercial property with the intention of making a profit that will be spent on local public services. The market value of all such properties as at 31 March 2022 was £39.3m. The council has not purchased new commercial properties in recent years, nor does it have any plans to do so over the medium term. In 2021/22, rental income from investment property was £2.1m against direct operating expenditure arising from investment property of £0.8m

5.2. The purchase cost of investment properties is not held as they do not have a revaluation reserve and all changes in value are credited/debited in the comprehensive income and expenditure statement.

Table 3: Property Held for Investment Purposes (£m)

Property	31/3/22 actual	31/3/23 expected
	Value in accounts	Value in accounts**
Admin Building	0.639	0.639
Advertising site	0.076	0.076
Café	0.533	0.533
Offices	31.871	31.871
Shop	0.176	0.176
Store	3.719	3.719
Warehouse	2.244	2.244
TOTAL	**39.258**	**39.258**

**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 2022/23 year end accounts preparation and audit process value these properties below their purchase cost, 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.

5.3. 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.

5.4. Risk assessment: The council assesses the risk of loss before entering into and whilst holding property investments.

5.5. 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. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the council ensures dwellings are of a type and location that is marketable and has proven demand. The council also has scope to continue to generate an income stream whilst they are being marketed.

6. Loan Commitments and Financial Guarantees

6.1. 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.

6.2. The council has provided a guarantee to its wholly owned subsidiary, Islington Limited (iCo), should it request it. There is currently no indication that this is likely to happen. The net current assets of iCo (Unaudited Statement of Accounts) as at 31 March 2021 were £0.049m.

7. Net Zero Carbon

7.1. As a responsible investor, the council is committed to considering environmental, social, and governance issues, and has a particular interest in taking action to contribute to our strategy of Building a Net Zero Carbon Islington by 2030. However, investment guidance, both statutory and from professional guidelines (CIPFA), dictates that investment activities must adopt ‘SLY’ principles – prioritising security, liquidity and yield.

7.2. There are already touch points with local authority investing, including the incorporation of Environment, Social and Governance (ESG) metrics into credit rating agency assessments. There are also a small but growing number of financial institutions and fund managers promoting ESG products. Advisors are looking at ways in which to incorporate these factors into their creditworthiness assessment service that will be shared and adopted. The council will continue to monitor this as the market develops, noting that the lack of consistency and coverage in current market products alongside the treasury management ‘SLY’ priorities means that it is not currently practicable to formally include ESG targets as part of our treasury management or investment strategies. It is the council's intention to exploit the treasury strategy to further the aims of the council and it will therefore actively consider appropriate ESG products as they emerge.

8. Proportionality

8.1. Whilst the council is dependent on some profit generating investment activity from treasury management and commercial property investments to achieve a balanced revenue budget, this amounts to less than 1% of the overall gross revenue budget and therefore is considered proportionate. The assumptions around profit generating investment activity are reviewed as part of the annual budget monitoring process and, if necessary, revised as part of the following year’s budget setting process. The 2023/24 revenue budget includes a general, corporate contingency budget of £5m to mitigate against budget risks.

9. Borrowing in Advance of Need

9.1. Government guidance is that local authorities must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. The council has chosen to follow this guidance. However, if market rates were to fall considerably, or future rates were expected to rise, then some borrowing could be taken ahead of spend. The borrowing strategy will therefore consider opportunities to borrow not only for 2023/24 but ahead for the next two financial years.

10. Capacity, Skills, and Culture

10.1. Elected Members and Statutory Officers: There are procedures and processes that enable elected members and statutory officers to make appropriate investment decisions, including:

- All elected members and statutory officers are aware of the council's strategic objectives.
- Training on treasury management is available and can be tailored to needs.
- The council's constitution and financial regulations determine the authorisations required for investment decisions.
- Financial and legal implications (including statutory and regulatory frameworks) are required as part of all decision-making reports.
- The council has a multi-disciplinary governance process for reviewing budget proposals, including any future commercial investment proposals.
- Specialist external advice is sought and considered where it is deemed necessary.
- The council has an embedded risk management and reporting framework.

10.2. Commercial deals: Financial and legal implications (including statutory and regulatory frameworks) are required as part of all decision-making reports. Specialist external advice is sought where appropriate to advise on commercial transactions. The council ensures external advisors are fully aware of the prudential framework and of the regulatory regime within which it operates.

10.3. Corporate governance: The council's Annual Governance Statement details arrangements put in place to ensure accountability and responsibility for those making decisions and can be found here: 2021/22 Annual Governance Statement

11. Investment Indicators

11.1. 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.

11.2. 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 4: Total Investment Exposure (£m)

Total investment exposure	**31/3/22 Actual**	**31/3/23 Forecast**	**31/3/24 Forecast**
Treasury management investments	125.500	90.000	66.939
Service investments: Loans	1.859	1.859	1.859
Service investments: Shares	0.099	0.099	0.099
Commercial investments: Property	39.258	39.258	39.258
TOTAL INVESTMENTS	**166.716**	**131.216**	**108.155**
Guarantees issued on loans	(0.049)	(0.049)	(0.049)
TOTAL EXPOSURE	**166.667**	**131.167**	**108.106**

11.3. How Investments are Funded: Government guidance is that these indicators should include how investments are funded. Since the council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. It is assumed the council's investments are funded by usable reserves and income received in advance of expenditure, rather than borrowing.

11.4. 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. 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. The rate of return on other investments (e.g. service loans/shares) is considered immaterial. Investment properties are not included as we do not hold at purchase cost.

Table 5: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.28%	2.85%	3.5%