Appendix F3: Investment Strategy 2024/25

1. Introduction

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

- Firstly, 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).
- Secondly, to support local public services by lending to or buying shares in other organisations (service investments).
- Thirdly, 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. 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." This is interpreted 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 definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

2. Treasury Management Investments

2.1. The council typically receives its income in cash (e.g. from taxes and grants) before transacting expenditure in cash (e.g. through payroll and invoices). The council holds reserves for future expenditure, for a variety of purposes and against a range of criteria. These activities and 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. In supporting efficient and effective treasury management and financial activities, these investments contribute to the overall achievement of the council's five missions of building a safe place to call home; creating a greener and healthier Islington; a fairer local economy; creating a child-friendly Islington; and making sure people can access support where and when they need it. Full details of the council's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the Treasury Management Strategy (**See Appendix F4**)

3. Service Investments: Loans

3.1. Contribution: The council lends money to support local public services and stimulate local economic growth.

3.2. The council had lent £0.639m (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.

3.3. Where loans are advanced at below market rates they are classed as ‘soft loans’. As at 31 March 2023 the council had also issued around £1.202m of soft loans, mainly to employees (e.g. travel season ticket, gym membership, home computer loans).

3.4. 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. 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	31/03/2023 Actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Local businesses	0.639	0.000	0.639	0.750
Local charities	0.078	0.000	0.078	0.200
Employees	1.202	0.000	1.202	1.500
TOTAL	**1.919**	**0.000**	**1.919**	**2.450**

3.5. Accounting standards require the council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the council’s statement of accounts (SOA) are shown net of this loss allowance. However, the council makes every reasonable effort to collect the full sum owed and has appropriate credit control arrangements in place to recover overdue repayments.

3.6. Risk assessment: The council assesses the risk of loss before entering and whilst holding service loans:

- A soft loan is a loan with a below market rate of interest. Regarding ‘soft loans’ available for employees, there is a process in place whereby employees can apply for these loans (e.g. 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 that an employee leaves the organisation.
- In relation to the loan to a local charity (Highbury Roundhouse associations ltd), we provide grants to this organisation annually in excess of the loaned amount. In the event 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 (BSF) programme, the council has representation (a senior officer) on the board and regularly monitors performance and financial risks.

4. Service Investments: Shares

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

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 BSF 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 of any of these shareholdings. Minority investment is when an investor has a non-controlling stake of less than 50%.

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. 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	31/03/2023 actual			2024/25
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Local businesses	n/a	0.081	0.081	0.150
TOTAL	**n/a**	**0.081**	**0.081**	**0.150**

4.4. 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 BSF programme, the council has representation (a senior officer) on the board and regularly monitors performance and financial risks.

4.5. Liquidity risk is considered low due to the nature of the shares held, their low value in the 2022/23 Statement of the Accounts (£0.081m for Transform Islington Limited) and the service reasons for holding the shares over the long term.

4.6. Shares are the only investment type that the council has identified that meets the definition of a non-specified investment in the government's 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, UK and commercial property with the intention of making a profit that will be used wholly for expenditure on local public services. The value in accounts of all such properties as of 31 March 2023 was £43.648m. The council has not purchased new commercial properties in recent years, nor does it have any plans to do so over the medium term.

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	31/03/2023 actual	31/03/2024 expected
	Value in accounts	Value in accounts**
Admin Building	0.611	0.611
Advertising site	0.076	0.076
Café	0.533	0.533
Offices	33.434	33.434
Store	3.709	3.709
Shop/Retail Unit	3.036	3.036
Warehouse	2.239	2.239
TOTAL	**43.648**	**43.648**

*** A fair value assessment of the council investment property portfolio has been made within the past twelve 12 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, 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 depending on market conditions. To ensure that the invested funds can be accessed when they are needed (e.g. 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 of the year 2021/22 were £0.181m.

7. Climate Action

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 2024/25 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 2024/25 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 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: Draft Annual Governance Statement 2022-23 (islington.gov.uk)

11. Investment Indicators

11.1. The council has set the following quantitative indicators to allow Members and the public to assess the council's total risk exposure arising from 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	31/03/2023 Actual	31/03/2024 Forecast	31/03/2025 Forecast
Treasury management investments	53.700	52.700	54.700
Service investments: Loans	1.919	1.919	1.919
Service investments: Shares	0.081	0.081	0.081
Commercial investments: Property	43.640	43.640	43.640
TOTAL INVESTMENTS	**99.340**	**98.340**	**100.340**
Guarantees issued on loans	0.181	0.181	0.181
TOTAL EXPOSURE	**99.521**	**98.521**	**100.521**

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. However, the following investments could be described as being funded by borrowing. The remainder of the council's investments are funded by useable reserves and income received in advance of expenditure.

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. 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	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m
Treasury Management Investments	1.29%	4.25%	4.0%
ALL INVESTMENTS	**1.29%**	**4.25%**	**4.0%**