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Investment Strategy

1. Purpose

13.1 The purpose of the Investment Strategy is to:

- set out the Council's approach to managing investment in 2022/23
- establish financial limits for various classifications of investment
- recognise the role and responsibilities of the Finance Sub Committee and its position as the main conduit through which investment opportunities should be considered

13.2 The definition of an **investment** covers all 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 may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

13.3 The Council has a Capital Strategy (prepared in line with the requirements of the Prudential Code); and a Treasury Management Strategy (prepared in line with the requirements of the Treasury Management Code) – relevant disclosures are made within each document.

13.4 Consequently, this Investment Strategy is part of a suite of related documents and focuses predominantly on matters not covered by the Capital Strategy and Treasury Management Strategy.

Statutory Background

13.5 On 2nd February 2018 the Ministry of Housing, Communities & Local Government (MHCLG) published updated statutory guidance on capital finance, in respect of Local Government investments and the minimum revenue provision. The MHCLG guidance may be found at: https://assets.publishing.service.gov.uk/

13.6 The guidance was issued to reflect concerns raised by MHCLG and Treasury Select Committees over patterns of local authority behaviour particularly with respect to the exponential increase in the investment in commercial properties. There was concern from MHCLG that local authorities being exposed to high levels of financial risk through borrowing and investment decisions could have a detrimental impact on services if investments do not perform as expected. The requirement to produce this annual Investment Strategy, to be approved by Full Council, is an attempt to recognise this and ensure that Members have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.

13.7 In the November 2020 Autumn Statement the Chancellor of the Exchequer went further and effectively prohibited the future purchase of commercial assets primarily for generating yield. Where there are any plans to acquire assets primarily for yield, irrespective of the source of financing for that particular asset, then the Public Works Loan Board (PWLB) would not advance any lending to the Authority. It is clear therefore that yield should be an incidental, rather than the principal factor, in any future decision to acquire an investment asset.

13.8 2021 has seen regulators continue this direction of travel to strengthen and codify the rules around commercial assets and borrowing for yield. CIPFA have issued numerous linked consultations on Capital Finance in the year, the latest of which closed in November 2021: https://www.cipfa.org/policy-and-guidance/consultations/prudential-code-for-capital-finance-in-local-authorities

13.9 The outcome from this will be a revised Prudential Code which in its draft form seeks to place further limitations on the ability of Local Authorities to borrow and invest. The current draft includes updated and revised content in respect of Authorities not borrowing more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. In addition it includes proportionality as an objective in the Prudential Code; and further provisions are included so that an Authority incorporates an assessment of risk to levels of resources. On the issue of commercial property the draft provides clarification and definitions to define commercial activity and investment. The amendments to the Prudential Code appear to be a reinforcement of previous government guidance in respect of purpose of borrowing – that the purchase of commercial property purely for profit cannot lead to an increase in capital financing requirement.

13.10 It remains to be seen whether the consultation responses will have any impact on the final Prudential Code but generally the Authority is not greatly exposed having not been a significant investor in commercial property, in relative terms. Much of what is being proposed is already in place. It will however further limit what the Authority may seek to do in the future.

Introduction

13.11 The Authority invests its money for three broad purposes:

1. 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**),
2. to support local public services by lending to or buying shares in other organisations (**service investments**), and
3. to earn investment income (known as **commercial investments** where this is the main purpose).

13.12 Often there may be a crossover of purposes for investments within the Authority. Whilst a return may be a by-product of an investment this is rarely the overriding reason for making or retaining an investment. It will normally be linked to other long term strategic or regeneration factors.

13.13 This Investment Strategy meets the requirements of the statutory guidance issued by MHCLG in February 2018 and focuses on the second and third of the above categories.

2. Treasury Management Investments

13.14 The Authority typically receives its income, such as taxes and grants, before it pays for expenditure such as through payroll and invoices. It also holds reserves for future expenditure and collects local taxes on behalf of Central Government. These activities, plus the timing of borrowing decisions, can lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

13.15 The Constitution of the Authority delegates the power to manage and make Treasury Management Investments to the Section 151 Officer via the Treasury Management Strategy.

13.16 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

13.17 **Further details:** Full details of the Authority's policies and plans for 2022/23 for treasury management investments are covered in the separate Treasury Management Strategy.

3. Service Investments: Loans

13.18 **Contribution:** The Council lends money to other organisations to support local public services and stimulate economic growth. These are shown below in Table 1. No new loans were issued in the year though there were movements on existing loans.

13.19 Interest bearing loans have been provided to Everybody Sport & Recreation for the purpose of investing in new equipment, with the aim of increasing the usage of leisure facilities and improving the health of residents. These are included within the Local Charities category.

13.20 In March 2013, Astra Zeneca announced it was relocating its R&D function from Alderley Park to Cambridge. In order to retain the expertise in the region and to stimulate local economic growth the Council has invested in Alderley Park Holdings Ltd by way of equity investment and interest free loan. The loan was an integral component of the 10% equity stake and therefore needs to be viewed in conjunction with the equity investment.

13.21 In addition, the Council has committed to investing £5m (and has lent £4.5m as at December 2021) in the Greater Manchester & Cheshire Life Science Fund, a venture capital fund investing in a range of life science businesses. Partners in the Fund include the Greater Manchester Combined Authority, Cheshire & Warrington Local Enterprise Partnership and Alderley Park Holdings Ltd. The Fund has a regional focus and seeks to target companies looking to re-locate a material part of their business within the Greater Manchester and Cheshire & Warrington areas, which includes Alderley Park where the Fund is based.

13.22 The nature of the loans is that they do not attract an interest rate and returns are dependent upon the success of individual investments made by the Fund. It should be noted that whilst the investment in the Life Science Fund is high risk it is also long-term in nature, so year-by-year fluctuations are to be expected but gains or losses will only crystallize when funds are extracted.

13.23 The Council may consider making further Service Investment Loans in 2022/23, subject to business cases and where the balance of security, liquidity and yield have been considered as part of robust risk assessment.

13.24 **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 £'000

Category of borrower	31/03/21 Actual £000	31/03/22 Forecast £000	31/03/22 Forecast £000	31/03/22 Forecast £000	2022/23 £000
		Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries	0	0	0	0	2,000
Suppliers	24	24	1	23	500
Local businesses	5,738	5,982	70	5,912	30,000
Local charities	598	426	75	351	2,500
TOTAL	**6,360**	**6,432**	**146**	**6,286**	**35,000**

13.25 Accounting standards require the Authority to set aside loss allowances for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's Statement of Accounts are shown net of this loss allowance. The loss allowance figure does not necessarily reflect our anticipation or expectation that loans will need to be written down. Rather, the allowance represents a prudent accounting treatment required by CIPFA guidance. The Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

13.26 The GM Life Science Fund is "revalued" annually based upon the net asset valuation of the Fund and this largely accounts for the notional negative return of the loan category in 2021/22 (see Table 7). The position is expected to recover in 2022/23.

13.27 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding service loans. Each application for a loan requires completion of a business case. This is followed by a process of due diligence taking into account creditworthiness and financial standing and the Council's corporate objectives. External advisors are used where appropriate, dependent on materiality and scope of the loan arrangement. Each application is considered on a case by case basis.

13.28 As Accountable Body for the Cheshire & Warrington Local Enterprise Partnership, the Council is also contracting party to loans provided to organisations from the Growing Places Fund. This £12m Fund was established with Government grants and is "owned" by the Local Enterprise Partnership; consequently, these investments are not made using Cheshire East's resources and are not reflected in the table above, as regards investments made, or affecting upper limits of lending.

4. Service Investments: Shares

13.29 **Contribution:** The Council invests in the shares of its subsidiaries and local businesses to support local public services and stimulate local economic growth.

13.30 As noted above, the Authority has invested in Alderley Park Holdings Limited in order to maintain and stimulate this key strategic industry of life sciences within the Borough. Cheshire East is a 10% shareholder in Alderley Park, and has invested in the development of the site along with Bruntwood (51% shareholder) and Manchester Science Partnerships (MSP; 39% shareholder).

13.31 This should be seen as a long-term strategic investment. There have been no dividend returns and any changes in % returns have been based upon the change in value of our share of the underlying assets (see Table 7). In line with the commercial property sector the internal valuation of our stake has fallen (i.e. reduction in net asset value) in the last three years, due in large part to the general fall in value of property-based companies. However, the following observations should be noted:

13.32 The valuation (see Table 2) is still greater than the purchase price and the underlying assets at Alderley Park remain strong, with a pipeline of future investments in place.

13.33 The reduction in value largely arises from accounting transactions/ re-valuations. A gain or loss to the Council's Revenue and Capital Receipts accounts would only crystallise in the event of divesting our equity stake. As it is a long-term strategic asset there is ample time for the sector to recover.

13.34 The Council also has shares in its subsidiary, wholly owned companies. However, they are of nominal value, and the share values are not considered material in the context of this Investment Strategy.

13.35 As reflected in this strategy a key objective of future investments will be to generate a return to benefit the Council's Revenue Account. However, the Council may consider acquiring shares in companies if there is a compelling business case demonstrating strong potential for growth in capital value.

13.36 **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.

Table 2: Shares held for service purposes in £'000

Category of company	31/03/21 actual £000	31/03/22 forecast £000	31/03/22 forecast £000	31/03/22 forecast £000	2022/23 £000
	Value in accounts	Amounts invested	Gains or losses	Value in accounts	Approved Limit (at cost)
Local businesses	3,410	1,070	2,340	3,410	10,000
TOTAL	**3,410**	**1,070**	**2,340**	**3,410**	**10,000**

13.37 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by: assessing the proposition, taking into consideration the market (the nature and level of competition, how the market/ customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements); using external advisors, where specialist knowledge/ intelligence is required in each case; and being part of the entities' governance arrangements, having a seat on the Board, and receiving and analysing information on financial and operational performance against plan, and updated business plans, on a regular basis.

13.38 **Liquidity:** With regard to the existing equity stake in Alderley Park, it was deemed to be a long-term investment, supporting a business and site development plan through to at least 2025. As described above, regular monitoring and receipt of updated business plans will help to inform considerations with regards to the selling of shares; and it is important to note, as a minority shareholder in Alderley Park, that shares must first be offered to other shareholders in those private enterprises (and consequently the prospects for disposing of shares should be seen as good, as evidenced by the sale of shares in Manchester Science Partnerships in 2019).

13.39 In the event of considering whether to make further Service Investments via shares, the Council will consider maximum investment periods on a case-by-case basis, taking into consideration the prospects for funds being accessible when required (e.g. to repay borrowing; or for other capital financing purposes) by making an assessment of liquidity, given the nature of the proposed investment (e.g. the type of organisation; the market in which it operates).

13.40 **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

13.41 For the purpose of this paper it should be noted that MHCLG defines property to be an investment if it is held primarily or partially to generate a profit. In order to comply with accounting classifications, the Authority includes several assets in Table 3 that might otherwise be excluded as they are not being held to primarily generate a yield or return.

13.42 Central government continues to express concern over the level of commercial investments held by local authorities and the risk that this presents to residents in the event that an authority becomes over exposed. Changes to the Prudential Code are likely to reinforce opposition to investment in commercial property. Consequently, there have been no new commercial properties acquired in the year.

13.43 **Contribution:** The Council invests in local commercial and residential property and land, for a number of reasons. The intention of making a profit that will be spent on local public services is largely a by-product and is not the primary reason.

13.44 Historically, the most significant commercial investment acquired by the Authority is land and buildings on the North and East side of Weston Road in Crewe, purchased in April 2019. This accounts for 90% of the value in the accounts in this particular asset classification.

13.45 We have revisited the historic purchase costs of the assets included in the categories below. For those that were inherited by Cheshire East Council we have used the valuation at 2009/10. This is to allow for a simple calculation of yield.

13.46 The value of properties is updated annually, and Covid-19 has impacted some valuations, but for this year we will not have an assessment of this until after the end of the financial year. The most recent valuation is from March 2021 and reflects the first year of Covid-19. What we can see is that the value of retail property held up whilst that of industrial units and enterprise centres was valued downwards. Both categories are still valued at more than purchase cost. There has been a reclassification in the year and the single residential property has been removed from this listing as it was not deemed appropriate to classify it as an investment asset. This resulted in £240,000 being removed from the valuation.

Table 3: Property held for investment purposes in £'000

Property	Actual	31/03/21 actual		31/03/22 expected		2022/23
	Purchase cost	Gains or (losses) in-year	Value in accounts (includes gains/ (losses) to date	Gains or (losses)	Value in accounts	Approval Limit
Industrial Units	1,492	(236)	1,729	0	1.729	
Enterprise Centres	245	(30)	320	0	320	
Retail	23,300	734	25,604	0	25,604	
Total	**25,037**	**468**	**27,653**	**0**	**27,653**	**100,000**

13.47 **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.

13.48 **Where value in accounts is at or above purchase cost:** A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2021/22 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.

13.49 **Where value in accounts is below purchase cost:** The fair value of the Authority's investment property portfolio is no longer sufficient to provide security against loss, and the Authority is therefore taking mitigating actions to protect the capital invested. These actions include annually reviewing the Commercial Properties portfolio; and where the fair value is below the original purchase price alternative actions are considered (e.g. changing the use of the asset to earn additional investment income; refurbishing the asset to make it more attractive to the market; or re-purposing the asset for use by the Council as an operational property where services to the public will be provided from). If no alternative service uses are considered viable it will be classed as surplus to requirements and steps will be taken to market the asset for sale to realise a capital receipt.

13.50 **Risk assessment:** The Authority assesses the risk of loss before acquiring and whilst holding property investments by:

- Before entering into any commercial property investment the Authority assesses the local market conditions, by establishing the supply and demand of the need for a certain type of commercial property investment, what competition currently exists locally, nationally and globally dependent on the type of activity that will take place in the asset (for example retail units, industrial units or residential properties). These decisions are made alongside the expertise, knowledge and market evidence collected from our Economic Development Service.
- The Authority also ensures that when setting rental income on the assets a cost of use and sensitivity analysis is completed, to future proof the running and maintenance costs of the assets so that rents are set at a level where they are competitive in the local market but will also ensure that the income will provide that additional financial security.
- Whilst holding the commercial properties we continually review market prices, look out for changes in the market, and assess the competition.
- The Authority constantly monitors any changes in the political environments, locally, nationally and globally to assess any potential impact on the local rental markets.

13.51 Through the MTFS process of approving the Investment Strategy, the Approved Limit (in Table 3 above – for 2022/23 this is £100 million) is set by Council. Should any investments be identified then the Section 151 Officer can initiate steps to move funds within the Approved Limit into the main Capital Programme.

13.52 Currently, due to the nature of the transactions which can require the Authority to move in line with the market, the approval to acquire specific commercial property is delegated to the Executive Director of Place in conjunction with the relevant Committee Chair.

13.53 This Investment Strategy acknowledges the role of the Finance Sub Committee as the body that should consider future investments and make recommendations to Council for ultimate approval of individual investments.

13.54 The £100m limit has not been split across sectors so that individual investment opportunities can be considered on their merits. However, given that significant commercial retail property has been purchased more emphasis will need to be given towards the category of any future investment to ensure that the portfolio is diversified and not overly reliant upon a single sector.

13.55 **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 Authority constantly monitors the use of all assets and where there is a market for a particular asset or asset type will look into realising the capital receipt on those assets if it outweighs the long-term benefits of holding the asset for a potential rental stream.

6. Commercial Investments: Loans

13.56 **Contribution:** The Authority has worked alongside Cheshire West and Chester Council and Warrington Borough Council to each provide the Cheshire & Warrington Local Enterprise Partnership (LEP) with a £10m loan facility to be used to invest in economic development schemes across the Enterprise Zones in the sub-region. The existing Strategic Capital Projects budget has been utilised for this purpose.

13.57 The first loans totalling £8m in respect of Alderley Park Glasshouse and Blocks 22-24 were made in December 2020. The purpose is to stimulate economic development, and payback of the loans will be achieved from business rates retained by the LEP under Enterprise Zone regulations.

Table 4: Loans for Commercial Purposes in £'000

Category of borrower	31/08/21 Actual	As at 31/03/22 Forecast			2022/23
		Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Partner Organisations	8,073	8,331	368	7,963	20,000
TOTAL	**8,073**	**8,331**	**368**	**7,963**	**20,000**

13.58 When considering making commercial investment loans, there will always be a Council policy-related objective (e.g.

regeneration or economic development) in addition to the objective of financial benefit (yield) to the Council's Revenue Account (i.e. interest received) being greater than the costs to the Revenue Account (e.g. debt financing).

13.59 In considering commercial loan investment opportunities, the Council will adopt a prudent approach, with two underlying objectives:

- **Security** – protecting the capital sum invested from loss
- **Liquidity** – ensuring the funds invested are available when needed

13.60 **Risk assessment:** The Authority assesses the risk of loss before entering into commercial loans with a thorough due diligence process by: assessing the proposition, taking into consideration the market (the nature and level of competition, how the market/ customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements); using external advisors, where specialist knowledge/ intelligence is required in each case; and receiving and analysing information on financial and operational performance against plan, and updated business plans, on a regular basis.

13.61 Each application for a loan will require completion of a business case. Each loan application is considered on a case by case basis. For commercial loans, the intent is that they will be approved in line with those rules being developed in accordance with Section 10 below. Currently, the approval route will be based upon the source of the funding identified for the Loan.

7. Loan Commitments and Financial Guarantees

13.62 As Accountable Body for the Cheshire & Warrington Local Enterprise Partnership, the Council is acting as Entrusted Entity to a £20m European Regional Development Fund (ERDF)-supported 'Evergreen' Development Fund, which has commenced and is in the process of making distributions from its first £5m drawdown of funding. The Council, as contracting party, provides guarantees in respect of the amounts provided through ERDF.

13.63 The Fund is designed to provide loan finance to specific projects across Cheshire and will not generate a return for the Authority. As such the balances are not included in the investment tables above. The workings of the fund are subject to detailed scrutiny and are managed by a firm of experienced fund managers with a strong track record of providing loans that minimise the risk of default. The Council, as contracting party, will provide guarantees in respect of the amounts provided through ERDF though this will be offset by the professional indemnity insurance held by the fund manager.

8. Proportionality

13.64 A major concern for external governing bodies is the extent to which Authorities are dependent upon investment income to fund services. Proportionality will form a key component of the proposed new Prudential Code.

13.65 The Authority is not materially dependent on return-generating investment activity to achieve a balanced revenue budget, in respect of Place Services. Within the Authority the proportion is consistently below 2.5% and is deemed immaterial. Such is the low proportion that it represents, should it fail to achieve the expected net return, the Authority's contingency plans for continuing to provide these services include effective budget management and tight cost control.

9. Borrowing in Advance of Need

13.66 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. This has been strengthened in recent Government announcements effectively prohibiting investing for yield, and in the proposed new Prudential Code. The Council is not exposed to this as it currently follows this guidance and ensures that investments are made to meet the strategic needs of the Authority, its residents and local businesses.

10. Capacity, Skills and Culture

13.67 **Elected members and statutory officers:** Adequate steps are taken to ensure that those elected Members and statutory officers involved in the investment decision making process have appropriate capacity, skills and information to enable them to: 1. take informed decisions as to whether to enter into a specific investment; 2. to consider individual assessments in the context of the strategic objectives and risk profile of the local authority; and 3. to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

13.68 The Finance Sub Committee comprised of Members, supported by officers and where necessary, external advisors, provides oversight of the Investment Strategy and acts on recommendations from officers that consider opportunities to enhance the Revenue and Capital Budgets of the Council through strategic investments, whether that involves using capital/cash resources or borrowing and lending powers.

13.69 The Authority continues to identify best practice from across the sector and will incorporate this into the evolving Investment Strategy.

13.70 It is recognised that in order to support decision making there will be a need to engage external advisors from time to time. The Authority has appointed Arlingclose Ltd as treasury management advisors and receives specific advice on investment, debt and capital finance issues. Other consultants, such as property consultants, are engaged as required.

13.71 **Commercial deals:** Steps have been taken to ensure that those negotiating and reporting commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate. A team of officers from Place, Finance, Legal, and Procurement are responsible for ensuring that the framework is followed. Where appropriate staff are provided with additional training and up to date skills via CIPFA and other providers.

13.72 **Corporate governance:** Corporate governance arrangements have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the Council's corporate values and Constitution.

13.73 The MHCLG requirement to produce an Investment Strategy, approved annually by Full Council is a key component of the corporate governance framework.

11. Investment Indicators

13.74 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.

13.75 **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 the Authority has issued over third party loans.

Table 5: Total investment exposure in £'000

Total investment exposure	31/03/21 Actual	31/03/22 Forecast	31/03/23 Forecast
Treasury management investments	44,150	20,000	TBC
Service investments: Loans	6,604	6,432	TBC
Service investments: Shares	3,410	3,410	TBC
Commercial investments: Property	27,653	27,653	TBC
Commercial Investments: Loans	8,073	8,271	TBC
TOTAL INVESTMENTS	**89,890**	**65,766**	**TBC**
Commitments to lend	2,439	2,439	TBC
TOTAL EXPOSURE	**92,329**	**68,205**	**TBC**

13.76 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Currently the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £'000 (TBC)

Investments funded by borrowing	31/03/20 Actual	31/03/21 Forecast	31/03/22 Forecast
Treasury management investments			
Service investments: Loans			
Service investments: Shares			
Commercial investments: Property			
Commercial Investments: Loans			
TOTAL FUNDED BY BORROWING			

13.77 **Rate of return received:** In part this indicator shows, for Treasury Management and Commercial Property investments, 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 nature of the local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

13.78 The return for Service Investments: Loans and Service Investments: Shares are not true, realised returns but are instead the % fluctuation in the underlying value of the new assets within the Life Science Fund and Alderley Park Holdings Limited. As such they do not reflect actual cashflows. That said the negative return on the Alderley Park shares is noteworthy. It is based upon a best estimate of the unaudited accounts which has seen a substantial downward revaluation of property assets and increased vacant properties. This is expected to reverse in 2022 and 2023 but it does distort the % rate of return for this year.

13.79 The major assets included within Commercial Investments: Properties, representing over 90% of the value in that classification, are two commercial retail properties in Crewe. Whilst we will see fluctuations year-on-year given the pressures on 'bricks and mortar retail', the Council will only experience an impact on its Revenue Account if a tenant goes into liquidation or is subject to a (lower) rent review.

13.80 From the perspective of the Council one of the tenants affected is a home improvements retailer and the second is a national supermarket retailer. Both of these have thus far weathered the local economic effects of the COVID-19 pandemic though we might expect further reductions in asset value in this financial year.

13.81 Much of the investment returns for Commercial Investments relates to rent on these two assets. Rental income on both has held up during the year. The change in reported return from 2019/20 is due in part to fully accounting for revenue financing costs on the primary asset. This has reduced the net income figure used for the returns calculation, when compared to that previously reported. Across other properties occupancy and rents received are holding up.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Treasury management investments	1.62%	2.44%	2.20%
Service investments: Loans	8.46%	-4.10%	0.25%
Service investments: Shares	28.04%	-71.03%	0.00%
Commercial investments: Property	2.81%	3.22%	3.24%
Commercial Investments: Loans	0.91%	3.22%	3.41%

12. Glossary of Terms

Investment covers 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 may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly owned companies or associates, to a joint venture, or to a third party. The term does not include *pension funds* or *trust fund investments,* which are subject to separate regulatory regimes and therefore are not covered by this guidance.
A **credit rating agency** is one of the following three companies: Standard and Poor's, Moody's Investors Service Ltd and Fitch Ratings Ltd.
A **loan** is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.
Specified Investments An investment is a specified investment if all of the following apply: • The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling • The investment is not a long-term investment (the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option) • The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the *Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended]* • The investment is made with a body or in an investment scheme described as high quality; or with one of the following bodies: – i. The United Kingdom Government; – ii. A local authority in England or Wales (as defined in section 23 of *the 2003 Act*) or a similar body in Scotland or Northern Ireland; or – iii. A parish council or community council • should define high credit quality (definition incorporates ratings provided by credit rating agencies)
The **Treasury Management Code** means the statutory code of practice issued by CIPFA: *"Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition".*
The **Prudential Code** means the statutory code of practice, issued by CIPFA: *"The Prudential Code for Capital Finance in Local Authorities, 2017 Edition".*
The **Capital Strategy** is the strategy required by the updates to the Prudential Code and Treasury Management Code.