Appendix 7

Investment Strategy

1. Purpose

1.1 The Investment Strategy is part of a suite of related documents, and focuses predominantly on matters not covered by Capital Strategy and Treasury Management Strategy.

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 Often there may be a crossover with 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 be linked to other long term strategic or regeneration factors.

1.4 The investment strategy meets the requirements of the statutory guidance issued by MHCLG in February 2018, and reflects subsequent changes in government and CIPFA thinking on investments. It focuses on the second and third of the investment categories.

2. Treasury Management Investments

1.5 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 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. The balance of treasury management investments fluctuates in the course of normal activity.

1.6 Full details of the Authority's policies and plans for 2022/23 for treasury management investments are covered the Treasury Management Strategy (**Appendix 6**).

3. Service Investments: Loans

1.7 Current loan balances are shown in the **Table 1** below. Upper limits on the outstanding loans to each category of borrower were set through the MTFS process:

Table 1: Loans for service purposes in £'000

Category of borrower	31/03/21 Actual	As at 31/03/22			2022/23
		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	6,113	70	6,043	30,000
Local charities	598	596	81	515	2,500
TOTAL	**6,360**	**6,733**	**152**	**6,581**	**35,000**

1.8 Loans have been provided to Everybody Health & Leisure for the purpose of investing in new equipment, with the aim of increasing the usage and improving the health of residents.

1.9 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 loans. The loan was an integral component of the 10% equity stake and therefore needs to be viewed in conjunction with the equity investment.

1.10 In addition, the Council has committed to investing £5m (and lent £4.58m as at 31 March 2022) 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 and Warrington areas, which includes Alderley Park where the Fund is based.

1.11 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. The GM Life Science Fund is "revalued" on an annual basis 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. 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 crystallise when funds are extracted.

1.12 Only the Everybody Health & Leisure loans are interest bearing and are reflected in the "Local Charities" category. These are accrued at a rate of Bank of England base rate plus 4%.

1.13 The loss allowance figure does not necessarily reflect our anticipation or expectation that loans will need to be written down. Instead the allowance represents a prudent accounting treatment required by CIPFA guidance. The figures for loans in the Authority's statement of accounts are 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.

4. Service Investments: Shares

1.14 The Authority has invested in Alderley Park Holdings Limited in order to maintain and stimulate the 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 (39% shareholder).

1.15 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 movement in value of our share of the underlying assets which will fluctuate as the site continues its transition from a single user to a multi user campus.

1.16 There remains a long term pipeline of investment and refurbishment activity on Alderley Park. The decline in the value this year reflects a revaluation and the timing of vacant units, and the not insignificant impact of Covid-19, which the site seems to have weathered. The valuation is still greater than the purchase price and the underlying assets at Alderley Park remain strong.

1.17 A gain or loss to the Council's Revenue and Capital Receipts accounts would only crystallise in the event of divesting our equity stake.

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

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

Category of company	31/03/21 actual	As at 31/10/2022			2022/23
		Amounts invested	Gains or losses	Value in accounts	Approved Limit (cost of investment)
Local Businesses	3,410	1,070	1,540	2,610	10,000
TOTAL	**3,410**	**1,070**	**1,540**	**2,610**	**10,000**

5. Commercial Investments: Property

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

1.20 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.

1.21 The government has effectively regulated against the purchase of commercial assets primarily for generating yield. Whilst this limits the Authority's ability to invest in commercial property for investment purposes they have recognised that regeneration is a necessary factor which could result in legitimate purchases of such property. Careful attention will need to ensure that yield is an incidental factor in any future decision to invest in a commercial property investment.

1.22 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 81% of the net book value in the accounts at 31 March 2022.

1.23 For the purpose of this report 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 and crude calculation of yield.

1.24 The value of properties is updated annually. The most recent valuation is from March 2022 and reflect the second year of Covid-19. In the year to March 2021 we noted that the value of retail property held up whilst that of industrial units and enterprise centres was valued downwards. The current year has seen the retail values continue to grow and even the other categories have made modes gains. All categories are still valued at more than purchase cost. There has been a reclassification in the year and an office property has been added to the listing as it was deemed appropriate to classify it as an investment asset. This resulted in £533,000 being added to the valuation. * Note that no gain has been deemed to have arisen in the last two years with the gain on the purchase cost occurring in prior years.

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

Property	Actual	31/03/21 actual		31/03/22 actual		2022/23 Approval Limit
	Purchase cost	Gains or (losses) in-year	Value in accounts (includes gains/ (losses) to date	Gains or (losses)	Value in accounts	
Industrial Units	1,492	(236)	1,729	11	1.740	
Enterprise Centres	245	(30)	320	20	340	
Retail	23,300	734	25,604	371	25,975	
Office	240	* -	533	0	533	
Total	**25,277**	**468**	**28,186**	**402**	**28,588**	**100,000**

6. Commercial Investments: Loans

1.25 In considering commercial 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

1.26 The Council has entered into a £10m loan agreement with Cheshire & Warrington Local Enterprise Partnership linked to developments within the Business Rates Enterprise Zone. The intention is to stimulate economic development and achieve payback from retained business rates.

1.27 The first loans in respect of Alderley Park Glasshouse and Blocks 22-24 were made in December 2020. Together they total £8m. Interest is accruing on each loan.

Category of borrower	31/03/21 Actual	As at 31/03/22			2021/22
		Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Partner Organisations	8,000	8,271	368	7,903	20,000
TOTAL	**8,000**	**8,271**	**368**	**7,903**	**20,000**

7. Loan Commitments and Financial Guarantees

1.28 As Accountable Body for the Cheshire & Warrington Local Enterprise Partnership, the Council acts as Entrusted Entity to a £20m European Regional Development Fund (ERDF) supported Urban Development Fund which is about to commence. The Council, as contracting party, provides guarantees in respect of the amounts provided through ERDF.

1.29 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.

1.30 To date the fund has made a number of drawdowns against the initial £5m received from ERDF. The interest due also sits outside of this Strategy.

8. Proportionality

1.31 The Authority is only partially dependent on profit 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

1.32 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority follows this guidance.

1.33 As referred to above in Section 6, this has been strengthened by the government effectively banning investment in property primarily for yield.

10. Capacity, Skills and Culture

1.34 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 & Capital Budgets of the Council through strategic investments, whether that involves using capital/cash resources or borrowing and lending powers.

11. Investment Indicators

1.35 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.

1.36 **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 4: Total investment exposure in £'000

Total investment exposure	31/03/21 Actual	31/03/22 Actual	31/03/23 Forecast
Treasury management investments	44,150	54,300	40,000
Service investments: Loans	6,360	6,733	6,296
Service investments: Shares	3,410	2,610	3,410
Commercial investments: Property	28,186	28,588	28,588
Commercial Investments: Loans	8,000	8,271	8,038
TOTAL INVESTMENTS	**90,106**	**100,502**	**86,332**
Commitments to lend	2,439	2,418	2,418
TOTAL EXPOSURE	**92,545**	**102,920**	**88,750**

1.37 **How investments are funded:** Currently the majority of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

1.38 **Table 5** shows the limited investments funded through prudential borrowing.

Table 5: Investments funded by borrowing in £'000

Investments funded by borrowing	31/03/21 Actual	31/03/22 Actual	31/03/23 Forecast
Commercial investments: Property	22,211	21,517	20,810
Commercial Investments: Loans	8,000	8,000	8,000
TOTAL FUNDED BY BORROWING	**30,211**	**29,517**	**28,810**

1.39 **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 complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

1.40 The return for the Service Investments: Loans is not a true return but is instead based largely on the % fluctuation in the underlying value of the new assets within the Life Science fund. As such they do not reflect actual cashflows. If Life Science is excluded the figure is 1.13% - in itself this is skewed by a non interest bearing loan.

1.41 Historically we have shown the % movement in the carrying value of our shareholding in Alderley Park Holdings Limited as a return within the category Service Investments: Shares. However, this is not a real return or cashflow. Typically a return on a share would be based upon the dividend yield and there have neen no dividends paid. Therefore this is now been shown as Nil.

1.42 The major assets included within Commercial Investments: Properties, representing over 90% of the value, 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 site becomes vacant for a prolonged period.

1.43 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 previous two years.

1.44 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. Overall returns are affected by the fact that returns for one of the sites is reduced by the costs required to repay borrowing costs. Additionally, there are isolated instances where some of the other smaller sites are seeing the levels of vacancy rise. These are under review.

1.45 The Commercial investments: Loans are at the expected level of return given the rates in place when they were established.

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	2020/21 Actual	2021/22 Actual	2022/23 Forecast
Treasury management investments	1.62%	2.13%	2.20%
Service investments: Loans	8.46%	-3.00%	1.75%
Service investments:Shares	*NIL	*NIL	*NIL
Commercial investments: Property	2.78%	2.95%	3.0%
Commercial investments: Loans	3.20%	3.20%	3.20%

* For Service Investment: Shares it is not considered appropriate to show a return based upon fluctuating movements in notional share valuations