

Meeting of:	<b>Cabinet</b>
Date of Meeting:	<b>Monday, 28 February 2022</b>
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	<b>Proposed Introduction of a Non Treasury Service Investment Strategy, The Investment and Growth Fund.</b>
Purpose of Report:	To Outline Proposals for the Introduction of a Non Treasury Service Investment Strategy in 2022/23 to Support Economic Regeneration and Growth in the Vale of Glamorgan.
Report Owner:	Report of the Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Interim Head of Finance/Section 151 Officer
Elected Member and Officer Consultation:	This report will be referred to Governance and Audit Committee for consultation.
Policy Framework:	This report relates to Investment and Borrowing and therefore, needs to be referred to Council to make the final decision.
<p><b>Executive Summary:</b></p> <ul style="list-style-type: none"> <li>• Appendix 1 to the report sets out the proposals for the Non Treasury Service Investment Strategy, which is intended to address opportunities identified in the Council's Recovery Strategy to support innovative business and economic regeneration, increase capital programme investment and focus on green jobs and green infrastructure.</li> <li>• The Economic Regeneration and Growth Fund is to be funded using £2.2m of the Economic Regeneration and Growth Fund Reserve and with provision for up to £10m Prudential Borrowing. The fund for Investment totals £12m with £200k earmarked for feasibility and due diligence costs and the initial costs associated with specialist Non Treasury Investment Advice.</li> <li>• The Economic Regeneration and Growth Fund will be supported by a Strategic Project Board with Investment Decisions approved by Cabinet and regular reporting to Cabinet, Council and Governance and Audit Committee as set out in Appendix 1.</li> <li>• The first call on any investment return should be repayment of debt and building up an earmarked reserve to mitigate the risks outlined in the risk management section in Appendix 1.</li> </ul>	

## **Recommendations**

1. The content of this report and Non Treasury Service Investment Strategy (Appendix 1) be noted and approved.
2. That the Non Treasury Service Investment Strategy be referred to the Governance and Audit Committee for consideration
3. That Cabinet recommend to Council that the proposed 2022/23 to 2024/25 Non Treasury Service Investment Strategy be approved.
4. That a Strategic Investment and Growth Project Board is established to support the implementation and operation of the Economic Regeneration and Growth Fund.
5. That the urgent decision procedure as set out in Section 14.14 of the Council's Constitution be used in order for the Non Treasury Service Investment Strategy to be referred to the Governance and Audit Committee on 1<sup>st</sup> March, 2022 and Full Council on 7th March, 2022.

## **Reasons for Recommendations**

1. To present the Proposals for the establishment of a Non Treasury Service Investment Strategy.
2. To enable Governance and Audit Committee to review the proposals for the Fund.
3. To allow the Non Treasury Service Investment and Growth Fund to be implemented for 2022/23.
4. To support the development of the Economic Regeneration and Growth Fund.
5. To allow this matter to be referred to Governance and Audit Committee on 1<sup>st</sup> March, 2022 and Full Council on 7th March, 2022.

## **1. Background**

- 1.1 The Council's Coronavirus Recovery Strategy was reported to Cabinet on 21<sup>st</sup> September 2020 (Min 334). The report structured the response around three main phases; response, transition and recovery. A series of recovery themes were identified and were aligned with the Council's Well-being Objectives drawn from the Corporate Plan 2020-25.
- 1.2 The economic impact of Coronavirus is still emerging and across the Vale of Glamorgan we are seeing increased unemployment and increases in Universal Credit uptake. A full breakdown of the Economic impact of Coronavirus in the Vale of Glamorgan is available on the Council's Website, [Economic Impact of Coronavirus](#).
- 1.3 As the WG and UK Government continue to taper down the funding available to address the impact and response to Coronavirus we may experience a further

deterioration in key economic markers. The impact of Brexit, rising inflation and utility costs and uncertainty about future interest rates are also likely to have a significant impact across the Vale of Glamorgan.

- 1.4 The Council's Coronavirus Recovery Strategy identified key recovery opportunities to fundamentally think about the way in which the Council operates and to transform.
- 1.5 It is proposed that an Economic Regeneration and Growth Fund is developed to help to support the key recovery priorities, to take action to promote a green recovery and re-focus the capital programme to support economic growth.

## **2. Key Issues for Consideration**

- 2.1 The proposed Economic Regeneration and Growth Fund would consist of a £12m investment fund over three years focussed on developing property and infrastructure in the Vale of Glamorgan. The key principles for this service investment fund are to:
  - Deliver economic growth;
  - Tackle inequality;
  - Improve our environment ; and
  - Create change in the area to benefit all residents, businesses and visitors.
- 2.2 All of these will have positive impacts for communities across the Vale of Glamorgan and should all be in line with the Council's Climate Emergency declaration and carbon reduction plans. Investment decisions should align with Council Priorities as set out in the Corporate Plan.
- 2.3 Examples of the type of activities that could be included in the investment opportunities progressed as part of the fund are set out below;
  - Development of our Town Centres - crucial to improving the overall economic performance of the local economy, and in driving future investment and development in the area;
  - Economic Regeneration - successful growth of the economy and creation of new jobs or retention of jobs within the County ;
  - Preventing Local Market failure –(particularly due to specific market conditions) - to include areas such as town centres and empty spaces – the Council may be better places to consider investments from a longer term position ;
  - Opportunities that have strategic importance within the County, such as those that will improve key sectors e.g. tourism, key locations such as Barry Island;
  - Developments that address issues such as economic disadvantage, poverty and sustainability ;
  - Renewable Energy schemes and support for development which will help the Council reach net zero emissions by 2030 (project Zero) ; and

- Use of Council land for environmental, green infrastructure or other biodiversity issues connected to either the declared Climate or Nature emergencies
- 2.4** It is intended that the introduction of the fund during 2022/23 would also help the Council to maximise the investment for schemes in the Vale of Glamorgan when delivered alongside proposals that are being submitted as part of Levelling Up Funding bids.
- 2.5** The Council is proposing that a Strategic Project Board is established to identify and initially assess opportunities and that a two stage approach is adopted to progress investment proposals and the detail of this approach is set out in the strategy in Appendix 1.
- 2.6** The Authority’s proposed Strategy for the Economic Regeneration and Growth Fund is to support service driven, rather than primarily profit seeking, objectives. It is however important that the Authority considers adopting suitable measures to assess the financial performance of these investments, and to confirm that the service delivery objectives are complied with and that these indicators are regularly reported to Senior Leadership and Members. Ultimately, it is a question for the Authority to determine its own prudent limits on its exposure and risk appetite.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1** Investment Opportunities should give consideration to the Committee’s Environment Social Governance (ESG) principles and Wellbeing of Future Generations legislative requirements.
- 3.2** The Council’s approach to Financial Management reflects the 5 ways of working which are;
- o Looking to the long term – All schemes should have projected return assessed over a 5 year period from completion of the scheme and 20 year period setting clearly defined performance outcomes to achieve a stage 1 approval.
  - o Taking an integrated approach - The Council’s builds financial sustainability and resilience through partnership working and recognises the impacts of the Council’s decisions on partner’s objectives.
  - o Involving the population in decisions – The recent budget consultation highlighted Hardship (services such as Homelessness, Financial Assistance employment support) and Project Zero (services such as recycling, green procurement, country parks and biodiversity) as high priority.

o Working in a collaborative way – The Council will work with Government, Third Sector and Private Sector partners to deliver a broad portfolio of investment schemes.

o Understanding the root cause of issues and preventing them – The Economic Regeneration and Growth Fund is a response to the emerging economic position in the Vale of Glamorgan and will be utilised alongside other funding options to support economic regeneration and respond to the Climate and Nature emergencies with a focus on green jobs and green infrastructure.

## **4. Resources and Legal Considerations**

### **Financial**

- 4.1** It is proposed that the initial tranche of funding for the scheme is taken from the Economic Regeneration and Growth Fund Reserve with £2.2M earmarked for the scheme. Of this sum, £2m would be available for investment opportunities and £200k earmarked for feasibility and due diligence costs and the initial costs associated with specialist Non Treasury Investment Advice.
- 4.2** Additional funding could be accessed for investment opportunities that are selected by the Committee via a further £10m of Public Works Loan Board (PWLB) borrowing.
- 4.3** The Council is facing budgetary pressures throughout the life of the current Medium Term Financial Plan therefore any service investment opportunity will be expected to generate a return that meets basic affordability requirements and these should be regularly monitored and reported to Committee.
- 4.4** The first call on any investment return should be repayment of debt and building up an earmarked reserve to mitigate the risks outlined in the risk management section in Appendix 1.

### **Employment**

- 4.5** Key measures that will be used to assess the success of an investment progressed as part of this fund include, schemes that increase sustainability and resilience of the local community and increase the rate of employment or apprenticeship/training opportunities in an area. In order to increase Investment and Growth in an area, successful schemes may attract external investment into a region reducing the number of individuals commuting out of the area for employment opportunities.

### **Legal (Including Equalities)**

- 4.6** The Investment must satisfy the following four legal considerations before the opportunity can be progressed beyond initial proposal stage
- The Council has sufficient powers to makes the investment (known as vires);
  - The Council’s fiduciary duties;
  - There is no Subsidy Control (formerly State Aid prior to 1 January 2021) associated with the investment; and There are clear exit arrangements.
- 4.7** Appropriate due diligence should be undertaken before entering into any non-treasury investment of significance, and Members should be made fully aware of any risk to loss of principal invested. Where loans are provided to third parties, the Authority should undertake appropriate credit searches and require sight of audited financial statements and regular management accounts to satisfy itself of the recipients financial standing. Adverse deviation from business plan projections should pause or prohibit further non-treasury investment in the party concerned.
- 4.8** The Authority should secure a first legal charge over any land if it provides investment to assist in the building of being developed. Loan agreements should include and define appropriate financial and non-financial covenants and set out the monitoring arrangements that will apply
- 4.9** In order to progress beyond Initial Investment stage, the investment activity must comply with the PWLB’s guidance regarding permitted activities (included at Annex A) and related conditions and any emerging guidance that is issued by PWLB, CIPFA or WG relating to non-treasury investments.

## **5. Background Papers**

None.

# Appendix 1

## Non Treasury Investment Management Strategy

### Economic Regeneration and Growth Fund

#### Background

The Council's Coronavirus Recovery Strategy was reported to Cabinet on 21<sup>st</sup> September 2020 (Min 334). The report structured the response around three main phases; response, transition and recovery. A series of recovery themes were identified and were aligned with the Council's Well-being Objectives drawn from the Corporate Plan 2020-25.

The economic impact of Coronavirus is still emerging and across the Vale of Glamorgan we are seeing increased unemployment and increases in Universal Credit uptake. A full breakdown of the Economic impact of Coronavirus in the Vale of Glamorgan is available on the Council's Website, [Economic Impact of Coronavirus](#). Some of the key details include:

- In August 2021, there was 4.1% of the working-age population, 3,340 people, who were not in employment and in search of work in the Vale of Glamorgan.
- In the year ending March 2021, it is estimated that the employment rate in the Vale of Glamorgan was 72.9%. This is 1.6 percentage points down on the year, a reduction of 3,100 people estimated in employment compared to the same time last year.
- From March 2020 to March 2021 there had been consistent growth in the number of people who are in receipt of Universal Credit across the Vale of Glamorgan. Provisional data for August 2021 shows a slight increase in the number of people in receipt of Universal Credit, with a total of 9,999 (12.2% of the Vale of Glamorgan's working age population).

As the Welsh Government (WG) and UK Government continue to taper down the funding available to address the impact and response to Coronavirus we may experience a further deterioration in key economic markers. The impact of Brexit, rising inflation and utility costs and uncertainty about future interest rates are also likely to have a significant impact across the Vale of Glamorgan.

#### Economic Recovery

The Council's Coronavirus Recovery Strategy identified the recovery phase as an opportunity unlike any other to fundamentally think about the way in which the Council operates and to transform.

Some key opportunities identified as part of the strategy in respect of the theme of business, the economy and infrastructure are set out below:

- Supporting innovative businesses ;
- Support economic regeneration ;
- Capital programme investment –and a Covid-review step
- Focus on green jobs and green infrastructure

It is, therefore, important the Vale of Glamorgan builds on these opportunities by investing to regenerate our spaces, supporting our communities as they adapt and recover and investing in our response to the climate and nature emergency.

It is proposed that an Economic Regeneration and Growth Fund is developed to help to support the key recovery priorities, to take action to promote a green recovery and re-focus the capital programme to support economic growth.



## Investing for a Brighter Future

The proposed Economic Regeneration and Growth Fund would consist of a £12m investment fund over three years focussed on developing property and infrastructure in the Vale of Glamorgan. The key principles for this service investment fund are to:

- Deliver economic growth;
- Tackle inequality;
- Improve our environment ; and
- Create change in the area to benefit all residents, businesses and visitors.

All of these will have positive impacts for communities across the Vale of Glamorgan and should all be in line with the Council's Climate Emergency declaration and carbon reduction plans. Investment decisions should align with Council Priorities as set out in the Corporate Plan.

Our Corporate Plan outlines our priorities for the next 5 years and how we are going to achieve them.

### OBJECTIVE ①

#### WORK WITH AND FOR OUR COMMUNITIES

We want to get you involved and let you know about our work. We want to change how we work to make sure we are prepared for the future. We want to provide good customer service that meets different needs. We want to get more people speaking Welsh. We want our staff and Members to be able to do their best.



### OBJECTIVE ②

#### SUPPORT LEARNING, EMPLOYMENT AND SUSTAINABLE ECONOMIC GROWTH

We want to make sure that all children have the opportunity to learn in modern environments. We want to give people and businesses support, advice and opportunities to help with jobs, money and skills. We want to help people to volunteer. We want to make the Vale a better place to live, work and travel.



### OBJECTIVE ③

#### SUPPORT PEOPLE AT HOME AND IN THEIR COMMUNITY

We want everyone to have a healthy and active lifestyle and encourage walking and cycling. We want everyone to enjoy leisure, arts and culture. We want to make sure that everybody gets the care and support that they need. We want to keep people safe at home and in their community and to have access to quality housing.



### OBJECTIVE ④

#### RESPECT, ENHANCE AND ENJOY OUR ENVIRONMENT.

We want to look after and protect our environment for now and the future. We will work with others to sustain local facilities such as public toilets, parks and play areas. We will reduce waste, lower our carbon emissions and negative impacts on the environment. We will work to minimise pollution and flooding.



### FIVE WAYS OF WORKING

The five ways of working within the Well-being of Future Generations Act are embedded in how we act:

Long term



Integrated



Involvement



Collaboration



Prevention



- Economic Regeneration - successful growth of the economy and creation of new jobs or retention of jobs within the County ;
- Preventing Local Market failure –(particularly due to specific market conditions) - to include areas such as town centres and empty spaces – the Council may be better places to consider investments from a longer term position ;
- Opportunities that have strategic importance within the County, such as those that will improve key sectors e.g. tourism, key locations such as Barry Island;
- Developments that address issues such as economic disadvantage, poverty and sustainability ;
- Renewable Energy schemes and support for development which will help the Council reach net zero emissions by 2030 (project Zero) ; and
- Use of Council land for environmental, green infrastructure or other biodiversity issues connected to either the declared Climate or Nature emergencies.

### **Key Benefits of the Economic Regeneration and Growth Fund**

The Council is facing budgetary pressures throughout the life of the current Medium term Financial Plan therefore any service investment opportunity will be expected to generate a return that meets basic affordability requirements and these should be regularly monitored and reported to Committee.

The key benefits of the Fund will be:

- Service transformation – supporting the transformation of how we deliver services and imbed new service delivery models ;
- Putting strategic regeneration at the centre of our approach – through the adoption of an Asset Investment Policy, to explore other regenerative opportunities and deliver new jobs in our area;
- Supporting our communities – working with partners to ensure developments are community focused and incorporate Sustainable Development principles.
- Greening our estate (sustainable development) – through increased renewable energy generation and reducing energy consumption, piloting and exploiting other emerging technologies.

### **How would the Fund Work?**

It is envisaged that the Fund would monitor a number of key metrics to assess the non financial benefits associated with these service investments. Some examples of this are set out below:

- Increases the rate of employment – how many jobs have been created/safeguarded? How many apprenticeship and training opportunities have been created.
- Increases in tourism – Employee jobs in tourism related industries, increase in footfall in key Vale of Glamorgan attractions.
- Enables carbon reduction – Investment in environmentally and economically sustainable businesses, No. of green jobs created. Investment in green infrastructure
- Enhances Community Sustainability and Resilience – No. of businesses supported, no. of individuals benefitting from enhanced training and employment opportunities
- Attracts External Investment into the regional – Value of Public/Private investment leveraged.
- Provides employment land and property – area of land developed

These key metrics would be regularly monitored and reported via a benefits dashboard for each investment.

## Financial Outline

The Council currently have no non-treasury investments but are considering investing £12m to support the development of local businesses, property and infrastructure in the Vale of Glamorgan through the Regeneration and Recovery Fund.

As part of the preparation of this initial strategy document the Council has commissioned some specialist advice from their Treasury Management Advisers Link Asset Services Limited and their advice in respect of proportionality and performance indicator considerations have been reflected in these proposals.

The Welsh Investment Guidance requires authorities to understand the contribution of non-treasury investments, ensure yield is assessed in line with the level of borrowing utilised and that activity is monitored. This will allow Members and other interested parties to understand its risk and exposure to non-treasury investments. The Council may wish to adopt some additional performance indicators to assess risk and proportionality within their Capital Strategy to help meet this requirement.

The Authority's proposed Strategy for the Economic Regeneration and Growth Fund is to support service driven, rather than primarily profit seeking, objectives. It is however important that the Authority considers adopting suitable measures to assess the financial performance of these investments, and to confirm that the service delivery objectives are complied with and that these indicators are regularly reported to Senior Leadership and Members. Ultimately, it is a question for the Authority to determine its own prudent limits on its exposure and risk appetite.

## Financial Considerations

It is proposed that the initial tranche of funding for the scheme is taken from the Economic Regeneration and Growth Reserve with £2.2M earmarked for the scheme. Of this sum, £2m would be available for investment opportunities and £200k earmarked for feasibility and due diligence costs and the initial costs associated with specialist Non Treasury Investment Advice.

Additional funding could be accessed for investment opportunities that are selected by the Committee via a further £10m of Public Works Loan Board (PWLB) borrowing. But it should be noted that the Authority can only borrow for schemes which are classed as capital expenditure

There are costs associated with external borrowing, as the Council is required to pay interest at a preferential rate over the period of any borrowing. It would be prudent to treat these schemes as capital expenditure. The Council is also required to set a policy for Minimum Revenue Provision (MRP) for capital schemes funded by borrowing. This provision could be deferred until a scheme is completed and then a prudent approach would be to match provision to the expected benefits of the service potential over the life of the scheme.

## Borrowing Costs

Taking into account the regenerative focus of the fund and nature of the schemes, it is proposed that borrowing repayments would be repaid over of a period of between 5 and 30 years and the current finance costs (interest and MRP) of this potential PWLB borrowing are set out below. Earlier repayment would enable the funds to be recycled into new schemes and maximise the benefit of the fund. PWLB rates do change, therefore indicative cost are shown below.

### PWLB Annuity Loans as at 16th February 2022

Loan Maturity	5 yrs.	10 yrs.	20 yrs.	30 yrs.
Principal Amount Borrowed	£10m	£10m	£10m	£10m
Rate %	2.20	2.26	2.39	2.50
Annual Repayment (Incl. MRP)	£2,122,985	£1,122,868	£631,910	£475,799
Total Cost	£10,614,926	£11,228,683	£12,638,198	£14,273,958

Taking into account the current level of interest rates and the expectation that interest rates could increase in the medium term the costs of borrowing are reproduced below if interest rates increased by 1%.

### PWLB Annuity Loans as at 16th February 2022 + 1%

Loan Maturity	5 yrs.	10 yrs.	20 yrs.	30 yrs.
Principal Amount Borrowed	£10m	£10m	£10m	£10m
Rate %	3.20	3.26	3.39	3.50

Annual Repayment (Incl MRP)	£2,180,189	£1,179,898	£692,577	£541,067
Total Cost	£10,900,944	£11,798,977	£13,851,541	£16,232,016

The current costs of borrowing are reproduced below if interest rates reduced by 1%.

**PWLB Annuity Loans as at 16th February 2022 - 1%**

Loan Maturity	5 yrs.	10 yrs.	20 yrs.	30 yrs.
Principal Amount Borrowed	£10m	£10m	£10m	£10m
Rate %	1.20	1.26	1.39	1.50
Annual Repayment (Incl MRP)	£2,066,592	£1,067,465	£574,440	£415,167
Total Cost	£10,332,961	£10,674,652	£11,488,809	£12,455,013

Consideration should be given to ringfencing a sum in an earmarked reserve to mitigate the risks associated with these schemes and the reserve funding should increase in value should the further £10m in investment funded by PWLB borrowing be accessed.

Details of when the use of PWLB loans can be raised are shown in Annex A

## Assessment of Investment Opportunities

Investment Opportunities for the fund should be restricted to opportunities within the Council area and should further a policy aim as set out in the Corporate Plan 2020-2025.

The package of measures the Council could put in place could include Financial Guarantees, Loans, Investment in Assets to deliver regeneration outcomes, disposal of surplus assets for third party regeneration activities and acquisition of new assets to deliver regeneration and environmental outcomes.

The fund if successful will leverage in additional funding through collaborative funding arrangements, as part of provision of match funding and to support the delivery of the corporate objectives of the Council.

### Legal Considerations

The Investment must satisfy the following four legal considerations before the opportunity can be progressed beyond initial proposal stage

- The Council has sufficient powers to makes the investment (known as vires);
- The Council's fiduciary duties;
- There is no Subsidy Control (formerly State Aid prior to 1 January 2021) associated with the investment; and
- There are clear exit arrangements.

Any revenue loans provided would need to be funded from existing revenue resources as the Authority would not be able to borrow in support of such expenditure

Equity shareholdings would represent an open-ended exposure to the performance of the Economic Regeneration and Growth Fund. Equity shares do not offer the benefit of security and ordinary shareholders would rank last in line for distribution in the event of a winding down of the business. The lack of security and lack of liquidity of equity reflects an additional and for which, in a normal private sector sense, the shareholder would expect to be compensated accordingly. The acquisition of shares would also represent capital expenditure under current regulations and this issue would need to be considered if these financial instruments are acquired as part of the fund strategy.

Security for sums advanced as loans would depend on the assets of the companies have available to pledge as collateral. To safeguard against potential loss, loans should be provided in tranches and in line with approved business plans as described in the Strategy.

The Authority should secure a first legal charge over any land if it provides investment to assist in the building of being developed. Loan agreements should include and

define appropriate financial and non-financial covenants and set out the monitoring arrangements that will apply.

Appropriate due diligence should be undertaken before entering into any non-treasury investment of significance, and Members should be made fully aware of any risk to loss of principal invested. Where loans are provided to third parties, the Authority should undertake appropriate credit searches and require sight of audited financial statements and regular management accounts to satisfy itself of the recipients financial standing. A further safeguard that can be adopted is that any adverse deviation from business plan projections should pause or prohibit further non-treasury investment in the party concerned.

It would also be appropriate to complete an annual expected credit loss assessment on any loans and provide for any losses which may be anticipated.

In order to progress beyond Initial Investment stage, the investment activity must comply with the PWLB's guidance regarding permitted activities (included at Annex A) and related conditions and any emerging guidance that is issued by PWLB, CIPFA or WG relating to non treasury investments.

Where external borrowing is to be used the initial proposal must clearly state which of the permitted activities the service investment falls under in order to be progressed. The first call on any investment return should be repayment of debt and building up an earmarked reserve to mitigate the risks outlined in the risk management section below.

Investment Opportunities should include an evaluation of the environmental and sustainable development considerations of the scheme.

Investment Opportunities should give consideration to the Committee's ESG principles and Wellbeing of Future Generations legislative requirements.

### Business Cases and Approval Process

All opportunities should be supported by a detailed business case, which should be prepared using the five cases business model outlining the following:

- Strategic Case,
- Economic Case,
- Commercial Case,
- Financial Case,
- Management Case.

The Financial Case must compare the affordability of the scheme to clearly set out financial parameters including but not limited to an expectation that any borrowing costs will be met from the return including consideration of optimism bias, increased interest rates and other sensitivity analysis of key assumptions.

Investment Opportunities should be assessed using the following process :



- Initial Assessment at Officer Level: Assessment of Financial and Performance Objectives including projection of return over a 5 year period from completion of the scheme and 20 year period and setting clearly defined performance outcomes.
- Stage 1 Approval: Initial business case should be developed which will outline heads of terms, the financial model and the wider social and environmental benefits that the proposed investment will derive.
- Following initial approval additional data should be collated - incur expenditure on due diligence, legal and specialist fees to substantiate the assumptions and modelling built into the initial business case
- Stage 2: Final Business Case should be approved
- Following this, approval the Council may enter into the investment.

## Financial Indicators to Monitor the Risk and Proportionality of Investments

The Council can present a range of Indicators which will allow Members and other interested parties to understand the total exposure from borrowing and investment to cover the non-treasury expected position.

Whilst the Guidance does not directly focus on the use of indicators, this is a reliable way to monitor non-treasury activity and demonstrate accountability and transparency. The informal commentary accompanying the English Guidance from the Ministry of Housing Communities and Local Government (“MHCLG”) can be used as a guide which suggests that the following indicators could be used:

<b>Table 1: Suggested indicators</b>	<b>Comment</b>
<b>Indicator</b>	
<b>Debt to Net Service Expenditure (“NSE”) ratio</b>	Gross debt as a percentage of NSE as a proxy for financial strength.
<b>Commercial income to NSE</b>	To illustrate dependence on such to deliver services. Excludes fees and charges derived income.
<b>Investment cover ratio</b>	Total net income, compared to interest expense.
<b>Loan to value ratio</b>	Comparison of debt to total asset value.
<b>Target income returns</b>	Net revenue income compared to ‘equity’ [value of assets].
<b>Benchmarking of returns</b>	As a measure against other investments and / or authority portfolios*.



**Gross and net income**

Gross and net income received from the non-financial investment portfolio over time.

**Operating costs**

Trend in operating costs over time as the non-financial investment portfolio expands.

**Vacancy levels and tenant exposures**

Monitoring void levels for non-treasury property investments to ensure efficient management.

## Proposed Governance and Monitoring Arrangements

The proposed governance and reporting arrangements are illustrated below

### Full Council Oversight

Each year Full Council would agree:

- A budget for the period;
- Priorities for Service Investment ;
- Review a full list of non treasury investment exposures at least annually as part of current Treasury Management Strategy arrangements.
- Approval of any amendments to Treasury and Prudential Indicators impacted by approved schemes within the fund

### Cabinet

- Cabinet will be the decision making body for the Economic Regeneration and Growth Fund and will be required to approve all Stage 2 Economic Regeneration and Growth Fund applications.
- A training needs analysis and skills register must be carried out and maintained for Cabinet Members in accordance with WG Investment Guidance.
- Cabinet should receive quarterly monitoring dashboards for the Economic Regeneration and Growth Fund.

### Investment Strategic Project Board

An Investment Strategic Project Board (ISPB) will be established with delegations to make decisions to a certain level. The purpose of the Investment Management Committee will be:

- To review all applications for funding from the Economic Regeneration and Growth Fund at Stage 1 and Stage 2 of the process outlined above
- To agree and then annually review the level of risk the Council is willing to support through this Fund
- To make recommendations to Cabinet with regard to the proposals considered by the board.
- To review the agreed Performance Management Dashboards on a bi-monthly basis.
- To agree the Environmental Social Governance (ESG) principles of the board for referral to Cabinet and Full Council for approval.
- To undertake as a minimum annual training and carry out an annual self review and where possible review best practice from other Local Authorities to continually improve the effectiveness of the ISPB.

The Membership of the Strategic Project Board will consist of:

- Representatives of the major Political Groups making up the Council.

- Officers/Advisors to the ISPB - to include representatives from Property/Estates, Regeneration, Legal and Finance and well as a specialist Investment Advisor(s) to be appointed by the ISPB.

Due to the high level of risk associated with potential conflict of interest in this area Members, officers and advisors should be required to declare any interests at the start of the ISPB and complete an annual declaration of interest form.

## Risk Management Principles

With the increased financial returns on investment available from these types of investments, the Council naturally accepts higher risk compared with traditional treasury investments.

Risk exposures for property investments include a fall in capital value, vacancies, poor tenant performance, rent increases below inflation, lack of market appeal/obsolescence/cost to rectify and changes in legislation.

For other non-treasury investments such as loans and equity, risks also include – fall in market value, poor repayment performance and insolvency/costs of debt recovery.

To mitigate these risks an earmarked reserve should be maintained to mitigate fluctuations in return and falls in capital value.

In undertaking investments in third parties and regenerative investment opportunities there is an inherent risk that members and officers do not have sufficient expertise to properly assess and manage the risks. To mitigate this risk regular training/self assessment review of best practice and use of external advice will be crucial to ensure the success of this fund.

## Conclusion

The Council's Balance sheet at 31<sup>st</sup> March 2021 shows that the Authority held reserves and balances available for investment of around £125m, including capital receipts and grants totalling around £19m. In this context, borrowing of £10m for the proposed £12m investments seems reasonable compared to the 2021/22 CFR forecast level of £205m.

A number of Welsh Councils notably Monmouth, but also Pembrokeshire and Cardiff make reference to investments in privately owned property, loans to third parties for service and Policy objectives and green infrastructure such as solar farms in their Non Treasury and Capital Investment Proposals.

The Link Asset Services Limited review has also highlighted comparable English Authorities with non treasury investment schemes such as Chichester, Rutland and West Devon Councils.

In the context of significant cost pressures, high volumes of capital bids and backlog asset maintenance, additional funding is required to make progress against the Council's Annual Delivery Priorities this fund offers an opportunity to help to support the key recovery priorities, to take action to promote a green recovery and re-focus the capital programme to support economic growth.

The amount of capital and revenue resource which the Council is prepared to place at risk to facilitate the proposal will need to be determined in light of the Authority's expectation of availability of future capital and revenue resource and reflective of the anticipated payback period of the proposed investments. In order to mitigate this risk the Council must put in place clear governance arrangements, invest in training and specialist advice and guidance and full business plans should be developed and reviewed. The Council should develop key indicators and proportionality tests to demonstrate to Members and Senior Leaders the performance of non treasury investments in a transparent and accessible manner. An illustrative example of these indicators suggested by the Link Asset Management review is shown at Annex B, this example groups indicators into those for risk and proportionality and could be supplemented by the addition of performance monitoring indicators

### **Public Works Loan Board Funding**

In order for PWLB borrowing to be accessed it must comply with the permitted purposes as set out below;

1. Service Spending – Spending for the purposes of education, highways & transport, social care, public health, culture & related services, environmental & regulatory services, police and fire and rescue services.
2. Regeneration projects would usually have one or more of the following characteristics:
  - a. the project is addressing an economic or social market failure by providing services, facilities, or other amenities that are of value to local people and would not otherwise be provided by the private sector
  - b. the project prevents a negative outcome, including through buying and conserving assets of community value that would otherwise fall into disrepair
  - c. the LA is making a significant investment in the asset beyond the purchase price: developing the assets to improve them and/or change their use, or otherwise making a significant financial investment
  - d. the project involves or generates significant additional activity that would not otherwise happen without the LA's intervention, creating jobs and/or social or economic value e. while some parts of the project may generate rental income, these rents are recycled within the project or applied to related projects with similar objectives, rather than being applied to wider services
3. Refinancing - would cover restructuring or extending existing debt from any source.

The Council is not permitted to borrow from the PWLB specifically for yield and to do so is also contrary to CIPFA guidance. Investment for yield is defined as having one or more of the following characteristics:

- a. buying land or existing buildings to let out at market rate
- b. buying land or buildings which were previously operated on a commercial basis which is then continued by the LA without any additional investment or modification
- c. buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger such as the completion of land assembly

## Example Indicators for a Performance Management Dashboard

Indicators	2020/21 Actual	2021/22 Estimate	2022/23 Estimated	Comment / Action required
<b>Proportionality</b>				
<b>Limit on non-treasury investments:</b>				
- Shareholdings	£xm	£xm	£xm	
- Loans to third parties	£xm	£xm	£xm	
- Investment property	£xm	£xm	£xm	
	<b>£xm</b>	<b>£xm</b>	<b>£xm</b>	
<b>Ratio of debt to Band D equivalent</b>	x.x to x	x.x to x	x.x to x	
<b>Investments as % of unallocated reserves</b>	x%	x%	x%	
<b>Risk</b>				
<b>Exposure to default - loans to third parties</b>	£xm	£xm	£xm	
<b>Ratio of loans to value</b>	x.x to x	x.x to x	x.x to x	
<b>Ratio of investment cover:</b>				
- Shareholdings	x.x to x	x.x to x	x.x to x	
- Loans to third parties	x.x to x	x.x to x	x.x to x	
- Investment property	x.x to x	x.x to x	x.x to x	
<b>Total assets at risk</b>	£xm	£xm	£xm	
<b>Payback period – yrs.</b>	x.x	x.x	x.x	
<b>% of Portfolio per credit rating category</b>				
<b>[Credit criteria 1] etc</b>	x%	x%	x%	

The Authority can provide suitable comment or define action points where significant year on year variations exist – for example, to list steps to be taken in the event of a notable rise in arrears of amounts lent to third parties or where the estimated payback period is increasing. Additional narrative to confirm the basis of calculation and rationale for use of Indicators selected would aid the interpretation.