Appendix 3

INVESTMENT STRATEGY 2020/21

1. Introduction

The Authority invests its money for two 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), and
- to assist in delivering the Strategic Economic Plan by lending to or buying shares in other organisations (investments)

This investment strategy meets the requirements of statutory guidance on local government investments issued by the government in January 2018 (issued under section 15(1)(a) of the Local Government Act 2003), and focuses on the second of these categories.

2. Treasury Management Investments

The Authority typically receives its income in cash (predominantly in the form of Government grants) before it pays for its expenditure in cash. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

Further details: Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix 1.

3. Investments – Loans

The Authority can lend money to its subsidiaries, constituent Local Authorities and local businesses to support delivery of the Strategic Economic Plan and stimulate local economic growth. Loans are not issued by the Authority for purely financial return, they are provided if the proposal meets the priorities set out in the Investment Plan and related strategies.

Applications for financial support are received from various sources relating to a range of investments. As part of the assessment process a full financial, legal and commercial evaluation is carried out. This evaluation will assess and recommend the nature of the Authority's proposed investment into the project whether it be a grant or loan. Loans may be given in order to comply with state aid regulations, or alternatively it may be that the applicant has the ability to repay the support via increased revenues as a result of the investment.

Details of the loans provided as at 31 March 2019 are shown in table 1 below.

During the current financial year to date the Cabinet has approved a loans to Teesside International Airport to the value of £23.6m and to the Constituent Authorities to the value of £5m.

Security: The main risk when making 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 loans remains proportionate to the size of the Authority, statutory government guidance requires us to set upper limits on the outstanding loans to each category of borrower. It is recommended that the limits are set as follows;

Table 1: Loans in £'000

	31.3.2019 actual			2020/21
	Balance Owing £'000	**Loss allowance £'000**	**Net Figure In Accounts £'000**	**Approved Limit £'000**
Subsidiaries / JVs	52,183	0	52,183	186,000
Constituent Authorities	9,744	0	9,744	30,000
Local Businesses	2,029	(16)	2,013	40,000
TOTAL	**63,956**	**(16)**	**63,940**	**256,000**

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2019/20 onwards will be 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.

Risk assessment: In making loans the Authority is exposing itself to the risk that the borrower defaults on repayments. The Authority therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Authority is proportionate and prudent.

The Authority will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

4. Proportionality

The Authority is not materially dependent on profit generating investment activity to achieve a balanced revenue budget. Table 2 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Plan.

Table 2: Proportionality of Investments

	2018/19	**2019/20**	**2020/21**
Revenue Expenditure £'000	40,275	74,078	82,003
Investment Returns £'000	760	1,020	800
Proportion	**1.89%**	**1.38%**	**0.98%**

5. Borrowing in Advance of Need

Government guidance is that Authority's 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 has not borrowed and has no plans to borrow in advance of need.

6. Capacity, Skills and Culture

Elected members and statutory officers: For all investment decisions the Authority follows the Assurance Framework agreed with Ministry of Housing Communities and Local Government (MHCLG). The Authority employs highly experienced portfolio leads covering each of the investment plan themes who are able to assess each investment decision based on the their individual knowledge and experience. Due Diligence is carried out on all investments by internal and external resources depending on the type of investment. Internal resources available cover economic, legal and financial issues but external expertise is drawn on when required. Internal members of staff carry out regular professional development through training courses and conferences. The input from the above resources result in a comprehensive appraisal of all investments which is consulted on and provided to the Cabinet for a decision.

Commercial deals: Within the Authority there is significant experience in both Public and Private Sector deals. Where required external support is drafted in to assist in these deals.

Corporate governance: The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Authority had adopted and has implemented the key recommendations of the CIPFA Prudential Code. This, together with the other arrangements such as the production of Treasury Management Practices and Treasury Management Strategy are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

7. Investment Indicators

The Authority has set the following quantitative indicator to allow elected members and the public to assess the Authority’s total risk exposure as a result of its investment decisions.

Total risk exposure: The 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 3: Total investment exposure in £’000

	31.03.19 Actual £’000	**31.03.20 Forecast £’000**	**31.03.21 Forecast £’000**
Treasury Management Investments	34,500	1,058	1,058
Investment – Loans*	63,651	120,397	134,491
TOTAL INVESTMENTS	**98,151**	**121,455**	**135,549**
Commitments to Lend	36,888	50,234	35,481
TOTAL EXPOSURE	**135,039**	**171,689**	**171,030**

*As an economic regeneration body the Combined Authority provides grant funding as the last option. Where possible/appropriate the Authority will seek to provide support in the form of a loan with collateral secured where possible. The default risk is that the Authority will convert the loan to a grant.