

Non-Treasury Investment Strategy 2020/21

This covers investments held to:

- support local public services by lending to or buying shares in other organisations, and
- earn investment income

In general, the council will continue its current policies regarding loans and the acquisition of shares. In addition the council will continue to review its services and if the opportunity exists to develop services that will provide opportunities for additional income generation (e.g. providing services to other authorities) these will be considered in the first instance by the appropriate service manager.

In considering any potential activity under the non-treasury investment strategy the council will take into consideration the statement from Rob Whiteman, Chartered Institute of Public Finance and Accountancy Chief Executive, and Richard Paver, Chair of the Chartered Institute of Public Finance and Accountancy Treasury and Capital Management Panel, on 'Borrowing in Advance of Need and Investments in Commercial Properties'. These re-iterate that a local authority should avoid exposing public funds to unnecessary or unquantified risk.

They state that "Both the Prudential Code and the Statutory Guidance on Local Government Investments (3rd Edition) (Statutory Investment Guidance) issued by the Ministry for Housing, Communities and Local Government are very clear 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".

As part of the statement there is a reminder that the informal commentary on the statutory guidance cautions local authorities against:

- becoming dependent on commercial income;
- taking out too much debt relative to net service expenditure; and
- taking on debt to finance commercial investments.

Service Investments: Loans

The council provides loans as part of its service delivery and not primarily to generate income. The authority has made loans to Lancashire County Development Ltd which is an owned company that promotes economic development within the county; Local Pensions Partnership which provides pension investment and administration services; an arrangement with Blackpool Borough Council with respect to the waste service and Parish Councils. The council also has an employee loan scheme to promote alternatives to travelling by car.

The key risk when making service loans is that the borrower is unable to repay the loan. Currently, the exposure faced by the council is low and therefore it is proposed that the provision of these loans continues in 2020/21.

The table below provides details of the loans outstanding at 31 March 19 and proposed limits for 2020/21.

Category of borrower	Outstanding at 31 March 19 £m	Proposed Limit 2020/21 £m
Subsidiaries	23.3	30.0
Other councils	30.4	35.0
Employees	0.1	1.0
Schools	0.2	5.0
Total	54.0	71.0

Service investments: shares

The county council holds shares in Local Pensions Partnership and the Municipal Bond Agency for specific service delivery objectives.

Commercial activities

The Ministry for Housing, Communities and Local Government defines property to be an investment if it is held primarily or partially to generate a profit. Although the council promotes income generating activity it is generally within the context of providing a service efficiently and covering costs rather than profit seeking. Areas where it is considered the definition is met is in relation to smallholdings and Lancashire County Development Ltd. In 2019/20 the income generated from smallholdings was less than £0.1m while Lancashire County Development Ltd made a contribution to costs of some c£2.5m.

Bonds including gilts - most of the bonds held are for treasury management purposes and not trading purposes as outlined in the treasury management strategy. However, there are occasions when cash flow and market projections make it possible to buy and sell bonds purely on a trading basis.

Bonds purchased for trading reasons will potentially be valued at market value in the accounts. Therefore, any change in market value at year end will be charged against council tax therefore adding volatility to the council's financial position. It is proposed that the Director of Investments can invest in bonds for commercial purposes where cash-flow permits but investments outside the current treasury management credit matrix will only be incurred after agreement with the Director of Finance.

Other investment proposals may arise during the year. The proposals could involve changes to current services or changing the use of existing assets. These will be examined by officers and approval sought from the appropriate council members.