Annex 1

Statutory Guidance on Local Government Investments 2018 Edition

New requirements and disclosures to address concerns attributed to loans and non-financial investments. Some elements may also be applicable to investment activity undertaken for treasury management purposes.

1 General

1.1 Investments made by local authorities can be classified into one of two main categories. Investment held for treasury management purposes and other investments. Treasury management investments prioritise security (protecting the sum invested), liquidity (funds are available to spend when needed) and yield in that order of importance. The balance between security, liquidity and yield may differ for other types of investment. Local authorities should ***disclose the contribution*** that other investments make towards service delivery objectives and or its place making role.

2 Use of indicators

2.1 The Strategy should ***include quantitative indicators*** that allow Councillors and the public to asses a local authority's total risk exposure as a result of its investment decisions. They should include how investments are funded and the rate of return received. Where investments are funded by borrowing the indicators used should reflect the additional debt servicing costs taken on. The indicators an authority has chosen to use should be consistent from year to year.

2.2 Where a local authority has entered into a long term investment or has taken out long term debt to finance an investment the indicators should allow Councillors and the general public to assess the risks and opportunities of the investment over both its payback period and over the repayment period of any debt taken out.

3 Loans

3.1 A local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though the loans may not be seen as prudent in terms of security and liquidity. Such loans can continue to be made provided the Strategy ***demonstrates***:

- Total financial exposure is proportionate;
- An allowed "expected credit loss" model has been used;
- Appropriate credit control arrangements to recover overdue repayments are in place;
- The authority has formally agreed the total level of loans by type and the total loan book is within a self-assessed level.

4 Non-financial investments

4.1 Non-financial investments are non-financial assets (property) that are held primarily to generate a profit. Strategies should ***confirm the fair value of assets***, assessed annually, is sufficient to provide security against loss. Where fair value is no longer sufficient to provide security against loss the strategy should ***detail the mitigating action*** being taken to protect the capital invested. An updated strategy should be presented to full Council if a loss is recognised in the year end accounts ***detailing the impact*** of the loss on the security of investments and the revenue consequence.

5 Risk assessment

5.1 The Strategy should ***state the authority's approach*** to assess risk of loss before entering into and whilst holding an investment, making clear in particular: how it has assessed the market that it is / will be competing in, the nature and level of competition, how it thinks that the market / customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirement.

6 Liquidity

6.1 For non-financial investments the Strategy should ***set out the procedures*** for ensuring that the funds can be accessed when they are needed, for example to repay capital borrowed. It should also state the local authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions. Where local authorities hold non-financial investment portfolios they can choose to assess liquidity by class of asset or at a portfolio level if appropriate.

7 Proportionality

7.1 Where a local authority is or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Strategy should ***detail the extent*** to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit. In addition, the Strategy should detail the local authority's contingency plans should it fail to achieve the expected net profit.

7.2 The ***assessment of dependence*** on profit generating investments and borrowing capacity allocated to funding these should be disclosed as a minimum over the life-cycle of the Medium Term Financial Plan. However, an assessment of longer term risks and opportunities is recommended.

8 Borrowing in advance of need

8.1 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.

8.2 Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:

- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
- The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

9 Capacity, skills and culture

9.1 The Strategy should ***disclose the steps*** taken to ensure that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.

9.2 The Strategy should ***disclose the steps*** taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

9.3 Where appropriate the Strategy should ***comment on*** the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.