

APPENDIX B: JOINT INVESTMENT STRATEGY 2022/23

1. Introduction

- 1.1 The Councils invest their money for four broad purposes:
- because they have surplus cash as a result of their 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 (known as service investments), and
 - to earn investment income (known as commercial investments - for yield where income is the main purpose).
 - To support economic development, regeneration or provision of housing
- 1.2 Neither Council has invested in third party or related organisations which provide public services (known as service investments).
- 1.3 This Joint Investment Strategy is for 2022/23, meets the requirements of statutory guidance issued by the government in January 2018, and focuses on the investments which are or will be disclosed in the Councils' annual accounts. The DLUHC defines property to be an investment (commercial) if it is held primarily or partially to generate a profit.
- 1.4 For each type of investment, the Councils are required to show the contribution the investments make to the Councils' objectives.

2. Treasury Management Investments

- 2.1 The Councils typically receive their income in cash (e.g. from taxes and grants) before they pay for their expenditure in cash (e.g. through payroll and invoices). The Councils also hold reserves for future expenditure and collect local taxes on behalf of other local authorities and 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 (CIPFA).
- 2.2 For details of the Councils' treasury management investments, see section 5 of the Joint Treasury Management Strategy in Appendix C.

Contribution:

- 2.3 The contribution that these investments make to the objectives of both Councils is to support effective treasury management activities.

3. Investments in Property

- 3.1 Investments in property can take the form of using and developing council owned assets. The definition does not include the redevelopment for council housing through the HRA.

Contribution:

- 3.2 The Councils invest in commercial and residential property within their Districts, for the purpose of regeneration and economic development, whilst also generating income that will be spent on local public services.
- 3.3 The current and future property investments for council owned assets are described below.

Babergh

- **Borehamgate, Sudbury**

Babergh purchased Borehamgate shopping precinct on 1 August 2016 for £3.5m as part of a plan to regenerate the Hamilton Road quarter of Sudbury. This prospective development is still at an early stage and amounts for minor improvements have been included in the capital programme.

- **Former Council Offices in Hadleigh**

- In September 2016 both Councils decided to relocate from their existing Council offices in Hadleigh and Needham Market to Endeavour House in Ipswich and subsequently relocated in November 2017. In December 2018, the Councils approved investments in market led housing schemes for the former office sites to realise value from these now surplus assets.
- Babergh approved the conversion of the former Corks Lane Council office in Hadleigh into 31 new homes and also the construction of an additional 26 new homes on the site, all for market sale.
- The Council created a new company, Babergh Growth Ltd, on 19 March 2019, which entered into a joint venture with Norse Group Holdings Ltd, to complete the development. The Council is providing 100% of the finance.
- A peak cash flow funding requirement of £3.16m is included in the capital programme. The scheme is scheduled to commence in 2022/23.

- **Hadleigh A1071 Roadside Commercial Workspace Development**

- The Council has secured a small parcel of employment land which it can directly invest in to address market failure and develop as a viable scheme to provide needed workspace, employment opportunities and support for the local community of Hadleigh and surrounding area.

Mid Suffolk

- **Former retail site, Stowmarket**

- Mid Suffolk bought the site in Gipping Way, Stowmarket for £1.4m on 7 January 2019 for economic development purposes. A licence to operate the car park was entered into before completion enabling the development and use of this site for public pay and display car parking from December 2018.

- Work has been undertaken to divide the site into two units with a lease being arranged with PureGym for one of the units.
- **Former Council Offices in Needham Market**
 - As stated above, both Councils decided to relocate their offices to Endeavour House in Ipswich and subsequently relocated in November 2017, with the site in Needham Market being earmarked for development predominantly for housing purposes.
 - Mid Suffolk obtained planning permission for 93 new homes on the former Council office and car park sites, in Needham Market, including 83 for market sale, 7 for affordable rent and 3 for shared ownership and a convenience store.
 - The Council created a new company, Mid Suffolk Growth Ltd on 19 March 2019, which entered into a joint venture with Norse Group Holdings Ltd, to complete the development and they will provide 50% of the finance.
 - A peak cash flow funding requirement of £2.81m is included in the capital programme. The housing for open market sale will be funded 50% by Norse. Work on site commenced in 2020/21 and the Council's contribution is included in the capital expenditure as shown in Table 1 below:

Table 1: Property held for investment purposes: Cumulative expenditure

Cumulative Expenditure on Property Investments						
Babergh District Council	2020/21 Cumulative Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Borehamgate, Sudbury	3.56	3.73	3.79	3.86	3.92	3.99
Former Council Offices, Hadleigh	0.60	0.60	3.76	3.76	3.76	3.76
Commercial Workspace, Hadleigh	0.00	0.00	1.08	2.15	2.15	2.15
Total	4.16	4.33	8.63	9.77	9.84	9.90

Cumulative Expenditure on Property Investments						
Mid Suffolk District Council	2020/21 Cumulative Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
Former Council Offices, Needham Market	0.76	2.86	3.08	3.08	3.08	3.08
Former Retail Site, Stowmarket	1.87	1.88	1.88	1.88	1.88	1.88
11 Market Place, Stowmarket	0.36	0.36	0.36	0.36	0.36	0.36
Total	2.99	5.10	5.32	5.32	5.32	5.32

Security:

- 3.4 In accordance with government guidance, the Councils consider a property investment to be secure if its accounting valuation is at the same level or higher than its purchase cost including taxes and transaction costs at the time of anticipated disposal.

- 3.5 A fair value assessment of the Councils' directly owned investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. If during the preparation of the 2021/22 year-end accounts and audit process the value of these properties are materially below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Risk assessment:

- 3.6 As mentioned in section 8 of the main report this strategy has links to the Councils' Significant Risk Register, specifically risk No's 10 and 13 and Corporate Risk No. SE05.
- 3.7 The Councils assess the risk of loss before investing in and whilst holding every property investment.
- 3.8 The Councils also commission third parties to provide expert advice. These advisors are appointed on the basis of reputation, experience and price and their advice is scrutinised by the company board members and officers responsible for investment decisions.
- 3.9 Babergh purchased Borehamgate shopping precinct for £3.56m in 2016 as an investment property. The retail units generate income from leases and are subject to pressures in the retail sector as a result of the general economic conditions. The Council has accepted the risks associated with this property e.g. the previous valuations below purchase price, whilst taking a longer-term view of its future as part of the regeneration and development of the Hamilton Road area in Sudbury.
- 3.10 Market sale housing development:
- Purcell Architects, Lawson Planning Partnership, Hoggarth Cooke and Morley Riches & Ablewhite were appointed to support the Council with design, planning advice, feasibility and financial viability appraisals of the options for future use of the former Babergh and Mid Suffolk council office sites in Hadleigh and Needham Market.
 - Proposed housing schemes were approved in principle by each Council in July 2018 and the delivery option subsequently chosen for both schemes were Joint Venture developments with a public partner (in both cases Norse Group Holdings Ltd).
 - This enables the Councils to manage these schemes in a timely manner, control the quality of the housing, mitigate risk through securing an experienced socially wedded public sector partner and secure a commercial return.
- 3.11 Mid Suffolk bought the empty retail property in Stowmarket, including the car park and introduced managed parking. Work has been undertaken to divide the site into two units with a lease being arranged with PureGym for one of the units.

Liquidity:

- 3.12 Property can be relatively difficult to sell quickly because of a lack of ready and willing investors or speculators to purchase the asset and convert to cash at short notice. However, all these properties will be part of the Councils' commercial, economic development or residential regeneration schemes.

4. Investments for yield: Shares and Loans

- 4.1 The Councils invest through share ownership and giving loans to their wholly owned companies, special purpose vehicles or third parties (local organisations) as part of a strategy for generating a rate of return or improving the local economy.
- 4.2 The Councils invest indirectly in property, through two wholly owned holding companies, by a combination of shares (equity) and loans (debt), matching the funding requirements of the underlying investment and the returns required by the Councils. All debt financed investment complies with EU State Aid rules.
- 4.3 BDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Babergh, and MSDC (Suffolk Holdings) Limited, a wholly owned subsidiary of Mid Suffolk, were both incorporated on 9 June 2017, and are investment vehicles for each Council.

Contribution:

CIFCO Ltd

- 4.4 Each holding company owns 50% of the issued share capital of CIFCO Ltd which was incorporated on 12 June 2017 to invest in a portfolio of commercial property. Each Council's investment in these companies is split 10% share capital in their holding companies and 90% loan direct to CIFCO Ltd.
- 4.5 Each Council approved an initial investment (Tranche 1) of a total of £27.5m (£2.75m shares, £24.75m loans) of which £26.1m was invested by 31 March 2019 to acquire 11 properties. There will be no further purchases from this tranche.
- 4.6 Each Council approved a further investment (Tranche 2) of £25m (£2.5m shares, £22.5m loans) with a total achieved of £23.49m by the end of 2020/21. Although CIFCO Ltd may sell assets and reinvest to make changes to the portfolio, there is not expected to be further investment by the Councils for property purchases beyond 2020/21.

Gateway 14 Ltd

- 4.7 MSDC (Suffolk Holdings) Limited also owns 100% of the issued share capital of Gateway 14 Ltd which was incorporated on the 1 November 2017 as a special purpose vehicle (SPV) to acquire Gateway 14, a 156-acre site located to the eastern fringe of Stowmarket and develop a business park. Mid Suffolk's initial investment in this company was split 10% share capital in the holding company and 90% loan to Gateway 14 Ltd, with further investments anticipated to be 100% loans.
- 4.8 Mid Suffolk Council approved an initial investment of the Gateway 14 site which was acquired for £16.5m (£1.6m shares, £14.9m loans) on 13 August 2018. Further investments of £4.16m were made in 2019/20, £0.6m in 2020/21. £2m is expected in 2021/22 and another £15.25m during 2022/23.
- 4.9 Further details on this project can be found in 4.21 and 4.22 below.

Babergh Growth Ltd

- 4.10 BDC (Suffolk Holdings) Limited, also owns 50% of Babergh Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the purpose of delivering the housing development at the former council offices at Hadleigh and other residential and mixed used schemes in the future. The Council has invested in £5k of shares in the company.

Mid Suffolk Growth Ltd

- 4.11 MSDC (Suffolk Holdings) Limited, also own 50% of Mid Suffolk Growth Ltd. This was incorporated on 19 March 2019. The other 50% is owned by Norse Group Holdings Ltd. This is a joint venture with the purpose of delivering the housing development at the former council offices at Needham Market and other residential and mixed used schemes in the future. The Council has invested in £5k of shares in the company.

4.12 **Table 2: Total Investments in shares and loans**

Cumulative Investments through Shares and Loans						
Babergh District Council	2020/21 Cumulative Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
CIFCO Ltd (1)	25.78	25.66	25.53	25.40	25.25	25.10
CIFCO Ltd (2)	23.47	23.38	23.27	23.17	23.05	22.93
Babergh Growth Company	0.00	0.00	0.50	4.25	3.75	0.00
Total	49.25	49.04	49.31	52.81	52.05	48.03
Investment in Shares	4.96	4.96	4.96	4.96	4.96	4.96
Investment through Loans	44.30	44.08	44.35	47.85	47.10	43.07
Total	49.25	49.04	49.31	52.81	52.05	48.03

Cumulative Investments through Shares and Loans						
Mid Suffolk District Council	2020/21 Cumulative Actual £m	2021/22 Forecast Outturn £m	2022/23 Budget £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m
CIFCO Ltd (1)	25.78	25.66	25.53	25.40	25.25	25.10
CIFCO Ltd (2)	23.47	23.38	23.27	23.16	23.05	22.93
Gateway 14 Ltd	20.98	26.98	38.98	32.17	18.64	11.30
Mid Suffolk Growth Company	0.00	0.00	4.25	5.25	3.50	0.00
Total	70.23	76.02	92.04	85.98	70.45	59.34
Investment in Shares	6.58	6.58	6.58	6.58	6.58	6.58
Investment through Loans	63.65	69.44	85.45	79.40	63.87	52.76
Total	70.23	76.02	92.04	85.98	70.45	59.34

Risk Assessment:

- 4.13 As mentioned in section 8 of the main report, this strategy has links to the Councils Significant Risk Register, specifically risk no. 10, if CIFCO Ltd does not generate forecast investment returns and Gateway 14 Ltd fails to bring forward the development of the site.
- 4.14 CIFCO Ltd and Gateway 14 Ltd, also maintain their own risk registers and the Corporate Manager for Internal Audit attends the regular Risk Management Panel meetings.

- 4.15 The Councils' holding companies have appointed directors to the boards of CIFCO Ltd, Gateway 14 Ltd, Babergh Growth Ltd and Mid Suffolk Growth Ltd that offer a Council shareholder perspective (elected member directors) and commercial property expertise (industry expert directors). It is anticipated that boards of any future investment SPVs, will have a similar membership.

CIFCO Ltd

- 4.16 CIFCO Ltd.'s investment strategy targets medium to long term resilience based on:
- a strategy that balances the portfolio, so a significant number of assets are 'core' and liquid and,
 - a strategy that balances other attributes such as geography, asset class and sector so that resistance to market stresses in any individual attribute can be mitigated.
- 4.17 Each property acquisition was approved by the CIFCO Ltd Board and reported to each holding company Board for approval before funds were released, and due diligence was done on the tenant as assets were acquired, including a Dun and Bradstreet credit check.
- 4.18 On a quarterly basis, CIFCO Ltd.'s fund managers Jones Lang LaSalle (JLL) provide a portfolio analysis report including market forecasts and any tenancy arrears, and the CIFCO Ltd Chair (an independent industry expert) reports on performance to simultaneous holding company board meetings and once a year to Full Council.
- 4.19 As part of annual business planning, JLL provide a full market conditions assessment, based on the individual attributes of each asset class targeted by CIFCO Ltd, and the CIFCO Ltd Board consider any revisions to its investment strategy based on this assessment and the ongoing quarterly portfolio analysis reports.
- 4.20 With financial return being the main objective, the Councils accept higher risk on investments for yield than they do with treasury management investments. The potential risks for property held for income are voids and falls in rental income. The commercial properties acquired for income are bought as long-term holdings and are professionally managed. They could be sold individually if the long-term prognosis is an underachievement of net return targets.

Gateway 14 Ltd

- 4.21 Mid Suffolk and its holding company delegated authority to the Board to acquire the site and develop a detailed delivery model for this business park development. Since acquisition, Avison Young has been advising the Board in respect of delivery models and partners to bring forward the development of this 156-acre business park. The Holding company will approve subsequent requests for the drawdown of capital for infrastructure and development works across the site.

- 4.22 Property company JAYNIC has been appointed by Gateway 14 to develop the site. Public consultation on illustrative masterplans for the site were held in Autumn 2020 with a subsequent planning application submitted in January 2021 and planning approval was granted in November 2021.

Liquidity:

- 4.23 Loans are repaid often over a long time and consist of principal and interest in accordance with the loan agreements. The interest is a revenue receipt and is available for use immediately. The Councils have a charge on the properties acquired by CIFCO Ltd and the land acquired for Gateway 14 which gives the Councils security.

5. Proportionality

- 5.1 Both Councils have some dependency on profit generating investment activity to achieve a balanced revenue budget. Table 3 shows the extent to which the Councils expenditure is dependent on achieving the expected net profit from investments over the medium-term.

Should the Councils fail to achieve the expected net profit, both Councils have contingency plans for continuing to provide these services by reducing overheads, continuing to make services more efficient and through digital transformation.

Table 3: Proportionality of Investments

Proportionality of Investments						
Babergh District Council	2020/21 Actual	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£m	£m	£m	£m	£m	£m
Gross service expenditure	34.69	32.66	33.54	33.69	34.27	34.93
Gross Investment income	2.04	2.76	2.75	2.74	2.73	2.72
Proportion	5.88%	8.46%	8.21%	8.14%	7.96%	7.79%

Proportionality of Investments						
Mid Suffolk District Council	2020/21 Actual	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£m	£m	£m	£m	£m	£m
Gross service expenditure	34.09	30.80	37.05	31.93	32.47	33.19
Gross Investment income	3.10	4.38	4.63	4.27	4.85	5.44
Proportion	9.09%	14.21%	12.50%	13.39%	14.95%	16.39%

6. Borrowing in Advance of Need

CIPFA Prudential Code

- 6.1 The 2017 Prudential Code states that “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”.

- 6.2 The underlying need to borrow is reflected in the CFR adjusted for long term liabilities (see Appendix A Table 4). Neither Council plans to borrow above its CFR which is in accordance with the Prudential Code.

DLUHC Guidance

- 6.3 Government guidance issued in October 2018 has extended the Prudential Code definition to include borrowing to finance the acquisition of non-financial as well as financial investments that the organisation holds primarily or partially to generate a profit. This includes all loans and property investments.
- 6.4 Both Councils' have borrowed to invest in their own properties and to give loans to CIFCO Ltd and Gateway 14 Ltd and other special purpose vehicles. These make a profit to reinvest in Council services and help achieve a balanced revenue budget. The Councils' view of this activity is that it meets the service needs and is within their CFR as per the CIPFA definition.
- 6.5 The Councils' policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing are:
- When exercising the power to invest, the Councils will act for a proper purpose and act in a reasonable manner, its fiduciary duty to obtain value for money and whether the investments are proportionate and properly balanced against the anticipated benefits as well as the wider interests of the Councils' local Business Rate and Council Tax payers.
 - To have regard to the regeneration and development strand of the Councils' Joint Asset and Investment Strategy when investing for profit, acknowledging that the Councils have a key role to play in using their own assets and enabling/facilitating the use of private and other public sector assets to deliver housing and economic growth and regeneration. To appoint independent industry expert directors to the Councils' investment and SPV company boards
 - For the SPVs to prepare a business case for each purchase and report to the Council on expected cost and benefits
 - To appoint relevant expert advisors when assessing, entering and holding an investment.
 - When investing in development projects, where possible and appropriate, to contract with an experienced development partner.
 - To prioritise medium to long term resilience of investments, over short-term gain.
 - To fund and structure each investment to optimise risks and rewards, having regard to the previous bullet point.

7. Knowledge and Skills

- 7.1 As per section 10 of the Joint Capital Strategy in Appendix A

8. Governance – Capital Investments

- 8.1 The Capital Programme is approved as part of the annual budget setting process by Cabinet and Full Council in February. Other investment decisions occurring outside

of this process that exceed £150k qualify as a key decision as per Part One of the Councils' constitution and is approved by Cabinet and Full Council.

9. **Investment Indicators**

- 9.1 The Councils have set the following quantitative indicators to allow elected members and the public to assess the Councils' total risk exposure as a result of their investment decisions. These are shown in Tables 4, 5 and 6 that follow.

Total risk exposure:

- 9.2 The first indicator shows the Councils' cumulative total exposure to potential investment losses.

Table 4: Total investment exposure

Cumulative Investment Exposure						
Babergh District Council	2020/21 Actual	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£m	£m	£m	£m	£m	£m
Treasury Management Investments	13.01	13.09	13.06	13.05	13.03	13.00
Capital Investments	53.42	53.37	57.94	62.58	61.89	57.93
Total Exposure	66.42	66.47	71.00	75.63	74.92	70.94

Cumulative Investment Exposure						
Mid Suffolk District Council	2020/21 Actual	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£m	£m	£m	£m	£m	£m
Treasury Management Investments	14.68	13.09	13.06	13.05	13.03	13.00
Capital Investments	73.22	81.12	97.35	91.29	75.76	64.65
Total Exposure	87.90	94.21	110.41	104.34	88.79	77.65

How investments are funded:

- 9.3 Government guidance is that these indicators should include how investments are funded. Since the Councils do not normally associate particular assets with particular liabilities, this guidance is difficult to apply. However, the following investments could be described as funded by borrowing.
- 9.4 For those investments funded by borrowing the exposure at the beginning of 2022/23 is forecast to be £53.4m for Babergh and £81.1m for Mid Suffolk as shown in Table 5 that follows.

Table 5: Investments funded by borrowing

Cumulative investments funded by borrowings						
Babergh District Council	2020/21 Actual	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£m	£m	£m	£m	£m	£m
Capital Investments	53.42	53.37	57.94	62.58	61.89	57.93
Total Funded by borrowing	53.42	53.37	57.94	62.58	61.89	57.93

Cumulative investments funded by borrowings						
Mid Suffolk District Council	2020/21 Actual	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	£m	£m	£m	£m	£m	£m
Capital Investments	73.22	81.12	97.35	91.29	75.76	64.65
Total Funded by borrowing	73.22	81.12	97.35	91.29	75.76	64.65

Rate of return received:

- 9.5 This indicator shows 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.

Table 6: Investments net rate of return

Investments net rate of return						
Babergh District Council	2020/21 Actual	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	%	%	%	%	%	%
Treasury Management Investments	2.63	2.73	3.11	3.11	3.11	3.12
Other Capital Investments	3.13	3.53	3.53	3.53	3.53	3.53
CIFCO Ltd (1)	3.44	3.35	3.34	3.38	3.42	3.47
CIFCO Ltd (2)	3.41	3.98	3.98	3.53	3.08	2.65
Babergh Growth Company	0.00	0.00	2.72	5.23	2.76	2.77
All investments (Average)	3.40	3.64	3.65	3.54	3.47	3.20

Investments net rate of return						
Mid Suffolk District Council	2020/21 Actual	2021/22 Forecast Outturn	2022/23 Budget	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast
	%	%	%	%	%	%
Treasury Management Investments	2.82	2.79	3.24	3.25	3.25	3.26
CIFCO Ltd (1)	2.43	2.57	2.63	2.71	2.77	2.84
CIFCO Ltd (2)	3.19	3.98	3.98	3.53	3.08	2.65
Gateway 14 Ltd	4.20	6.36	4.88	3.36	5.85	12.30
Mid Suffolk Growth Company	0.00	0.00	5.88	5.95	4.77	2.38
All investments (Average)	3.21	4.25	4.00	3.44	4.32	5.71

Note: The returns for Gateway 14 and the Growth companies varies due to the timing of repayments as properties are sold/developed and loans repaid in full.