



# Capital Strategy Background - Investments



# Background

- Councils have historically sought to protect financial position (and services), or make strategic interventions through ‘commercial’ investment
- Investment in the sector has seen some successes but also some high profile failures
- Regulatory change – Government intervention and regulation change aimed at preventing future instances of investing for yield
- CCC MTFS position - 25/26 (& ongoing) budget gaps will put a strain on Council Resources & Reserves
- Capital position – finite resources, flexibility through prudential borrowing for business case-based investment.
- One Coventry Plan – green and financial sustainability plus economic prosperity



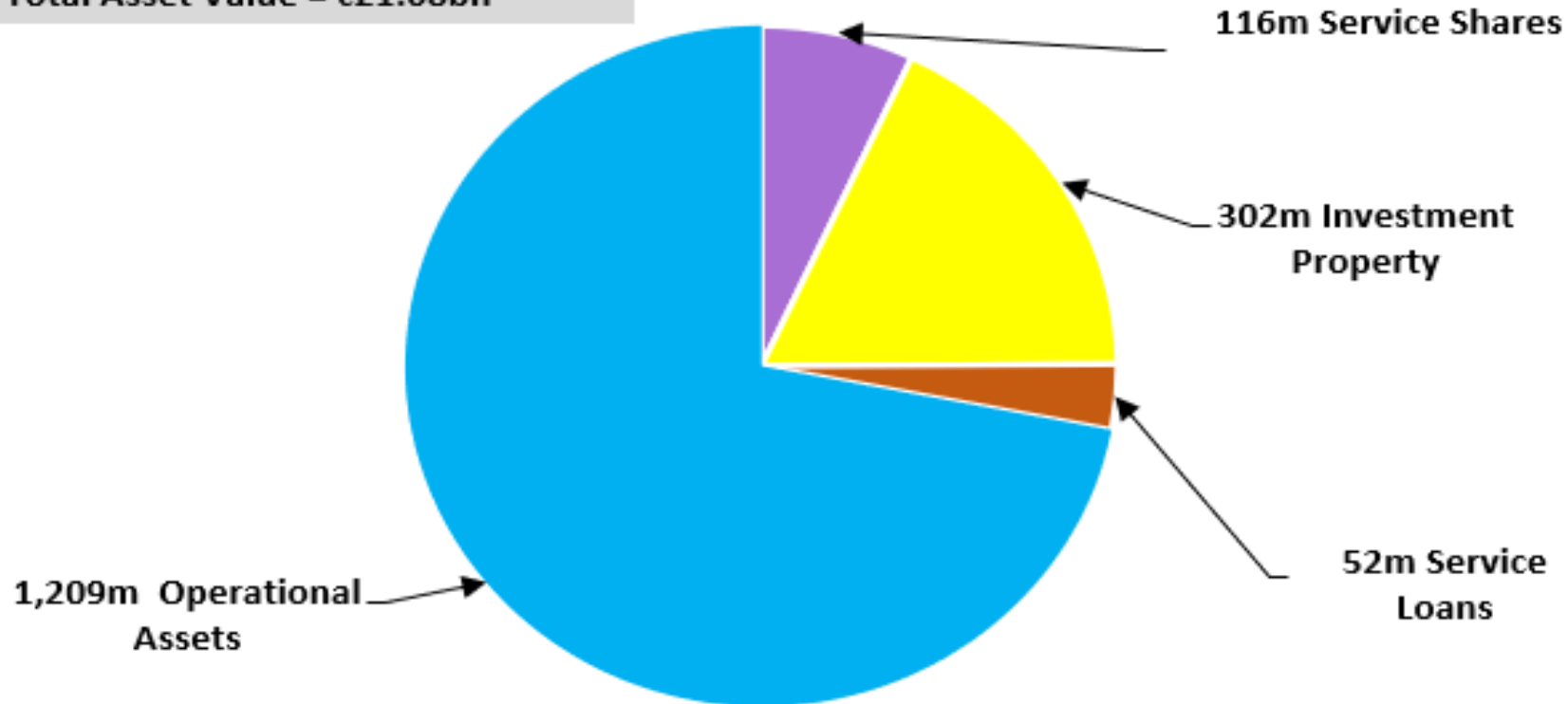
# CCC Investment Portfolio

- Comprises :
  - Loans
  - Shares
  - Investment property
- Objective – includes strong service or strategic dimension e.g. local, regeneration or economic benefits
- Accounting – difference between value and resource invested/financed
- Vast majority of CCC total assets are operational (72%)

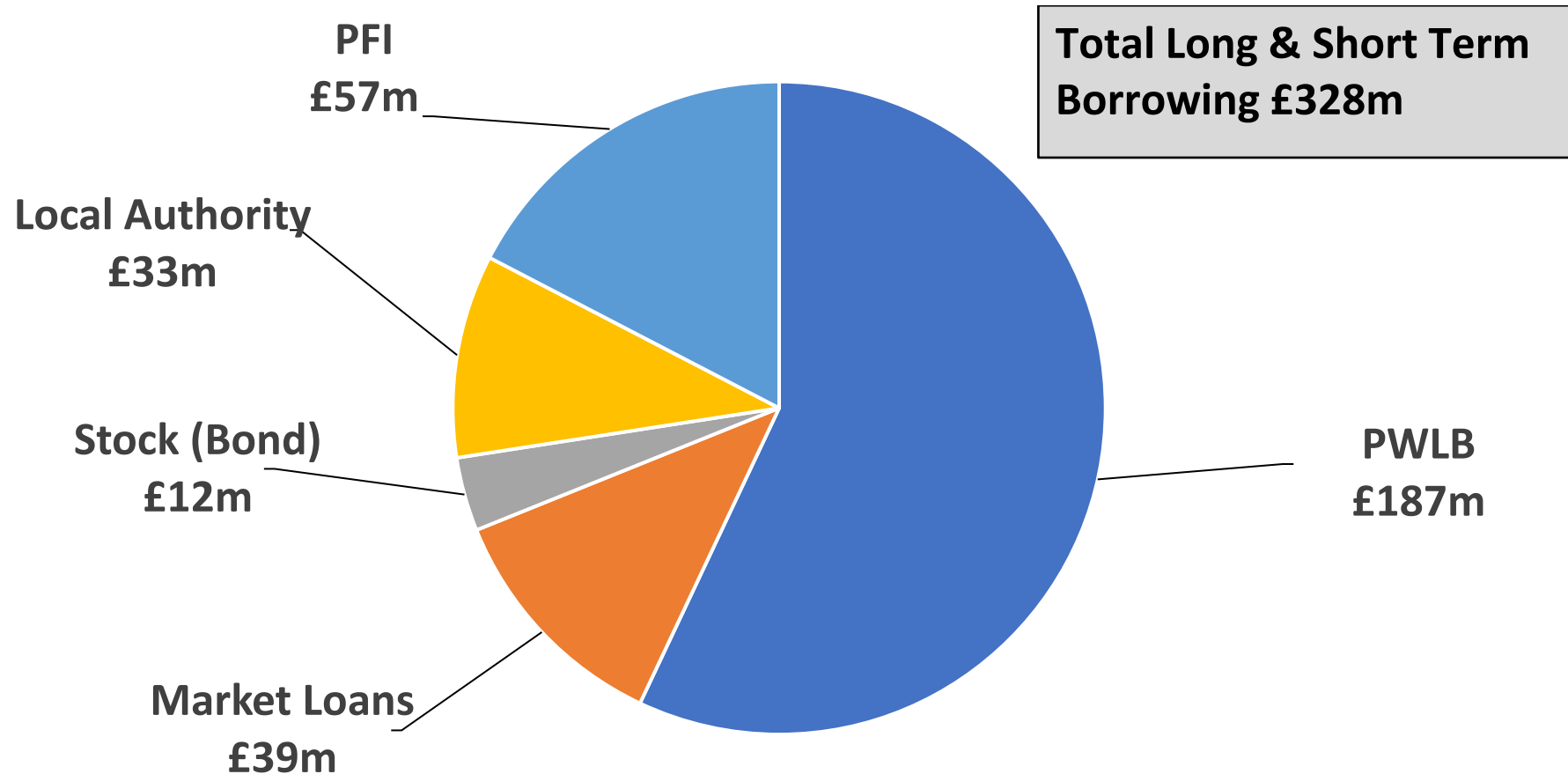


# CCC Total Assets at 31 March 2024

Total Asset Value = c£1.68bn



# CCC Liabilities at 31 March 2024



# CCC Liabilities at 31 March 2024

- Actual borrowing is significantly lower than underlying 'need' to borrow (Capital Financing Requirement or CFR)
- Strong cash balances enable us to use instead of external loan
- There is likely a medium term borrowing need
- LA debt survey in 2024 showed Coventry at 217<sup>th</sup> (of 381) and well below the national avg per capita (£673 vs £1,187)
- For comparison, high profile LA's are in some cases 10x -12x these levels



# CCC Return on Investments

- Over the last 3 years the following returns on investments have been achieved:

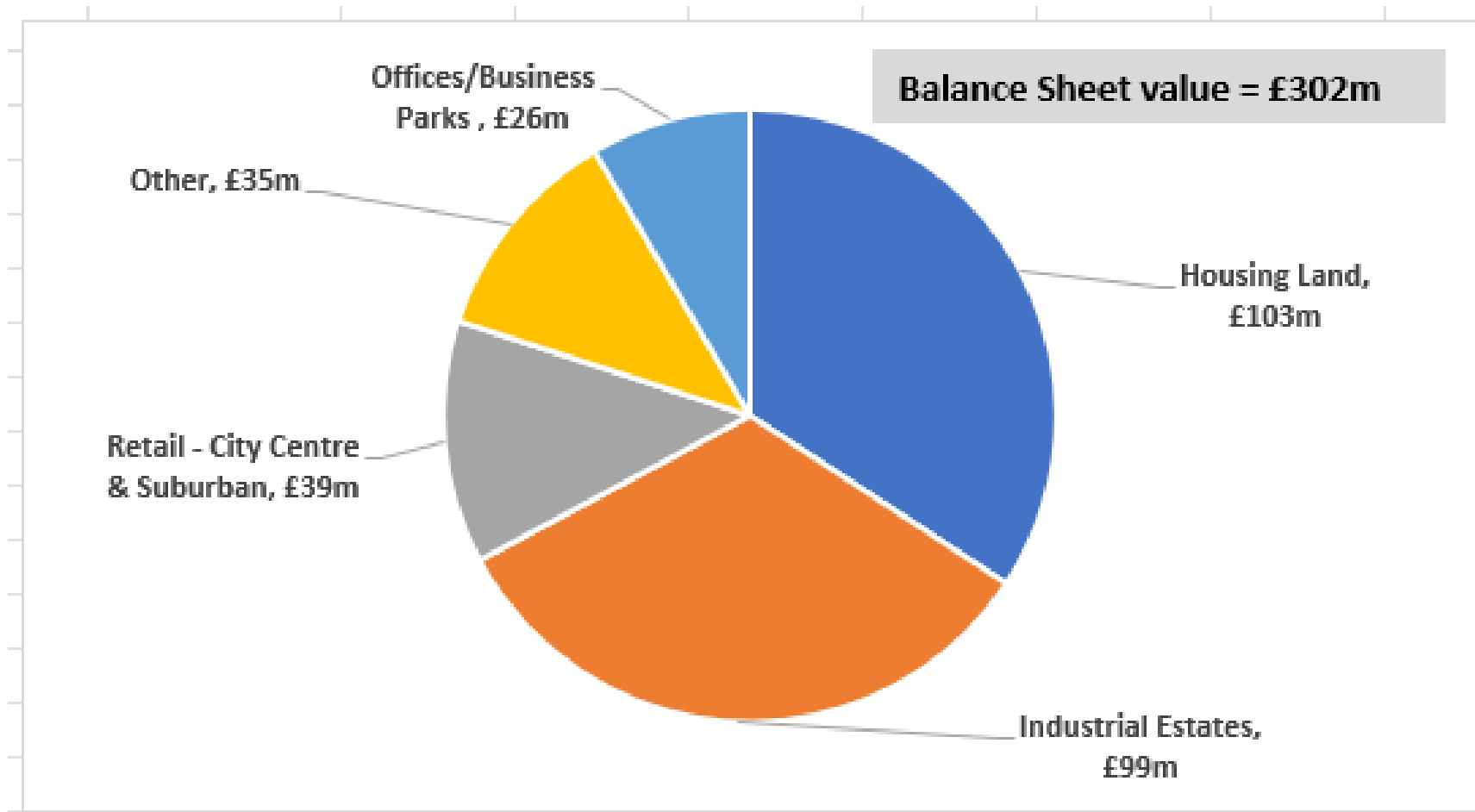
Investment Category	2021/22 Return on Investment %	2022/23 Return on Investment %	2023/24 Return on Investment %
Service Loans (i)	4.6%	3.0%	3.4%
Service Shares (ii)	9.0%	6.6%	10.6%
Investment Property (iii)	3.6%	4.3%	4.2%
<b>Total Commercial Assets</b>	<b>4.9%</b>	<b>4.7%</b>	<b>5.7%</b>

(i) Interest received and accrued

(ii) Dividends

(iii) Rental income net of service charge, voids & other direct costs

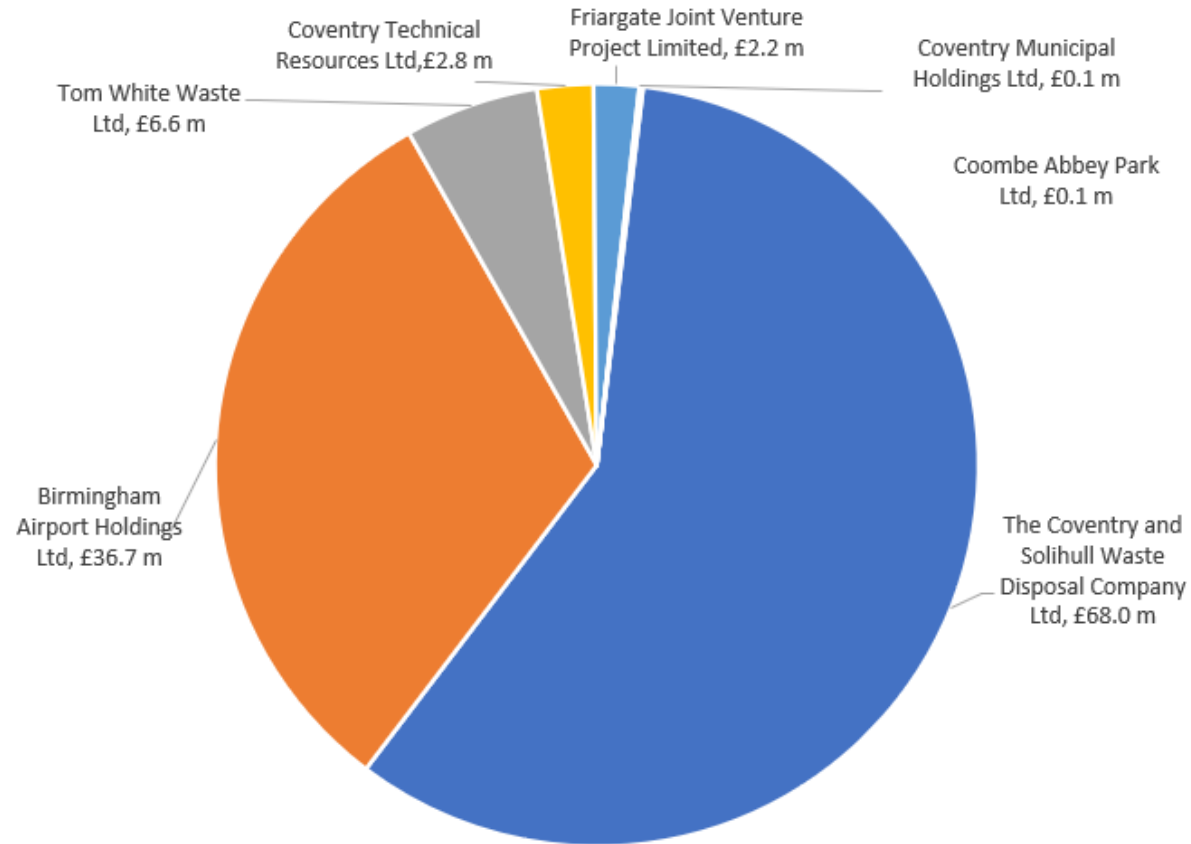
# CCC Investment Property



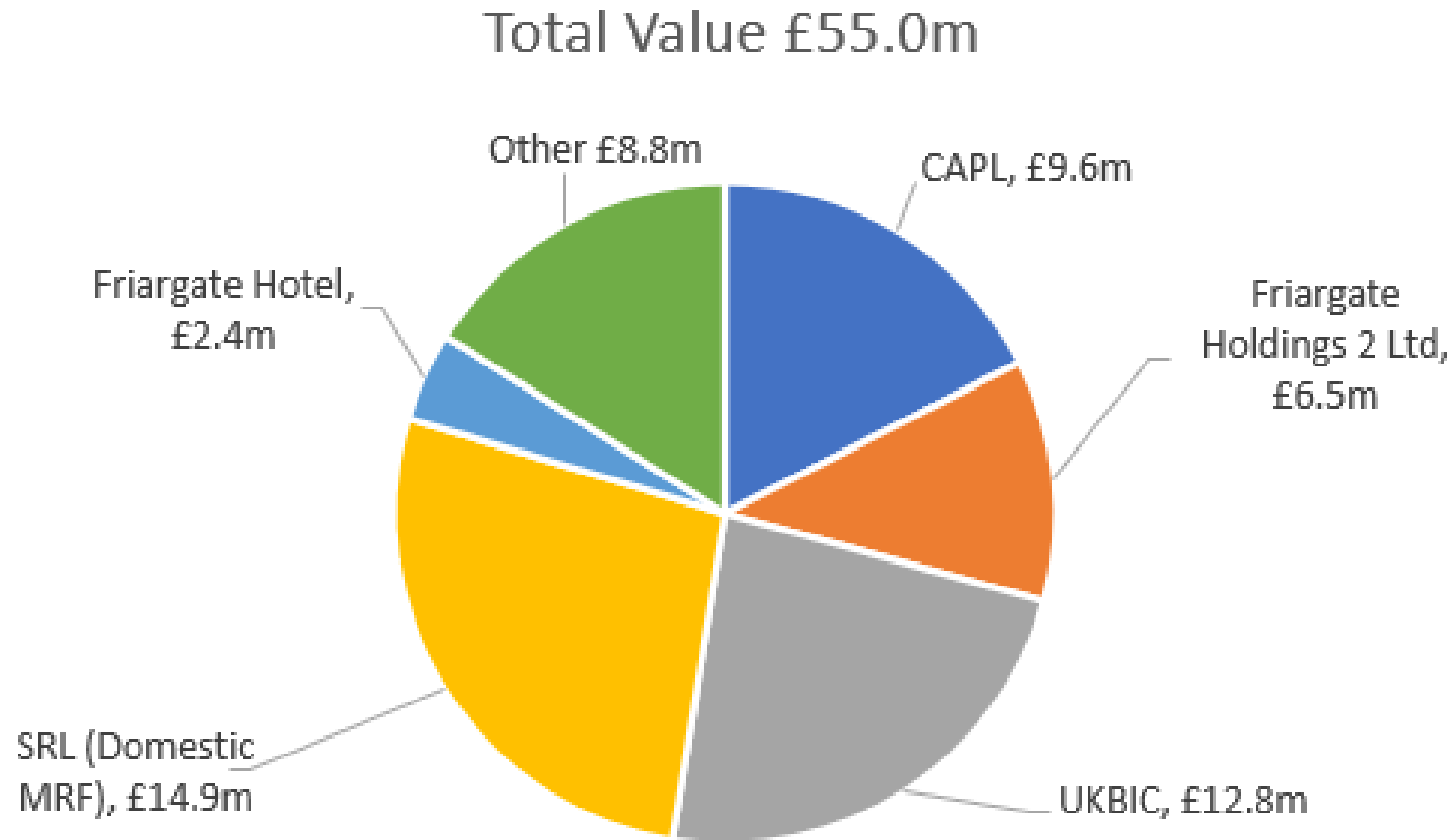


# CCC Service Shares

Balance Sheet Value (£116m):



# CCC Service Loans & Commitments



# Regulatory Framework

- Wider framework – existing guidance with strong risk focus including Prudential Code; Investment Guidance; Minimum Revenue Provision; PWLB; Treasury Management; Capital strategies
- Government and CIPFA had concerns re investment risk - Debt funding (Coventry well below National average per capita); Losses and capitalisation
- Response: PWLB rule changes; Prudential Code changes;
- Revised Prudential Code - Risks should be **proportionate**; **must not borrow to invest**. Investments classed as treasury; service and commercial (for yield)
- PWLB Rules - No access if the authority plans to invest **primarily for yield** but can invest for service objective
- Commercial Investment Strategy - part of budget setting report since 2018; sets out the Council's approach to risk, liquidity and proportionality; sets limits for loans & shares



# Commercial Investment Risk

- Capital value/Price Risk:
- Revenue/Income Risk:
- Other risks e.g. reputational
- Income Risk includes:
  - share dividend income from small number of shareholdings
  - service loan interest (but security exists for larger loans)
  - property income (but importantly is diversified across sectors & all local)
- Total Capital Risk of over c£100m
- Diversification – some concentration in waste area through shares, loans, potential guarantees

