City of Westminster

Cabinet Report

Decision Maker:	Cabinet
Date:	17 February 2025
Classification:	General Release
Title:	Integrated Investment Framework 2025/26
Wards Affected:	All
Policy Context:	To manage the Council’s finances prudently and efficiently
Financial Summary:	An Integrated Investment Framework will influence investment decisions going forwards and deliver added value to Council services. This report identifies the potential for future improved returns.
Report of:	Gerald Almeroth, Executive Director of Finance and Resources

1. Executive Summary

1.1. The 2024/25 financial year began with CPI inflation at 2.3%. Throughout the subsequent months fell to a low of 1.7% before rising again to 2.5% in December 2024. Following the fall in inflation, the Bank of England (BoE) reduced Bank Rate from 5.25% to 5.00% in August 2024 and then further to 4.75% in November 2024. With inflation pressures remaining persistent, rates are likely to remain higher for longer.

1.2. Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The Middle East conflict may exert upward pressure on inflation, with oil prices remaining high. The recent election in the US may also affect inflation as new policies are put into effect that may impact on global inflation levels and thus monetary policy decisions.

1.3. The table below sets out the Councils investment portfolio as at 31 December 2024.

Type of Investment	Value at 31 December 2024 £ million
Short term investments (mostly overnight cash deposits, money market etc.)	£788.20
Long term investments in cash-based investments, shareholdings and controlled companies	£12.18
Property Fund Partnership (Lettings Fund valued at 30 September 2024)	£30.70
Investment properties	£549
Pension Fund	£2,123
Total	**£3,503.08**

1.4. The Treasury investment portfolio is currently generating a return of 4.90% (at portfolio date 31 December 2024) in the current financial year 2024/25. The investment properties are currently generating around 5.54%, net of direct costs (based on the final accounts for 2023/24). The latest current CPI inflation rate of 2.5% (as at December 2024) must be considered alongside the current total portfolio yield.

1.5. This Investment Framework sets out:

- The Council's strategic objectives in respect of risk management, and its attitude towards investment risk;
- Current levels of investment activity;
- An updated Integrated Investment Framework for the Council going forward which seeks to diversify the risk and future proof the Council against possible future economic downturns;
- Actions to be taken in connection with implementing this framework.

2. Recommendations

That Cabinet approve the following recommendations to Full Council for consideration at its meeting on 5 March 2025:

2.1. Approve and implement the Integrated Investment Framework set out in this report;

2.2. Approve that the target for the overall return on Council investments should aspire to at least meet forecasts for inflation over the medium term;

2.3. Approve that the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments;

2.4. Adopt the asset allocation percentage ranges set out in the framework and work towards achieving these;

2.5. Agree that the overarching objective of this framework is to achieve an overall return on Council investments and to reduce costs and liabilities, while maintaining adequate cash balances for operational purposes, and not exposing the capital value of investments to unnecessary risk;

2.6. Agree that assets must only be acquired for strategic purposes. Such prospective acquisitions must be considered individually, with the reasons for investment limited to regeneration or development of the location, or other strategic purposes in which the asset is established. Out-of-borough acquisitions may also be considered by exception;

2.7. Approve The Investment Executive to implement, monitor and report on the investment strategy.

3. Background (including Policy Summary)

3.1. The Council is responsible for managing its total assets valued at around £3.50bn at 31 December 2024, comprising £2.12bn pension fund (as at 31 December 2024), £788.22m short-term cash investments, £12.18m in long term investments with Westminster Builds, £30.73m in a property fund partnership and £549.00m of investment commercial property.

3.2. The Council is exploring further options around temporary accommodation acquisitions which could expand this portfolio further. It is important that the Council can take a holistic view of its investment and align them with its funding needs and goals. The scale of these figures makes their positive and proactive financial management very important. Investments held as part of the Council's pension fund are managed under a separate regulatory framework and are outside the scope of this report from the point of view of detailed investment management.

3.3. In previous years, the Council's Investment Strategy formed part of the Treasury Management Strategy Statement (TMSS) which is developed and updated as part of the Council's Medium Term Financial Plan (MTFP). The TMSS has tended to focus on the policies for placing short-term cash investments, while decisions regarding other types of longer-term investment have been considered on an individual basis as opportunities have arisen.

3.4. While the assets are distributed across a range of areas, the complexity of the Council's operations and its funding requirements mean that there is a need for the assets to be considered collectively and holistically as, in the aggregate, they represent a very significant pool of resources.

3.5. More specifically, in view of:

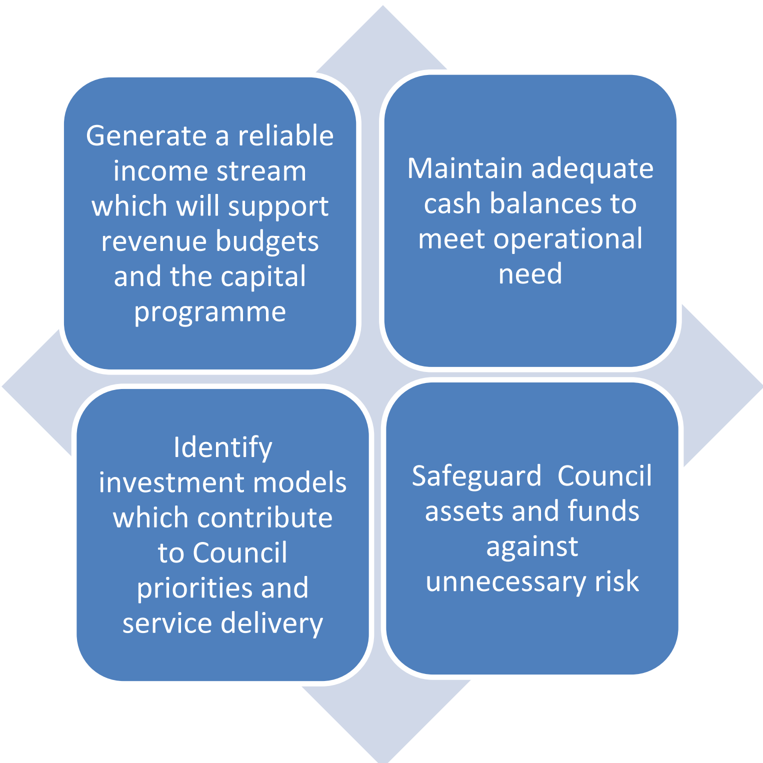
- the significant value of investments held by the Council;
- their increasing importance in terms of generating income which supports revenue budgets and capital investment;
- their potential to add value and contribute towards corporate objectives in their own right;

it was felt appropriate to give this aspect of financial management more detailed consideration and to develop a more integrated approach to investment decision making.

<u>Strategic Context</u>

3.6. The Council's key focus is on delivering high quality services within the context of reduced government funding and increased demand for services due to demographic change. The Council also needs to have regard to the longer term, given its moral and legal responsibilities regarding sustainability and stewardship of public assets.

3.7. The role of investment management is to support service delivery by balancing four key strategic objectives as follows:



3.8. An appropriate investment strategy which balances the above objectives is therefore key.

3.9. The Council is exposed to possible future events, such as:

- Global financial instability resulting from geopolitical events.

- CPI inflation is expected to remain persistent as it trends below target leading to interest rate uncertainty;
- Continuing pressures on local authority expenditure and service revenue streams.

3.10. Ideally, the investment strategy should be aimed at generating future income to mitigate against these risks and seek medium and longer-term stability with the Council's finances.

4. Acceptable Risk Levels

4.1. An appropriate investment strategy which balances the above objectives consists of one which:

- Focuses on investments with an appropriate risk adjusted return;
- Includes other Treasury opportunities not covered in the TMSS; and
- Investigates commercial property where regeneration or enhanced service provision are the primary purposes of acquisition.

4.2. The suggested policy going forward is that the Council will generally seek to obtain the maximum amount of income consistent with an optimum level of risk and will be willing to accept a lower level of income in exchange for a lower risk product which does not expose the capital value of the investment to future potential loss.

4.3. By more proactive and appropriate management of the Council's investment portfolio, an increased level of income can be achieved, while also ensuring that appropriate security is maintained over the Council's assets.

4.4. Such investments shall be separately identified in Council records and will be subject to the Council's detailed budget monitoring and review as a result.

4.5. Guidance from the Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA places a high priority on the management of risk. The Council has adopted a careful and prudent approach to the investment process.

5. Current Investment Activity

5.1. The Council is responsible for managing five investment portfolios:

- the Council treasury investment portfolio of £788.22m short-term cash-based investments generating a return of 4.90% as at 31 December 2024;
- long-term investments in shareholdings, such as Westminster Builds, portfolio value £12.18m, with returns ranging from 4.69% to 5.54%;
- a property fund partnership lettings fund £30.73m (book cost £29.57m) with a long-term expected rate of return of 6.00%;
- the investment property portfolio of £549.84m (valuation at 31 March 2024), currently generating a net of costs return of 5.54% and;
- Westminster City Council Pension Fund of £2.12bn (valuation at 31 December 2024), with an assumed, actuarial long-term investment return of 4.80%.

- the Council is also exploring options for acquiring or gaining access to additional temporary accommodation through a new Resonance Fund called National Homelessness Property Fund 2 and the proposed Westminster TA LLP.

5.2. The Council investment portfolio (excluding the pension fund) is set out below.

Type of Investment	Expected rate of return	Value at 31 December 2024 £ million	Value at 31 December 2023 £ million
Short term investments (mostly overnight cash deposits, money market etc.)	Between 4.8% and 5.4% in financial year 2024/25	£788.2	£1,161.1
Long term investments in cash-based investments, shareholdings and controlled companies	Between 4.69% and 5.54%	£12.2	£23.3
Property Fund Partnership (Lettings Fund valued at 30 September 2024)	6% average over 7 years	£30.7	£26.8
Investment properties	5.50%	£549.0	£525.1
Total	**-**	**1,380.1**	**1,736.3**

5.3. The Pension Fund is a separate legal entity and, therefore, its assets cannot fit within the wider investment framework of the Council. However, despite this ring-fencing, the pension fund has a significant second order impact on the Council's financial position and funding needs because of the possibility of future deficits in the scheme, and the contribution plan that would be required to close any future deficit.

5.4. The triennial valuation of the Westminster Pension Fund was completed by the Council's actuary, Hymans Robertson, as at 31 March 2022. The whole Fund's funding level rose to 128% from the 99% level in 2019, which is due to the excellent investment returns over the period, as well as the Council's additional deficit recovery payments. The funding level for Westminster City Council (as a single employer) increased to 111%, improving from 86% previously.

5.5. The real discount rate, a proxy for the real investment return, has remained stable at 4.8%. The discount rate is set with reference to the likelihood of the Fund's investment return achieving a certain level of return over the next 20 years. Based on the Hymans analysis as at 31 March 2022, the Fund's assets have a 67% likelihood of returning 4.8% per annum over the next 20 years.

5.6. The actuarial analysis suggests a long-term trend of 1.5% annual improvements in longevity. When adjusted for the LGPS, this leads to a reduction in liability values. Alongside this, the COVID-19 pandemic has resulted in reduced longevity since 2020, although the reduction in liabilities attributable to the pandemic is estimated to be only circa 0.1% to 0.2%.

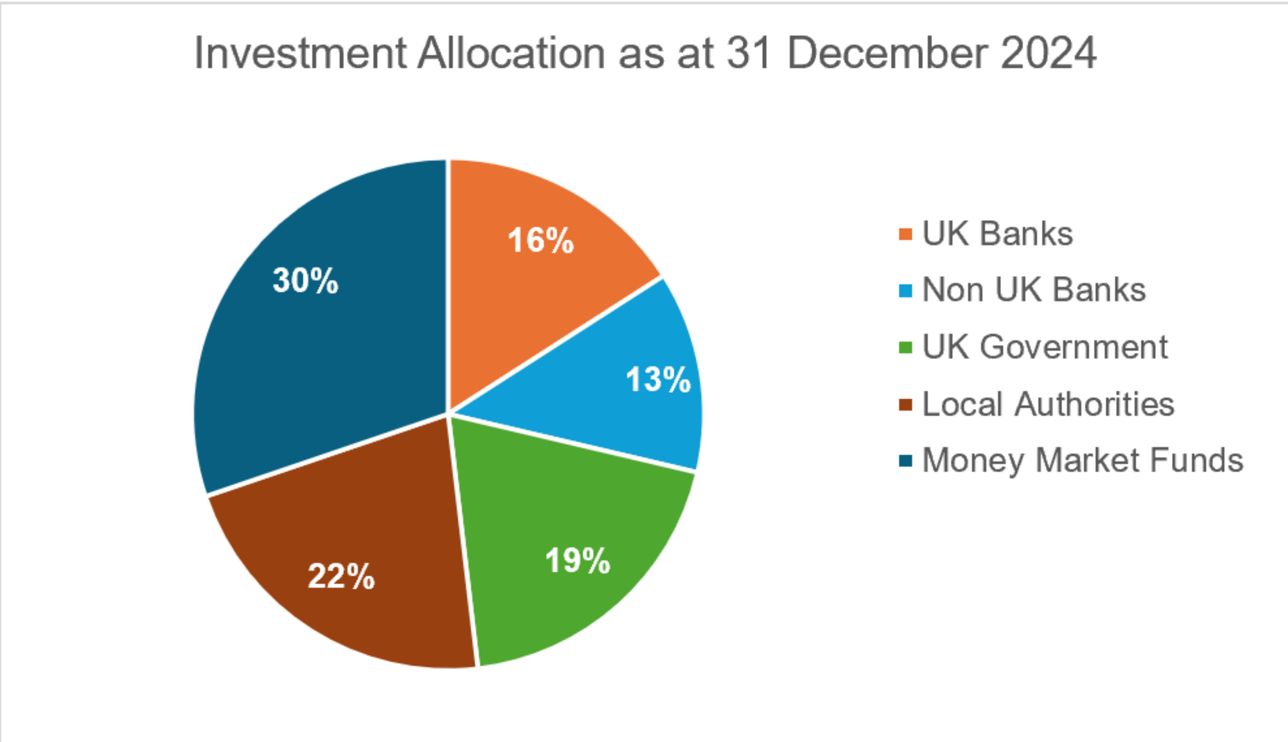
5.7. As at 31 December 2024, the estimated interim funding level for the whole Fund was projected at 182%, with an estimated £0.86bn surplus. Westminster City Council's funding level, as an employer, stood at approximately 156%, with an estimated surplus of £0.50bn.

5.8. The next triennial valuation is scheduled to take place on 31 March 2025, covering the three financial years from 2026/27. Following excellent performance within the Pension Fund and inter-period funding estimates, it is anticipated that the funding level will rise from those reported at the 2022 actuarial valuation.

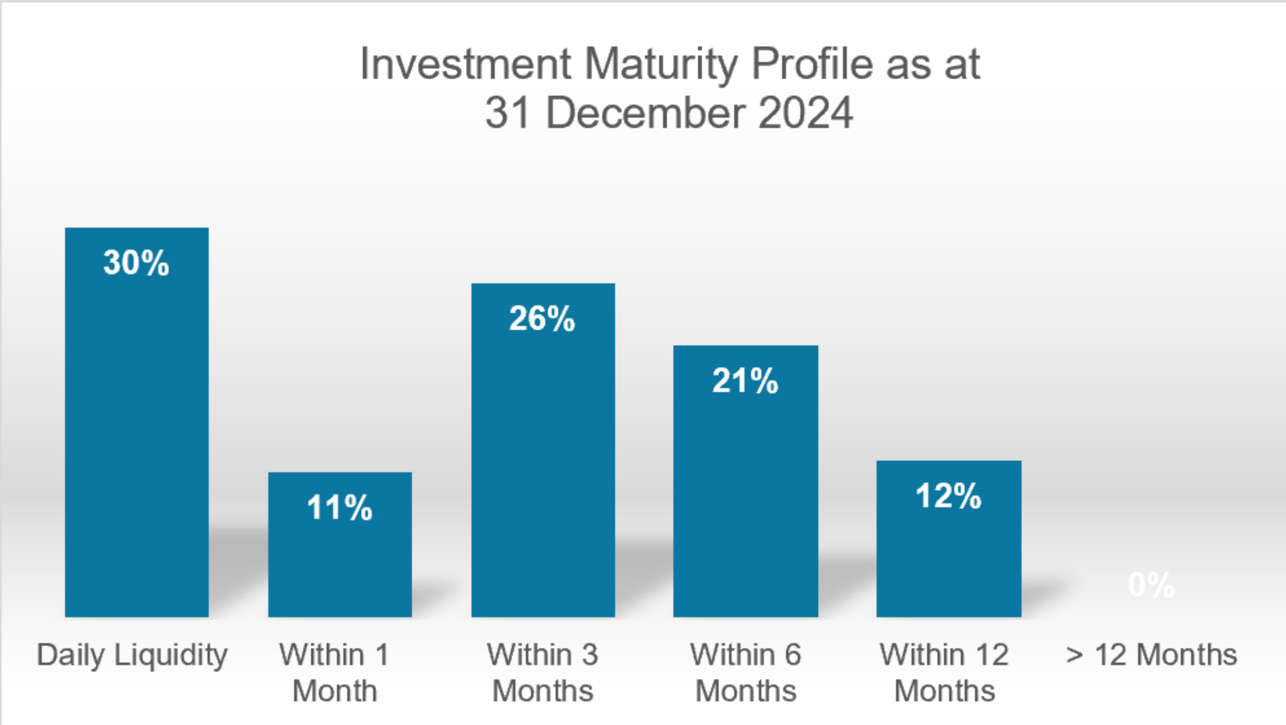
5.9. At the Mansion House Speech on 14 November 2024, the Chancellor proposed a number of reforms to the Local Government Pension Scheme (LGPS). Proposed reforms for the LGPS include legislation to require the 86 LGPS administering authorities to consolidate their assets into fewer, larger pools of capital. Following this, MHCLG released a consultation for the LGPS, which focused on the areas of asset pooling, UK and local investment and governance. Officers drafted a response to the consultation and circulated it to Committee and Board members for comment, before submitting to MHCLG on 16 January 2025.

6. Short-Term Investments

6.1. In line with the current investment strategy, the treasury portfolio of short-term cash-based investments with 29% bank-based deposits, 22% in local authorities, 30% in Money Market Funds and 19% in the Treasury Bills as shown below.



6.2. Most treasury managed investments currently mature within three months as set out below:



6.3. In line with the above, the portfolio is entirely investment grade and heavily biased toward the top end with 30% of investments rated AAA, 13% rated AA, 16% rated A and 41% being UK local authority and UK government. Local authority investment is subject to extensive due diligence on recent financial statements, external audit reports, current expenditure forecasts and the current/anticipated position regarding useable reserves.

6.4. This approach provides flexibility for the Council at low levels of risk, but tends to result in lower returns, currently 4.90%, and an approach to investment management which focuses on utmost capital security and liquidity. The Council's advisor, Link, is forecasting the BoE Bank Rate to gradually fall from March 2025 to 4.00% at the end of the calendar year. Such rate reductions will likely reduce the investment performance for 2025/26 compared to 2024/25.

6.5. The Bank Rate is currently 4.50% with a gradual downward trajectory forecast, resulting in average money market returns expected to be around 4.30% for 2025/26. The Bank Rate is projected to fall as CPI inflation falls back towards its target of 2.0% and investment income in 2025/26 and beyond will reduce accordingly as money market rates fall.

7. Investment Propoerty

7.1. Commercial property investment can provide the Council with:

- A higher income return than equities, bonds or cash;
- A secure, regular income with income growth prospects to hedge against inflation;
- Capital value appreciation;
- Asset management opportunities to further increase rental and capital growth, and;

- An underlying real asset with minimum capital value.

7.2. However, as with any investment, there are associated risks:

- Illiquidity: property is a 'bricks and mortar' asset which takes time to sell/buy;

- Threat to income security if the tenancy fails and the property cannot be re-let quickly at market value;

- Capital depreciation: if the asset is not properly managed and kept in good repair, and;

- Fallout from current economic downturn: resulting in rental default and lower market rentals. Geographically, the investment property portfolio is concentrated within the city, which therefore focuses economic risk in one area. UK commercial property investments have been broadly stable over the last year.

- Both office and retail sectors continue to see a rise in availability, with landlords having to raise the value of incentive packages on offer but supply in the industrial market continues to tighten. Respondents to the most recent Chartered Surveyors (RICS) survey expect prime office rents to see a small uplift in value over the year ahead, but it is anticipated that secondary office rents will fall. A fall is expected in retail rents, with the outlook for secondary retail rents appearing to be downbeat, while expectations suggest industrial rents will rise.

7.3. Commercial UK property investment traded in Q4 2024 totalled at £9.5m, up 17% on the previous year. A significant improvement, following the previously year which showed the weakest investment market for more than a decade. Approximately a third of all investment occurred in London, with investors continuing to target high quality offices in prime locations and assets in the living sectors, such as student accommodation, hotels and built to rent.

7.4. Overseas capital accounted for nearly 67% of total investment (up from 55% in the same quarter in 2023). The need for good environmental credentials remains a fundamental driver in the demand for both occupiers and investments. For 2024 overall, UK commercial property delivered a total return of 7.7%, but this mostly being delivered through the living sectors and office total returns being in negative territory. This is higher than the total returns seen in 2022 and 2023, but was also above the average annual return of 7.2% recorded by the CBRE UK Monthly Index since 2000. All property rental value growth was 2.9% per annum in 2024.

7.5. Market commentaries are seeing initial signs of stabilisation across the market. Higher investment transaction volumes are expected in 2025 relative to the last year. Inflation was near, or at target, for much of 2024, and the Bank of England started its interest rate cutting cycle. The economy saw a return to growth of 1%, and it is expected this trajectory to continue in 2025, boosted by further interest rate cuts. it is likely there will be higher transactional volumes in the forthcoming periods and there may be potential for yields to sharpen as investor competition increases.

7.6. An allowance is included in the Capital Programme for strategic investments and acquisitions that will support the Council's regeneration aims and generate additional revenue income. Schemes funded by this will go ahead only if they meet the Council's strategic aims and are considered a sound and prudent investment after full due diligence.

7.7. The Council is focused on delivering best returns from the portfolio and acquiring new assets and redeveloping existing assets will help to achieve this. The property investment strategy is focused around three elements:

- Driving income from the current portfolio: the aim is to increase the portfolio by 2% per annum in net income terms (excluding new acquisitions). This will be achieved through a proactive asset strategy, enabling long-term deals to be agreed that benefit income outside regular lease events, as well as maximising increases from regular rent reviews.

- Streamlining and future proofing the current portfolio: this will involve reviewing poorer performing assets and considering disposal (where there is no broader justification for holding them) and a long-term strategy for car parks. In addition, there will be investment into the portfolio where there are opportunities to generate further income.

7.8. General principles for investing in new commercial properties within Westminster are as follows:

- Investment should primarily be focused on strategic fit and focused on the Council's long-term regeneration and economic objectives;

- Investments should consider possible diversification of the portfolio, with a meaningful and valid interpretation of what that means post-Covid for the market;

- All assets acquired must be within borough unless strategic opportunities arise with regard to adjacent, out-of-borough holdings;

- New investments should consider yields of 4 to 5% over the short to medium term, and;

- Investment assets should not be acquired primarily for the purpose of generating yield (see para 58);

- All potential investments are reviewed on a case-by-case basis during the acquisition process so not all the principles will need to be achieved for an investment to be made. It should be noted that the recent November 2024 internal audit of the process used to acquire investment properties resulted in a conclusion of substantial assurance.

8. Long Term Investments

8.1. Prior to 2004, Councils were only permitted to make loans to, or invest in, other local authorities, the Government, banks or building societies. The introduction of the local authority Prudential Code relaxed these restrictions and gave local authorities the flexibility to invest in more innovative methods of service delivery and income generation by:

- Establishing, controlling and participating in limited companies trading for a commercial return, and;
- Entering into loans and investments with “non-specified” counterparties, including limited companies and not-for-profit organisations.

8.1. These are classed as non-specified investments under MHCLG statutory guidance for local government investments.

8.2. No general legal restrictions are placed on the value, length or nature of such investments and the only proviso is that investments are placed in accordance with investment strategies formally approved by members. The Council’s TMSS expressly permits new investments in non-specified institutions, subject to the new ruling that investment assets must not be transacted primarily for yield. For all transactions, specific proposals will be considered by the Tri-Borough Director of Treasury and Pensions and approved by the S151 Officer, subject to due diligence and compliance with all rules and regulations.

8.3. Non-specified investments include asset vehicles, such as infrastructure and housing, which offer additional possibilities. Such assets can contribute to corporate priorities and improve service delivery. They also provide portfolio diversification and can offer more flexibility in terms of length of investment and timing of drawdowns.

8.4. Such investment is becoming more common in local government with authorities investing in projects to increase low cost and affordable housing, improve transport infrastructure, and support sustainable energy programmes as well as pooled property or equity investments, venture capital funds to support new and growing businesses, bond issues and unit trusts.

8.5. Such investments typically offer a higher risk adjusted return. However, they also tend to carry more complex risk profiles and attract higher transaction/due diligence costs and are unlikely to have a published unit price or credit rating. The onus therefore falls on the Council to make its own evaluation (with consultant support) of the investment and before any decision to proceed.

8.6. The Council’s current portfolio of non-specified investments is:

	Value at 31 December 2024 £ million	Value at 31 December 2023 £ million	Expected return
Loans and Equity Holdings set up to meet strategic service and policy initiatives	£12.2	£23.3	Average yield of 5%. Profits are expected to be reinvested.
Property Fund Partnership (Real Lettings Fund) September 2024	£30.7	£26.8	Annualised 6% over seven-year life of fund
LGA long term loan	£17.0	£18.0	3.13%
Total	**£59.9**	**£68.1**	**-**

8.7. By increasing its holdings in this area, the Council could reduce its reliance on the banking sector and facilitate the move towards a more long-term investment profile, as discussed below.

8.8. Identifying and investigating individual investment opportunities across multiple markets can be both time consuming and expensive. Such opportunities will be fewer as a result of the new PWLB rules concerning investment primarily for yield.

9. Liabilities and Cashflow Needs

9.1. To assess appropriate changes to the treasury portfolio, it is important to consider also the Council's liabilities and cashflow needs over time. This is imperative as the purpose of investment of assets is to better match upcoming cashflow needs, and to minimise funding gaps.

9.2. The Council has a significant capital programme that totals £4.560bn to 2038/39. This will be funded from £2.458bn of funding, leaving a net funding requirement of £2.102bn. Thus, the need to take liquidity into account, to avoid unnecessary borrowing, is extremely important.

10. Investment Allocation

10.1. The Council's investment portfolio is currently allocated between liquid cash based short-term investments, longer-term cash investments for the intention of generating enhanced yield and commercial property, pension investments and equity shareholdings which tend to be held to perpetuity or at least 20 years or more.

10.2. Achieving liquidity and the necessary cashflow to manage revenue and capital commitments does require a reasonable allocation of short-term investments, with over 95% of the cash portfolio maturing within 12 months regarded as reasonable

10.3. Therefore, the proposed approach going forward is to move investment allocations towards proposals in Table 60, facilitating liquidity in an achievable manner.

11. Investing Primarily for Yield

11.1. Under the Public Work Loans Board (PWLB) framework, the Council will need to submit its three-year capital plan to the PWLB and classify the spend by the categories below. Classification and verification are the responsibility of the S151 officer. Any monies lent by the PWLB would also need to be classified under the following areas of spend:

- Service spending;
- Housing;
- Regeneration;
- Preventative action;
- Treasury Management: refinancing and externalisation of internal borrowing.

1.1. Under the PWLB criteria, it is stipulated: “Local authorities must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalising this with a PWLB loan.”

1.2. On transacting a PWLB loan, the S151 officer is required to confirm that the local authority is not borrowing in advance of need and does not intend to buy investment assets primarily for yield. When applying for a new PWLB loan, the Council will be asked to confirm that the latest plans submitted remain current and the assurance that they do not intend to buy investment assets primarily for yield remains valid.

1.3. The PWLB guidance defines investment assets bought primarily for yield as:

- buying land or existing buildings to let out at market rate;
- buying land or buildings which were previously operated on a commercial basis, which is then continued by the local authority without any additional investment or modification, and;
- buying land or existing buildings, other than housing, which generate income and are intended to be held indefinitely, rather than until the achievement of some meaningful trigger, such as the completion of land assembly.

2. Investment Allocation Targets

2.1. The following investment allocation targets are in place. These targets remain unchanged from 2024/25.

Type of investment	Allocation
Short-term investments – under six months	33 to 37%
Short-term investments – over six months less than one year	4 to 6%
Short-term investments – > one year < two years	5 to 7%
Short-term investments – > two years < three years	1 to 2%
Short-term investments – > three years < four years	1 to 2%
Short-term investments – > four years < five years	2 to 3%
Property	42 to 48%
Alternative investments	3 to 4%
Total	**100%**

3. Factors in Increasing Yield

3.1. This has been partially achieved with the following ambitions set out in the TMSS. However, the requirement for security of capital and liquidity will remain paramount.

Change	Current situation	Risk	Progress made in 2024/25
Treasury Management			
The Bank of England's Monetary Policy Committee voted to reduce Bank Rate to 4.75% in November 2024. The Council's treasury advisors are forecasting Bank Rate to continue to fall over the coming months.	Rates being offered by financial institutions have fallen in line with the Bank Rate reduction.	There must be a balance struck which leaves adequate liquidity for the Council and an optimal amount of cash placed on deposit.	The Treasury return from investments has decreased steadily throughout the year as existing deals maturing are being reinvested at a lower rate.
Investment property			
Adopt a more focused property investment strategy by reducing the number of properties and increasing the lot size to increase efficiency and reduce the cost of management and maintenance. A key objective is the acquisition of suitable properties which will assist in the unlocking or enhancement of regeneration schemes, or the achievement of other strategic benefits (not necessarily financial) for the Council. Given the added illiquidity of property investment, this makes sense only if properties meet the strategic aims of the Council and can achieve higher yields than the Treasury portfolio and meet other objectives, such as reducing risk (e.g., CPI inflation) or helping meet statutory duties. Therefore, new acquisitions should be driven by strategic objectives and target a return of around 4-5%.	Increased net return target of 4-5%	Adverse property markets may result in a fall in sale values.	Officers keep a watchful eye on the Westminster property market in the quest for strategic property.
Expanding the use of fund structures to deliver	Yields from public social housing real estate	By using a pooled fund structure, this arms-length	During implementation, consideration will be given

Change	Current situation	Risk	Progress made in 2024/25
specialist functions such as supported living housing, homeless shelters, asylum housing, etc. This would meet statutory duties and generate a return.	investment trusts (REITs), such as the Real Lettings Fund, in which the Council is currently invested, aim to generate internal rates of return of 6%. CCLA is an established provider of a property fund for local authority treasury investment.	approach distances the Council from the costs of directly managing such property and investment is secured on the underlying properties within the pooled structure.	to additional transaction costs (which may be bid/offer on entry and exit), as well as high management fees and/or the underlying costs of such investments.
Alternative assets			
These fall outside traditional investments, such as listed equities and bonds, and include renewable energy pooled funds, infrastructure and commodities.	The TMSS includes various non-cash options in the schedule of investments that are permissible.	Permanent loss of capital and/or poor investment performance.	These transactions have traditionally been considered too high risk for the treasury portfolio. However, allowable options open to the Council in the TMSS include various fixed income funds. Pooled property funds as a potential investable asset are allowed in the TMSS.
Pension Fund			
Pension Fund to maintain surplus as reported in the 2022 Actuarial Valuation to remain fully funded in the medium to long term.	The funding level of the Pension Fund as at 31 December 2024 was 182%.	Volatility within markets, higher levels of inflation, and negative sentiment in global investment markets, following disruptive geopolitical and economic uncertainty, including the conflict between Russia and Ukraine, and within the Middle East. Proposals from the MHCLG to require LGPS funds to consolidate their assets into fewer, larger pools of capital. The proposals cover strategic asset allocation, which may still be retained by the Fund, however funds will be expected to choose from buckets of assets.	During the year, the Fund rebalanced the portfolio by redeeming £60m in overweight passive equities, topping up the underweight multi asset credit fund by £30m and committing to the new vintages of the global infrastructure fund and UK renewable infrastructure fund.

4. Scrutiny

4.1. The Investment Executive meets to discuss monitoring reports on a regular basis. The Executive contains both Council Members and Officers.

5. Overall Investment Target

5.1. The overarching objective of this framework is to move towards increasing income generated from Council investments aspiring to go some way to matching inflation over the medium term, while maintaining adequate liquid cash balances for operational purposes and not exposing the capital value of investments to unnecessary risk.

6. Governance

6.1. Innovation within the financial services industry leads to a constantly changing market and the availability of new asset classes, products and financial instruments. The Council needs to be able to operate more flexibly, and make decisions more quickly, to benefit from the opportunities presented by this environment and to successfully implement the changes outlined above. As highlighted in the table at para 61, there are non-cash investment options as an alternative investment for the Council's treasury cash, subject to further due diligence and formal approval.

6.2. The implementation, management and reporting of this Integrated Investment Framework will be approved by Full Council with specific investment decisions that require such action being delegated to the Cabinet Member for Finance and Council Reform, after due diligence and advice from the Executive Director of Finance and Resources and the Tri-Borough Director of Treasury and Pensions.

6.3. Day-to-day aspects of treasury management function will continue to be delegated to officers in the same way that they are at present, but the Integrated Investment Framework will:

- Enhance the effectiveness of decision making;
- Embed an appropriate risk culture that encompasses appropriate due diligence, option appraisal and an atmosphere of openness;
- Ensure that a holistic approach is taken towards managing the Council's portfolio.

6.4. The implementation, monitoring and reporting will continue to be delegated to the Investment Executive. The Investment Executive will comprise:

- The Cabinet Member for Finance and Council Reform and the Chairman of the Audit and Performance Committee;
- The Executive Director of Finance and Resources, Tri-Borough Director of Treasury and Pensions, the Director of Property and the Corporate Finance Director;
- The Chief Executive and the Executive Director of Regeneration Economy and Planning as necessary.

6.5. Key information will be reported to Members through the investment reports. There is also a weekly treasury monitoring report sent to the Section 151 officer and other senior finance officers.

6.6. Given the complexity of this important area, the Council will need to rely on independent experts and advisors. The Council currently engages two investment advisors who:

- Provide advice on the current investment market and recommend new products in which to invest, and;
- Benchmark the Council's performance and identify any areas where there is scope for improvement.

7. Due Diligence

7.1. Due diligence is any process undertaken to:

- Investigate a business or person prior to signing a contract;
- Record the reasons behind an investment decision, and;
- Demonstrate that the Council is acting responsibly and has adequately assessed the balance between risk and reward.

7.2. Due diligence should be undertaken on all investments in a consistent manner, albeit proportionate, in terms of the value and complexity of the financial instruments being considered, and their relative impact on the Council's finances.

7.3. For a simple instrument such as a corporate bond, for example, a few paragraphs summarising risks and expected rewards, together with analysis from an advisor would suffice. A more complex product might require specialist assistance, comprehensive risk analysis and work undertaken to monitor and re-assess risks and performance regularly.

7.4. The Council has developed a framework for undertaking due diligence which promotes consistency and rigour whilst, at the same time, allowing for flexibility and a proportionate approach. It is based around the "6 Ps" principle as set out in Appendix A.

7.5. Whilst this framework does not rule out in principle any specific type of investment, all proposals will be considered in terms of:

- Reputational risk to the Council, and;
- Environmental, social, governance and sustainability considerations.

18. Option Appraisal

18.1. An important aspect of due diligence is assessing the value for money offered by a new investment. Option appraisal will be undertaken for all new investments as part of the due diligence process on a proportionate basis that reflects investment value, expected duration, and anticipated level of risk. It will be:

- Strategic outcome focused;
- Structured around the key questions set out in Appendix B, and;
- Take non-financial benefits into consideration where relevant.

18.2. Option appraisal should focus on the opportunity costs of the investment and a comparison against returns offered by other products or opportunities realistically available, rather than achievement of a "theoretical" rate of return.

19. Financial and Legal Implications

19.1. This report identifies the potential for improved returns, aspiring to going some way to matching CPI inflation over the medium term. Approval and implementation will result in an integrated framework for managing the Council's investment portfolio which supports improved returns and a more effective contribution to Council priorities and services. The legal provisions which impact on what is being proposed in this report are set out in the body of the report.

BACKGROUND PAPERS

- 2024/25 Treasury Management Strategy
- 2023/24 Statement of Accounts
- 2024/25 Integrated Investment Framework, approved by Full Council on 6 March 2024

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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