

Investment Strategy Report 2022/23

Introduction

1. The Council invests its money for three broad purposes:
 - because it has surplus cash as a result of its 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 other organisations (**service investments**), and
 - to earn investment income (known as **commercial investments** where this is the main purpose).
2. This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

3. The authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects 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.
4. **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
5. **Further details:** Full details of the Authority's policies and its plan for 2022/23 for treasury management investments are covered in a separate document, the treasury management strategy.

Service Investments: Loans

6. **Contribution:** The Council lends money to its subsidiary and a local business, to support local public services and stimulate local economic growth.

7. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a start-up loan to the business of £1.209m repayable over five years, two months, approved on 21 July 2016. The balance outstanding as at 31 March 2021 was £0.234m.
8. In addition a further £0.670m was loaned to HTS on 15th February 2021 for the purchase of vehicles, plant and machinery. The balance outstanding as at 31 March 2021 was £0.525m.
9. HTS (Housing & Property) Ltd is a wholly Owned subsidiary of Harlow Council and has been provided with Loans of £1,011,000 to enable the acquisition of Property for rent, These loans are repayable over a 40 year period on a commercial interest basis set at 4% per annum. These loans were advanced during the period October to December 2020 and represent a LTV (Loan to Value) ratio of 70% which provides security that the value of the assets would be sufficient to cover any outstanding loan balance.
10. Harlow Property Limited was provided with two loans to support the development of a part of the Harlow Enterprise Zone, approved on 23 January 2014. The amounts loaned were £1m on 15 March 2016 and a further £1.5m on 3 March 2017. Interest accrues on these loans. The total outstanding as at 31 March 2021 was £3.074m and they are secured through the placement of a property charge over the wider property portfolio at KAO Park valued at the time at over £40 million.
11. **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31.3.2021 Actual			2022/23
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries HTS P&E	0.234	-	0.234	0.234
Subsidiaries VPFE	0.670	-	0.670	0.670
Subsidiaries HTS H&P	1.011	-	1.011	1.011
Local businesses	3.074	-	3.074	3.220
TOTAL	4.989	-	4.989	5.135

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The Council considers that

this loss should be zero because HPL loans are a charge secured against property which considerably exceeds the value of the loan.

12. **Risk assessment:** The authority assesses the risk of loss before entering into and whilst holding service loans. In particular cash flow forecasts and business plans have been completed for subsidiary companies to show that there is expected to be adequate cash flow to repay loans. Where appropriate legal advice has been sought. As these loans are small relative to the size of the authority the overall risk they pose is limited.

Service Investment Equity

13. **Contribution:** The Council has acquired 450,000 £1 shares in HTS (Housing & Property) Ltd. The Investment is to enable HTS (H&P) Ltd to provide rented accommodation within the Harlow District.
14. **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Loans for service purposes

Category of company	31.3.2021 Actual			2022/23
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries HTS H&P	£450,000	-	£450,000	£450,000

15. **Risk assessment:** The authority assesses the risk of loss before entering into and whilst holding shares. Cash flow forecasts and business plans have been completed to show that the enterprise expect to generate income in future. Risk assessments will also have been undertaken by other partners in the town centre LLP. Where appropriate legal advice has been sought and detailed contractual arrangements have been created. This includes a legal charge on property. As these shareholdings are small relative to the size of the authority the overall risk they pose is limited.
16. **Liquidity:** The 2018 MHCLG Investment Guidance requires Harlow Council to determine the maximum periods for which funds for service equity investments are committed and how we will stay within these limits. These shareholdings are long term investments designed to be held for an indefinite time frame and are therefore not considered a liquid investment. The Council help minimise the risk to overall liquidity by staying with the limits specified in table 2.

17. **Non-specified investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

18. The Department for Levelling Up, Housing and Communities (DLUHC) (formerly that Ministry of Housing, Communities and Local Government or MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit.
19. **Contribution:** The Council currently holds four commercial and residential properties with the intention of making a profit that will be spent on local public services. These include a Golf Club, and three other properties. Annual income from all these assets is about £81,980. There are no outstanding loans specifically related to these assets.

Table 3: Property held for investment purposes in £ millions

Property	Actual	31.3.2021 Actual		31.3.2022 expected	
	Value	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Golf Club	0.782	-	0.782	-	0.782
Stewards Farm	0.322	-	0.322	-	0.322
Barrow Farm Cottage	0.153	-	0.153	-	0.153
Canons Cottage	0.116	-	0.116	-	0.116
TOTAL	1.373	-	1.373	-	1.373

20. The Nexus building at the Harlow Enterprise Zone is a wholly owned asset which is being let to commercial tenants. Whilst it does deliver an income stream to the Council a key determinant in the decision to proceed with the building was the regeneration and economic benefits it would bring to Harlow. The Council has been successful in obtaining additional grant funding of £3.6m to further develop the Enterprise Zone.
21. **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs. As these are historically purchased properties their valuation now exceeds their purchase price: the underlying assets thus provide security for the capital investment. Should the 2021/22 year end accounts preparation and audit process value

these properties 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.

22. **Risk Assessment:** The authority has no plans to purchase new commercial investment properties so a risk assessment for this process is not currently required.
23. **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. Harlow Council recognise that these investments are considered long term and use other types of investment to meet immediate liquidity needs. If these properties were required to be sold there would not be a capital loss as their value now exceeds the original price paid.

Loan Commitments and Financial Guarantees

24. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.
25. In 1987 and 1992 the Council agreed to undertake joint liability with a number of other local authorities to guarantee loans of £66.3 million and £17.3 million to Home Housing Association (previously called North Housing Association) in support of their private initiative for the provision of housing in Harlow and surrounding authorities. The guarantee is for a 50-year period ending 2037. The Council's proportion of the total liability is £4.5 million. The Council considers that the probability of the guarantee being called upon is low.

Proportionality

26. The income from commercial investments for the financial year 2022/23 is expected be around £82,000 and it is expected to remain at approximately this level over the next four years. This is a tiny fraction of the amount the council spends on services each year. The Council is therefore not reliant on commercial investment income to fund its services and would be able to continue to meet its service delivery objectives even if there was a significant drop in this income.

Capacity, Skills and Culture

27. **Elected members and statutory officers:** Strategic investment decisions are subject to the advice from officers or treasury management advisors. Elected members are also invited to formal or informal training. The process is

subject to scrutiny through the Cabinet Policy Development Working Group, Cabinet and Full Council.

Investment Indicators

28. The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

29. **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Table 4: Total investment exposure in £millions

Total investment exposure	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Treasury management investments	12.170	27.049	15.500
Service investments: Loans	4.989	4.989	5.135
Service investments: HTS H&P Shares	-	.450	.450
Service Investment TC LLP	-	-	5.000
Commercial investments: Property	1.373	1.373	1.373
TOTAL INVESTMENTS	18.532	33.861	27.458

30. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 5: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2021 Actual	31.03.2022 Forecast	31.03.2023 Forecast
Town Centre LLP	-	-	5.000
Treasury management investments	Nil	Nil	Nil
TOTAL FUNDED BY BORROWING	Nil	Nil	Nil

31. **Rate of return received:** 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: Investment rate of return (net of all costs)

Investments net rate of return	2020/21 Actual	2021/22 Forecast	2022/23 Forecast
Treasury management investments	0.52%	0.44%	0.57%
Service investments: Loans	4.69%	4.52%	4.51%
Commercial investments: Property	6%	6%	6%

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