

## HARLOW COUNCIL

### NON-TREASURY INVESTMENT STRATEGY REPORT 2024/25

#### 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 or buying shares in 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.
3. The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

#### Treasury Management Investments

4. The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (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. The balance of treasury management investments is expected to fluctuate between £10m and £40m during the 2024/25 financial year.
5. **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

6. **Further details:** Full details of the Council's policies and its plan for 2023/24 for treasury management investments are covered in a separate document, the treasury management strategy.

**Service Investments: Loans**

7. **Contribution:** The Council lends money to its subsidiaries and a local business, to support local public services and stimulate local economic growth.
8. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. £0.7m was loaned to this company on 15 February 2021 for the purchase of vehicles, plant and machinery. The outstanding balance on these loans was £0.3m as at 31 March 2023.
9. HTS (Housing & Property) Ltd is a wholly owned subsidiary of Harlow Council and has been provided with loans of £1.0m 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. As a result of decisions taken in 2023/24 it is anticipated that this loan will be repaid in early 2024/25.
10. **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	31.3.2023 actual			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries VPFE	£0.3m	-	£0.3m	£0.3m
Subsidiaries HTS H&P	£1.0m	-	£1.0m	£1.0m
<b>TOTAL</b>	<b>£1.3m</b>	<b>-</b>	<b>£1.3m</b>	<b>£1.3m</b>

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

zero because HTS loans are a charge secured against property which considerably exceeds the value of the loan.

12. **Risk assessment:** The Council 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 Council, the overall risk they pose is limited.

**Service Investments: Shares**

13. **Contribution:** The Council invests in the shares of its subsidiaries HTS (Housing and Property) Ltd to support local public services and stimulate local economic growth. 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. As a result of decisions taken in 2023/24 it is anticipated that this share holding will be redeemed in early 2024/25.
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: Shares held for service purposes in £ millions

Category of company	31.3.2023 actual			2024/25
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Subsidiaries HTS H&P	0.5	-	0.5	0.5

15. **Risk assessment:** The Council 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 the 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 Council, the overall risk they pose is limited.

16. **Liquidity:** The 2018 DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance requires Harlow Council to determine the maximum periods for which funds for service equity investments are committed and how they 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 Council 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 Council's upper limits on non-specified investments. The Council 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 Council purchased the Harvey Centre, a shopping centre in Harlow town centre, for £21.0m in December 2022. This was initially partly funded by short term borrowing of £9.0m, of which £4.0m has now been repaid. The remaining £5.0 of short term borrowing is expected to be fully repaid when it matures without any requirement for refinancing.

19. **Contribution:** The purchase of the Harvey Centre is primarily for service reasons, with any yield gained on the Centre being a secondary objective. The Council is thus not in contravention of the CIPFA Codes' prohibition on borrowing to invest primarily for financial return.

20. The Harvey Centre was acquired to support the Council's ambitions to meaningfully regenerate Harlow Town Centre. The asset forms a significant part of the town centre extending to 8.5 acres. The acquisition gives the Council a greater ability to positively shape Harlow's future for its residents and businesses.

21. The Harvey Centre is overall expected to generate a net yield of 11.8%. A small annual income is expected from the Harvey Centre in the short term, income of around £0.7m is expected from approximate the year 2024/25.

22. DLUHC defines property to be an investment if it is held primarily or partially to generate a profit. The Harvey Centre is thus included within the commercial investment section in this strategy despite being classified as a service investment in the Capital Strategy.

23. In addition to the Harvey Centre the council also holds three commercial and residential properties for the purpose of making a profit that will be spent on local public services. These include a golf club and two other properties. Annual income from these assets is around £78,000.

Table 3: Property held for investment purposes in £ millions

Property	Actual	31.3.2023 actual		31.3.2024 expected	
	Purchase cost	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Harvey Centre	21.0	1	22.0	-	22.0
Golf Club	0.8	-	0.8	-	0.8
Stewards Farm	0.3	-	0.3	-	0.3
Barrow Farm Cottage	0.2	(0.2)	0	-	0
Cannons Cottage	0.1	-	0.1	-	0.1
<b>TOTAL</b>	<b>22.4</b>	<b>0.8</b>	<b>23.2</b>	<b>-</b>	<b>23.2</b>

24. **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.
25. Expert property sector and legal advice were sought in acquiring the Harvey Centre and its purchase price of £21.0m fully reflects its value. Other independent valuations of the Centre have valued at or higher than this value, so even in the unlikely event of having to sell the Centre the council would expect to recoup the purchase price paid.
26. The golf club, Stewards Farm and Cannons Cottage are historically purchased properties and their valuation now exceeds their purchase price: the underlying assets thus provide security for the capital investment.
27. Should the 2023/24 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.
28. **Risk assessment:** Full due diligence and assessment of risk was carried out prior to the purchase of the Harvey Centre. The quality of the tenants, anticipated future performance and fabric of the Centre have all been assessed in detail. The council sought expert advice from property consultants and legal and financial advisors throughout the process: the quality of this advice has been monitored by the Council.
29. **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.

## **Loan Commitments and Financial Guarantees**

30. 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.
31. 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 Borth 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 £4.5m. The Council considers that the probability of the guarantee being called upon is low.

## **Proportionality**

32. The Council expect to receive £1.2m in income from treasury investments and £40,920 in income from loans made and shares owned for service purposes in 2023/24 and 2024/25.
33. The income from commercial investments excluding the Harvey Centre for the financial year 2023/24 is expected be around £78,000 and it is expected to remain at approximately this level over the next four years. The Harvey Centre is expected to provide income to the Council from the final quarter of 2022/23.
34. This investment income is a tiny fraction of the amount the council spends on services each year. The Council is therefore not reliant on 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**

35. **Elected members and statutory officers:** Strategic investment decision 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.
36. **Specialist expertise:** The Council was assisted in the purchase of the Harvey Centre by Property Consultants, legal advisors and financial advisors. Arlingclose have been the Council's financial advisors.

## **Investment Indicators**

37. 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.

**38. 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 5: Total investment exposure in £millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	24.3	10.0	10.0
Service investments: Loans	1.3	1.3	1.3
Service investments: Shares	0.5	0.5	0.5
Commercial investments: Property	23.2	23.2	23.2
<b>TOTAL INVESTMENTS</b>	<b>49.3</b>	<b>35.0</b>	<b>35.0</b>
Guarantees issued on loans	4.5	4.5	4.5
<b>TOTAL EXPOSURE</b>	<b>53.8</b>	<b>39.5</b>	<b>39.5</b>

**39. 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. The only investment clearly funded by borrowing was the purchase of the Harvey Centre of which £9.0m of the total £21.0m purchase was funded by borrowing in 2022/23. Of this £9.0m in borrowing only £5.0m remains which is expected to be repaid within the next 6 months.

**40. 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 7: Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	2.3%	4.7%	4.0%
Service investments: Loans	4.5%	4.5%	4.5%

Commercial investments: Property	6.0%	3.6%	3.7%
<b>ALL INVESTMENTS</b>	<b>4.3%</b>	<b>4.3%</b>	<b>4.1%</b>