

Investment Strategy Report 2021/22

Introduction

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).

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

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 the 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). The balance of Treasury Management investments is expected to fluctuate between £10.0 million and £30.0 million during the 2021/22 financial year.

Contribution

The contribution that these investments make to the objectives of the Council is to support effective Treasury Management activities.

Full details of the Council's policies and its plan for 2021/22 for Treasury Management investments are covered in a separate document, the Treasury Management Strategy (**Appendix A** of this report).

Service Investments: Loans

Contribution

The Council will sometimes make investments to support service delivery objectives where there is a strategic case for doing so. This is an approach that has been adopted for the delivery of a package of services including Refuse Collection and Leisure. For example, the Council has previously invested in contractor loans for the procurement of Refuse Vehicles, which has realised a return for the Council in the form of lower contract payments, whilst protecting the local Waste Collection service.

See separate discussions below re Qualis loans (under Commercial Investments).

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 exposure to service loans remains proportionate, the Council will – wherever possible – look to securitise loans against physical assets (Property, Plant and Equipment).

Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's Statement of Accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk Assessment

The Council assesses the risk of loss before committing to, and whilst holding, service loans. The approach taken is tailored to individual circumstances and will often include the engagement of professional advisors, the undertaking of credit checks etc.

Service Investments: Shares

Contribution

The Council will sometimes invest in shares to support local public services and stimulate local economic growth. Most notably the Council has 1 Ordinary Share in, and is the sole shareholder of, the Qualis Group, which has been set up to help create more jobs, grow the local economy, and improve housing and public amenities in the district.

Security

One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. However, in the case of the Qualis Group, (other than for service purposes) the Council has invested with a view to realising a significant financial return through the receipt of dividends and, despite limited liability status, the Council carries significant risk in the event of the financial failure of Qualis (e.g. through a guarantee to the Pension Fund as part of the transfer of staff from the former in-house Housing Repairs service).

The Qualis Business Plan therefore requires the approval of the Council, and forms part of a wider Governance Framework purposely set-up to protect the interests of the Council.

Risk Assessment

The Council assesses the risk of loss before committing to, and whilst holding, shares. The approach taken is tailored to individual circumstances, although in the case of Qualis, extensive use of professional advisors was made.

Non-Specified Investments

Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in Government guidance.

Commercial Investments: Property

Contribution

The Council invests in the acquisition of commercial property in a range of locations across the district. The value of the overall portfolio rose from £117.011 million to £138.026 million in 2019/20, with net income of £6.216 million achieved. Shops and Industrial Units have been two areas of emphasis and the returns achieved have been a key enabler in maintaining a low Council Tax charge in the district (now the lowest district Council Tax in Essex) as well as helping to shape the district through the protection and promotion of local business and employment opportunities.

| Portfolio Category | Balance Sheet Value | |
|------------------------|---------------------|----------------|
| | 31/03/19 | 31/03/20 |
| | £000's | £000's |
| Shops | 81,133 | 94,765 |
| Industrial Units | 24,547 | 32,011 |
| Other | 11,331 | 11,250 |
| Total Portfolio | 117,011 | 138,026 |

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.

A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

Risk Assessment

The Council assesses the risk of loss before committing to, and whilst holding, shares. In the case of commercial property, the 'strength of the covenant' is of primary interest.

Commercial Investments: Qualis

Contribution

As well as the shareholding in Qualis noted above within Service Investments, the Council also makes a margin on the capital loans that it has made to the "Qualis Group". Access to affordable finance is a key enabler in the Qualis Business Plan which underpins the ambition to create more jobs, grow the local economy, and improve housing and public amenities in the district.

| Description | Type/Terms | 2020/21 | 2021/22 | 2022/23 | Totals |
|----------------------------|-----------------------|---------------|---------------|---------------|---------------|
| | | £000's | £000's | £000's | £000's |
| Investment Loan | 10-Year Maturity/4.0% | 30,000 | 0 | 0 | 30,000 |
| Regeneration Finance Loans | TBC | 6,000 | 10,000 | 47,000 | 63,000 |
| Totals | | 36,000 | 10,000 | 47,000 | 93,000 |

In addition to the capital loans presented above, the Council has also provided Qualis with a Working Capital (revenue) Loans totalling £6.0 million in a series of seven tranches as follows:

- 2019/20 (Tranche 1) - £500,000 (5-Year EIP @ 7.80%); and
- 2020/21 (Tranches 2 - 7) - £5,500,000 (5-Year EIP @ 3.80%).

Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's Statement of Accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Security

The Qualis Business Plan requires the approval of the Council, and forms part of a wider Governance Framework purposely set-up to protect the interests of the Council.

Risk Assessment

The Council assesses the risk of loss before committing to, and whilst holding, Qualis loans. For example, detailed consideration was given to the Business Plan before the Council committed to the Working Capital Loan in recognition of the higher level of risk i.e. the arrangement is not 'asset backed' (contrast the Investment Loan, which Qualis applied to the purchase of commercial property).

Loan Commitments and Financial Guarantees

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.

The Council became "self-financing" in respect of its retained housing stock from April 2012. The self-financing regime applied to all authorities and replaced the former Housing Subsidy system whereby the Council made annual payments to the Government funded from its HRA. Its introduction entailed a one-off redistribution of 'debt' between local authorities, and locally this resulted in the Council taking on PWLB loans, which it is required to service (instead of making Housing Subsidy payments).

If the HRA is unable to repay the debt at any point in the future, the Council (through its General Fund) is liable to repay any remaining balance. The remaining balance on the HRA debt as 31st March 2020 was £185.456 million.

The Council has also provided a guarantee (to the Essex County Pension Fund) on pension costs for 38 'TUPE protected' employees that transferred to Qualis in October 2020, as part of the transfer of the Housing Repairs service. If Qualis is unable to meet its liabilities incurred, through its participation in the Local Government Pension Scheme (LGPS), the Council is obliged to meet those costs on its behalf.

Capacity, Skills and Culture

Statutory Officers and Elected Members

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making investment decisions. In particular, the Section 151 Officer, who is the strategic lead on the Council's finances, is a qualified (CIPFA) accountant with many years of experience, whereas the Deputy Section 151 Officer, who leads on operational matters, is also a qualified (ACCA) accountant, also with many years of experience. The Council is committed to the ongoing professional development of the other officers within the Finance function, which includes a commitment towards general professional development (e.g. through CIPFA, ACCA and AAT), as well focussed professional training in specialist areas including Treasury Management.

The Council also acknowledges the importance of ensuring that Members have appropriate capacity, skills and information to effectively undertake their role on the Audit and Governance Committee and have arranged training in the past from the Council's Treasury Management advisors, Arlingclose.