

**1. Introduction**

1.1 The Authority 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).

1.2 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.

**2. Treasury Management Investments**

2.1 The Authority 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 £266m and £191m during the 2020-21 financial year.

2.2 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

2.3 **Further details:** Full details of the Authority's policies and its plan for 2020-21 for treasury management investments are covered in a separate document, the treasury management strategy, appended to this report.

**3. Service Investments: Loans**

3.1 **Contribution:** The Council lends money to its subsidiaries and associates, local charities and its employees to support local public services and stimulate local economic growth.

- 3.2 **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 Authority, 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      | 31.3.2019 actual |                |                        | 2020-21        |
|---------------------------|------------------|----------------|------------------------|----------------|
|                           | Balance owing    | Loss allowance | Net figure in accounts | Approved Limit |
| Subsidiaries & associates | 0.04             | 0.00           | 0.04                   | 54.20          |
| Local charities           | 0.96             | 0.00           | 0.96                   | 1.40           |
| Employees                 | 0.20             | 0.00           | 0.20                   | 0.40           |
| <b>TOTAL</b>              | <b>1.20</b>      | <b>0.00</b>    | <b>1.20</b>            | <b>56.00</b>   |

- 3.3 The loans to subsidiaries and associates comprise loans to PLACE Ltd, Seahorse Homes Ltd and Mulberry Housing, the Council's housing vehicles. The loans to local charities are to the Davenant Centre and Oxford House. The employees loans comprises loans for car loans. As referred to in the Budget Report being considered by Cabinet in January 2020, a review of the use of the 2 housing companies is underway and a decision on their future use will be presented for consideration to Cabinet in the coming months.
- 3.4 The Authority assesses the risk of loss before entering and whilst holding service loans. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. The Council is expecting full repayment on the loans to subsidiaries and associates. The loans to charities are underpinned by first charges on the properties concerned. The Council anticipates full repayment on the employees' loans.
- 3.5 Members should note that the approved limit for charities' loans of £0.6m was exceeded by £0.4m, as the total approved limit did not take into account a pre-existing loan to one charity.

3.6 **Service Investments: Shares**

3.7 **Contribution:** The Council invests in the shares of its subsidiaries to support the provision of housing in the local community; local public services and stimulate local economic growth. The Council has nominal value shares in several companies; Capital Letters, PLACE Ltd, Tower Hamlets Local Education Partnership Ltd Mulberry Housing, Seahorse Homes Ltd and Tower Hamlets Homes. The Council is an 'A' shareholder in Capital Letters, along with 12 other London Boroughs. The Council is one of 5 London Boroughs with shareholdings in PLACE Ltd.

3.8 The Council has committed an initial £6m to Seahorse Homes Ltd, which is equity financing for a wholly owned company with the commercial purpose of providing homes for rent and sale. The approved limit reflects that £6m, which is contained in the Council's capital programme in 2021-22, pending the review of the Councils housing companies referred to in para 3.3. If the review confirms the investment, the capital programme may need to be amended and approved by Council depending on which year the investment is made, but the Approved Limit has been set at £6m, so this limit will not need to change if the decision is made to make that investment in 2020-21.

3.9 **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 | 31.3.2019 actual |                 |                   | 2020-21        |
|---------------------|------------------|-----------------|-------------------|----------------|
|                     | Amounts invested | Gains or losses | Value in accounts | Approved Limit |
| Subsidiaries        | 0.0              | 0.0             | 0.0               | 6.0            |
| Suppliers           | 0.0              | 0.0             | 0.0               | 0.0            |
| <b>TOTAL</b>        | <b>0.0</b>       | <b>0.0</b>      | <b>0.0</b>        | <b>6.0</b>     |

3.10 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares. The investments in Seahorse Homes Ltd will be into property-backed assets that have a long-term track record of value appreciation, although there may be short-term value falls. Legal and independent advice was obtained before the company was created.

3.11 **Liquidity:** Proposed investments and loans are longer term in nature. Therefore these investments will not be used for short-term cash flow purposes. The maximum value of the investments is less than 20% of the Council's current investment portfolio.

3.12 **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.

#### **4 Loan Commitments and Financial Guarantees**

4.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness.

4.2 Between 1998 and 2010, the Council has historically provided financial guarantees on properties transferred to social landlords. No liabilities have been payable on these guarantees.

#### **5 Capacity, Skills and Culture**

5.1 **Elected members and statutory officers:** A training plan is being produced for the training of members and the Council has just appointed a new interim treasury manager

5.2 **Corporate governance:** The Audit committee meet on a quarterly basis to review the treasury management investments

#### **6 Investment Indicators**

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

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

Table 3: Total investment exposure in £millions

| <b>Total investment exposure</b> | <b>31.03.2019<br/>Actual</b> | <b>31.03.2020<br/>Forecast</b> | <b>31.03.2021<br/>Forecast</b> |
|----------------------------------|------------------------------|--------------------------------|--------------------------------|
| Treasury management investments  | 382.3                        | 266.3                          | 191.0                          |
| Service investments: Loans       | 1.20                         | 1.40                           | 1.4                            |
| Service investments: Shares      | 0.0                          | 0.0                            | 0.0                            |
| <b>TOTAL INVESTMENTS</b>         | <b>383.5</b>                 | <b>267.7</b>                   | <b>192.4</b>                   |
| Commitments to lend              | 0..0                         | 0.00                           | 0.00                           |
| Guarantees issued on loans       | 0.00                         | 0.00                           | 0.00                           |
| <b>TOTAL EXPOSURE</b>            | <b>383.5</b>                 | <b>267.7</b>                   | <b>192.4</b>                   |

6.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority 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 Authority's investments are funded by usable reserves and income received in advance of expenditure.

6.4 **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 4: Investment rate of return (net of all costs)

| <b>Investments net rate of return</b> | <b>2018-19<br/>Actual</b> | <b>2019-20<br/>Forecast</b> | <b>2020-21<br/>Forecast</b> |
|---------------------------------------|---------------------------|-----------------------------|-----------------------------|
| Treasury management investments       | 1.16%                     | 1.60%                       | 1.60%                       |
| Service investments: Loans            | n/a                       | n/a                         | n/a                         |
| Service investments: Shares           | n/a                       | n/a                         | n/a                         |
| Commercial investments: Property      | n/a                       | n/a                         | n/a                         |
| <b>ALL INVESTMENTS</b>                | <b>1.16%</b>              | <b>1.60%</b>                | <b>1.60%</b>                |