

1. Introduction

- 1.1 The Authority invests its money for two broad purposes:
- 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), and
 - to support local public services by lending to or buying shares in other organisations (service investments).
- 1.2 This investment strategy meets the requirements of the statutory guidance issued by the government in January 2018.

2. Treasury Management Investments

- 2.1 The Authority typically receives its income in cash (e.g. from taxes, grants and fees & charges) 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 £200m and £100m during the 2021-22 financial year.
- 2.2 These investments support the objectives of the Authority through effective treasury management activities to manage financial risk and protect the real terms value of the Council's cash assets.

3. Service Investments: Loans

- 3.1 The Council may lend money to its subsidiaries and associates, local charities and its employees to support local public services and stimulate local economic growth, in line with the latest CIPFA and MHCLG regulations and guidance.
- 3.2 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 demonstrating loans for service purposes

Category of borrower	Actuals at 31.03.2020			2021-22
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries & associates	-	-	-	50.0
Local charities	1.3	-	1.3	2.0
Employees	0.5	-	0.5	0.7
TOTAL	1.8	-	1.8	52.7

- 3.3 There are no loan agreements with subsidiaries and associates. Loans to local charities relate to Oxford House and Davenant Centre. Employee loans relate to car loans, bicycle loans and train season tickets.
- 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 charities and employees.

4. Service Investments: Shares

- 4.1 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.

- 4.2 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 demonstrating shares held for service purposes

Category of company	Actuals at 31.03.2020			2021-22
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiaries	-	-	-	6.0
Suppliers	-	-	-	-
TOTAL	-	-	-	6.0

- 4.3 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares. The investments in Seahorse Homes Ltd will be turned 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.
- 4.4 **Liquidity:** Proposed investments and loans are longer term in nature. These investments will, therefore, 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.
- 4.5 **Non-specified Investments:** Shares are the only non-treasury 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.

5. Loan Commitments and Financial Guarantees

- 5.1 Loan commitments and financial guarantees are not strictly counted as investments since no money has exchanged hands yet, however these carry similar risks to the Authority and are included here for completeness.

5.2 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.

6. Capacity, Skills and Culture

6.1 A training plan is being produced for the training of elected members and Council officers attend regular training during the year.

6.2 To ensure corporate governance, the Audit Committee is presented with mid-year and outturn reports to enable the review of treasury management activities.

7. Investment Indicators

7.1 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.

7.2 **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 that the Authority has issued over third party loans.

Table demonstrating total investment exposure

Total investment exposure	31.03.2020 Actual £m	31.03.2021 Forecast £m	31.03.2022 Forecast £m
Treasury management investments	257.8	200.0	137.5
Service investments: Loans	1.5	2.0	2.0
Service investments: Shares	-	-	-
TOTAL INVESTMENTS	259.3	202.0	139.5
Commitments to lend	-	-	-
Guarantees issued on loans	-	-	-
TOTAL EXPOSURE	259.3	202.0	139.5

- 7.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate individual assets with individual liabilities, this guidance is difficult to comply with. Some investments could be described as being funded by borrowing with the remainder of the Authority's investments being funded by usable reserves and income received in advance of expenditure.
- 7.4 **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 in which they are incurred.

Table demonstrating investment rate of return (net of all costs)

Investments net rate of return	2019-20 Actual	2020-21 Forecast	2021-22 Forecast
Treasury management investments	1.40%	1.00%	1.16%
Service investments: Loans	-	-	-
Service investments: Shares	-	-	-
Commercial investments: Property	-	-	-
ALL INVESTMENTS	1.40%	1.00%	1.16%