

# Welwyn Hatfield Borough Council

## Investment Strategy 2019/20



**WELWYN  
HATFIELD**

## **1 Introduction**

- 1.1 In accordance with the Ministry for Housing, Communities and Local Government Investment Guidance 2018, the Council sets out in this document its Investment Strategy for 2019/20.
- 1.2 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) – section 2,
  - to support local public services by lending to or buying shares in other organisations (service investments) – section 3, and
  - to earn investment income (known as commercial investments where this is the main purpose) – section 4.
- 1.3 This investment strategy is a new report for 2019/20, meeting 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 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 £60m during the 2019/20 financial year.
- 2.2 Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.
- 2.3 Further details: Full details of the Council's policies and its plan for 2019/20 for treasury management investments are covered in a separate document, the treasury management strategy, available at appendix M to the Budget Report.

## **3 Service Investments: Loans**

- 3.1 Contribution: The Council has loan arrangements with local charities, local residents, its joint venture and its employees to support local public services and stimulate local economic growth.
- 3.2 The Council provided loans against properties relating to the rent to mortgage housing scheme which has since ceased. The Council has a car loan scheme to offer a competitive rate of borrowing for employees to assist with their car purchase. The Council also has two small loans to organisations that were established to support local services. The Council has no plans to make further loans, other than under the current car loan scheme policy.

- 3.3 **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

Category of borrower	31.3.2018 actual			31.03.2019	2019/20
	Balance owing £000	Loss allowance £000	Net figure in accounts £000	Forecast Balance £000	Approved Limit £000
Joint Venture	107		107	107	172
Local charities	162		162	146	162
Local residents	4,434		4,434	4,434	4,434
Employees	159	(13)	146	120	500
<b>TOTAL</b>	<b>4,862</b>	<b>(13)</b>	<b>4,849</b>	<b>4,807</b>	<b>5,268</b>

- 3.4 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2018/19 onwards will be 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.
- 3.5 The loans to residents under the rent to mortgage scheme are secured by a charge on the property for the debt to be repaid when the asset is sold. Other categories of borrowing are low value and not considered material risk.
- 3.6 **Risk assessment:** The Council has discretion to make loans for a number of reasons. These loans are treated as capital expenditure.
- 3.7 In making loans the Council is exposing itself to the risk that the borrower defaults on repayments. In making these loans, the Council therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Council is proportionate and prudent.
- 3.8 The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.
- 3.9 In addition to debt liabilities set out in the treasury management strategy, the Council is committed to making future payments to cover any pension deficit. The pension fund is subject to a triennial valuation and the revenue implications are built into the Medium Term Financial strategy.

#### **4      Commercial Investments: Property**

- 4.1      Contribution: The Council holds local commercial property with the intention of generating an income that will be spent on local public services.
- 4.2      Properties held by the Council for investment purposes as defined in International Accounting Standard 40: Investment Property including freehold on properties subject to ground rent and other land and buildings, totalling £5.276m as at 31 March 2018. These assets have been held by the council for a number of years.
- 4.3      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.
- 4.4      A fair value assessment of the Council's investment property portfolio has been made by the Council's valuer as at 31<sup>st</sup> March 2018, and the underlying assets provide security for capital investment. These assets are valued every year to monitor the risk.
- 4.5      **Risk assessment:** The Council assesses the risk of loss before entering into and whilst holding property investments by ensuring they are prudent and has fully considered the risk implications, with regard to both the individual property and that the cumulative exposure of the council is proportionate and prudent.
- 4.6      The Council will ensure that a full due diligence exercise is undertaken and adequate security is in place, before entering into any commercial property investment and the business case will balance the benefits and risks. All investments of this type are agreed by Cabinet.
- 4.7      **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.
- 4.8      The investment strategy for the Council for 2019-20 is proposed to remain broadly unchanged as it is considered overall to be well structured to limit any undue risks to the security of assets and preservation of liquidity whilst also allowing the council and delegated officers to access suitable investment opportunities.

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

- 5.1      The Council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.
- 5.2      The council establishes project teams from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

- 5.3 Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the Corporate Director (Resources, Environment and Cultural Services).

## 6 **Investment Indicator**

- 6.1 The Council has set the following quantitative indicator to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.
- 6.2 **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 2: Investment Rate of Return (net of all costs)

Investments net rate of return	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	0.98%	1.20%	1.20%
Service investments: Loans	1.42%	1.58%	2.47%
<b>TOTAL INVESTMENT EXPOSURE</b>	<b>1.20%</b>	<b>1.54%</b>	<b>1.98%</b>