

APPENDIX E: Investment Strategy

Compliance with the main requirements of the Government's Statutory Guidance on Local Authority Investments (MHCLG, 2018) is shown by cross reference in square brackets to the relevant paragraph of the Guidance.

1. Scope and Purpose of Strategy

1.1. "Investments" covers financial investments, including loans and shares, which have been made to support service and commercial objectives. Non-financial investments such as commercial property are included where the main objective is financial return [4]. The purchase of Essex House was an investment made with the objective of financial return, the other properties in the Council's asset register listed as Investment Buildings, such as Neighbourhood Centres and Workshops, fall outside of this strategy. Investments taken for treasury management reasons also fall outside of this strategy and are covered in the Treasury Management Strategy and Policy.

1.2. This strategy sets out the Council's approach to such investments, including their governance, addressing the Government Guidance on Local Authority Investments.

1.3. Investment values provided in this Appendix are the book values in the Council's accounts, unless otherwise stated.

2. Objectives of the Strategy

2.1. To use investments where appropriate and prudent to support the Council's Future Town Future Council (FTFC) aims, including regeneration of the town centre, housing delivery and co-operative neighbourhood management.

2.2. To ensure that investment decisions and management connects with the Council's Financial Security priority, to achieve financial stability for the council so that it maintains a prudent level of balances, while at the same time being able to deliver on the FTFC aims.

2.3. To review existing investments with a view to maximising the commercial return from them.

2.4. To manage risks in accordance with the Council's risk appetite and financial circumstances (including due diligence when making investment decisions).

2.5. To ensure that all commercial investments, actions and decisions are ethical in nature and have a positive impact on the community, delivering additional social value and contributing to community wealth building where possible.

3. The Existing Investment Portfolio

3.1. The Council's service and commercial investments are as follows

Table One: Service and Commercial investments			
Name	Value 31/03/20 £'000	Equity Share %	Reason for Investment
Hertfordshire CCTV Ltd	£43 (of £118)	37%	Service investment - Equity
Hertfordshire Building Control Ltd	Not available	12.5%	Service investment - Equity
Hertfordshire Building Control Ltd	£107		Service investment – Long Term Loan
Queensway Properties (Stevenage) LLP	£1,491.5 [of £1.493]	99.9%	Service investment - Equity NB the 0.1% is owned by Marshgate PLC so by SBC but indirectly
Queensway Properties (Stevenage) LLP	£11,824		Service investment – Finance Lease
Queensway Properties (Stevenage) LLP	£6,274	N/A	Service investment - Long Term Loan
Marshgate Ltd	£0	100%	Service investment - Equity
UK Municipal Bonds Agency	£10	0.14%	Service investment - Equity
Essex House	£1,756	N/A	Commercial investment - Property

3.2. The value of financial investments at 31 March 2021 was £91.2Million comprising service and commercial investments of £21.5Million (in Table one) and Treasury Investments of £69.7Million.

4. Investment Policy and Strategy 2021/22+

4.1. Joint working and joint delivery arrangements are key to the provision of Council services. Financial investments are likely to be an ongoing result of these delivery arrangements.

4.2. The Council recognises that all investments carry the risk of financial loss and an estimate of potential losses needs to be identified from the outset.

4.3. The Council will be particularly cautious where service investments are funded wholly or partly from borrowing. Debt “gearing” creates additional costs of interest and repayment. It creates a fixed liability and a fixed repayment obligation, whilst the investment's value and income are at risk.

4.4. There remains no scope for the Council to enter into any new, purely commercial, investments, following the change of the lending terms for the Public Works Loan Board (PWLB) in November 2020. The Council cannot have any scheme in the Capital Strategy where the investment is purely for financial gain,

regardless of whether the transaction would notionally be financed from a source other than the PWLB, or the Council will not be eligible to borrow from the PWLB.

4.5. The Council's risk appetite in relation to new investments is low, including the need to balance the revenue budget and manage the level of debt financing costs. Any new investments will therefore be expected to:

- Show a compelling contribution to the Council's core objectives and planned service strategies, and must be prioritised within the Council's available resources.
- Evidence a low financial risk with a commensurate financial return, or if returns are below commercial levels, provide clear non-financial benefits to the Council which demonstrate strong value for money.
- Strike a prudent balance between security, liquidity and yield (whilst recognising that the delivery of strong service benefits may sometimes justify a higher financial risk) [29].

4.6. Any shortfall in budgeted net income from service and existing commercial investments will be managed through the Council's regular budget monitoring processes [44].

4.7. The arrangements for realising investments and managing liquidity risk will depend on the purpose and nature of the investment in each case. Where investments have been made to support service purposes and have been funded from cash resources, there is not a funding pressure to have an investment exit route in place. Where investments are funded by borrowing, the Council's MRP Policy sets out the arrangements to repay debt without resorting to a sale of the investments [42-43].

5. Financial Investment Plans and Limits for 2021/22+

5.1. The forecast changes to the existing investment portfolio are

- to invest in the new Housing Wholly Owned Company (WOC), following approval of the report by Executive in January 2021, which provided an update on planned activity. Loan agreements between the Council and Marshgate are currently being agreed (the new Housing WOC is an expansion of Marshgate PLC).
- financing for a further finance lease to Queensway LLP for the residential phase of development.

5.2. The main financial risk when investing in loans and equity is that the loan repayments are not made, and that the shares lose value or dividends are less than expected.

5.3. Investments may also carry liquidity risk, which is the risk that funds may be tied up in investments and not available if needed for other purposes. The Council's due diligence procedures for investments review liquidity risk, including how exit routes

have been considered and the appropriate maximum period for investments to be committed [42].

6. Investment Indicators

6.1. The Key Performance Indicators approved by the Commercial & Investment Executive Committee following the convening in October 2020, the use of which is recommended by the Government Guidance [23]:

Table Two: Key Performance Indicators	
Reporting Category	Reporting Metric
Overarching Commercial Key Performance Indicators	
KPI 1 - Increase in revenue from fees and charges	Percentage (%)
KPI 2 – Current partnerships for cost savings or income generation	Number (no.)
KPI 3 – Income generated or costs saved through commercial activities	Monetary (£)
KPI 4 – Additional savings from insourcing services/functions	Monetary (£)
KPI 5 - Commercial business cases on track to deliver business case (approved and live)	Number (no.)
KPI 6 - Social value generated through commercial activity	Narrative
KPI 7 - Staff trained in contract management	Number (no.)
KPI 8 - Staff reporting confidence in commercial decision making	Number (no.)
Area specific Key Performance Indicators	
KPI 9 -Income from car parking	Monetary (£)
KPI 10 - Income from small land sales	Monetary (£)
KPI 11 - Income from commercial property	Monetary (£)
KPI 12 - New commercial property lets	Number (no.)
KPI 13 - Return from commercial assets/yield from acquisitions and investments	Percentage (%)
KPI 14 - Occupied garages as a percentage of stock	Percentage (%)
KPI 15 - Garages refurbished due to the Garage Improvement Programme (GIP)	Number (no.)
KPI 16 - Indoor Market occupied units (excluding those hired at charitable rates)	Percentage (%)
KPI 17 - New businesses setting up in the Indoor Market	Number (no.)
KPI 18 - Level of footfall in the Indoor Market	Number (no.)
KPI 19 - Trade waste gains and losses	Monetary (£)

7. Governance

7.1. The Commercial & Investment Executive Working Group has been formed to provide strategic leadership, to build a robust commercial culture and support the development of Co-operative Commercial and Insourcing programmes of work. The Working Group makes recommendations to the Executive and encourages the organisation to work commercially and efficiently, achieving value for money, and delivering the Co-operative Commercial and Insourcing Strategy.

7.2. The Working Group's Terms of Reference are:

To advise and make recommendations to the Executive on the following:

1.0 New income streams and commercial business cases (including those that are key decisions).

2.0 Financial resources where necessary to progress commercial projects.

3.0 Individual Schemes within the Programme.

4.0 The development of new opportunities through establishing a risk appetite that stimulates the evaluation of new emerging markets and opportunities.

5.0 Documents relating to the Co-operative Commercial and Insourcing Strategy and regularly review the Strategy.

6.0 The delivery of approved business cases and all aspects of the Co-operative Commercial and Insourcing Strategy.

7.0 Strategic leadership to build a robust commercial culture.

8.0 Key performance indicators of all income generating functions.

9.0 Key commercial arrangements including contracts, contract and performance management processes and major service developments and track the progress of such developments.