Appendix C - Annual Investment Strategy Report 2025/26

Introduction

1. A Local Authority could invest its money for three broad purposes:

(I) **Treasury investments -** because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure;
(II) **Service investments** - to support local public services by lending to or buying shares in other organisations;
(III) **Commercial investments** - to earn investment income where this is the primary purpose. Although the Council owns and lets out investment properties these are not commercial investments as the of income is incidental to the wider economic and service benefit conferred by the properties.

2. Treasury investments are covered within the main body of the Treasury Management Strategy. This Investment Strategy Report meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the Council's policies for service investments and commercial investments.

3. The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

Treasury Management Investments

4. 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 £100m during the 2025/26 financial year.

5. The contribution these investments make to the objectives of the Council is to support effective treasury management activities such as cashflow management. Full details of the Authority's policies and its plan for 2025/26 for treasury management investments are covered in the main report.

Service Investments: Loans & Shares

6. The Council lends money to two of its own companies to support local public services and stimulate local economic growth. Each company, Lee Valley Heat Network Limited (LVHN – trading as Energetik); and Housing Gateway Limited (HGL), are 100% owned by the Council (parent body). All companies have been consistently consolidated into the group accounts. These companies were set up to meet the Council's strategic objectives as an authority.

7. The Council has provided loans to HGL and Energetik. In the case of HGL, lending is at PWLB standard rate from April 2024, giving the Council a small margin of 0.2% to cover the administration of the loans.

8. HGL, the Council's largest company, was established in 2014 to acquire and manage properties and provide long-term affordable lets to households who are not able to access housing directly in a challenging local housing market. These homes are let to residents in need of temporary accommodation, resulting in savings to the Council's revenue budget. HGL is funded by loans and £5m of equity from the Council. As at 31st December 2024, total loans outstanding to HGL were £142.3m, of which an estimated £43.4m are under concessionary terms. Under accounting regulations this will be treated as a "soft loan" and form part of the Council's investment.

9. HGL's business model is that of an established property letting business. The loans given by the Council are backed by housing assets. i.e. if necessary HGL would be able to repay loans to the Council through the disposal of properties, therefore the risks to the Council as lender are significantly mitigated. An assessment of the open market value of these assets compared to outstanding loans will be undertaken annually.

10. Energetik was established in August 2015 to provide low carbon energy from waste to Enfield residents, through developing, owning and operating a series of community energy networks across Enfield. The Council, supported by the company, has successfully attracted grants and low-cost loans from other public sector organisations at rates below PWLB, to support infrastructure in the borough. Whilst the Council is the accountable body for these grants and loans, the funds are in effect 'passported' through to Energetik.

11. As at 31st December 2024, total loans outstanding to Energetik were £51.0m of which an estimated £13.7m will be disclosed as "Soft loans" under accounting regulations. A further £17.8m has been invested as share capital funded by grants from GLA and Central Government bringing the total invested by the Council, as sole lender and shareholder, to £68.8m.

12. Energetik presents higher risks to the Council as lender because Energetik is building infrastructure, which is not a 'liquid' asset. i.e. a sale would be complex. The Council's key controls are therefore in ensuring that Energetik's business plan remains robust

and is effectively managed and the company can continue to service the loan interest payments and repayments of principal.

13. The company is due to present a refreshed business plan to Cabinet in the next few months and the Council has engaged advisors to carry out the necessary due diligence on this plan and the company's overall financial health. The Council as Shareholder has asked Energetik to refrain from entering into any new major contracts until the refreshed business plan is approved by Cabinet.

14. All loans advanced to Energetik have been passported via the Council and are specific low-cost heat network loans. This means that they come with project conditions that must be met. In extreme circumstances, if these were not met, the Council could have to repay loans and grants received to finance the Energetik heat network. The ability to meet these conditions will be a key point of due diligence in the refreshed business plan. For this reason, it is important that the Council also obtains an external valuation of the company and its assets to understand the potential open market value compared to the outstanding debt.

15. Cashflow: As at 31st December 2024, the Council had invested £68.8m consisting of £51.0m loans (net of repayments and including soft loans) and share capital £17.8m. Of this £58m (as at 31 March 2024) has been spent by Energetik.

16. Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent or the interest due. In order to limit this risk, and ensure that total exposure on service loans and shares remain proportionate, to the size of the Authority, upper limits on the outstanding loans to each borrower have been set as below.

17. Risk exposure: Investments in and loans to the Council's subsidiaries, are made using external grants, as well as borrowing the Council enters into, as accountable body. The Council also places limits on the commitment to further lending to ensure there is no overcommitment and to safeguard taxpayer's money. Table D1 shows

- the historical investments and loans made to the subsidiaries,
- how much of this is backed by the Council's own loans
- the commitments to provide further support based on the capital programme
- the key loan conditions

18. Service Investments: loans & shares balance, funding source and commitments

19. Accounting standards require the Authority to set aside loss allowance for loans, reflecting a statistical likelihood of non-payment which is known as an "expected credit loss" (ECL). The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority does not expect any losses from loans to either company. Appropriate credit control arrangements are in place to recover overdue repayments.

20. The equity investment has been accounted for by the Council purchasing shares in each Company valued at £1 per share. Equity investment is non-repayable unless the Company or shares are sold. The investments have been funded by external grants and general PWLB borrowing for Energetik and HGL, respectively.

21. Approved limit sets out the maximum value of loans and equity to 31 March 2026 based on the capital programme appearing elsewhere on the agenda.

22. In addition to lending to existing wholly owned Companies, the Council may consider the following

- **Lending to Joint ventures (JVs), Associates and similar entities**: The Council can invest in such organisations where there is minimal risk and a social benefit in line with Council's corporate objectives.

- **Lending to Companies or Charities, which are not wholly owned**: The Council may lend to local Charities, which deliver services supporting the Medium-Term Financial Plan, but it is must regularly confirm that the principal on the loans is protected. Similarly, the Council can loan to companies, but the standard is that the loans must be on a commercial basis and that the Council has confidence in the nature that principal will be protected. The Council may make small loans to organisations that are at a higher risk to support the local economy, possibly in relation to a complex regeneration scheme. External advice on the creditworthiness of these entities will be obtained prior to any loans being advanced. Such loans, regardless of the amount, will require a delegated approval report, signed off by the Leader or the Cabinet Member responsible for Finance in conjunction with the Council's Section 151 Officer.

- **Working Capital Facilities**: These are explicitly not capital expenditure because they exist to manage cashflows, nor intended to be of a long-term nature. The Council can loan on a commercial basis to other organisations and the approval process is via the Section 151 Officer who, in line with the Council's Scheme of Delegation, may request additional approval from the relevant Cabinet member. Regular reviews of cashflow of any entities receiving such a loan are a requirement, taking place no less than on a quarterly basis. It is anticipated that the majority of such facilities would take place in relation to wholly owned companies or JVs, and that they would be on a commercial basis. However, where they are not on commercial terms, additional approval from the Cabinet Member for Finance, should be sought. One key aspect that must be considered in relation to working capital is that the cashflow review is not just for the demonstration of the financial health of the borrower and ability to repay (plus interest), but to ensure that the loan is not being used for capital purposes and is solely due to the timing of cashflows. The latter requires a different governance process as noted within the financial regulations.

- **New Local Council Companies**: All borrowing to companies owned by the London Borough of Enfield will require a formal on-lending agreement.

- **Lending to Schools with the HSBC Banking Scheme**: Where LA schools with an HSBC bank account are in a structural overdraft position then the Council will provide a credit facility to ensure the school(s) remain in a credit position. Interest will be charged at 1% above the prevailing bank rate.

23. In order to limit exposure and the risk of non-repayment of principal lent and/or the interest due, 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	31.3.2024 actual (pre-audit)			2025/26
	Balance owing (“nominal” or cash basis net of repayments)	Loss allowance Accounting adjustments required under regulations	Net figure in accounts Pre-audit	Approved Limit* (“nominal” or cash basis net of repayments)
Energetik – Capital loans	39.2	-24.2	15.0	63.3
Energetik – revenue loans	4.1	-0.9	3.2	6.0
Energetik – total loans	**43.3**	**-25.1**	**18.2**	**69.3**
HGL – Capital loans	133.0	0.0	133.0	149.5
HGL – revenue loans	0.0	0.0	0.0	2.0
HGL – total loans	**133.0**	**0.0**	**133.0**	**151.5**
Suppliers	0.0	0.0	0.0	0.5
Local businesses, Charities	0.0	0.0	0.0	0.5
Housing associations	0.0	0.0	0.0	0.5
Local residents	0.0	0.0	0.0	0.5
Employees	0.0	0.0	0.0	0.5
TOTAL	**176.3**	**-25.1**	**151.2**	**223.3**

**Based on approved capital programme net of repayments expected; limits for other entities assumed at £500k each to provide reasonable flexibility for the Council subject to checks*

24. **Risk assessment**: The Authority assesses the risk of loss before entering into, and whilst holding service loans, by:

- Undertaking due diligence of each counterparty through the evaluation of business plans and cash flow forecasts. Due diligence will be undertaken internally by Finance Officers and/ or by an independently appointed advisor.

- To be able to demonstrate the ability to repay both interest and principal over the agreed repayment scheduled.

- Where possible the Council will secure the loan on the company's assets
- Use of credit ratings where applicable and past financial performance assessment
- Wholly owning the company or having a sizeable share in the company
- Ensuring the council has first right of call on assets in the event of default
- Obtaining assurance that there is sound governance and controls in place within the companies referred to above
- On lending agreements and loan agreements governing the terms of the loans advanced.
- Strong governance structures and reporting lines
- Use of external advisors for accounting; legal (including State Aid) and technical advice
- Determination of an exit strategy

25. Liquidity: As the sole shareholder and lender the Council's interests are represented at Board meetings of the respective Subsidiaries. The Council's own Assurance Board, which receives monitoring reports and risk registers is updated with relevant information and the advance of monies under existing loan agreements are made once a business case has been submitted and approved by Cabinet.

26. 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.

Commercial Investments: Property

27. The Council does not, at present or in the near future, invest in commercial and residential property for the purpose of making a profit.

Loan Commitments and Financial Guarantees

28. 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.

29. The Council has also provided a guarantee of up to £1 for the liabilities of the Meridian Water Estate Management Company, incorporated 31st March 2022, which has been formed to provide services to residents of on the Meridian Water development. No loan support is envisaged from the Council.

30. **Net income from commercial and service investments to net revenue stream**
This indicator measures proportion of the Council's Net Revenue Budget supported by income from commercial and service investments and was introduced in 2023/24. Net income is expressed after direct costs and does not take into account interest or MRP associated with such investments.

The Council's Service investments in Energetik and HGL have generated no income in 2024/25 and none is forecast for 2025/26 therefore there is nothing to report on this indicator.

The table below shows the proportion of the Council's NRB supported by net income from the Council's investment properties portfolio which are service (and not commercial) investments as their main purpose is to support the local economy.

Indicator	**2023/24 Actual**	**2024/25 Forecast**	**2025/26 Forecast**
Commercial income to net service expenditure ratio	2.6%	2.1%	1.9%

END