APPENDIX 4

Proposed Report to County Council - Addition to Capital Strategy 2018/19

Background

Local Authorities are required to comply with revised Statutory Guidance from MHCLG on local government investments from 1 April 2018. Authorities are also required to prepare Treasury Management and Investment Strategies for approval by Full Council, covering both Treasury and non-Treasury investments. Detailed guidance on the preparation of these strategies (being prepared by CiPFA) is not yet available, and MHCLG recognise that it may not have been practical to include them in authorities' Investment and Treasury Management Strategies approved for 2018/19.

Where Local Authorities currently prepare a Capital Strategy in line with the Prudential Code, and a Treasury Management Strategy in line with the Treasury Management Code, the disclosures required by the new Investment Guidance can be incorporated into these documents as opposed to a separate Investment Strategy.

Revised Strategies will be brought to Council for approval as required, once full guidance is available. There is a new requirement that local authorities include disclosures on non-Treasury investments, including loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party. This report details the proposed limit and disclosure relating to non-treasury investments, including loan arrangements arising from the property Joint Venture.

Proposed Addition to Investment Strategy

The proposed Joint Venture (JV) model for Herts Living Ltd requires equity in the form of land value to be contributed to the JV. Legal advice on S123 Best Consideration requires this land value to be recognised as a loan or loan note at the point of land transfer. The equity invested by HLL into the JV will be funded by a loan between the Council and HLL, repayable when the land is developed and sold. The purpose of the loan and subsequent investment is to generate enhanced capital receipts from surplus land, whilst also working in partnership to deliver housing within Hertfordshire.

The loans will be capital loans, required to be treated as capital expenditure. Depending on the route for land transfer, there may be a need to provide a loan for the whole land value, although the loan amount above equity would be immediately offset by a repayment from the land consideration.

Some further loans may be made to HLL, to cover operational costs – as these will be service loans financing revenue costs these will not be capital expenditure. Similar loans may be made to other subsidiaries or entities.

As these arrangements will fall within the definition of non-Treasury investment, the revised Investment Strategy will set a self –assessed limit for such loans. To cover all potential loan requirements, an upper limit of **£50m** for 2018/19 is proposed. This is deemed proportionate: although it is 6% of net revenue budget, some of the initial capital receipts could be held to cover any non-repayment of loans.

An allowed "expected credit loss" model for loans and receivables, as set out in International Financial Reporting Standard (IFRS) 9 *Financial Instruments* as adopted by proper practices, will be used to measure the credit risk of the Council's loan portfolio.

Credit risk will be managed by the Council's oversight of management information from the JV and HLL, which will signal any emerging issues and allow mitigating action to be taken.