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Tandridge District Council

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To: MEMBERS OF THE INVESTMENT SUB COMMITTEE
Councillors Booth, Botten, Cooper, Crane, Hammond, Jones and Langton

Substitute Councillors: Caulcott, C.Farr and Prew

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C.C. All Other Members of the Council

9 June 2022

Dear Sir/Madam

INVESTMENT SUB COMMITTEE
FRIDAY, 17TH JUNE, 2022 AT 10.00 AM

The agenda for this meeting of the Sub-Committee to be held in the Council Chamber, Council Offices, Station Road East, Oxted is set out below. If a member of the Sub-Committee is unable to attend the meeting, please notify officers accordingly.

Should members require clarification about any item of business, they are urged to contact officers before the meeting. In this respect, reports contain authors' names and contact details.

If a Member of the Council, not being a member of the Sub-Committee, proposes to attend the meeting, please let the officers know by no later than noon on the day of the meeting.

Yours faithfully,

David Ford
Chief Executive

AGENDA

1. Apologies for absence

2. Election of Chair for the remainder of 2022/23

3. Declarations of interest

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter:

(i) any Disclosable Pecuniary Interests (DPIs) and / or
(ii) other interests arising under the Code of Conduct

in respect of any item(s) of business being considered at the meeting. Anyone with a DPI must, unless a dispensation has been granted, withdraw from the meeting during consideration of the relevant item of business. If in doubt, advice should be sought from the Monitoring Officer or her staff prior to the meeting.

4. Minutes of the meeting held on the 5th November 2021 (Pages 3 - 10)

To confirm as a correct record (not done at the 21st January 2022 meeting at it was inquorate)

5. **Minutes of the meeting held on the 21st January 2022** (Pages 11 - 22)

To confirm as a correct record

6. **Summary Investment and Borrowing Position at 31st March 2022** (Pages 23 - 34)

7. **To consider passing the following resolution to exclude the press and public**

R E S O L V E D – that members of the press and public be excluded from the meeting for agenda item 8 under Section 100A (4) of the Local Government Act 1972 (as amended) on the grounds that:

(i) it involves the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act; and

(ii) for the item the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

8. **Property Investment Update (verbal report)**

9. **Any other urgent business**

To consider any other item(s) which, in the opinion of the Chair, should be considered as a matter of urgency – Local Government Act 1972, Section 100B(4)(b).

TANDRIDGE DISTRICT COUNCIL

INVESTMENT SUB COMMITTEE

Minutes and report to Council of the meeting of the Sub-Committee held in the Council Chamber, Council Offices, Station Road East, Oxted on the 5 November 2021 at 10.00am.

PRESENT: Councillors Bourne (Chair), Cooper, Elias and Langton

ALSO PRESENT: Councillors Farr

APOLOGIES FOR ABSENCE: Councillor Jones

1. MINUTES OF THE MEETING HELD ON THE 24TH SEPTEMBER 2021

The minutes were confirmed and signed as a correct record.

2. SUMMARY INVESTMENT AND BORROWING POSITION AT 30TH SEPTEMBER 2021

The investment analysis at Appendices A and B was presented.

The Chair explained that the anticipated remodelled report from Link Group (the Council's treasury advisors) would now be presented to the Sub-Committee's meeting on the 21st January 2022. This would help to inform a decision on the use of the redeemed proceeds from Funding Circle which had accumulated since the decision to cease re-investing in its peer to peer loans and to withdraw funds as those loans were repaid. It was confirmed that the 11.2% yield rate from Funding Circle (Appendix A refers) reflected the withdrawal of the principal element of the investment, together with a one-off recovery of non-performing loans amounting to £38,000 and did not reflect pure income.

Members reiterated their wish from the 11th June 2021 meeting that the term 'high yielding' should be removed from future investment reports.

> ***R E S O L V E D*** – that the Council's investment and borrowing position at 30th September 2021, as set out in Appendices A and B, be noted.

3. GRYLLUS HOLDINGS, GRYLLUS HOUSING AND GRYLLUS PROPERTY FINAL ACCOUNTS 2020/21

The Sub-Committee considered financial statements for the year ended 31st March 2021 in respect of these Council owned subsidiary companies, together with a report from Kreston Reeves LLP arising from its audit of the accounts.

The key issues identified within the Officer covering report were:

- Gryllus Holdings had been dormant during the reporting period and an unqualified audit opinion had been issued. (The term 'dormant' was questioned during the debate, but it was acknowledged that the company had not been trading and that no movement of balances had taken place).

- Gryllus Housing had been dormant during the reporting period and the accounts were unaudited.

- Gryllus Property Limited had recorded a loss of £1,792,530 arising from revaluations of the company's three properties (30-32 Week Street, Maidstone; 80-84 Station Road East, Oxted and Castlefield House, Reigate). This had been expected as Castlefield House was purchased during the 2020/21 reporting year and its valuation had attracted one off purchase costs. Without such costs, the company made an operational post tax profit of £72,373. An unqualified audit opinion had been issued.

The Kreston Reeves audit had identified:

- a late VAT payment (by one day) which had incurred an HMRC penalty fine
- an incorrect posting of £205,583 rental income.

Consequently, Kreston Reeves had recommended measures to reduce the likelihood of such errors reoccurring, namely additional staffing capacity to deal with VAT payments and a quarterly reconciliation of actual and expected rental income. It was confirmed that these matters would be addressed as part of the Finance Transformation Programme.

The Chief Finance Officer (Anna D'Alessandro) advised that she had replaced Simon Jones as a director of all three companies.

R E S O L V E D – that the following be noted:

(i) the annual financial statements for Gryllus Holdings Limited, Gryllus Housing Limited and Gryllus Property Limited for the year ended 31st March 2021;

(ii) the report from Kreston Reeves arising from its annual audit of Gryllus Holdings Limited and Gryllus Property Limited for the year ended 31st March 2021; and

(iii) the management accounts for Gryllus Property Limited (profit by property).

4. INVESTMENT PROPERTY UPDATE

The Sub-Committee resolved to move into ‘Part 2’ for this item in accordance with Paragraph 3 (information relating to financial or business affairs) of Part 1 of Schedule 12A of the Local Government Act 1972.

The officer report advised Members about the performance of the of the commercial investment properties owned by the Council and its subsidiary company, Gryllus properties:

TDC properties:

- Quadrant House, Caterham Valley
- Redstone House, South Nutfield
- Village Health Club, Caterham on the Hill

Gryllus properties:

- Castlefield House, Reigate
- 80-84 Station Road East, Oxted
- 30-32 Week Street, Maidstone

The information comprised an update about asset management activity for each property; an analysis of opportunities and risks; and valuations carried out by Wilkes, Head and Eve (WHE) in December 2020 for the Gryllus properties and February 2021 for the TDC properties. Members considered that future WHE valuations would benefit from input from the asset management team to ensure they were as realistic as possible.

Members were also provided with:

- rent / service charge collection data for Quadrant House and a risk register compiled by Huntley Cartwright quantity surveyors; and

- an options analysis from Colliers (property consultants) regarding the future use of 30-32 Week Street. Arising from this, it was acknowledged that the property would be marketed ‘to let’.

The officer report advocated that Redstone House be sold. Under the Council’s scheme of delegation (Part E of the Constitution) such a disposal, due its value being more than £1 million, would need to be recommended by the Strategy & Resources Committee for ratification by Full Council. The property had recently been vacated by the Surrey & Borders Partnership NHS Foundation Trust which had been paying rent of approximately £50,000 per annum to the Housing General Fund. The rationale for selling the property had been presented in a briefing note to the Sub-Committee, Bletchingley & Nutfield Ward Councillors and Housing Committee members. The briefing note was appended to the agenda pack for the meeting and explained why the property was considered inappropriate for use as social housing.

The Sub-Committee supported the recommendation to sell Redstone House but considered that planning permission should be sought by the Council with a view to the property being offered for sale with the required consents in place.

Members also requested additional information regarding the capital expenditure requirements for Linden House prior to its re-letting. Officers undertook to provide this after the meeting.

R E S O L V E D – that

A. the recent and proposed property asset management activity be noted; and

B. Redstone House be marketed for sale and that planning consent for the necessary changes of use be sought to enable the property to be sold with the required planning permission already in place.

COUNCIL DECISION
(subject to ratification by the
Strategy & Resources Committee and Full Council)

R E C O M M E N D E D – that Redstone House be sold for the best consideration as can be achieved by the Executive Head of Communities.

A C T I O N S:

		Officers responsible for ensuring completion	**Deadline**
1	Future external property valuations be informed by contributions from the Council's asset management team	Claire Hinds (Finance Business Partner) to liaise with Kate Haacke (Lead Asset Management Specialist)	As soon as practicable prior to the next valuation
2	E-mail to Sub-Committee members confirming the capital expenditure requirements for Linden House prior to its re-letting	Kate Haacke (Lead Asset Management Specialist)	19.11.21

Rising 11.24 am

Summary of Investments and Borrowing **Appendix A**

Investment	Investment Amount 31/03/21 £	Net Asset Value 30/09/21 £	Yield Rate Note 1 %	Forecast Return 2021/22 £	Previous Year Actual £
Non - Specified (Financial Investments)- Long Term (over 12 mths)					
CCLA Property Fund	4,000,000	4,448,206	3.65	162,300	179,910
Schroders Bond Fund	3,000,000	2,915,856	4.38	127,600	125,529
UBS Multi Asset Fund	3,000,000	2,794,549	4.34	121,300	140,171
CCLA Diversification Fund	2,000,000	2,051,402	3.23	66,200	62,069
Funding Circle	863,160	637,686	11.20	84,900	77,070
Sub Total Non-specified (Financial Investments)	**12,863,160**	**12,847,699**		**562,300**	**584,749**
Non - Specified (Non-Financial Investments)- Long Term (over 12 mths)					
Gryllus Property Company Loan - Maidstone	2,394,000	2,394,000	5.81	139,023	139,023
Freedom Leisure- Loan (TLP)	774,857	774,857	5.50	42,600	53,271
Freedom Leisure- Loan (de Stafford)	496,571	496,571	7.58	37,600	47,050
Gryllus Property Company Loan - 80-84 Station Rd East	1,012,500	1,012,500	5.81	54,979	54,979
Gryllus Property Company Loan - Castlefield	11,664,000	11,664,000	6.10	711,504	711,504
Gryllus Property Company Share Capital Note 2	5,251,500	5,251,500	-	-	0
Sub Total Non-specified (Non-Financial Investments)	**21,593,429**	**21,593,429**		**985,706**	**1,005,827**
Total Non-Specified Investments	**34,456,589**	**34,441,128**		**1,548,006**	**1,590,576**
Specified Investments-Short Term (less than 12 mths)					
Notice Accounts	4,000,000	4,042,002	0.17	7,000	11,449
Money Market Funds	3,250,000	12,285,000	0.02	2,700	15,870
Total Specified Investments	**7,250,000**	**16,327,002**		**9,700**	**27,319**
Total Non- Specified and Specified Investments	**41,706,589**	**50,768,130**		**1,557,706**	**1,617,895**
Total Investment Income Budget 2021/22				1,515,700	2,764,200
Over/(under) budget				**42,006**	**(1,146,305)**

Borrowing	Loan Amount £	Interest %	Forecast Cost 2021/22 £	Previous Year Cost £
General Fund Borrowing				
Gryllus Loan	3,420,000	2.46	84,132	84,132
Freedom Leisure Loan	2,225,000	2.45	54,513	54,513
Village Health Club	938,678	2.38	22,341	22,341
Linden House	4,175,000	2.69	112,308	112,308
Linden House	254,000	2.42	6,147	6,147
Quadrant House	15,340,000	2.41	369,694	369,694
Quadrant House	800,000	2.28	18,240	18,240
Gryllus - 80-84 Station Road	724,400	2.28	16,516	16,516
Gryllus - Castlefield	15,549,000	2.91	452,476	450,913
Sub Total General Fund Borrowing	**43,426,078**		**1,136,366**	**1,134,803**
Total GF PWLB Budget 2021/22			**1,137,000**	**1,889,000**
Over/(under) budget			**(634)**	**(754,197)**
HRA Borrowing				
Public Works Loan Board	61,189,000	2.70	1,632,209	1,661,341
Sub Total HRA Borrowing	**61,189,000**		**1,632,209**	**1,661,341**
Total HRA PWLB Budget 2021/22			**1,662,500**	**1,926,500**
Over/(under) budget			**(30,291)**	**(265,159)**
Total Borrowing	**104,615,078**		**2,768,575**	**2,796,144**
Total Budget 2021/22			**2,799,500**	**3,815,500**
Total Over/(under) budget			**(30,925)**	**(1,019,356)**

Notes:

1. Yield Rate - forecast annual return divided by net asset value. Funding Circle yield rate - forecast annual return divided by average opening & closing net asset value adjusted for estimated principal withdrawn Sept 21 to Mar 22
2. Gryllus share capital comprises of equity shares arising from loans granted - no dividend will be paid in the current year

Market Value of Long Term Investments at 30/09/2021

Appendix B

Carrying Value	2016/17 Carrying Value 31.3.2017	2017/18 Carrying Value 31.3.2018	2018/19 Carrying Value 31.3.2019	2019/20 Carrying Value 31.03.2020	2020/21 Carrying Value 31.03.2021	2021/22 Carrying Value 30.09.2021
	£	£	£	£	£	£
CCLA Property Fund	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Schroders Bond Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
UBS Multi Asset Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
CCLA Diversification Fund	n/a	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total	**10,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**

Market Value	2016/17 Market Value 31.3.2017	2017/18 Market Value 31.3.2018	2018/19 Market Value 31.3.2019	2019/20 Market Value 31.03.2020	2020/21 Market Value 31.03.2021	2020/21 Market Value 30.09.2021
	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,082,986	4,276,854	4,276,005	4,188,063	4,158,183	4,448,206
Schroders Bond Fund	2,963,563	2,912,837	2,865,130	2,539,938	2,908,911	2,915,856
UBS Multi Asset Fund	3,018,705	2,918,160	2,868,479	2,520,713	2,777,398	2,794,549
CCLA Diversification Fund(indicative market value)	n/a	1,921,257	1,982,167	1,804,193	1,955,874	2,051,402
Total	**10,065,254**	**12,029,108**	**11,991,781**	**11,052,907**	**11,800,366**	**12,210,013**

Surplus/(Deficit)	2016/17 Surplus/ (Deficit) 31.3.2017	2017/18 Surplus/ (Deficit) 31.3.2018	2018/19 Surplus/ (Deficit) 31.3.2019	2019/20 Surplus/ (Deficit) 31.03.2020	2020/21 Surplus/ (Deficit) 31.03.2021	2020/21 Surplus/ (Deficit) 30.09.2021
	£	£	£	£		
CCLA Property Fund	82,986	276,854	276,005	188,063	158,183	448,206
Schroders Bond Fund	(36,437)	(87,163)	(134,870)	(460,062)	(91,089)	(84,144)
UBS Multi Asset Fund	18,705	(81,840)	(131,521)	(479,287)	(222,602)	(205,451)
CCLA Diversification Fund	n/a	(78,743)	(17,833)	(195,807)	(44,126)	51,402
Total	**65,254**	**29,108**	**(8,219)**	**(947,093)**	**(199,634)**	**210,013**

Gross Revenue Yield	Yield 2016/17	Yield 2016/17	Yield 2017/18	Yield 2017/18	Yield 2018/19	Yield 2018/19	Yield 2019/20	Yield 2019/20	Yield 2020/21	Yield 2020/21
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	164,434	4.03%	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%
Schroders Bond Fund	127,340	4.30%	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%
UBS Multi Asset Fund	100,600	3.33%	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%
CCLA Diversification Fund	n/a	n/a	62,732	3.27%	67,030	3.38%	66,284	3.67%	62,069	3.17%
Total	**392,375**		**508,691**		**488,040**		**513,473**		**507,679**	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit) 2016/17	Surplus/ (Deficit) 2016/17	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2020/21	Surplus/ (Deficit) 2020/21
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	(92,996)	-2.28%	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%
Schroders Bond Fund	16,634	0.56%	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%
UBS Multi Asset Fund	36,559	1.21%	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%
CCLA Diversification Fund	n/a	n/a	(78,743)	-4.10%	60,910	3.07%	(177,974)	-9.86%	151,682	7.76%
Total	**(39,803)**		**(36,146)**		**(37,327)**		**(938,874)**		**747,460**	

Net Yield	Net Yield 2016/17	Net Yield 2016/17	Net Yield 2017/18	Net Yield 2017/18	Net Yield 2018/19	Net Yield 2018/19	Net Yield 2019/20	Net Yield 2019/20	Net Yield 2020/21	Net Yield 2020/21
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	71,438	1.75%	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%
Schroders Bond Fund	143,974	4.86%	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,503	17.00%
UBS Multi Asset Fund	137,159	4.54%	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%
CCLA Diversification Fund	n/a	n/a	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	213,751	10.93%
Total	**352,572**		**472,545**		**450,713**		**(425,401)**		**1,255,139**	

Peer to Peer Investment	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
Funding Circle	£	%	£	%	£	%	£	%	£	%
Carrying Value	**2,003,355**		**2,075,341**		**2,056,664**		**1,831,028**		**863,160**	
Interest Paid by Borrowers	181,892		181,014		184,654		193,170		127,982	
Less FC Service fee	(19,121)		(19,668)		(19,729)		(19,611)		(12,462)	
Promotions/Transfer payment							470		0	
Bad Debts	(58,163)		(61,288)		(111,152)		(127,649)		(80,881)	
Recoveries	8,219		14,780		27,428		30,253		42,431	
Net Yield	**112,827**	**5.63%**	**114,838**	**5.53%**	**81,201**	**3.95%**	**76,634**	**4.19%**	**77,070**	**8.93%** *
Provisions for future losses	**0**		**0**		**(10,000)**					

*Funding Circle Net yield - this has been calculated against the current value, however principal has been withdrawn throughout the year. If calculated against the average of the opening and closing value then the net yield w
there was a large recovery received in June 2021 (£38,494) which has inflated this yield.

TANDRIDGE DISTRICT COUNCIL

INVESTMENT SUB COMMITTEE

Minutes and report to Council of the meeting of the Committee held in the Council Chamber, Council Offices, Station Road East, Oxted on the 21 January 2022 at 10.00am.

PRESENT: Councillors Bourne (Chair) and Langton

ALSO PRESENT: Councillor Farr

APOLOGIES FOR ABSENCE: Councillors Cooper, Elias and Jones

The meeting was inquorate by virtue of Standing Order 22(3) which required three Sub-Committee members (or designated substitutes in their absence) to be present for the purposes of a quorum. Therefore, the Sub-Committee could only make recommendations for consideration by the Strategy & Resources Committee. In any event, the matters referred to in items 4 and 5 below can only be determined by the Strategy & Resources Committee and Full Council respectively, regardless of the quorum situation.

1. MINUTES OF THE MEETING HELD ON THE 5TH NOVEMBER 2021

Given that the meeting was inquorate, approval of these minutes stood deferred until the next meeting.

2. SUMMARY INVESTMENT AND BORROWING POSITION AT 31 DECEMBER 2021

The investment analysis at Appendices A and B was presented.

> ***R E C O M M E N D E D* –** that the Council's investment and borrowing position, at 31st December 2021, as set out at Appendices A and B, be noted.

3. FUND MANAGER SELECTION

Arising from the Sub-Committee's meeting on the 24th September 2021, a report was presented to update Members about the process to identify an appropriate investment portfolio to support the Council's medium-term financial objectives and an approach to future decision making for such investments.

Building on the analysis previously undertaken by Link Group (the Council's treasury advisors) and with their further support and guidance, the report proposed a conclusion to the process. It explained that future fund selections would have to be cognisant of:

- the fact that the Council's revenue budget relied on approximately £500,000 per annum of income from the four funds currently holding £12 million of investment and that, given the current budget pressures, there was little scope for pursuing a strategy that would generate less revenue income; and

- the current reliance on the ‘statutory override’ (of usual accounting practice) which meant that the Council’s revenue budget was not impacted by annual gains or losses in the capital value of investments, unless they were withdrawn.

The current ‘statutory override’ was in place until 31st March 2023 and the Government had not yet decided whether to extend it. The outcome would influence future investment decisions as removal of the override would heighten the need to avoid capital losses (which would have an adverse impact on the revenue budget) whereas retention would make higher income funds more attractive and capital performance less of a concern.

In light of the above, the report contained:

- an analysis of the performance of the four funds in which the Council was currently investing (namely the CCLA Property and Diversification Funds; Schroders Credit Fund; and UBS Multi Asset Fund*) which concluded that the Council should remain in the funds until capital values had recovered to at least the amount invested;

  ** the Council had previously decided to cease re-investing in its peer to peer loans with Funding Circle and to withdraw funds as those loans were repaid*

- commentary on the total sum which the Council should be investing with counterparties, based on current surplus cashflow projections – this advised that the current £12 million could be retained in the knowledge that the Chief Finance Officer (under powers provided within the Financial Regulations section of the Constitution) was authorised to change the balances invested in light of significantly reduced or increased cashflow scenarios.

The report suggested criteria for future adjustments to the Council’s investment portfolio but concluded that no changes be made for the time being.

Nazmin Miah (Link Group) and Haley Woollard (Treasury Centre of Expertise via the Joint Working Arrangement for finance services with Surrey County Council) supported officers with the presentation of the report and in responding to Members’ questions. Discussion focused on the implications of the ‘statutory override’ not being extended, including the likely timeframe for having to adjust the current portfolio before the General Fund became adversely affected. Officers confirmed that, while the Government’s decision on the override was awaited, plans in response to various scenarios would be developed.

Officers also confirmed that improved cash flow balances could provide the required confidence to invest more of the Funding Circle proceeds (i.e. to add to the £12 million referred to above). The report recommended that authority be delegated to the Chief Finance Officer to amend the investment balances in light of significant fluctuations in cash projections. It was agreed that such delegation should be made subject to consultation with the Chair of the Sub-Committee.

R E C O M M E N D E D – that:

A. the medium-term objective to balance a sustainable level of investment income against the stability of fund value, taking a considered approach to risk management in a changing investment environment, be noted;

B. the strategy to provisionally retain current investments (excluding Funding Circle which will continue to wind-down) until a decision has been made by Government on whether to extend the current ‘statutory override’ (which prevents gains and losses in capital value impacting on the revenue budget) be approved;

C. if the override is not extended, approval be given to disinvest from the following three funds at a point where their capital value recovers to at least equal to the amount invested, or if it is clear that their capital value will not recover further:

- Schroders Credit Fund
- UBS Multi Asset Fund
- CCLA Diversified Fund

D. it be noted that the intended strategy is that, if the 'statutory override' is not extended, the Council intends to re-invest amounts in funds representing the best overall return (through combined capital value and revenue income) in a ratio considered proportionate with the overall fund size; currently these would be as follows:

- Royal London Assets Management (RLAM);
- Legal and General Investment Management (LGIM); and
- Newton Multi Asset Income Fund (Newton MAIF)

but fund performance would need to be re-confirmed before any deposit was made and this will be reported back to the Sub-Committee once a decision is made by Government;

E. the retention of the CCLA Property Fund, offering strong capital and income performance and providing diversity to the overall portfolio, be approved;

F. the balance in the four funds should be retained at a level commensurate with latest projections of long-term cash availability and authority be delegated to the Chief Finance Officer, in consultation with the Chair of the Sub-Committee, to amend the balances invested in the funds as necessary to retain a prudent working capital balance; and

G. it be noted that the constitution delegates the execution and administration of treasury management decisions and borrowing strategy to the officer designated for the purposes of Section 151 of the Local Government Act 1972 (i.e. Chief Finance Officer).

4. CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGY

This updated strategy provided a high-level overview of how capital expenditure, capital financing and treasury management activity contributes to the delivery of the Council's priorities, along with an explanation of how risk, security and liquidity are managed. It summarised the Council's capital expenditure and financing plans, together with the principles, funding sources and governance arrangements for the management of the Capital Programme. It also covered:

- the treasury management function, which sought to ensure that income raised during the year is sufficient to meet expenditure plans and that cash is available when needed – a key objective is to invest surplus cash with counterparties and in instruments commensurate with the Council's low risk appetite, whilst ensuring security and liquidity;

- the Council's investment property strategy, aimed at providing a robust framework for the acquisition of property investments and the pursuance of redevelopment and regeneration opportunities.

Upon presenting the strategy, attention was drawn to its impact upon the revenue budget, together with:

- the recent CIPFA (Chartered Institute for Public Finance and Accountancy) consultation on the Prudential Code for capital finance in local authorities, which suggested that, while Councils should review the pros and cons of retaining current investments, they could be retained and expenditure on repairs, renewals and refurbishments could also be incurred; and

- the intention to adopt, as part of the strategy, the Annual Minimum Revenue Provision (MRP) Policy Statement at Appendix C.

Regarding the investment property strategy, the means of evaluating economic regeneration benefits associated with 'in District' acquisitions were discussed.

> ***R E C O M M E N D E D*** **–** that the Capital, Investment and Treasury Management Strategy, as at Appendix 1 to the report, be approved, subject to ratification by Full Council.

5. PROPERTY INVESTMENT UPDATE

The meeting moved into 'Part 2' for this item in accordance with Paragraph 3 (information relating to financial or business affairs) of Part 1 of Schedule 12A of the Local Government Act 1972.

As per the Sub-Committee's recommendation at its previous meeting, Redstone House (South Nutfield) was being marketed for sale. Members were informed about the current position in respect of that process. A verbal update was also given regarding the other commercial investment properties owned by the Council and its subsidiary company, Gryllus properties, i.e.:

TDC properties:

- Village Health Club, Caterham on the Hill
- Linden House, Caterham on the Hill
- Quadrant House, Caterham Valley

Gryllus properties:

- Castlefield House, Reigate
- 80-84 Station Road East, Oxted
- 30-32 Week Street, Maidstone

Regarding Linden House, Members were informed of the progress of negotiations with the existing tenant regarding the renewal of the lease which was due to expire in June 2022. Members were satisfied that the lease should be renewed based on the information provided and that the Executive Head of Communities should be authorised to conclude the negotiations in consultation with the Chair and Vice Chair of the Strategy & Resources Committee.

R E C O M M E N D E D – that authority be delegated to the Executive Head of Communities, in consultation with the Chair and Vice Chair of the Strategy & Resources Committee, to proceed with the lease renewal of Linden House, Caterham for the best consideration she can achieve.

Rising 12.01 pm

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Investment	Investment Amount 31/03/21 £	Net Asset Value 31/12/21 £	Yield Rate Note 1 %	Forecast Return 2021/22 £
Non - Specified (Financial Investments)- Long Term (over 12 mths)				
CCLA Property Fund	4,000,000	4,672,521	3.37	157,400
Schroders Bond Fund	3,000,000	2,915,856	4.38	127,600
UBS Multi Asset Fund	3,000,000	2,772,075	4.79	132,800
CCLA Diversification Fund	2,000,000	2,110,463	2.59	54,600
Funding Circle	863,160	469,576	-	85,100
Sub Total Non-specified (Financial Investments)	**12,863,160**	**12,940,491**		**557,500**
Non - Specified (Non-Financial Investments)- Long Term (over 12 mths)				
Gryllus Property Company Loan - Maidstone	2,394,000	2,394,000	5.81	139,023
Freedom Leisure- Loan (TLP)	774,857	678,001	5.50	42,600
Freedom Leisure- Loan (de Stafford)	496,571	434,501	7.58	37,600
Gryllus Property Company Loan - 80-84 Station Rd East	1,012,500	1,012,500	5.43	54,979
Gryllus Property Company Loan - Castlefield	11,664,000	11,664,000	6.10	711,504
Gryllus Property Company Share Capital Note 2	5,251,500	5,251,500	-	-
Sub Total Non-specified (Non-Financial Investments)	**21,593,429**	**21,434,503**		**985,706**
Total Non-Specified Investments	**34,456,589**	**34,374,994**		**1,543,206**
Specified Investments-Short Term (less than 12 mths)				
Notice Accounts	4,000,000	4,040,726	0.17	7,000
Money Market Funds	3,250,000	16,005,000	0.05	3,000
Total Specified Investments	**7,250,000**	**20,045,726**		**10,000**
Total Non- Specified and Specified Investments	**41,706,589**	**54,420,720**		**1,553,206**
Total Investment Income Budget 2021/22				1,515,700
Over/(under) budget				**37,506**

Borrowing	Loan Amount £	Interest %	Forecast Cost 2021/22 £
General Fund Borrowing			
Gryllus Loan	3,420,000	2.46	84,132
Freedom Leisure Loan	2,225,000	2.45	54,513
Village Health Club	938,678	2.38	22,341
Linden House	4,175,000	2.69	112,308
Linden House	254,000	2.42	6,147
Quadrant House	15,340,000	2.41	369,694
Quadrant House	800,000	2.28	18,240
Gryllus - 80-84 Station Road	724,400	2.28	16,516
Gryllus - Castlefield	15,549,000	2.91	452,476
Sub Total General Fund Borrowing	**43,426,078**		**1,136,366**
Total GF PWLB Budget 2021/22			**1,137,000**
Over/(under) budget			**(634)**
HRA Borrowing			
Public Works Loan Board	61,189,000	2.70	1,632,209
Sub Total HRA Borrowing	**61,189,000**		**1,632,209**
Total HRA PWLB Budget 2021/22			**1,662,500**
Over/(under) budget			**(30,291)**
Total Borrowing	**104,615,078**		**2,768,575**
Total Budget 2021/22			**2,799,500**
Total Over/(under) budget			**(30,925)**

Notes:

1. Yield Rate - forecast return divided by net asset value.
2. Gryllus share capital comprises of equity shares arising from loans granted - no dividend will be paid in the current year

Market Value of Long Term Investments at 31/12/2021

Appendix B

Carrying Value	2016/17 Carrying Value 31.3.2017	2017/18 Carrying Value 31.3.2018	2018/19 Carrying Value 31.3.2019	2019/20 Carrying Value 31.03.2020	2020/21 Carrying Value 31.03.2021	2021/22 Carrying Value 31.12.2021
	£	£	£	£	£	£
CCLA Property Fund	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Schroders Bond Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
UBS Multi Asset Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
CCLA Diversification Fund	n/a	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total	**10,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**

Market Value	2016/17 Market Value 31.3.2017	2017/18 Market Value 31.3.2018	2018/19 Market Value 31.3.2019	2019/20 Market Value 31.03.2020	2020/21 Market Value 31.03.2021	2020/21 Market Value 31.12.2021
	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,082,986	4,276,854	4,276,005	4,188,063	4,158,183	4,672,521
Schroders Bond Fund	2,963,563	2,912,837	2,865,130	2,539,938	2,908,911	2,915,856
UBS Multi Asset Fund	3,018,705	2,918,160	2,868,479	2,520,713	2,777,398	2,772,075
CCLA Diversification Fund(indicative market value)	n/a	1,921,257	1,982,167	1,804,193	1,955,874	2,110,463
Total	**10,065,254**	**12,029,108**	**11,991,781**	**11,052,907**	**11,800,366**	**12,470,915**

Surplus/(Deficit)	2016/17 Surplus/ (Deficit) 31.3.2017	2017/18 Surplus/ (Deficit) 31.3.2018	2018/19 Surplus/ (Deficit) 31.3.2019	2019/20 Surplus/ (Deficit) 31.03.2020	2020/21 Surplus/ (Deficit) 31.03.2021	2020/21 Surplus/ (Deficit) 31.12.2021
	£	£	£	£		
CCLA Property Fund	82,986	276,854	276,005	188,063	158,183	672,521
Schroders Bond Fund	(36,437)	(87,163)	(134,870)	(460,062)	(91,089)	(84,144)
UBS Multi Asset Fund	18,705	(81,840)	(131,521)	(479,287)	(222,602)	(227,925)
CCLA Diversification Fund	n/a	(78,743)	(17,833)	(195,807)	(44,126)	110,463
Total	**65,254**	**29,108**	**(8,219)**	**(947,093)**	**(199,634)**	**470,915**

Gross Revenue Yield	Yield 2016/17	Yield 2016/17	Yield 2017/18	Yield 2017/18	Yield 2018/19	Yield 2018/19	Yield 2019/20	Yield 2019/20	Yield 2020/21	Yield 2020/21	Full Year forecast at 31.12.21 Yield 2021/22	Full Year forecast at 31.12.21 Yield 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	164,434	4.03%	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%	157,400	3.37%
Schroders Bond Fund	127,340	4.30%	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%	127,600	4.38%
UBS Multi Asset Fund	100,600	3.33%	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%	132,800	4.79%
CCLA Diversification Fund	n/a	n/a	62,732	3.27%	67,030	3.38%	66,284	3.67%	62,069	3.17%	54,600	2.59%
Total	**392,375**		**508,691**		**488,040**		**513,473**		**507,679**		**472,400**	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit) 2016/17	Surplus/ (Deficit) 2016/17	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2020/21	Surplus/ (Deficit) 2020/21	Full Year forecast at 31.12.21 Surplus/ (Deficit) 2021/22	Full Year forecast at 31.12.21 Surplus/ (Deficit) 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	(92,996)	-2.28%	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%	514,338	11.01%
Schroders Bond Fund	16,634	0.56%	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%	6,945	0.24%
UBS Multi Asset Fund	36,559	1.21%	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%	(5,323)	-0.19%
CCLA Diversification Fund	n/a	n/a	(78,743)	-4.10%	60,910	3.07%	(177,974)	-9.86%	151,682	7.76%	154,588	7.32%
Total	**(39,803)**		**(36,146)**		**(37,327)**		**(938,874)**		**747,460**		**670,548**	

Net Yield	Net Yield 2016/17	Net Yield 2016/17	Net Yield 2017/18	Net Yield 2017/18	Net Yield 2018/19	Net Yield 2018/19	Net Yield 2019/20	Net Yield 2019/20	Net Yield 2020/21	Net Yield 2020/21	Full Year forecast at 31.12.21 Net Yield 2021/22	Full Year forecast at 31.12.21 Net Yield 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	71,438	1.75%	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%	671,738	14.38%
Schroders Bond Fund	143,974	4.86%	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,503	17.00%	134,545	4.61%
UBS Multi Asset Fund	137,159	4.54%	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%	127,477	4.60%
CCLA Diversification Fund	n/a	n/a	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	213,751	10.93%	209,188	9.91%
Total	**352,572**		**472,545**		**450,713**		**(425,401)**		**1,255,139**		**1,142,948**	

Peer to Peer Investment	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21		31.11.21 2020/21	31.11.21 2020/21
Funding Circle	£	%	£	%	£	%	£	%	£	%		£	%
Carrying Value	**2,003,355**		**2,075,341**		**2,056,664**		**1,831,028**		**863,160**			**409,576**	
Interest Paid by Borrowers	181,892		181,014		184,654		193,170		127,982			54,852	
Less FC Service fee	(19,121)		(19,668)		(19,729)		(19,611)		(12,462)			(5,166)	
Promotions/Transfer payment							470		0			0	
Bad Debts	(58,163)		(61,288)		(111,152)		(127,649)		(80,881)			(25,432)	
Recoveries	8,219		14,780		27,428		30,253		42,431			54,750	
Net Yield	**112,827**	**5.63%**	**114,838**	**5.53%**	**81,201**	**3.95%**	**76,634**	**4.19%**	**77,070**	**8.93%**	*	**79,003**	**12.41%**
Provisions for future losses	**0**		**0**		**(10,000)**								

*Funding Circle Net yield December 2021 - as principal has been withdrawn throughout the year this has been calculated as net earnings against the average of the opening and closing value. Note there was a large recovery received in June 2021 (£38,494) which has inflated this yield. Excluding this recovery the yield would be 6.4%

 APPENDIX C

Annual Minimum Revenue Provision (MRP) Policy Statement 2022/23

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum previous to 2017/18. The Local Government Act 2003 requires the Council to have regard guidance issued by the Department for Levelling Up, Housing and Communities Guidance on Minimum Revenue Provision.

The broad aim of the DLUPHC Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by revenue grant, reasonably commensurate with the period implicit in the determination of that grant.

DLUHC regulations have been issued which require the Full Council to approve the MRP Policy Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

The Council's MRP policy will be Asset Life Method. This basis is subject to review and changes in line with the Councils Treasury Management Strategy and approved Prudential Indicators which are revised annually.

Capital expenditure incurred during 2022/23 will be fully subject to a MRP charge from 2024/25 onwards or in the financial year after the asset becomes operational whichever is the latest. This ensures that MRP is only charged to the first, full operational year of the asset's life.

The Council is recommended to approve the following MRP Policy Statement:

> *For **all** unsupported borrowing (General Fund) the MRP Policy will be; <u>Asset Life – Annuity Method,</u> in order to better match MRP to the period of time that the assets are expected to generate a benefit to the Council. (The previous MRP Policy method was <u>Asset Life – Straight Line Method</u> for internal borrowing). Moving from straight line to annuity makes for a more even spread of costs over the life of the assets since interest costs (or investment income foregone) will be higher at the start of the loan and lower at the end. Repaying principal on a straight-line basis therefore unnecessarily front-loads the overall cost.*

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

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Summary Investment and Borrowing Position at 31 March 2022

Investment Sub Committee Friday, 17 June 2022

Report of:	Chief Finance Officer (Section 151)
Purpose:	For information
Publication status:	Unrestricted
Wards affected:	All

Executive summary:

This report updates the Investment Sub Committee on the Council's investment and borrowing position at 31st March 2022 and sets out the scenario planning in relation to the future of the statutory override, as discussed at the Investment Sub Committee meeting on the 21st January 2022.

This report supports the Council's priority of: Building a better Council/ Supporting economic recovery in Tandridge.

Contact officer Mark Hak-Sanders

mhaksanders@tandridge.gov.uk

Recommendation to Committee:

That the Sub Committee notes:

A) the Council's Investment and Borrowing position at 31st March 2022 as set out in Appendix A and B; and

B) the scenario planning work underway to prepare for decisions expected from Government on the future of the statutory override.

Reason for recommendation:

This report will be reviewed by the Sub Committee, which provides an update on the Council's investment and borrowing position.

1. Introduction and background

1.1 The Capital, Investment and Treasury Management Strategy 2021/22 was reported to the Strategy and Resources Committee on 2nd February 2021. This covered the borrowing and investment plans for the Council. As detailed in this strategy, part of the Treasury Management function is to ensure that the cashflow is adequately planned and surpluses are invested while allowing for cash to be available when needed. Additionally, the treasury management function ensures that the Council can meet its capital spending plans. This requires the management of longer-term cash which will involve the use of long or short-term loans, or cash flow surpluses.

1.2 Tandridge District Council's contract for expert Treasury Management Advice with Link Group came to an end on the 30th April 2022. The new contract, with Arlingclose Ltd began on 1st May 2022 and their comments on the statutory override scenario planning is reflected in this report.

2. Summary Investment and Borrowing Position

2.1 A summary of the Council's investment and borrowing at 31st March 2022 is set out in Appendix A.

- Total long term financial investments (over 12 months) amount to £12.7 million.
- Short term investments (less than 12 months) amount to £15.3 million.
- The Council also has £21.2 million in non-financial investments which is made up of capital loans to specific service providers and limited companies.
- The total amount of Public Works Loan Board (PWLB) loans at 31st March 2022 is £102.3 million. This is made up of £43.4 million General Fund loans and £58.9 million Housing Revenue Account loans. The HRA balance has reduced by £2.4m since the Q3 update due to the repayment of a PWLB loan that the Council has not yet needed to refinance.

2.2 Appendix A shows the investments as short-term and long-term. The categorisation of this differs from how they are represented in the Statement of Accounts. A review of the differences in categorisation will be done as part of the production of the 2021/22 Statement of Accounts.

3. Statutory Override Scenario Planning

3.1 At its meeting on Friday 21st January 2022, Investment Sub Committee considered a report from officers and then-Treasury Management advisors, Link Group on the future of four long-term investments:

- CCLA Property Fund
- Schroeders Credit/Bond Fund
- UBS Multi Asset Fund
- CCLA Diversification Fund

3.2 The current regulatory environment means that the Council does not recognise annual gains and losses in the capital value of investments in the revenue budget, unless the investment is withdrawn. This is known as a statutory override, because it overrides usual accounting practice. The current override lasts until 31st March 2023.

3.3 Government has not yet made a decision on whether to extend, amend or remove the override from that point. Because of this override, the capital performance of funds has been less of an immediate concern in the past. We understand that DLUHC intends to consult shortly on this and hopes to issue a response in time for budget preparation. Ideally that would mean the Autumn, but it could slip into the Local Government Finance Settlement announcement (likely to be December).

3.4 The January report set out two key criteria for appraising the suitability of funds:

- The annual return is maintained without taking risks to the revenue budget from volatile capital values [funds cannot be assessed for this until the future of the override is known]; and
- In the medium-term, the investment portfolio is based around total overall return, from funds that offer a sustainable approach to maintaining investment values.

3.5 The recommendations included in the report were therefore contingent on a decision being made by Government on the future of the override. Officers confirmed that responses to the scenarios would be developed whilst the future of the override was clarified by Government.

3.6 This section sets out the latest position, developed in consultation with Arlingclose; the Council's Treasury Management Advisors.

3.7 Back in 2018, Government stated that it did not believe it was appropriate for local authorities to set revenue budgets and council tax based on their forecasts for the financial markets at the end of the following financial year. It also committed to review the situation before the override expires. Arlingclose understands that a consultation will be forthcoming during 2022 in advance of budget setting for 2023/24.

3.8 The impact of Covid-19 on the value of investments has demonstrated the application of the override – Tandridge's funds showed a loss of £947,000 against the purchase cost in March 2020, mostly recovering to a £200,000 loss in March 2021 and more than fully recovering to a £349,000 gain in March 2022 (set out in Appendix B). It would have been illogical for the Council to require savings from services or increase council tax as a result of these temporary losses during the pandemic. Many other local authorities are in a similar position and there is therefore a good argument for the override to continue to cover the next economic downturn.

3.9 Nevertheless, the Council's options in the two scenarios are as follows:

Scenario	**Override continued**	**Override removed**
Outline	General Fund continues to be insulated from gains and losses in fair value. The gain / loss on the asset would have a General Fund impact if the investment was withdrawn at greater than or lower than the initial investment.	General Fund is no longer insulated from gains and losses in fair value. The change in value at 31st March each year would be part of the Council's General Fund outturn against budget.
Potential responses	• Maintain the current portfolio of investments if they still demonstrate strong in-year yield; or • Disinvest in current funds and then re-invest in funds that offer the strongest in-year yield but set aside surpluses into a reserve to manage volatility in funds that would be felt if the Council needed to disinvest from the asset; or • Reduce the investment portfolio in overall size.	• Maintain investment in the funds, and manage the year-to-year volatility through reserves; or • Disinvest in current funds and reinvest in funds that offer the best combination of asset value security and in-year yield; i.e. total return; or • Sell the investments and move into lower yielding deposits, causing a budget pressure; or • Sell the investments and move into higher risk alternatives where the override is not required; or • Reduce the investment portfolio in overall size

Scenario	Override continued	Override removed
Preferred response	• **The portfolio of funds should be kept under review to maximise in-year yield whilst providing adequate long-term security of Council investments;** • An element of in-year yield could be credited to a reserve to guard against falls in value upon disinvestment – a target level of reserve for this purpose would be developed in consultation with Arlingclose • The appropriate overall value of investments will continued to be gauged against cash requirements and the differential in interest rates on new borrowing and investment return	• When a decision is made by Government, funds currently below their market value should be withdrawn when their capital value recovers to at least the amount invested, or if it becomes clear that their value will not be recovered further; • Losses in these funds would currently be covered by the gain in CCLA Property; • **Cash should then be reinvested in funds that offer the best total return (i.e. the combination of in-year yield and capital value)** • An element of in-year surpluses should be held in reserves to cover future volatility of funds – a target level of reserve for this purpose would be developed in consultation with Arlingclose • The appropriate overall value of investments will continued to be gauged against cash requirements and the differential in interest rates on new borrowing and investment return

<table>
<tr><th>Scenario</th><th>Override continued</th><th>Override removed</th></tr>
<tr><td>Risks</td><td>The continuation of the override may be time-limited, or the prevailing financial position of the Council may require disinvestment from funds, potentially at a loss. The statutory override does not protect the General Fund in the event of disinvestment.</td><td>In-year volatility in the market value of investments may impact the delivery of the General Fund Budget.</td></tr>
<tr><td>Mitigations</td><td colspan="2">Although the risks differ in timing, ultimately the General Fund would bear the risk of falls in the value of investments. The potential mitigations are the same in both scenarios.

An element of surpluses should be credited to a specific reserve in order to manage the risk that losses in investment values will ultimately be a General Fund impact (either each year if the override is discontinued or on disinvestment if it is not).

The reserve may require a level of up-front funding. It is proposed that this is achieved through either a) from in-year surpluses in investment income (if achievable) or;
b) a contribution from the General Fund at a level to be determined through the 2023/24 budget process and in consultation with Arlingclose.

Any losses could also be mitigated by recognising the gain from a stronger-performing investment.</td></tr>
</table>

3.10 In January, the Committee queried whether there was likely to be any difficulty in disinvesting from funds if the statutory override is not continued, factoring in the extent to which funds are reliant on local authorities as their major source of investment. Arlingclose advise that sale of all except one fund should not present a problem. They are invested in liquid securities listed on the stock exchange and will be able to handle redemption requests from multiple local authorities easily without affecting the valuation. Up to one week’s notice is required to sell these funds.

3.11 The one exception is the Local Authorities Property Fund operated by CCLA. Only local authorities may invest in the fund and it owns commercial property, which will take time to sell. There is a three-month notice period for redemptions, but the fund can suspend redemptions if this is in investors best interests (and it has done so three times since 2008). If multiple redemption requests led to the fund being a forced seller, or even to liquidating, it may not achieve the valuer's estimated price for the properties, which would cause the fund price to fall. Depending on market conditions, and the speed of sale, this could be a price fall of 10-20%, and it might take a year to receive all the proceeds.

3.12 As context, 56% of the District Councils who share Arlingclose as their advisors invest in CCLA Property. The average DC investment size in CCLA is £4m and the largest is £10m; only eight districts have £2m or less invested. There does not appear to be any appetite to disinvest amongst other authorities since CCLA Property is currently showing a gain which would offset losses elsewhere.

3.13 Redeeming the CCLA investment now would only be the correct choice if:

- the override is not extended
- the fund suspends redemptions
- the fund price falls during the suspension period, with the fall large enough to cause a problem managing the volatility through reserves

3.14 The current advice from Arlingclose is that these are an unlikely combination of events and therefore to maintain the investment. CCLA and its part-owner the LGA are likely to lobby Government in order to stop this foreseeable and avoidable situation from occurring.

Key implications

4. Comments of the Chief Finance Officer

4.1 The outturn position is for investment income of £26k more than budgeted. This is mainly due to a one-off receipt from Funding Circle in June for sale of non-performing loans previously charged as bad debt against net earnings. General Fund loan interest payable is in accordance with budget. HRA loan interest payable is £31k under budget due to the Council's cash position allowing us to avoid the immediate re-financing of maturing loans.

4.2 All investments carry a degree of risks as outlined in section 3. The Council manages these risks by holding diversified investments and through seeking expert advice from its Treasury Management Advisors and through the Finance Joint Working Agreement with the Orbis Centre of Expertise. The Council will continue to monitor the value of its investments in context of the regulatory environment.

5. Comments of the Head of Legal Services

5.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.

5.2 The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

6. Equality

6.1 The proposals within this report do not have the potential to disadvantage or discriminate against different groups with protected characteristics in the community.

7. Climate change

7.1 There are no significant environmental/sustainability implications associated with the report. It is however recognised that some Council investments may be in companies that are considered to have a detrimental impact on the climate, for example oil companies. The Climate Change Action Plan that is currently being draw up will have an action included to consider our current investment approach and determine if changes can or should be made.

Appendices

Appendix A – Summary of Investments and Borrowing

Appendix B – Market Value of Long Term Investments

Background papers

Investment Sub-Committee Papers 21st January 2022

---------- end of report ----------

Investment	Investment Amount 31/03/21 £	Net Asset Value 31/03/22 £	Yield Rate Note 1 %	Actual Return 2021/22 £
Non - Specified (Financial Investments)- Long Term (over 12 mths)				
CCLA Property Fund	4,000,000	4,888,056	3.25	158,867
Schroders Bond Fund	3,000,000	2,775,151	4.63	128,455
UBS Multi Asset Fund	3,000,000	2,639,592	4.57	120,654
CCLA Diversification Fund	2,000,000	2,046,513	2.39	48,871
Funding Circle	863,160	391,191	-	87,136
Sub Total Non-specified (Financial Investments)	**12,863,160**	**12,740,503**		**543,983**
Non - Specified (Non-Financial Investments)- Long Term (over 12 mths)				
Gryllus Property Company Loan - Maidstone	2,394,000	2,394,000	5.81	139,023
Freedom Leisure- Loan (TLP)	674,857	481,140	5.50	42,631
Freedom Leisure- Loan (de Stafford)	496,571	372,431	7.58	37,600
Gryllus Property Company Loan - 80-84 Station Rd East	1,012,500	1,012,500	5.43	54,979
Gryllus Property Company Loan - Castlefield	11,664,000	11,664,000	6.10	711,504
Gryllus Property Company Share Capital Note 2	5,251,500	5,251,500	-	-
Sub Total Non-specified (Non-Financial Investments)	**21,493,429**	**21,175,572**		**985,737**
Total Non-Specified Investments	**34,356,589**	**33,916,075**		**1,529,720**
Specified Investments-Short Term (less than 12 mths)				
Notice Accounts	4,000,000	1,995,487	0.19	3,826
Money Market Funds	3,250,000	13,260,000	0.05	7,775
Total Specified Investments	**7,250,000**	**15,255,487**		**11,601**
Total Non- Specified and Specified Investments	**41,606,589**	**49,171,562**		**1,541,321**
Total Investment Income Budget 2021/22				1,515,700
Over/(under) budget				**25,621**

Borrowing	Loan Amount £	Interest %	Actual Cost 2021/22 £
General Fund Borrowing			
Gryllus Loan	3,420,000	2.46	84,132
Freedom Leisure Loan	2,225,000	2.45	54,513
Village Health Club	938,678	2.38	22,341
Linden House	4,175,000	2.69	112,308
Linden House	254,000	2.42	6,147
Quadrant House	15,340,000	2.41	369,694
Quadrant House	800,000	2.28	18,240
Gryllus - 80-84 Station Road	724,400	2.28	16,516
Gryllus - Castlefield	15,549,000	2.91	452,476
Sub Total General Fund Borrowing	**43,426,078**		**1,136,366**
Total GF PWLB Budget 2021/22			**1,137,000**
Over/(under) budget			**(634)**
HRA Borrowing			
Public Works Loan Board	58,839,000	2.70	1,632,098
Sub Total HRA Borrowing	**58,839,000**		**1,632,098**
Total HRA PWLB Budget 2021/22			**1,662,500**
Over/(under) budget			**(30,402)**
Total Borrowing	**102,265,078**		**2,768,464**
Total Budget 2021/22			**2,799,500**
Total Over/(under) budget			**(31,036)**

Notes:

1. Yield Rate - forecast return divided by net asset value.
2. Gryllus share capital comprises of equity shares arising from loans granted - no dividend will be paid in the current year

Market Value of Long Term Investments at 31/12/2021

Appendix B

Carrying Value	2016/17 Carrying Value 31.3.2017	2017/18 Carrying Value 31.3.2018	2018/19 Carrying Value 31.3.2019	2019/20 Carrying Value 31.03.2020	2020/21 Carrying Value 31.03.2021	2021/22 Carrying Value 31.03.2022
	£	£	£	£	£	£
CCLA Property Fund	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Schroders Bond Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
UBS Multi Asset Fund	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
CCLA Diversification Fund	n/a	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total	**10,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**

Market Value	2016/17 Market Value 31.3.2017	2017/18 Market Value 31.3.2018	2018/19 Market Value 31.3.2019	2019/20 Market Value 31.03.2020	2020/21 Market Value 31.03.2021	2021/22 Market Value 31.03.2022
	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,082,986	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056
Schroders Bond Fund	2,963,563	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151
UBS Multi Asset Fund	3,018,705	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592
CCLA Diversification Fund(indicative market value)	n/a	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513
Total	**10,065,254**	**12,029,108**	**11,991,781**	**11,052,907**	**11,800,366**	**12,349,313**

Surplus/(Deficit)	2016/17 Surplus/ (Deficit) 31.3.2017	2017/18 Surplus/ (Deficit) 31.3.2018	2018/19 Surplus/ (Deficit) 31.3.2019	2019/20 Surplus/ (Deficit) 31.03.2020	2020/21 Surplus/ (Deficit) 31.03.2021	2021/22 Surplus/ (Deficit) 31.03.2022
	£	£	£	£		
CCLA Property Fund	82,986	276,854	276,005	188,063	158,183	888,056
Schroders Bond Fund	(36,437)	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)
UBS Multi Asset Fund	18,705	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)
CCLA Diversification Fund	n/a	(78,743)	(17,833)	(195,807)	(44,126)	46,513
Total	**65,254**	**29,108**	**(8,219)**	**(947,093)**	**(199,634)**	**349,313**

Gross Revenue Yield	Yield 2016/17	Yield 2016/17	Yield 2017/18	Yield 2017/18	Yield 2018/19	Yield 2018/19	Yield 2019/20	Yield 2019/20	Yield 2020/21	Yield 2020/21	Full Year outturn at 31.03.2022 Yield 2021/22	Full Year outturn at 31.03.2022 Yield 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	164,434	4.03%	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%	158,867	3.25%
Schroders Bond Fund	127,340	4.30%	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%	128,455	4.63%
UBS Multi Asset Fund	100,600	3.33%	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%	120,654	4.57%
CCLA Diversification Fund	n/a	n/a	62,732	3.27%	67,030	3.38%	66,284	3.67%	62,069	3.17%	48,871	2.39%
Total	**392,375**		**508,691**		**488,040**		**513,473**		**507,679**		**456,847**	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit) 2016/17	Surplus/ (Deficit) 2016/17	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2017/18	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2018/19	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2019/20	Surplus/ (Deficit) 2020/21	Surplus/ (Deficit) 2020/21	Full Year outturn at 31.03.2022 Surplus/ (Deficit) 2021/22	Full Year outturn at 31.03.2022 Surplus/ (Deficit) 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	(92,996)	-2.28%	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%	729,873	14.93%
Schroders Bond Fund	16,634	0.56%	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%	(133,760)	-4.82%
UBS Multi Asset Fund	36,559	1.21%	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%	(137,805)	-5.22%
CCLA Diversification Fund	n/a	n/a	(78,743)	-4.10%	60,910	3.07%	(177,974)	-9.86%	151,682	7.76%	90,639	4.43%
Total	**(39,803)**		**(36,146)**		**(37,327)**		**(938,874)**		**747,460**		**548,946**	

Net Yield	Net Yield 2016/17	Net Yield 2016/17	Net Yield 2017/18	Net Yield 2017/18	Net Yield 2018/19	Net Yield 2018/19	Net Yield 2019/20	Net Yield 2019/20	Net Yield 2020/21	Net Yield 2020/21	Full Year outturn at 31.03.2022 Net Yield 2021/22	Full Year outturn at 31.03.2022 Net Yield 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	71,438	1.75%	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%	888,740	18.18%
Schroders Bond Fund	143,974	4.86%	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,503	17.00%	(5,305)	-0.19%
UBS Multi Asset Fund	137,159	4.54%	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%	(17,152)	-0.65%
CCLA Diversification Fund	n/a	n/a	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	213,751	10.93%	139,510	6.82%
Total	**352,572**		**472,545**		**450,713**		**(425,401)**		**1,255,139**		**1,005,794**	

Peer to Peer Investment	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	31.03.22 2021/22	31.03.22 2021/22
Funding Circle	£	%	£	%	£	%	£	%	£	%	£	%
Carrying Value	**2,003,355**		**2,075,341**		**2,056,664**		**1,831,028**		**863,160**		**391,191**	
Interest Paid by Borrowers	181,892		181,014		184,654		193,170		127,982		66,749	
Less FC Service fee	(19,121)		(19,668)		(19,729)		(19,611)		(12,462)		(6,279)	
Promotions/Transfer payment							470		0		0	
Bad Debts	(58,163)		(61,288)		(111,152)		(127,649)		(80,881)		(36,103)	
Recoveries	8,219		14,780		27,428		30,253		42,431		62,769	
Net Yield	**112,827**	**5.63%**	**114,838**	**5.53%**	**81,201**	**3.95%**	**76,634**	**4.19%**	**77,070**	**8.93%** *	**87,136**	**13.89%**
Provisions for future losses	**0**		**0**		**(10,000)**							

*Funding Circle Net yield December 2021 - as principal has been withdrawn throughout the year this has been calculated as net earnings against the average of the opening and closing value. Note there was a large recovery received in June 2021 (£38,494) which has inflated this yield. Excluding this recovery the yield would be 6.4%