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To: MEMBERS OF THE INVESTMENT SUB COMMITTEE
Councillors Langton (Chair), Booth, Botten, Cooper, C.Farr,
Hammond and Jones

for any enquiries, please contact:
customerservices@tandridge.gov.uk
01883 722000

Substitute Councillors: Crane, Caulcott and Prew

C.C. All Other Members of the Council

27 October 2022

Dear Sir/Madam

INVESTMENT SUB COMMITTEE FRIDAY, 4TH NOVEMBER, 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 (if any)**
- 2. 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.

- 3. Minutes of the meeting held on the 17th June 2022 (Pages 3 - 12)**
To confirm as a correct record
- 4. Summary investment and borrowing position at 30th September 2022 (Pages 13 - 28)**

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

RESOLVED – that members of the press and public be excluded from the meeting for agenda item 6 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.

6. Investment Property Update (Pages 29 - 40)

7. Any 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 of the meeting of the Sub-Committee held in the Council Chamber, Council Offices, Station Road East, Oxted on the 17th June 2022 at 10.00am.

PRESENT: Councillors Booth, Cooper, C.Farr (substitute in place of Crane), Hammond, Jones and Langton

PRESENT (Virtually): Councillor Caulcott (substitute in place of Botten)

IN ATTENDANCE (Virtually): David Green (Arlingclose Limited)

APOLOGIES FOR ABSENCE: Councillors Botten and Crane

1. **ELECTION OF CHAIR FOR THE REMAINDER OF 2022/23**

Councillor Langton was elected Chair of the Sub-Committee for the remainder of 2022/23.

2. **MINUTES OF THE MEETING HELD ON THE 5TH NOVEMBER 2021**

These minutes were approved and signed as a correct record.

3. **MINUTES OF THE MEETING HELD ON THE 21ST JANUARY 2022**

These minutes were approved and signed as a correct record.

4. **SUMMARY INVESTMENT AND BORROWING POSITION AT 31ST MARCH 2022**

The Sub-Committee was presented with a summary of the Council's investment and borrowing position as per Annex A. The report set out the final position for financial year 2021/22, together with an update and accompanying scenario planning on the future of the Council's long-term investments. This reflected the recommendation from the previous meeting to retain investments in the following four funds until the Government decides whether to extend the current 'statutory override' (of usual accounting practice) which prevents gains and losses in capital values from impacting on the revenue budget:

- (i) CCLA (diversification fund)
- (ii) CCLA (property fund)
- (iii) Schrodgers bond fund
- (iv) UBS multi-asset fund

The accompanying report advised that the Council's contract for expert Treasury Management advice with Link Group had terminated on 30th April 2022 and a new contract had been entered into with Arlingclose.

In response to Members' questions, it was confirmed that:

- the rate of interest charged on loans from the Public Works Loan Board was fixed until maturity
- a debt profile of the various loans taken out by the Council, together with associated maturity dates, could be provided
- the swings in the value of short term investments held in money market funds over the course of the year, and since the last report, reflected a fluctuating cash position, e.g. due to Government funded grant schemes which the Council was required to administer
- quoted yield rates are based on current asset values, a presentation that should be reviewed.

The report also confirmed that the current statutory override would remain until 31st March 2023 and that the Government is expected to consult shortly before deciding whether to renew it. It was hoped that a decision would be made in time to inform the 2023/24 budget setting process. In the meantime, the Council's investment options, according to whether the override would continue, had been scoped in accordance with Annex C.

In the event of the override being removed, Arlingclose had advised that disinvesting from funds (i), (iii) and (iv) should not present difficulties. While this was not necessarily the case for the CCLA property fund, there did not appear to be any appetite among other authorities to withdraw and the Council was advised to maintain its investment.

A discussion took place regarding the redemption proceeds from Funding Circle loans. This related to the meeting on 24th January 2020 when the Sub-Committee agreed to disinvest from Funding Circle, with the redemption proceeds being invested elsewhere within the Council's treasury portfolio, namely 25% to each of the funds at (i) to (iv) above. However, in light of the challenges imposed by the pandemic, redeemed Funding Circle proceeds had, instead, been used ever since to support the Council's cashflow. Following a suggestion from Councillor Jones, it was agreed that this matter be reviewed at the Sub-Committee's next meeting.

RESOLVED – that:

- A. the Council's investment and borrowing position at 31st March 2022, as set out in Annexes A and B, be noted;
- B. the scenario planning work underway to prepare for decisions expected from Government on the future of the statutory override be noted; and
- C. the use of the redeemed proceeds from Funding Circle be reviewed at the Sub-Committee's next scheduled meeting on 4th November 2022, including an analysis of the potential sum available in light of the Council's cash flow requirements and debt profiles.

5. PROPERTY INVESTMENT 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.

A verbal update was given about the following commercial investment properties owned by the Council and its subsidiary company, Gryllus properties:

TDC properties:

- Linden House, Caterham on the Hill (the existing tenant was in the process of renewing their lease, the terms of which were discussed)
- Redstone House, South Nutfield (the property was being marketed for sale – Members were informed of progress)
- Quadrant House, Caterham Valley (the refurbishment scheme was now scheduled for completion by the end of September - the marketing process for letting the vacant units was underway - issues regarding rent arrears were discussed).

Gryllus properties:

- Castlefield House, Reigate
- 80-84 Station Road East, Oxted
- 30-32 Week Street, Maidstone (Members were informed about expressions of interest from prospective new tenants. It was agreed that options regarding this asset should be presented to the next scheduled meeting on 4th November 2022).

RESOLVED - that an options analysis regarding the future of 30-32 Week Street, Maidstone be presented to the Sub-Committee on 4th November 2022 to enable Members to assess the relative financial merits of selling, letting or leaving the building unoccupied for a limited period.

Rising 11.04 am

Investment	Investment Amount 31/03/21 £	Net Asset Value 31/03/22 £	Yield Rate Note 1 %	Actual Return 2021/22 £
<u>Non - Specified (Financial Investments)- Long Term (over 12 mths)</u>				
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
<u>Non - Specified (Non-Financial Investments)- Long Term (over 12 mths)</u>				
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
<u>Specified Investments-Short Term (less than 12 mths)</u>				
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 31/03/2022

Annex B

	2016/17	2017/18	2018/19	2019/20	2020/21
Carrying Value	Carrying Value 31.3.2017	Carrying Value 31.3.2018	Carrying Value 31.3.2019	Carrying Value 31.03.2020	Carrying Value 31.03.2021
	£	£	£	£	£
CCLA Property Fund	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
UBS Multi Asset Fund	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
Total	10,000,000	12,000,000	12,000,000	12,000,000	12,000,000

2021/22
Carrying Value 31.03.2022
£
4,000,000
3,000,000
3,000,000
2,000,000
12,000,000

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

2021/22
Market Value 31.03.2022
£
4,888,056
2,775,151
2,639,592
2,046,513
12,349,313

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

2021/22
Surplus/ (Deficit) 31.03.2022
888,056
(224,849)
(360,408)
46,513
349,313

Gross Revenue Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield
	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	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	

Full Year outturn at 31.03.2022	
Yield 2021/22	Yield 2021/22
£	%
158,867	3.25%
128,455	4.63%
120,654	4.57%
48,871	2.39%
456,847	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)
	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	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	

Full Year outturn at 31.03.2022	
Surplus/ (Deficit) 2021/22	Surplus/ (Deficit) 2021/22
£	%
729,873	14.93%
(133,760)	-4.82%
(137,805)	-5.22%
90,639	4.43%
548,946	

Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield
	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	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	

Full Year outturn at 31.03.2022	
Net Yield 2021/22	Net Yield 2021/22
£	%
888,740	18.18%
(5,305)	-0.19%
(17,152)	-0.65%
139,510	6.82%
1,005,794	

Peer to Peer Investment Funding Circle	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
	£	%	£	%	£	%	£	%	£	%
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)					

31.03.22	
2021/22	2021/22
£	%
391,191	
66,749	
(6,279)	
0	
(36,103)	
62,769	
87,136	13.89%

*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%

**Scoping of investment options, according to whether or not
the 'statutory override' will continue**

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 31 st March each year would be part of the Council's General Fund outturn against budget.
Potential responses	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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
Preferred response	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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;

Scenario	Override continued	Override removed
	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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
Risks	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.	In-year volatility in the market value of investments may impact the delivery of the General Fund Budget.
Mitigations	<p>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.</p> <p>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).</p> <p>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.</p> <p>Any losses could also be mitigated by recognising the gain from a stronger-performing investment.</p>	

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Summary Investment and Borrowing Position at 30 September 2022

Investment Sub Committee Friday, 4 November 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 30th September 2022, provides an update on the Government's consultation regarding the IFRS 9 statutory override, and provides an update on the Council's projected cash balances and the strategy for the use of redeemed proceeds from Funding Circle loans, as discussed at the Investment Sub Committee meeting on the 17th June 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 30th September 2022 as set out in Appendices A and B
 - B. the update on the future of the statutory override
 - C. the update on the Council's cash flow position and review of the use of redeemed proceeds from Funding Circle loans
 - D. the update on the Council's performance against its Prudential Indicators as set in the Capital, Investment and Treasury Management Strategy for 2022/23
-

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 for 2022/23 was reported to the Strategy and Resources Committee on 1st February 2022. 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 management of the Council's cash flows are reflected in this report.

2. Summary Investment and Borrowing Position

- 2.1 A summary of the Council's investment and borrowing at 30th September 2022 is set out in Appendix A.
 - Total long term financial investments (over 12 months) amount to £11.6m million. This represents a reduction in market value of £1.0m since the 31st March 2022, largely reflecting the volatile economic situation. The statutory override, as set out in section 3, prevents this fall in market value from impacting the revenue budget in the current financial year. A decision on the future of the override is expected imminently.
 - Short term investments (less than 12 months) amount to £16.6 million.
 - The Council also has £21.1 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 30th September 2022 is £102.3 million. This is made up of £43.4 million General Fund loans and £58.9 million Housing Revenue Account loans.

3. Statutory Override Update

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. Government has not yet made a decision on whether to extend, amend or remove the override from that point.

3.3 The 17th June 2022 ISC report set out the potential implications of the removal or continuation of the override. A Government consultation was issued in August and officers responded on behalf of TDC in October. Officers expressed an opinion that the override should be made permanent as this represents the lowest risk to the revenue budget, and leaves options open to change the mix of the investment portfolio, should it be deemed appropriate.

3.4 The outcome of the consultation will determine a) the impact on the Council and b) actions to be taken by the Council as identified in the report to ISC on 17th June, repeated below for reference.

3.5 The Council's options in the two scenarios set out in the 17th June ISC report 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 31 st March each year would be part of the Council's General Fund outturn against budget.

Scenario	Override continued	Override removed
Potential responses	<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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
Preferred response	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 are partly mitigated 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)

Scenario	Override continued	Override removed
	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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
Risks	<p>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.</p>	<p>In-year volatility in the market value of investments may impact the delivery of the General Fund Budget.</p>
Mitigations	<p>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.</p> <p>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).</p> <p>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.</p> <p>Any losses could also be mitigated by recognising the gain from a stronger-performing investment.</p>	

4. Update on cash flow strategy and Funding Circle loans

- 4.1 At its meeting on Friday 17th June 2022, Investment Sub Committee resolved that the use of redeemed proceeds from Funding Circle would be reviewed at this meeting in light of the Council's cash flow requirements.
- 4.2 The Council has updated its cash flow projections to 30th September 2023, and a detailed 12-month cash flow will be circulated to members of the Sub-Committee separately. The position is under continual refinement now the Council has adopted a more robust, software-based approach to forecasting. The Council's current recommended approach is to use cash balances to offset the need to borrow, and to invest in Money Market Funds.
- 4.3 The advice from Arlingclose is that using cash to avoid or delay the need to borrow to fund the capital programme is the best approach for the use of balances, including redeemed Funding Circle proceeds. This will remain the case whilst PWLB loan rates are in the region of 5%, as it represents a positive yield on the cash balances whilst avoiding any uncertainty or risk involved in investing without certainty on the statutory environment.

5 Update on the Council's Prudential Indicators

- 5.1 It is good practice to update the ISC on performance against the Council's prudential indicators, as set in advance of each financial year. This has not happened previously. Appendix C sets out the latest estimate for the indicators.

Key implications

6. Comments of the Chief Finance Officer

- 6.1 The forecast position at 30 September 2022 is for investment income for the year to be £197k more than budgeted. This is mainly due to the performance of the Council's investments in Money Market Funds, as generally funds have reacted to the increases in the Bank of England base rate. The forecast for General Fund and HRA loan interest payable is in accordance with budget. As the year progresses, a decision will be required on whether to release any surplus against the Council's overall outturn position, or to transfer an element to reserve to mitigate changes in the Council's investment values. This will be contingent on a decision from Government on the future of the override.
- 6.2 With all investments there are risks attached. 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.

6.3 The Council's internal auditors have recently reviewed the new arrangements for treasury management, including the joint working arrangement with Surrey County Council and Orbis. The review concluded that the Council's arrangements for Treasury Management were 'reasonable', which is a marked improvement on the 'limited' assurance provided in 2020/21's audit. The improvement areas identified related to the following points which have subsequently been addressed:

- Training for Members on treasury management; an initial session of which has now been provided.
- The regular updates to ISC did not include updates on the Prudential Indicators; to commence from November 2022 onwards.
- A more regular reconciliation of treasury management to the financial system; which is now underway through the joint working agreement.

Officers will continue to strengthen the arrangements for treasury management, including ongoing refinements of its cash flow forecasts and the instigation of more regular training.

7. Comments of the Head of Legal Services

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

7.2 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.

8. Equality

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

9. Climate change

9.1 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 Council will need to consider its strategy in respect of this. A consultation is under way on similar issues in Surrey Pension Fund, which closes on 6th November 2022, and officers are considering the response with Members.

Appendices

Appendix A – Summary of Investments and Borrowing

Appendix B – Market Value of Long-Term Investments

Appendix C – Prudential Indicators – performance and updated estimates

Background papers

Investment Sub-Committee Papers 17th June 2022

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

Investment	Investment Amount 31/03/22 £	Net Asset Value 30/09/22 £	Yield Rate Note 1 %	Forecast Return 2022/23 £
<u>Non - Specified (Financial Investments)- Long Term (over 12 mths)</u>				
CCLA Property Fund	4,000,000	4,848,829	3.33	161,569
Schroders Bond Fund	3,000,000	2,452,677	5.98	146,567
UBS Multi Asset Fund	3,000,000	2,178,270	8.50	185,183
CCLA Diversification Fund	2,000,000	1,871,049	3.82	71,500
Funding Circle (Note 2)	391,191	236,668	-	-
Sub Total Non-specified (Financial Investments)	12,391,191	11,587,493		564,819
<u>Non - Specified (Non-Financial Investments)- Long Term (over 12 mths)</u>				
Gryllus Property Company Loan - Maidstone	2,394,000	2,394,000	5.81	139,023
Freedom Leisure- Loan (TLP)	674,857	484,286	5.50	31,963
Freedom Leisure- Loan (de Stafford)	496,571	310,357	7.58	28,230
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)	21,493,428	21,116,643		965,699
Total Non-Specified Investments	33,884,619	32,704,136		1,530,518
<u>Specified Investments-Short Term (less than 12 mths)</u>				
Notice Accounts	4,000,000	1,990,648	1.01	20,010
Money Market Funds	3,250,000	14,600,000	0.05	142,148
Total Specified Investments	7,250,000	16,590,648		162,158
Total Non- Specified and Specified Investments	41,134,619	49,294,784		1,692,676
Total Investment Income Budget 2022/23				1,495,700
Over/(under) budget				196,976

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 2022/23			1,137,000
Over/(under) budget			(634)
HRA Borrowing			
Public Works Loan Board	58,839,000	2.70	1,640,708
Sub Total HRA Borrowing	58,839,000		1,640,708
Total HRA PWLB Budget 2022/23			1,639,600
Over/(under) budget			1,108
Total Borrowing	102,265,078		2,777,074
Total Budget 2022/23			2,776,600
Total Over/(under) budget			474

Notes:

1. Yield Rate - forecast return divided by net asset value. Arlingclose have advised that this is the standard approach, which allows for comparison of the current return to alternative investment options.
2. Return from Funding Circle investment has not been forecast as this is dependent upon information that is still to be received.

Market Value of Long Term Investments at 30/09/2022

Appendix B

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Carrying Value	Carrying Value 31.3.2018	Carrying Value 31.3.2019	Carrying Value 31.03.2020	Carrying Value 31.03.2021	Carrying Value 31.03.2022	Carrying Value 30.09.2022
	£	£	£	£	£	£
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	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Market Value	Market Value 31.3.2018	Market Value 31.3.2019	Market Value 31.03.2020	Market Value 31.03.2021	Market Value 31.03.2022	Market Value 30.09.2022
	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056	4,848,829
Schroders Bond Fund	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151	2,452,677
UBS Multi Asset Fund	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592	2,178,270
CCLA Diversification Fund(indicative market value)	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513	1,871,049
Total	12,029,108	11,991,781	11,052,907	11,800,366	12,349,312	11,350,825

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Surplus/(Deficit)	Surplus/ (Deficit) 31.3.2018	Surplus/ (Deficit) 31.3.2019	Surplus/ (Deficit) 31.03.2020	Surplus/ (Deficit) 31.03.2021	Surplus/ (Deficit) 31.03.2022	Surplus/ (Deficit) 30.09.2022
	£	£	£	£	£	£
CCLA Property Fund	276,854	276,005	188,063	158,183	888,056	848,829
Schroders Bond Fund	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)	(547,323)
UBS Multi Asset Fund	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)	(821,730)
CCLA Diversification Fund	(78,743)	(17,833)	(195,807)	(44,126)	46,513	(128,951)
Total	29,108	(8,219)	(947,093)	(199,634)	349,312	(649,175)

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

Full Year forecast at 30.09.22	
Yield 2022/23	Yield 2022/23
£	%
161,569	3.33%
146,567	5.98%
185,183	8.50%
71,500	3.82%
564,819	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%	729,873	14.93%
Schroders Bond Fund	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%	(133,760)	-4.82%
UBS Multi Asset Fund	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%	(137,806)	-5.22%
CCLA Diversification Fund	-78,743	n/a	60,910	3.07%	(177,974)	-9.86%	151,681	7.76%	90,639	4.43%
Total	(36,146)		(37,327)		(938,874)		747,459		548,946	

Full Year forecast at 30.09.22	
Surplus/ (Deficit) 2022/23	Surplus/ (Deficit) 2022/23
£	%
(39,227)	-0.81%
(322,474)	-13.15%
(461,322)	-21.18%
(175,464)	-9.38%
(998,487)	

Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%	888,740	18.18%
Schroders Bond Fund	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,502	17.00%	(5,305)	-0.19%
UBS Multi Asset Fund	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	127,940	6.45%	(111,690)	-6.19%	213,750	10.93%	139,510	6.82%
Total	488,556		450,713		(425,401)		1,255,138		1,005,793	

Full Year forecast at 30.09.22	
Net Yield 2022/23	Net Yield 2022/23
£	%
122,342	2.52%
(175,907)	-7.17%
(276,139)	-12.68%
(103,964)	-5.56%
(433,668)	

Peer to Peer Investment Note 1** Funding Circle	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23 '30.09.22	
	£	%	£	%	£	%	£	%	£	%	£	%
Carrying Value	2,075,341		2,056,664		1,831,028		863,160		391,191		236,668	
Interest Paid by Borrowers	181,014		184,654		193,170		127,982		66,749			
Less FC Service fee	(19,668)		(19,729)		(19,611)		(12,462)		(6,279)			
Promotions/Transfer payment			-		470		0		0			
Bad Debts	(61,288)		(111,152)		(127,649)		(80,881)		(36,103)			
Recoveries	14,780		27,428		30,253		42,431		62,769			
Net Yield	114,838	5.53%	81,201	3.95%	76,633	4.19%	77,070	8.93%	87,136	13.89%	0	0.00%
Provisions for future losses	0		(10,000)									

Notes:

1. Funding Circle yield has not been forecast for 2022/23 as this is dependent upon information that is still to be received.

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Estimates of Capital Expenditure

	2021/22 Actual £m	2022/23 Budget £m	2022/23 Latest Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	Total 2022/23 to 2024/25 £m
General Fund services	4,509	7,140	6,760	1,380	1,430	9,570
Community Infrastructure Levy (CIL) funded	1,017	2,146	1,477	500	-	1,977
Council Housing (HRA)	11,085	15,956	12,788	11,517	4,866	29,171
TOTAL	16,611	25,242	21,024	13,398	6,296	40,718

Capital Financing

	2021/22 Actual £m	2022/23 Budget £m	2022/23 Latest Forecast £m	2023/24 Estimate £m	2024/25 Estimate £m	Total 2022/23 to 2024/25 £m
General Fund						
Grants & contributions	3,207	2,988	2,988	460	460	3,908
CIL/S106	538	3,096	1,477	500	-	1,977
Capital receipts	555	-	570	-	-	570
Internal resources	34	194	194	-	-	194
Borrowing	1,192	3,008	3,008	920	970	4,898
Total General Fund and CIL	5,526	9,286	8,237	1,880	1,430	11,547
HRA						
Grants & contributions	-	-	-	-	-	-
Internal resources	11,085	9,358	9,358	7,213	4,866	21,437
Borrowing	-	6,598	3,430	4,304	-	7,734
Total HRA	11,085	15,956	12,788	11,517	4,866	29,172
TOTAL	16,611	25,242	21,024	13,398	6,296	40,718

Repayment of Debt through Minimum Revenue Provision

	2021/22 Actual £m	2022/23 Budget £m	2022/23 Latest Forecast £m	2023/24 Budget £m	2024/25 Budget £m
Minimum Revenue Provision	0.8	1.2	1.1	1.4	1.2

Estimates of Capital Financing Requirement

	31/03/2022 Actual £m	31/03/2023 Estimate (based on budget) £m	31/03/2023 Latest Forecast £m	31/03/2024 Estimate £m	31/03/2025 Estimate £m
General Fund services	26.2	28.5	28.5	28.5	28.7
Council housing (HRA)	61.3	67.9	64.7	69.0	69.0
Commercial activities/non-financial investments*	21.0	20.5	20.5	20.0	19.5
TOTAL CFR	108.4	116.9	113.7	117.5	117.3

Forecast Gross External Debt and the Capital Financing Requirement

	31/03/2022 Actual £m	31/03/2023 Estimate (based on budget) £m	31/03/2023 Latest Forecast £m	31/03/2024 Estimate £m	31/03/2025 Estimate £m
HRA Debt	58.8	67.3	64.1	67.9	67.7
General Fund External Debt	43.4	43.4	43.4	43.4	43.4
Other Long-Term Liabilities					
Total Debt	102.3	110.7	107.6	111.4	111.1
Capital Financing Requirement	108.5	116.9	113.7	117.5	117.3
CFR not funded by Borrowing	6.2	6.2	6.2	6.2	6.2

Authorised limit and operational boundary for external debt

	2022/23 limit £m	2023/24 limit £m	2024/25 limit £m
Authorised limit - borrowing	150	150	150
Authorised limit - leases	0	0	0
Authorised limit - total external debt	150	150	150
Operational boundary - borrowing	140	140	140
Operational boundary - leases	0	0	0
Operational boundary - total external debt	140	140	140

Proportion of financing costs to net revenue stream

	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Net revenue stream	11.4	11.0	11.0
General Fund - Net Financing costs	0.7	0.9	0.7
Proportion of GF net financing costs to net revenue stream	6%	8%	6%

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