

## 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 16<sup>th</sup> June 2023 at 10.00 am.

**PRESENT:** Councillors Booth, Botten, Cooper, Chris Farr, Hammond, Alun Jones and Langton

#### **1. ELECTION OF CHAIR FOR THE REMAINDER OF 2023/24**

Councillor Langton was elected Chair of the Sub-Committee for the remainder of the 2023/24 municipal year.

#### **2. MINUTES OF THE MEETING HELD ON THE 20TH JANUARY 2023**

These minutes were approved and signed as a correct record.

#### **3. SUMMARY INVESTMENT AND BORROWING POSITION AT 31ST MARCH 2023**

A report with the investment analysis at Appendices A to C was presented. This confirmed that, at 31<sup>st</sup> March 2023:

- (i) total long term treasury investments (over 12 months) amounted to £10.8 million
- (ii) short term investments (less than 12 months) amounted to £6 million
- (iii) the Council also had £16.7 million in non-treasury investments, comprising capital loans to specific service providers and limited companies
- (iv) the total amount of Public Works Loan Board (PWLB) loans at 31st March 2023 was £99.4 million, comprising £43.4 million General Fund loans and £56 million Housing Revenue Account loans (the HRA PWLB balance had reduced by £2.9m since the previous quarter due to the repayment of a PWLB loan that the Council had not yet needed to refinance)
- (v) investment income for 2022/23 totalled £1,495,700, which had exceeded the budgeted income amount by £447,335.

As explained at the previous meeting, the Government had extended the 'IFRS 9 statutory override' until March 2025. Consequently, the General Fund would continue to be insulated from gains and losses in the capital value of the Council's long-term investments in the following four funds:

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

The report confirmed that the current capital value of the investments was £1.3 million less than the original £12 million. Therefore, without the statutory override, the General Fund would have had to absorb the £1.3 million as an additional budget pressure. To mitigate against such a risk emerging in 2025/26 (should the override be not further extended) the transfer of the £447,335 surplus income (referred to in (v) above) to an Investment Performance Equalisation Reserve was recommended. This was on the basis that surpluses held in the reserve could be released to the General Fund should confidence in market value of the investment holdings recover. The Chief Finance Officer relayed advice from the Council's consultants, Arlingclose Limited, on the prospects of a full or partial recovery of values by 2026.

During the debate, the rationale for continuing to invest in the four funds was challenged, given that such a portfolio, selected for income generation, would be compromised by having to partly offset returns should IFRS 9 apply. While it would be premature to disinvest at the present time, it was acknowledged that alternative investment options based on 'total returns' may need to be considered for the future.

**RESOLVED** – that following be noted:

- A. the Council's investment and borrowing position at 31st March 2023, as set out in Appendices A and B;
- B. the Council's actual performance against the indicators set within the Treasury Management Strategy for 2022/23, as set out in Appendix C; and
- C. the update on ongoing work to review options following the extension of the IFRS 9 statutory override.

**COMMITTEE DECISION**

*(subject to ratification by the Strategy & Resources Committee)*

**RECOMMENDED** – that the surplus investment income of £447k, as set out in Appendix A, be added to an Investment Performance Equalisation Reserve to offset risks to the market value of assets, and therefore not be reflected in the Council's overall General Fund outturn position.

## 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.

Latest information was circulated about the commercial investment properties owned by the Council and its subsidiary company, Gryllus properties. The sites concerned were:

**TDC properties:**

**Quadrant House, Caterham Valley**

It was confirmed that a final account figure for the refurbishment scheme had been agreed with contractors. The Chair reflected that those commissioned to advise the Council throughout the project were partly responsible for the overspend.

Details of recent lettings were provided and the progress of discussions with other potential tenants were discussed. It was acknowledged that the building's appeal would be greatly enhanced once the redevelopment of the adjacent site in Croydon Road had been completed.

#### **Village Health Club, Caterham on the Hill**

The Council's approach to managing Freedom Leisure's tenancy was discussed in light of the rent review in February 2023 and Freedom's subsequent request for financial assistance.

#### **Council Offices, Oxted**

Members were advised about two recent lettings. Officers were assessing the scope for further lettings, although a lack of car parking space was a limiting factor.

#### **Gryllus properties:**

##### **80-84 Station Road East, Oxted**

The current lease would expire on the 17<sup>th</sup> September 2023. Details of renewal terms being negotiated with the existing tenant's representatives were discussed.

##### **30-32 Week Street, Maidstone**

The agreed terms of a new letting were presented, together with details of a dilapidations claim being negotiated with the previous tenant. The potential implications of the reduced rental income for both Gryllus and the Council were highlighted.

##### **Castlefield House, Reigate**

The intentions of the existing tenant were noted. Following a question regarding potential, alternative uses of the site, the Principal Asset Manager undertook to clarify the limitations of current permitted development rights.

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Investment	Original Value - Long Term Treasury Investments £	Net Asset Value 31/03/22 £	Net Asset Value 31/03/23 £	Yield Rate Note 1 %	Actual Return 2022/23 £	Previous Year Actual £
<b>Treasury Investments (Non-specified)- Long Term (over 12 mths)</b>						
CCLA Property Fund	4,000,000	4,888,056	4,082,278	4.26	173,997	158,867
Schroders Bond Fund	3,000,000	2,775,151	2,550,204	5.84	149,038	128,455
UBS Multi Asset Fund	3,000,000	2,639,592	2,208,433	6.60	145,657	120,654
CCLA Diversification Fund	2,000,000	2,046,513	1,864,707	3.02	56,357	48,871
Funding Circle		391,191	142,398	-	20,249	87,136
<b>Sub Total Non-specified (Treasury Investments)</b>	<b>12,000,000</b>	<b>12,740,503</b>	<b>10,848,020</b>		<b>545,299</b>	<b>543,983</b>
<b>Treasury Investments (Specified)-Short Term (less than 12 mths)</b>						
Liquidity Plus Funds		1,995,487	1,994,226	1.88	37,475	3,826
Money Market Funds		13,260,000	4,000,000	0.05	394,562	7,775
<b>Total Specified Investments</b>		<b>15,255,487</b>	<b>5,994,226</b>		<b>432,037</b>	<b>11,601</b>
<b>Total Treasury Investments</b>		<b>27,995,989</b>	<b>16,842,246</b>		<b>977,336</b>	<b>555,584</b>
<b>Non-Treasury Investments (Non-Specified)- Long Term (over 12 mths)</b>						
Gryllus Property Company Loan - Maidstone		2,394,000	2,394,000	5.81	139,023	139,023
Freedom Leisure- Loan (TLP)		674,857	387,429	5.50	31,963	42,631
Freedom Leisure- Loan (de Stafford)		496,571	248,286	7.58	28,230	37,600
Gryllus Property Company Loan - 80-84 Station Rd East		1,012,500	1,012,500	5.43	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	994,100	-	-	-
<b>Sub Total Non-Treasury Investments</b>		<b>21,493,429</b>	<b>16,700,314</b>		<b>965,699</b>	<b>985,737</b>
<b>Total Investments (Treasury &amp; Non-Treasury)</b>		<b>49,489,418</b>	<b>33,542,560</b>		<b>1,943,035</b>	<b>1,541,321</b>
<b>Total Investment Income Budget 2022/23</b>					1,495,700	1,515,700
<b>Over/(under) budget</b>					<b>447,335</b>	<b>25,621</b>

<b>Borrowing</b>	<b>Balance as at 31/03/23</b>	<b>Interest</b>	<b>Actual Cost 2022/23</b>	<b>Previous Year Cost</b>
	<b>£</b>	<b>%</b>	<b>£</b>	<b>£</b>
<b>General Fund Borrowing</b>				
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	452,476
<b>Sub Total General Fund Borrowing</b>	<b>43,426,078</b>		<b>1,136,366</b>	<b>1,136,366</b>
<b>Total GF PWLB Budget 2022/23</b>			<b>1,137,000</b>	<b>1,137,000</b>
<b>Over/(under) budget</b>			<b>(634)</b>	<b>(634)</b>
<b>HRA Borrowing</b>				
Public Works Loan Board	55,989,000	2.85	1,596,258	1,632,098
<b>Sub Total HRA Borrowing</b>	<b>55,989,000</b>		<b>1,596,258</b>	<b>1,632,098</b>
<b>Total HRA PWLB Budget 2022/23</b>			<b>1,639,600</b>	<b>1,662,500</b>
<b>Over/(under) budget</b>			<b>(43,342)</b>	<b>(30,402)</b>
<b>Total Borrowing</b>	<b>99,415,078</b>		<b>2,732,624</b>	<b>2,768,464</b>
<b>Total Budget 2022/23</b>			<b>2,776,600</b>	<b>2,799,500</b>
<b>Total Over/(under) budget</b>			<b>(43,976)</b>	<b>(31,036)</b>

**Notes:**

## 1. Yield Rate:

For Non specified Investments, this is the actual return divided by net asset value as at 31/03/23;

For Specified investments, this is the actual return divided by the average investment value during the year

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 31/03/2023

## Appendix B

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
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	Carrying Value 31.03.2022	Carrying Value 31.03.2023
	£	£	£	£	£	£	£
CCLA Property Fund	4,000,000	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	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	3,000,000
CCLA Diversification Fund	n/a	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
<b>Total</b>	<b>10,000,000</b>	<b>12,000,000</b>	<b>12,000,000</b>	<b>12,000,000</b>	<b>12,000,000</b>	<b>12,000,000</b>	<b>12,000,000</b>

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
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	Market Value 31.03.2022	Market Value 31.03.2023
	£	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,082,986	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056	4,082,278
Schroders Bond Fund	2,963,563	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151	2,550,204
UBS Multi Asset Fund	3,018,705	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592	2,208,433
CCLA Diversification Fund(indicative market value)	n/a	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513	1,864,707
<b>Total</b>	<b>10,065,254</b>	<b>12,029,108</b>	<b>11,991,781</b>	<b>11,052,907</b>	<b>11,800,366</b>	<b>12,349,313</b>	<b>10,705,622</b>

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
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	Surplus/ (Deficit) 31.03.2022	Surplus/ (Deficit) 31.03.2023
	£	£	£	£			
CCLA Property Fund	82,986	276,854	276,005	188,063	158,183	888,056	82,278
Schroders Bond Fund	(36,437)	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)	(449,796)
UBS Multi Asset Fund	18,705	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)	(791,567)
CCLA Diversification Fund	n/a	(78,743)	(17,833)	(195,807)	(44,126)	46,513	(135,293)
<b>Total</b>	<b>65,254</b>	<b>29,108</b>	<b>(8,219)</b>	<b>(947,093)</b>	<b>(199,634)</b>	<b>349,313</b>	<b>(1,294,378)</b>

Gross Revenue Yield	Yield	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	2021/22	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	3.82%
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	4.42%
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	4.34%
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	2.50%
<b>Total</b>	<b>392,375</b>		<b>508,691</b>		<b>488,040</b>		<b>513,473</b>		<b>507,679</b>		<b>456,847</b>	

Full Year outturn at 31.03.2023	
Yield	Yield
2022/23	2022/23
£	%
173,997	4.26%
149,038	5.84%
145,657	6.60%
56,357	3.02%
<b>525,050</b>	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit)	Surplus/ (Deficit)	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	2021/22	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%
<b>Total</b>	<b>(39,803)</b>		<b>(36,146)</b>		<b>(37,327)</b>		<b>(938,874)</b>		<b>747,460</b>		<b>548,946</b>	

Full Year outturn at 31.03.2023	
Surplus/ (Deficit)	Surplus/ (Deficit)
2022/23	2022/23
£	%
(805,778)	-19.74%
(224,947)	-8.82%
(431,159)	-19.52%
(181,806)	-9.75%
<b>(1,643,691)</b>	

Net Yield	Net Yield	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	2021/22	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%
<b>Total</b>	<b>352,572</b>		<b>472,545</b>		<b>450,713</b>		<b>(425,401)</b>		<b>1,255,139</b>		<b>1,005,794</b>	

Full Year outturn at 31.03.2023	
Net Yield	Net Yield
2022/23	2022/23
£	%
(631,781)	-15.48%
(75,909)	-2.98%
(285,502)	-12.93%
(125,449)	-6.73%
<b>(1,118,641)</b>	

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	2021/22	2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
<b>Carrying Value</b>	<b>2,003,355</b>		<b>2,075,341</b>		<b>2,056,664</b>		<b>1,831,028</b>		<b>863,160</b>		<b>391,191</b>	
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	
<b>Net Yield</b>	<b>112,827</b>	<b>5.63%</b>	<b>114,838</b>	<b>5.53%</b>	<b>81,201</b>	<b>3.95%</b>	<b>76,634</b>	<b>4.19%</b>	<b>77,070</b>	<b>8.93%</b>	<b>87,136</b>	<b>7.12%</b>
<b>Provisions for future losses</b>	<b>0</b>		<b>0</b>		<b>(10,000)</b>							

31.03.23	
2022/23	2022/23
£	%
<b>142,398</b>	
28,664	
(2,531)	
0	
(20,941)	
15,057	
<b>20,249</b>	<b>4.03%</b>



## Treasury Management Prudential Indicators

### Authorised limit and operational boundary for external debt

The operational boundary is an indicator against which to monitor its external debt position. It is based on the Council's estimate of the most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the CFR and cash flow requirements and is a key management to for in-year monitoring.

The authorised limit is a control on the maximum level of borrowing. It is a statutory limit determined under section 3(1) of the Local Government Act 2003 and is a limit beyond which external debt is prohibited. It is the maximum level of debt that the Council can legally owe.

The Council complied with both indicators in 2022/23.

	<b>2022/23 limit £m</b>	<b>Complied</b>
Authorised limit – borrowing	150	✓
Authorised limit – leases	0	✓
Authorised limit – total external debt	150	✓
Operational boundary – borrowing	140	✓
Operational boundary – leases	0	✓
Operational boundary – total external debt	140	✓

### Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk. The maturity date of borrowing is the date that the loans are due to be repaid. The Council's debt maturity profile remains within the limits set for 2022/23.

<b>Debt Maturity Profile Limits</b>	<b>Actual as at 31/03/23</b>	<b>Upper Limit 2022/23</b>
	%	%
Under 12 months	0	15
12 months to 2 years	7	15
2 years to 5 years	13	25
5 years to 10 years	20	50
10 years to 20 years	4	50
Over 20 years	56	60
<b>Total</b>	<b>100%</b>	

**Interest rate exposures**

This indicator is set to control the Council's exposure to interest rate risk. The Council's investments and borrowings remained within the limits set for 2022/23.

	Actual for 2022/23 £m	Upper limit 2022/23 £m	Complied
Fixed interest rate exposures	82	285	✓
Variable interest rate exposures	17	60	✓