

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 3 November 2023 at 10.00 am.

PRESENT: Councillors Langton (Chair), Booth, Botten, Chris Farr, Hammond, Alun Jones and O'Driscoll (Substitute) (In place of Cooper)

ALSO PRESENT: Councillors Gaffney

ALSO PRESENT (Virtually): Councillor Smith

APOLOGIES FOR ABSENCE: Councillor Cooper

1. MINUTES OF THE MEETING HELD ON THE 16TH JUNE 2023

These minutes were approved and signed as a correct record.

2. SUMMARY INVESTMENT AND BORROWING POSITION AT 30TH SEPTEMBER 2023

A report with the investment analysis at Annexes A and B was presented. This confirmed that, at 30th September 2023:

- (i) total long term treasury investments (over 12 months) amounted to £10.7m
- (ii) short term investments (less than 12 months) amounted to £13m
- (iii) the Council also held £16.5m 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 was £99.4m, comprising £43.4m General Fund loans and £56m Housing Revenue Account loans.

Following consultation, 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.

However, the Government's commentary on the consultation outcome suggested that the override might not be further extended. In that respect, the Council's Investment Performance Equalisation Reserve (IPER) would mitigate against the risk of reductions in the carrying value of the above funds from impacting upon the General Fund balance. At the previous meeting, it was noted that IPER surpluses could be released to the General Fund if and when confidence in the assets' market values recovered. The current carrying loss had increased to £1.5m and it remained uncertain whether market values would recover by the time the current override

elapsed. The Chief Finance Officer confirmed that the 2023/24 investment outturn report (to be submitted to the Sub-Committee early in the next financial year) would enable Members to consider options for utilising investment income and use of the IPER.

A Quarter 2 update on performance against the Council's treasury and other prudential indicators was also submitted. This included commentary on a new Public Works Loan Board discounted rate for Housing Revenue Account borrowing, made available from 15th June 2023. Advice would be taken from Arlingclose and the Centre of Expertise on whether accessing this rate offered good value. (The Council's HRA debt was currently funded by internal borrowing).

RESOLVED – that the following be noted:

- A. the Council's investment and borrowing position at 30th September 2023 as set out in Annexes A and B;
- B. the Council's actual performance against the indicators set within the Treasury Management Strategy for 2023/24 in Annex C;
- C. the commentary from Arlingclose on the external context for treasury management; and
- D. the update on the performance of the Council's long-term treasury investments.

3. 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 presented about the commercial investment properties owned by the Council and its subsidiary company, Gryllus properties. The sites concerned were:

Gryllus properties:

80-84 Station Road East, Oxted

The previous lease expired on the 17th September 2023 and a new lease was being negotiated.

30-32 Week Street, Maidstone

The terms of a lease to a new tenant were close to being agreed, with a schedule of refurbishment works ready to go to tender. A dilapidations claim was also being negotiated with the previous tenant, details of which were discussed. The Chief Finance Officer explained the implications of the reduction in rental income arising from the prospective new lease.

Castlefield House, Reigate

Members were advised about the Council's potential approach to this asset in light of the next rent review and the intentions of the existing tenant.

TDC properties:**Quadrant House, Caterham Valley**

Since the previous report, Subway had renewed its lease of 49 Croydon Road, details of which were shared with the Sub-Committee. It was also noted that Suite 1C Quadrant House North was being marketed following the departure of the previous tenant. An offer to let another area of Quadrant House and potential terms for renewal of the Workary lease were the subject of two separate items on the agenda.

Village Health Club, Caterham on the Hill

The tenant, Freedom Leisure, had sought financial assistance from the Council for both this site and Tandridge Leisure Pool in Oxted. Members were updated about the Council's response to this request which, while falling short of direct financial support, included a grant application to England's Swimming Pool Support Fund. Concerns regarding the current inability to impose service delivery standards as part of the lease agreements (which were limited to property contracts) for these two sites were discussed.

Council Offices, Oxted

Members were advised about a recent letting and two other lease renewals. Officers had continued to assess the scope for further lettings, together with potential solutions for increasing car parking capacity, and wished to instruct a local agent to begin marketing the surplus space. Potential options for assisting those working in the Council Offices to park elsewhere in Oxted were discussed.

RESOLVED – that:

- A. the report be noted; and
- B. the Officers' initiative to lease more surplus space at the Council Offices be endorsed.

4. PROPOSED NEW SHOP LETTING

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 report concerning an offer to let three shop units in Quadrant House, Caterham was considered. Opposing arguments about whether the Council should accept the offer were debated, which concluded with the Sub-Committee voting against.

RECOMMENDED (to the Strategy & Resources Committee) that the offer from a prospective tenant to lease three shop units in Quadrant House be declined.

5. THE WORKARY LEASE RENEWAL

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.

Wimbletech, trading as 'The Workery', had been occupying a unit in Quadrant House, Caterham as a co-working office since August 2020. The original lease had expired on 12th August 2022 and officers had since been attempting to negotiate terms for a renewal. Negotiations had reached an impasse and Officers wished to seek guidance from the Sub-Committee on how to proceed. A report was submitted regarding officers' proposed terms for the renewal of Wimbletech's lease.

RESOLVED – that a renewal of the lease to Wimbletech be on the terms presented within the report.

Rising 12.08 pm

Summary of Investments and Borrowing

Investment	Original Value - Long Term Treasury Investments £	Net Asset Value 31/03/23 £	Net Asset Value 30/09/23 £	Yield Rate Note 1 %	Forecast Return 2023/24 £	Previous Year Actual Return £
Treasury Investments (Non-specified)- Long Term (over 12 mths)						
CCLA Property Fund	4,000,000	4,082,278	4,028,890	4.72	189,999	173,997
Schroders Bond Fund	3,000,000	2,550,204	2,581,908	5.85	151,110	149,038
UBS Multi Asset Fund	3,000,000	2,208,433	2,069,445	7.49	154,957	145,657
CCLA Diversification Fund	2,000,000	1,864,707	1,835,035	3.56	65,280	56,357
Funding Circle		142,398	148,766	-	6,371	20,249
Sub Total Non-specified (Treasury Investments)	12,000,000	10,848,020	10,664,044		567,717	545,299
Treasury Investments (Specified)-Short Term (less than 12 mths)						
Liquidity Plus Funds		1,994,226	1,998,272	4.51	90,059	37,475
Money Market Funds		4,000,000	11,000,000	5.10	465,148	394,562
Total Specified Investments		5,994,226	12,998,272		555,207	432,037
Total Treasury Investments		16,842,246	23,662,316		1,122,924	977,336
Non-Treasury Investments (Non-Specified)- 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)		387,429	290,571	5.50	21,309	31,963
Freedom Leisure- Loan (de Stafford)		248,286	186,214	7.58	18,820	28,230
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		994,100	994,100	-	-	-
Sub Total Non-Treasury Investments		16,700,314	16,541,386		945,634	965,699
Total Investments (Treasury & Non-Treasury)		33,542,561	40,203,701		2,068,558	1,943,035
Total Investment Income Budget 2023/24					1,495,700	1,495,700
Over/(under) budget					572,858	447,335

Borrowing	Balance as at 30/09/23	Interest	Forecast Cost 2023/24	Period to maturity	Previous Year Cost
	£	%	£	(years)	£
General Fund Borrowing					
Gryllus Loan	3,420,000	2.46	84,132	44	84,132
Freedom Leisure Loan	2,225,000	2.45	54,513	44	54,513
Village Health Club	938,678	2.38	22,341	44	22,341
Linden House	4,175,000	2.69	112,308	25	112,308
Linden House	254,000	2.42	6,147	26	6,147
Quadrant House	15,340,000	2.41	369,694	45	369,694
Quadrant House	800,000	2.28	18,240	46	18,240
Gryllus - 80-84 Station Road	724,400	2.28	16,516	46	16,516
Gryllus - Castlefield	15,549,000	2.91	452,476	46	452,476
Sub Total General Fund Borrowing	43,426,078		1,136,366		1,136,366
Total GF PWLB Budget 2023/24			1,137,000		1,137,000
Over/(under) budget			(634)		(634)
HRA Borrowing					
Public Works Loan Board	55,989,000	2.72	1,520,196	13	1,596,258
Sub Total HRA Borrowing	55,989,000		1,520,196		1,596,258
Total HRA PWLB Budget 2023/24			1,639,600		1,639,600
Over/(under) budget			(119,404)		(43,342)
Total Borrowing	99,415,078		2,656,562		2,732,624
Total Budget 2023/24			2,776,600		2,776,600
Total Over/(under) budget			(120,038)		(43,976)

Net borrowing balance at 30 September 2023 (Total Borrowing less Treasury Investments)	82,572,832
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Notes:

1. Yield Rate:

For Specified and Non specified Investments, this is the forecast return divided by net asset value as at 30/09/23;
For Specified investments, this is the forecast return divided by the average investment value during the year

2. Gryllus share capital comprises of equity shares arising from loans granted

3. The period to maturity included for HRA borrowing is the weighted average for all loans outstanding.

Market Value of Long Term Investments at 30/09/2023

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Carrying Value	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Carrying Value	Carrying Value
	31.3.2018	31.3.2019	31.03.2020	31.03.2021	31.03.2022	31.03.2023	30.09.2023
	£	£	£	£	£	£	£
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	2,000,000	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	12,000,000

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Market Value	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value	Market Value
	31.3.2018	31.3.2019	31.03.2020	31.03.2021	31.03.2022	31.03.2023	30.09.2023
	£	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056	4,082,278	4,028,890
Schroders Bond Fund	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151	2,550,204	2,581,908
UBS Multi Asset Fund	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592	2,208,433	2,069,445
CCLA Diversification Fund (indicative market value)	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513	1,864,707	1,835,035
Total	12,029,108	11,991,781	11,052,907	11,800,366	12,349,313	10,705,622	10,515,278

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Surplus/(Deficit)	Surplus/(Deficit)	Surplus/(Deficit)	Surplus/(Deficit)	Surplus/(Deficit)	Surplus/(Deficit)	Surplus/(Deficit)	Surplus/(Deficit)
	31.3.2018	31.3.2019	31.03.2020	31.03.2021	31.03.2022	31.03.2023	30.09.2023
	£	£	£	£	£	£	£
CCLA Property Fund	276,854	276,005	188,063	158,183	888,056	82,278	28,890
Schroders Bond Fund	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)	(449,796)	(418,092)
UBS Multi Asset Fund	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)	(791,567)	(930,555)
CCLA Diversification Fund	(78,743)	(17,833)	(195,807)	(44,126)	46,513	(135,293)	(164,965)
Total	29,108	(8,219)	(947,093)	(199,634)	349,313	(1,294,378)	(1,484,722)

Prudential Indicators – Q2 2023/24

The 2021 Prudential and Treasury Management Codes require the Council to report on prudential indicators on a quarterly basis. These indicators report on capital expenditure, borrowing and commercial and service investments in light of overall organisational strategy and resources, and ensure that decisions are being made with sufficient regard to the long-run financing implications and potential risks to the Council.

Table 1 – Estimates of Capital Expenditure

Capital expenditure refers to Council spending on assets such as infrastructure, property or vehicles that will be used for more than one year. In Local Government this includes spending on assets owned by other bodies and loans and grants to other bodies, enabling them to buy assets.

At Month 5 the Council was forecasting total capital expenditure for 2023/24 of £19.8m. This is a variance of £0.6m compared to what was reported in the 2023/24 Capital, Investment and Treasury Management Strategy. This is the result of unspent budget carry forwards from 2022/23 agreed since the Strategy was published, offset by forecast underspends in-year on Council House Building (£3.9m), Croydon Road Regeneration (£2.3m) and capital contributions to third parties from CIL (£2.1m).

	2022/23 Actual £m	2023/24 Estimate (Capital Strategy) £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m	Total – 2023/24 to 2025/26 £m
General Fund services	4.9	3.8	3.7	2.8	1.8	8.2
Council Housing (HRA)	11.5	15.4	16.1	12.7	3.9	32.8
Total	16.4	19.2	19.8	15.5	5.7	41.0

Table 2 – Capital Financing Requirement

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure on service delivery and on investments and reduces with MRP and capital receipts used to replace debt.

The current estimated CFR for 2023/24 is £1.4m lower than what was estimated in the 2023/24 Capital, Investment and Treasury Management Strategy. This is based on forecast capital expenditure at Month 5, and is a result of forecast underspends on capital schemes, including those referenced in Table 1, which reduce the anticipated underlying need to borrow to finance them.

	31/03/2023 Actual £m	31/03/2024 Estimate (Capital Strategy) £m	31/03/2024 Forecast £m	31/03/2025 Budget £m	31/03/2026 Budget £m
General Fund services	46.9	47.6	48.0	48.1	47.7
Council Housing (HRA)	61.7	71.5	69.7	74.6	74.6
Total CFR	108.5	119.1	117.7	122.7	122.3

Table 3 – Gross Debt and the Capital Financing Requirement

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

The current estimated level of gross debt is £6.1m less than what was estimated in the 2023/24 Capital, Investment and Treasury Management Strategy. This is based on forecast capital expenditure at M5, and is a result of forecast underspends on the schemes referenced in Table 1 which reduce the anticipated requirement to borrow to finance them.

	31/03/2023 Actual £m	31/03/2024 Estimate (Capital Strategy) £m	31/03/2024 Forecast £m	31/03/2025 Budget £m	31/03/2026 Budget £m	Debt at 30/09/2023 £m
Debt (incl. PFI & leases)	99.4	112.7	106.6	109.3	106.5	99.4
Capital Financing Requirement	108.5	119.1	117.7	122.7	122.3	

Table 4 – Debt and the Authorised Limit and Operational Boundary

The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. These limits were set in the 2023/24 Capital, Investment and Treasury Management Strategy. The Council has complied with the limits at Q2 2023/24.

	Maximum Debt Q2 2023/24 £m	Debt at 30/09/2023 £m	2023/24 Authorised Limit £m	2023/24 Operational Boundary £m	Complied?
Borrowing	99.4	99.4	150.0	140.0	✓
PFI and Finance Leases	-	-	-	-	
Total debt	99.4	99.4	150.0	140.0	

Table 5 – Net Income from Commercial and Service Investments to Net Revenue Stream

The Council's income from commercial and service investments as a proportion of its net revenue stream has been and is expected to be as indicated below. This is unchanged from the 2023/24 Capital, Investment & Treasury Management Strategy.

	2022/23 Actual £m	2023/24 Estimate (Capital Strategy) £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m
Total net income from service and commercial investments	1.7	1.7	1.7	1.7	1.7
Proportion of net revenue stream	15%	14%	14%	14%	14%

Table 6 – Proportion of financing costs to net revenue stream

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The proportion of financing costs to net revenue stream is expected to rise marginally compared to what was reported in the 2023/24 Capital, Investment & Treasury Management Strategy.

	2022/23 Actual £m	2023/24 Estimate (Capital Strategy) £m	2023/24 Forecast £m	2024/25 Budget £m	2025/26 Budget £m
General Fund – Financing costs	2.3	2.0	2.3	2.0	2.1
Proportion of net revenue stream	20%	17%	19%	17%	18%

Table 7 – Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing are as below, all of which the Council complied with at Q2 of 2023/24.

	Upper Limit 2023/24 %	Lower Limit 2023/24 %	Actual at 30/09/23 %	Complied?
Under 1 year	15	-	3%	Yes
1 to 2 years	15	-	3%	
2 to 5 years	25	-	13%	
5 to 10 years	50	-	20%	
More than 10 years	50	-	4%	
Over 20 years	70	-	56%	
Total			100%	

Table 8 – Long-term Treasury Management Investments

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term. The prudential limits on the long-term treasury management limits are as below, and the Council has complied with these as at Q2 of 2023/24.

	2023/24 £m	2024/25 £m	No fixed date £m
Limit on principal invested beyond year end	16	16	16
Actual principal invested beyond year end	-	-	10.7
Complied?	Yes	Yes	Yes