

## TANDRIDGE DISTRICT COUNCIL

### INVESTMENT SUB COMMITTEE

Minutes and report to Council of the meeting of the Committee held in the on the 15 January 2021 at 10.00 a.m.

**PRESENT:** Councillors Elias (Chair), Bourne, Farr (Substitute) (In place of Davies), Jones and Milton (Substitute) (In place of M.Cooper)

**APOLOGIES FOR ABSENCE:** Councillors M.Cooper and Davies

#### 1. MINUTES OF THE MEETING HELD ON THE 23RD OCTOBER 2020

These minutes were approved as a correct record.

In respect of item 2 of the minutes, arising from the presentation from UBS, it was confirmed that UBS had provided clarification concerning ongoing fund charges and mandate costs, together with the latest value of the Council's investment. This information had been circulated to members of the Sub Committee shortly after the meeting

#### 2. CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGY 2021/22

A proposed consolidated strategy was presented. This had been produced in accordance with CIPFA guidelines and provided a high-level overview of how capital expenditure, capital financing and treasury management activity support the delivery of the Council's priorities, along with an explanation of how risk, security and liquidity are managed. The strategy included:

- a summary of the Council's capital expenditure and financing plans, with associated governance arrangements;
- an overview of the treasury management function which sought to ensure that income raised during the year is sufficient to meet expenditure plans and that any available surplus cash is invested at low risk, while ensuring security and liquidity; and
- the Council's approach to property investment (including reference to recent restrictions on the ability to borrow from the Public Works Loan Board for purchasing properties with the primary aim of generating yield) and the pursuance of redevelopment and regeneration opportunities.

Various issues were raised during the discussion about the strategy, including:

- whether it was appropriate to highlight the potential for regeneration investments to drive up yield from business rates (para 3.7)
- clarification that the £4.9 million investment for the refurbishment of Quadrant House, Caterham would be funded by the Local Economic Partnership (para 7.4) and that 'Disabled Facilities Grants' and 'Community Infrastructure Levy' comprised the other sources of external funding for the capital programme

- a suggestion that, in future, separate tables be provided to distinguish Housing Revenue Account provisions from those in the General Fund
- confirmation that Minimum Revenue Provision (MRP) would continue to be applied in accordance with the Asset Life Method, but that:
  - 'equal instalment' calculations would be used to charge MRP to internal borrowing;
  - the annuity method would apply to commercial activities, allowing MRP to increase gradually over the asset life (section 8)
- a request for future clarification about the figures in Table 6 under para 9.2 (current treasury investment portfolio) concerning the value of the respective funds
- the need for corrections in Table 10 under para 9.19 regarding treasury management investments (the corrections are incorporated in the revised version of strategy attached to these minutes)
- the scope for enhancing the presentation of the table under para 37 of the investment property strategy regarding the performance of the Council's property portfolio.

The Chief Finance Officer confirmed her intention to establish more regular dialogue with the Council's Treasury advisors (Link) to test whether the treasury investment portfolio and borrowing strategy remained suitable in light of other economic factors. She also acknowledged the need for the capital programme to remain flexible and to avoid imposing unacceptable financing costs upon the General Fund after taking other variables into account.

**RECOMMENDED** – that the Capital, Investment and Treasury Management Strategy (and accessible via the following link) be approved:

<https://www.tandridge.gov.uk/Portals/0/Documents/Your-council/Councillors-and-committees/Capital-Investment-and-TM-Strategy.pdf?ver=2021-02-01-145345-137>

### 3. SUMMARY INVESTMENT AND BORROWING POSITION

The investment analysis at Appendices A and B was considered, together with fact sheets for the four funds within the Council's treasury investment portfolio. The Chief Finance Officer asked if members of the Sub-Committee could provide feedback about whether they find the analysis and fact sheets useful. This would be pursued after the meeting.

At the previous meeting, the Sub-Committee had agreed that, "*the reallocation of accumulated Funding Circle redemption proceeds [approximately £0.77m at the end of November 2020] be deferred, pending a review ... about whether they should be used to meet the Council's cashflow requirements*". Members were advised about the potential need for borrowing in March 2021 for cashflow purposes and that, in view of the current uncertainty, the Funding Circle redemption proceeds remained unallocated. In this respect, the Chief Finance Officer stated that she would be consulting the Council's treasury advisors (Link) towards the end of the financial year about the relative merits of utilising the proceeds to assist with cashflow, or reinvesting them across the CCLA; UBS and Schroder funds. Officers would also assess whether it would be sustainable for the Council to continue to draw the current levels of income from those funds.

The Chief Finance Officer also advised about the intended future approach to accounting for the Freedom Leisure loans.

Arising from a question about Gryllus, it was confirmed that valuations of its properties as at 31<sup>st</sup> December 2020 were expected to be received by the end of February 2021.

**RESOLVED** – that:

- A. the Council's investment and borrowing position at 31<sup>st</sup> December 2020, as set out on Appendices A and B be noted;
- B. the individual factsheets for the long-term investments be noted; and
- C. the application of accumulated Funding Circle redemption proceeds continues to be reviewed.

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## Summary of Investments and Borrowing

Appendix A

Investment	Investment Amount at 31/12/2020	Net Asset Value at 31/12/2020 Note 1	Yield Rate Note 2	Yield to 31/12/20 Note 3	Estimated Annual Return 2020/21 at 31/03/2021	2019/20 Actual
	£	£	%	£	£	£
<b>Non - Specified (Financial Investments)- Long Term (over 12 mths)</b>						
CCLA Property Fund	4,000,000	4,013,737	4.27	84,719	171,400	185,240
Schroders Bond Fund	3,000,000	2,927,632	4.50	33,903	131,700	124,418
UBS Multi Asset Fund	3,000,000	2,817,616	4.50	84,148	126,800	137,531
Funding Circle	1,261,826	1,091,959	4.50	55,666	65,000	78,011
CCLA Diversification Fund	2,000,000	1,971,862	3.36	35,972	66,300	66,284
<b>Sub Total Non-specified (Financial Investments)</b>	<b>13,261,826</b>	<b>12,822,805</b>		<b>294,408</b>	<b>561,200</b>	<b>591,484</b>
<b>Non - Specified (Non-Financial Investments)- Long Term (over 12 mths)</b>						
Gryllus Property Company Loan - Maidstone	2,394,000	2,394,000	5.81	0	139,100	139,023
Tandridge Leisure Ltd- Refurbishment Loan (TTLIC)	0	0	0.00	0	0	1,520
Freedom Leisure- Loan (TLP)	1,017,000	1,017,000	5.50	0	53,271	63,926
Freedom Leisure- Loan (de Stafford)	651,750	651,750	7.58	0	47,050	54,484
Caterham Barracks	0	0	0.00	0	0	21,774
Gryllus Property Company Loan - 80-84 Station Rd East	1,012,500	1,012,500	5.81	0	58,800	53,924
Gryllus Property Company Loan - Castlefield	11,664,000	11,664,000	6.10	0	711,500	0
Gryllus Property Company Share Capital Note 4	5,251,500	5,251,500	-	-	-	0
<b>Sub Total Non-specified (Non-Financial Investments)</b>	<b>21,990,749</b>	<b>21,990,749</b>		<b>0</b>	<b>1,009,721</b>	<b>334,651</b>
<b>Total Non-Specified Investments</b>	<b>35,252,575</b>	<b>34,813,554</b>		<b>294,408</b>	<b>1,570,921</b>	<b>926,135</b>
<b>Specified Investments-Short Term (less than 12 mths)</b>						
Banks/Building Societies Deposits	0	-	0.00	0	0	6,381
Notice Accounts	4,000,000	4,042,381	0.07	4,920	12,400	20,919
Money Market Funds	20,000,000	20,000,000	0.01	15,779	20,000	75,255
<b>Total Specified Investments</b>	<b>24,000,000</b>	<b>24,042,381</b>		<b>20,699</b>	<b>32,400</b>	<b>102,555</b>
<b>Total Non- Specified and Specified Investments</b>	<b>59,252,575</b>	<b>58,855,935</b>		<b>315,107</b>	<b>1,603,321</b>	<b>1,028,690</b>
<b>Total Investment Income Budget 2020/21</b>					2,764,200	
<b>Over/(under) budget</b>					<b>(1,160,879)</b>	

Borrowing	Loan Amount at 31/12/20	Estimated Average Borrowing	Interest	Expenditure to 31/12/20	Estimated Annual Cost 2020/21 at 31/03/2021
	£	£	%	£	£
<b>General Fund Borrowing</b>					
Gryllus Loan	3,420,000	3,420,000	2.46	42,066	84,100
Freedom Leisure Loan	2,225,000	2,225,000	2.45	54,513	54,500
Village Health Club	938,678	938,678	2.38	22,341	22,300
Linden House	4,175,000	4,175,000	2.69	56,154	112,300
Linden House	254,000	254,000	2.42	6,146	6,100
Quadrant House	15,340,000	15,340,000	2.41	184,847	369,700
Quadrant House	800,000	800,000	2.28	18,240	18,200
Gryllus - 80-84 Station Road	724,400	724,400	2.28	16,516	16,500
Gryllus - Castlefield	15,549,000	15,549,000	2.91	452,476	452,500
<b>Sub Total General Fund Borrowing</b>	<b>43,426,078</b>	<b>43,426,078</b>		<b>853,298</b>	<b>1,136,200</b>
<b>General Fund Cost of Borrowing Budget</b>					<b>1,889,000</b>
<b>Over/(Under) Budget</b>					<b>(752,800)</b>
<b>HRA Borrowing</b>					
Public Works Loan Board	61,189,000	61,189,000	2.76	831,153	1,662,300
<b>Sub Total HRA Borrowing</b>	<b>61,189,000</b>	<b>61,189,000</b>		<b>831,153</b>	<b>1,662,300</b>
<b>HRA Cost of Borrowing Budget</b>					<b>1,926,500</b>
<b>Over/(Under) Budget</b>					<b>(264,200)</b>
<b>Total Borrowing</b>	<b>104,615,078</b>	<b>104,615,078</b>		<b>1,684,451</b>	<b>2,798,500</b>
<b>Total Cost of Borrowing Budget</b>					<b>3,815,500</b>
<b>Total Over/(Under) Budget</b>					<b>(1,017,000)</b>

## Notes

### 1. Net Asset Value

The Net Asset Value for CCLA Property Fund is at 30 Sept 2020

### 2. Yield Rate

CCLA Property Fund dividend yield Dec 20 provisional provided by CCLA 4.27%

Schroders Strategic Credit Fund Fact sheet on Schroders.co.uk current yield as at 30 Nov 2020 4.5%

UBS distribution yield latest per UBS Fact Sheet (Q3 20) 4.5 %

CCLA Diversified Fund Class 2 dividend yield Dec 20 provided by CCLA 3.36%

Funding Circle yield based on net earnings to 31 Dec 2020 per Funding Circle statement

3. Yield to 31/12/20 include actuals received or notified of at this date - CCLA Property Fund, UBS & CCLA show 2 quarters, Schroders only shows 1 quarter.

4. 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 31/12/2020

Appendix B

Carrying Value	Carrying Value 31.3.2017	Carrying Value 31.3.2018	Carrying Value 30.6.2018	Carrying Value 30.9.2018	Carrying Value 31.12.2018	Carrying Value 31.3.2019	Carrying Value 30.6.2019	Carrying Value 30.9.2019	Carrying Value 31.12.2019	Carrying Value 31.03.2020	Carrying Value 30.09.2020	Carrying Value 31.12.2020
	£	£	£	£	£	£	£	£	£	£	£	£
CCLA Property Fund	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	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	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	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	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>	<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>

Market Value	Market Value 31.3.2017	Market Value 31.3.2018	Market Value 30.6.2018	Market Value 30.9.2018	Market Value 31.12.2018	Market Value 31.3.2019	Market Value 30.6.2019	Market Value 30.9.2019	Market Value 31.12.2019	Market Value 31.03.2020	Market Value 30.09.2020	Market Value 31.12.2020
	£	£	£	£	£	£	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,082,986	4,276,854	4,299,512	4,300,362	4,369,186	4,276,005	4,346,669	4,302,769	4,302,769	4,188,063	4,013,737	4,013,737*
Schroders Bond Fund	2,963,563	2,912,837	2,908,609	2,891,399	2,825,575	2,865,130	2,910,421	2,873,584	2,934,878	2,539,938	2,798,400	2,927,632
UBS Multi Asset Fund	3,018,705	2,918,160	2,895,094	2,905,148	2,777,398	2,868,479	2,916,977	2,927,623	2,957,787	2,520,713	2,721,211	2,817,616
CCLA Diversification Fund(indicative market value)	n/a	1,921,257	1,972,126	1,990,756	1,913,197	1,982,167	2,032,111	2,049,420	2,074,392	1,804,193	1,928,260	1,971,862
<b>Total</b>	<b>10,065,254</b>	<b>12,029,108</b>	<b>12,075,341</b>	<b>12,087,665</b>	<b>11,885,356</b>	<b>11,991,781</b>	<b>12,206,179</b>	<b>12,153,396</b>	<b>12,269,826</b>	<b>11,052,907</b>	<b>11,461,608</b>	<b>11,730,846</b>

Surplus/(Deficit)	Surplus/ (Deficit) 31.3.2017	Surplus/ (Deficit) 31.3.2018	Surplus/ (Deficit) 30.6.2018	Surplus/ (Deficit) 30.9.2018	Surplus/ (Deficit) 31.12.2018	Surplus/ (Deficit) 31.3.2019	Surplus/ (Deficit) 30.6.2019	Surplus/ (Deficit) 30.9.2019	Surplus/ (Deficit) 31.12.2019	Surplus/ (Deficit) 31.03.2020	Surplus/ (Deficit) 30.09.2020	Surplus/ (Deficit) 31.12.2020
	£	£	£	£	£	£	£	£	£	£	£	£
CCLA Property Fund	82,986	276,854	299,512	300,362	369,186	276,005	346,669	302,769	302,769	188,063	13,737	13,737
Schroders Bond Fund	(36,437)	(87,163)	(91,391)	(108,601)	(174,425)	(134,870)	(89,579)	(126,416)	(65,122)	(460,062)	(201,600)	(72,368)
UBS Multi Asset Fund	18,705	(81,840)	(104,906)	(94,852)	(222,602)	(131,521)	(83,023)	(72,377)	(42,213)	(479,287)	(278,789)	(182,385)
CCLA Diversification Fund	n/a	(78,743)	(27,874)	(9,244)	(86,803)	(17,833)	32,111	49,420	74,392	(195,807)	(71,740)	(28,138)
<b>Total</b>	<b>65,254</b>	<b>29,108</b>	<b>75,341</b>	<b>87,665</b>	<b>(114,644)</b>	<b>(8,219)</b>	<b>206,179</b>	<b>153,396</b>	<b>269,826</b>	<b>(947,093)</b>	<b>(538,392)</b>	<b>(269,154)</b>

\* CCLA Property fund Market value is at 30 Sept 2020

## Appendix B

Gross Revenue Yield									FY Forecast at 30-Sept-20		FY Forecast at 31-Dec-20	
	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 20-21 30.09.2020	Yield 20-21 30.09.2020	Yield 20-21 31.12.2020	Yield 20-21 31.12.2020
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	164,434	4.03%	193,758	4.53%	183,989	4.30%	185,240	4.31%	171,000	4.26%	171,400	4.27%
Schroders Bond Fund	127,340	4.30%	105,413	3.62%	120,508	4.21%	124,418	4.33%	125,900	4.50%	131,700	4.50%
UBS Multi Asset Fund	100,600	3.33%	146,788	5.03%	116,513	4.06%	137,531	4.70%	119,700	4.40%	126,800	4.50%
CCLA Diversification Fund	n/a	n/a	62,732	3.27%	67,030	3.38%	66,284	3.23%	66,700	3.46%	66,300	3.36%
<b>Total</b>	<b>392,375</b>		<b>508,691</b>		<b>488,040</b>		<b>513,473</b>		<b>483,300</b>		<b>496,200</b>	

Surplus/(Deficit)- Capital Value									FY Forecast at 30-Sept-20		FY Forecast at 31-Dec-20	
	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	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%	(289,032)	-7.20%	(289,032)	-7.20%
Schroders Bond Fund	16,634	0.56%	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	(75,184)	-2.69%	(7,246)	-0.25%
UBS Multi Asset Fund	36,559	1.21%	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	(206,412)	-7.59%	(140,172)	-4.97%
CCLA Diversification Fund	n/a	n/a	(78,743)	-4.10%	60,910	3.07%	(177,974)	-9.86%	(121,160)	-6.28%	(102,530)	-5.20%
<b>Total</b>	<b>(39,803)</b>		<b>(36,146)</b>		<b>(37,327)</b>		<b>(938,874)</b>		<b>(691,788)</b>		<b>(538,980)</b>	

Net Yield									FY Forecast at 30-Sept-20		FY Forecast at 31-Dec-20	
	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	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%	(118,032)	-2.94%	(117,632)	-2.93%
Schroders Bond Fund	143,974	4.86%	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	50,716	1.81%	124,454	4.25%
UBS Multi Asset Fund	137,159	4.54%	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	(86,712)	-3.19%	(13,372)	-0.47%
CCLA Diversification Fund	n/a	n/a	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	(54,460)	-2.82%	(36,230)	-1.84%
<b>Total</b>	<b>352,572</b>		<b>472,545</b>		<b>450,713</b>		<b>(425,401)</b>		<b>(208,488)</b>		<b>(42,780)</b>	

### Peer to Peer Investment

Funding Circle									31/08/2020 Actual		31/12/2020 Actual Provisional	
	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	£	%	£	%
	£	%	£	%	£	%	£	%				
<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>1,415,581</b>		<b>1,091,959</b>	
Interest Paid by Borrowers	181,892		181,014		184,654		193,170		58,059		101,195	
Less FC Service fee	(19,121)		(19,668)		(19,729)		(19,611)		(5,741)		(9,932)	
Promotions/Transfer payment							470		0			
Bad Debts	(58,163)		(61,288)		(111,152)		(127,649)		(44,442)		(66,341)	
Recoveries	8,219		14,780		27,428		30,253		11,599		30,743	
Amounts Recovered on principal in prior years (prior to 06.04.15)	0		0									
<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>19,476</b>	<b>1.38%</b>	<b>55,666</b>	<b>5.10%**</b>
<b>Provisions for future losses</b>	<b>0</b>		<b>0</b>		<b>(10,000)</b>							

\*\*Funding Circle Net yield - this has been calculated against the current value, however principal is being withdrawn throughout the year. If calculated against the opening balance then the net yield would be 4%