TANDRIDGE DISTRICT COUNCIL

INVESTMENT SUB COMMITTEE

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

PRESENT: Councillors Bourne (Chair) and Langton

ALSO PRESENT: Councillor Farr

APOLOGIES FOR ABSENCE: Councillors Cooper, Elias and Jones

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

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

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

2. SUMMARY INVESTMENT AND BORROWING POSITION AT 31 DECEMBER 2021

The investment analysis at Appendices A and B was presented.

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

3. FUND MANAGER SELECTION

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

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

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

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revenue budget was not impacted by annual gains or losses in the capital value of investments, unless they were withdrawn.

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

In light of the above, the report contained:

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

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

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

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

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

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

R E C O M M E N D E D – that:

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

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

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

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

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

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

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

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

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

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

4. CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGY

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

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

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

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

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

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

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

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

5. PROPERTY INVESTMENT UPDATE

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

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

TDC properties:

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

Gryllus properties:

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

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

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

Rising 12.01 pm

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Summary of Investments and Borrowing **Appendix A**

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

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

Notes:

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

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

Appendix B

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

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

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

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

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

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

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

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

APPENDIX C **APPENDIX C**

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

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

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

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

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

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

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

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

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

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