

Summary investment and borrowing position at 31 December 2023

Investment Sub Committee - Friday 19 January, 2024

Report of: Director of Resources (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 31st December 2023 and reports performance against the Council's approved Prudential Indicators for 2023/24.

This report supports the Council's priority of: Building a better Council/
Supporting economic recovery in Tandridge.

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Recommendation to Committee:

That the Sub Committee notes:

- A) The Council's Investment and Borrowing position at 31st December 2023 as set out in Appendix A & B.
 - B) The Council's actual performance against the Indicators set within the Treasury Management Strategy for 2023/24 in Appendix C
 - C) The commentary from Arlingclose on the external context for treasury management in Appendix D.
 - D) The update on the performance of the Council's long-term treasury investments
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Reason for recommendation:

This report, which provides an update on the Council's investment and borrowing position, will be reviewed by the Investment Sub Committee.

1. Introduction and background

- 1.1 The Capital, Investment and Treasury Management Strategy 2023/24 was reported to the Strategy and Resources Committee on 31st January 2023 and adopted by Full Council on 9th February 2023. 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 is held with Arlingclose Ltd. Commentary on the external context for treasury management activity is provided in Appendix D.

2. Summary Investment and Borrowing Position

- 2.1 A summary of the Council's investment and borrowing at 31st December 2023 is set out in Appendix A.
 - Total long term treasury investments (over 12 months) amount to £10.8 million.
 - Short term investments (less than 12 months) amount to £20.5 million.
 - The Council also has £16.5 million in non-treasury 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 31st December 2023 is £99.4 million. This is made up of £43.4 million General Fund loans and £56.0 million Housing Revenue Account loans.

3. Update on Long Term Treasury investments

- 3.1 In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025 but no other changes have been made. Whether the override will be extended beyond the new date is unknown, but commentary to the consultation outcome suggests not. At present, with the override in place, Councils remove the impact of fair value movements on these funds from their budgets and record them in an unusable reserve on the Balance Sheet.
- 3.2 An Investment Performance Equalisation reserve of £447k was created using surplus investment income earned during 2022/23 as a mitigation to the removal of the override. Surpluses held in the reserve can be released to the General Fund if and when confidence in the assets' market value recovers. For context, the current carrying loss is £1.3m. This has improved from Q2 by £0.2m. This improvement is due to the impact of market expectations of interest rate reductions being bought forward earlier than previously expected, which positive impacts on the valuation of bond holdings within the pooled funds. It is currently uncertain that market values will fully recover by the time the current override has elapsed.
- 3.3 Investment income is forecast to be £649k better than budget in 2023/24, as set out in Appendix A. At year end, Investment Sub Committee will consider whether it is appropriate to use this surplus to increase the Investment Performance Equalisation Reserve to increase the Council's mitigation against carrying losses in the event that the override is removed.
- 3.4 The CCLA are proposing to merge its Diversified Income Fund (DIF) with another existing fund under its management, the Better World Cautious Fund (BWCF). The proposition will create a technical change in the fund structure which will allow the CCLA to permit its large client base of Parish Councils and small charities to invest in the fund. This will grow the fund size which is likely to have a positive impact on diversification of client base and fund yield. Arlingclose have advised that they do not foresee any major changes in the risk or return as a result of the conversion.

4. Performance against Prudential & Treasury Indicators

- 4.1 Following the publication of the 2021 CIPFA Treasury Management in the Public Services Code of Practice, the Council reports quarterly to Committee its performance against its treasury and other prudential indicators. Performance against these indicators is outlined in Appendix C.
- 4.2 These include indicators reporting on the Council's external borrowing portfolio. As outlined in the 2023/24 Capital, Investment and Treasury

Management Strategy, the Council's primary objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

- 4.3 A new PWLB HRA rate, which is 0.4% below the certainty rate, was made available from 15th June 2023 to support local authorities borrowing for the Housing Revenue Account and for refinancing existing HRA loans. Initially provided for one year, the Autumn Statement confirmed that the discounted rate will be extended until the end of June 2025. This provides a window of opportunity for HRA-related borrowing at a discounted rate, however it is possible that the underlying rate will decrease by more than 0.4% before further borrowing is necessary. Table 2 of Appendix C shows that the Council is currently internally borrowed (where the underlying need to borrow to finance the capital programme exceeds the level of existing borrowing). The council is currently able to maintain this level of internal borrowing but advice will be taken from Arlingclose and the Centre of Expertise on the appropriate timing of new HRA borrowing.

Key implications

5. Comments of the Chief Finance Officer

- 5.1 The outturn forecast is for investment income of £649k better than budget. This is mainly due to the performance of the Council's short-term treasury investments, as funds have reacted to the increases in the Bank of England Base Rate. General Fund loan interest payable is in accordance with budget. HRA loan interest payable is £119k under budget due to the Council's cash position allowing us to avoid the immediate re-financing of maturing loans through internal borrowing. This underspend will be reduced by the recharge from the General Fund which will be determined based on prevailing rates.
- 5.2 All investments carry a degree of risk. 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. Comments of the Head of Legal Services

- 6.1 The Council's Capital, Investment and Treasury Management Strategy Statement follows the latest codes of practice and the DLUHC and CIPFA guidance.
- 6.2 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.

7. Equality

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

8. Climate change

- 8.1 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 Climate Change Action Plan that is currently being draw up will have an action included to consider our current investment approach and determine if changes can or should be made.

Appendices

Appendix A – Summary of Investments and Borrowing

Appendix B – Market Value of Long Term Investments

Appendix C – Q3 Prudential Indicator Update

Appendix D – External Context for Treasury Management Activity

Background papers

Investment Sub-Committee Papers 16th June 2023 and 3rd November 2023

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