

Summary investment and borrowing position at 30th September 2024 (Mid-Year Update)

Investment Sub Committee – Friday 8th November, 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 30th September 2024 and reports performance against the Council's approved Prudential Indicators for 2024/25.

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

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Recommendations:

That the Sub Committee notes:

- A) The Council's Investment and Borrowing position at 30th September 2024 as set out in Appendix A & B.
- B) The Council's actual performance against the Indicators set within the Treasury Management Strategy for 2024/25 in Appendix C.
- C) The commentary from Arlingclose on the external context for treasury management in Appendix D.
- D) The rationale for the future meeting dates and the proposed mitigation for the timeliness of investment performance information.

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 2024/25 was reported to the Strategy & Resources Committee on 30th January 2024 and adopted by Full Council on 8th February 2024. 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 fund 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 30th September 2024 is set out in Appendix A.
 - Total long term treasury investments (over 12 months) amount to £8.7 million. This reflects the closure of the UBS Multi-Asset Fund on 16 September 2024. The funds returned were held as short-term investments at 30 September 2024.
 - Short-term investments (less than 12 months) amount to £10.0 million. This includes the £2.3 million returned when the UBS Multi-Asset Fund closed.
 - The Council also has £20.6 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 30th September 2024 is £96.3 million. This is made up of £43.4 million General Fund loans and £52.8 million Housing Revenue Account loans.

3. Update on Long Term Treasury investments

- 3.1 In April 2023 Government 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. Investment income achieved £703k better than budget in 2023/24 and this surplus was added to the reserve bringing the balance to £1,150k.
- 3.3 With the closure of the UBS Multi-Asset Fund on 16 September the Council realised a capital loss of £738k on its initial investment of £3.0m. The use of the Investment Performance Equalisation reserve to mitigate will reduce the reserve to £412k. This still materially provides for the carrying capital loss on the remaining funds which at 30 September was £423k.
- 3.4 It was decided at the September meeting to invest the funds returned from UBS in a one-year bond. As at the 30 September the funds were being held in the Councils Money Market Funds and earning interest, while the bond investment was being arranged.
- 3.5 Two investments have subsequently been made in the following AAA rated bonds:
 - BNG Bank NV - £1.13m with a yield of 4.76%, and
 - Inter-American Development Bank - £1.13m with a yield of 4.57%.

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. The indicators show full compliance as at 30 September 2024.
- 4.3 These include indicators reporting on the Council's external borrowing portfolio. As outlined in the 2024/25 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.

5. Timings of future meetings and reporting of investment performance

- 5.1 The timings of the ISC meetings was raised at the June 2024 meeting in relation to the timeliness of the information discussed at the meetings, particularly with the investment performance data being over two months old by the time of the meeting.
- 5.2 While it is acknowledged that the time gap between the quarter end and the meeting dates is not ideal, it has been decided to keep the meeting timings the same as in previous years, due to the other reporting that ISC need to receive at quarter end and year end. The other metrics reported at ISC, including the prudential indicators, have a number of dependencies that cannot be moved forward. Moving the meeting closer to the quarter end would mean that these other metrics could not be prepared in time for the meeting.
- 5.3 However, it is proposed that an informal update will be sent to the Committee members in April with the investment outturn. These figures will then be formally reported at the June meeting, unless there are material changes in value, in which case the Committee will receive the updated values.
- 5.4 There is also the ability to call extraordinary meeting if there is a need for a decision by the Committee between meetings. This happened with the early closure of the UBS investment fund, where a meeting was called for 14 September 2024 and would take place if there was a material change in the Treasury Management position.

Key implications

6. Comments of the Chief Finance Officer

- 6.1 The outturn forecast is for investment income of £456k better than budget. General Fund loan interest payable is in accordance with budget. HRA loan interest payable is £83k under budget due to the Council's cash position allowing us to avoid the immediate re-financing of maturing loans through internal borrowing.
- 6.2 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.

- 6.3 The closure of the UBS Multi-Asset Income Fund has forced the Council to recognise the capital loss of £0.7m on its investment in the fund. The impact of this loss will be mitigated by the use of the Investment Performance Equalisation Reserve, which was established to provide for such eventualities.

7. Comments of the Head of Legal Services

- 7.1 The Council's Capital, Investment and Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.
- 7.2 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.

8. Equality

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

9. Climate change

- 9.1 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 – Q2 Prudential Indicator Update

Appendix D – External Context for Treasury Management Activity

Background papers

Capital, Investment and Treasury Management Strategy 2024/25

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