

SUMMARY INVESTMENT AND BORROWING POSITION

Investment Sub Committee – 11 June 2021

Report of: Anna D’Alessandro – Chief Finance Office (Section 151)
Simon Jones – Deputy Chief Finance Officer (Deputy S151)

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 March 2021.

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

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Recommendations to the Sub-Committee:

That:

- A) the Council’s Investment and Borrowing position at 31st March 2021, as set out at Appendices ‘A’ & ‘B’, be noted; and
 - B) authority be delegated to the Section 151 Officer to manage the Council’s high yielding investments portfolio who, in turn, will discharge this function to our treasury advisers, Link Group. Link Group will undergo a Fund Manager selection process to identify the best investment to reinvest the proceeds from Funding Circle that have been received.
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Reason for recommendation:

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

1 Introduction and background

- 1.1 The Treasury Management Strategy 2020/21 was reported to the Finance Committee on 24th January 2020. 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.

2. Summary Investment and Borrowing Position

- 2.1 A summary of the Council's investment and borrowing at 31st March 2021 is set out in Appendix A.
- Total long term financial investments (over 12 months) amount to £12.7 million. This is within the Council's Treasury Management Strategy Statement proposed limit of £16 million.
 - Short term investments (less than 12 months) amount to £11.3 million.
 - The Council also has £21.6 million in non-financial 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 March 2021 is £100.4 million. This is made up of £43.4 million General Fund loans and £57 million Housing Revenue Account loans.
- 2.2 Following advice from our treasury advisers Link Group, the refinancing of a £4.25m HRA PWLB loan due at the end of March 2021 was not applied and instead this is currently being met from internal borrowing. The PWLB rate at the time (25th March 2021) was 1.88%, therefore saving c£80k in a full year of loan payment costs.

3. Funding Circle

- 3.1 It was decided at the 24th January 2020 Investment Sub Committee to cease reinvesting in the Funding Circle Peer to Peer loans and to collect all funds as they become available. To the end of March 2021, the amount collected in relation to the principal element was c£1.1m.
- 3.2 In the current environment created by the ongoing pandemic, this money has not been invested in the Council's existing long-term investments and has been instead used for cashflow purposes.
- 3.3 Finance have sought advice from our treasury advisers, Link Group, as to how best to invest these funds. It is their opinion that we should

undertake a Fund Manager selection process to identify the best place to invest in line with the Council's objectives. The process is not included as part of our existing treasury management contract so there would be an additional charge of £8,500. The process would take 4-6 weeks from beginning to end and would involve a questionnaire to all fund providers culminating with a selection process based on the returns submitted. After this process it is proposed to come back to the Investment Sub-Committee for a decision. Performance of any investment made would be reported back at Investment Sub-Committee meetings.

Key implications

4. Comments of the Chief Finance Officer

- 4.1 The Outturn position at 31st March 2021 for investment income shows an actual of £1.6m against a budget of £2.8m. This is partially offset by the reduced General Fund borrowing costs of £1.1m against a budget of £1.9m. The net effect of this for the General Fund is an adverse variance of £0.4m. This is mainly due to the decision not to invest in a property deal, where the income and borrowing costs had been built into the budget, and change in the base rate. The bottom-line impact has had to be absorbed in the Council's overall financial position for 2020/21.
- 4.2 With all high yielding investments there are increased risks. The Council manages these risks by continued diversification of its investments.

5. Comments of the Head of Legal Services

- 5.1 The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.
- 5.2 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.
- 5.3 In order to ensure that the Council's financial risk is mitigated as far as possible an experienced and qualified FCA regulated fund manager should be procured at the earliest.

6. Equality

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

7. Climate change

- 7.1 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

Background papers

None