

INVESTMENT SUB-COMMITTEE

Minutes and report to Council of the meeting of the Sub-Committee held in the Council Chamber, Council Offices, Station Road East, Oxted on the 11 June 2021 at 10.00am

PRESENT: Councillors Bourne, Cooper, Elias, Jones and Langton

ALSO PRESENT: Councillor Farr

1. ELECTION OF CHAIR FOR 2021/22

Councillor Bourne was elected Chair of the Sub-Committee for the 2021/22 Municipal Year.

2. MINUTES OF THE MEETING HELD ON THE 15TH JANUARY 2021

Subject to the heading of Annex 1 to the minutes (capital, investment and treasury management strategy) being corrected to "Investment Sub-Committee – 15th January 2021 (as opposed to 2020) the minutes were agreed as a correct record.

3. SUMMARY INVESTMENT AND BORROWING POSITION AT 31ST MARCH 2021

The investment analysis at Annexes A and B was presented. The format had been refined since the previous meeting and Members were invited to make suggestions for any further improvements.

The accompanying report explained that, following advice from the Council's treasury advisers (Link Group), the refinancing of a £4.25m Housing Revenue Account PWLB loan due at the end of March 2021 had not been applied. Instead, the loan was being financed by internal borrowing from the General Fund, saving approximately £80,000 in a full year of loan payment costs.

Members were also updated in respect of the previous decision to cease the reinvestment of Funding Circle proceeds and to withdraw funds as loans were repaid. As at 31st March 2021, £1.1m of the principal investment had been returned. While the Sub-Committee had previously agreed to reinvest the returned proceeds into the Schroders, UBS and CCLA funds, the monies had, instead, been used to support the Council's cashflow in light of the challenges imposed by the pandemic. The Funding Circle proceeds could now be utilised for medium term investment purposes and the report advocated that Link, the Council's treasury advisors, be engaged to undertake a fund manager selection process to identify optimum investment vehicles in line with the Council's objectives. It was also confirmed that Link would review the Council's wider treasury investment strategy, including the question of whether current investment levels were appropriate. This would be beyond the scope of the existing treasury management contract and would incur an additional charge of £8,500. The process would take 4-6 weeks and would involve a questionnaire to all fund providers, culminating with a selection process based on the returns submitted.

Nazmin Miah, Associate Director of Link Market Services, joined the meeting via Zoom to explain the proposed treasury investment review process. She clarified that this would cover the whole of the c.£12 million portfolio and, notwithstanding the fact that the portfolio had been performing satisfactorily to date, would enable the Sub-Committee to exercise due diligence by reviewing the treasury investment strategy in line with emerging plans and priorities.

Nazmin Miah and the Chief / Deputy Chief Finance Officers responded to Members' questions, including an explanation of the Council's current treasury management contract with Link.

Regarding Recommendation B of the report, the Sub-Committee considered that the term 'high yielding' should be removed. Councillor Jones also proposed an amendment to clarify that Link would be engaged to review the whole of the Council's treasury investment portfolio (not just the reinvestment of Funding Circle proceeds) and that the investment strategy to be identified by Link would be presented to the Sub-Committee for consideration. This was agreed.

It was noted that the Sub-Committee's next scheduled meeting was not until the 5th November 2021. It was therefore agreed that, to expedite the matter, an additional meeting be scheduled for early September 2021 to consider Link's findings.

RESOLVED – that:

- A. the Council's investment and borrowing position at 31st March 2021, as set out at Annexes A and B, be noted;
- B. authority be delegated to the Section 151 Officer to manage the Council's investment portfolio who, in turn, will discharge this function to our treasury advisers, Link Group, who would undertake a Fund Manager selection process to identify, and recommend to the Investment Sub-Committee for agreement, an updated short, medium and long-term investment strategy aligned with the Council's financial plan; and
- C. an additional meeting of the Sub-Committee be scheduled for early September 2021 to consider the strategy referred to in B above.

4. INVESTMENT PROPERTY UPDATE

The Sub-Committee resolved to move 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.

The accompanying report advised Members about the performance of the Council's property investment portfolio; updated valuations of the three properties owned by Gryllus Property Limited; and asset management activity being undertaken in respect of the all the properties concerned.

Members were informed that the 2020/21 accounts for Gryllus Property Limited had yet to be finalised but could be presented to the Sub-Committee's September 2021 meeting (minute 3 above refers).

RESOLVED – that the Council's recent and proposed property asset management activity be noted.

Rising 11.35 am

Investment	Investment Amount 31/03/21 £	Net Asset Value 31/03/21 £	Yield Rate Note 1 %	Actual Return 2020/21 £
<u>Non - Specified (Financial Investments)- Long Term (over 12 mths)</u>				
CCLA Property Fund	4,000,000	4,158,183	4.33	179,910
Schroders Bond Fund	3,000,000	2,908,911	4.32	125,529
UBS Multi Asset Fund	3,000,000	2,777,398	5.05	140,171
CCLA Diversification Fund	2,000,000	1,955,874	3.17	62,069
Funding Circle	863,160	863,160	5.70	77,070
Sub Total Non-specified (Financial Investments)	12,863,160	12,663,527		584,749
<u>Non - Specified (Non-Financial Investments)- Long Term (over 12 mths)</u>				
Gryllus Property Company Loan - Maidstone	2,394,000	2,394,000	5.81	139,023
Freedom Leisure- Loan (TLP)	774,857	774,857	5.50	53,271
Freedom Leisure- Loan (de Stafford)	496,571	496,571	7.58	47,050
Gryllus Property Company Loan - 80-84 Station Rd East	1,012,500	1,012,500	5.81	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	21,593,429		1,005,827
Total Non-Specified Investments	34,456,589	34,256,955		1,590,577
<u>Specified Investments-Short Term (less than 12 mths)</u>				
Notice Accounts	4,000,000	4,042,040	0.28	11,449
Money Market Funds	3,250,000	3,250,000	0.07	12,470
CCLA PSDF	4,000,000	4,000,000	0.08	3,391
Total Specified Investments	11,250,000	11,292,040		27,310
Total Non- Specified and Specified Investments	45,706,589	45,548,995		1,617,887
Total Investment Income Budget 2020/21				2,764,200
Over/(under) budget				(1,146,313)

Borrowing	Loan Amount	Interest	Actual Cost
	£	%	2020/21 £
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	450,913
Sub Total General Fund Borrowing	43,426,078		1,134,803
Total GF PWLB Budget 2020/21			1,889,000
Over/(under) budget			(754,197)
HRA Borrowing			
Public Works Loan Board	56,939,000	2.72	1,661,341
Sub Total HRA Borrowing	56,939,000		1,661,341
Total HRA PWLB Budget 2020/21			1,926,500
Over/(under) budget			(265,159)
Total Borrowing	100,365,078		2,796,144
Total Budget 2020/21			3,815,500
Total Over/(under) budget			(1,019,356)

Notes:

1. Yield Rate - actual annual return divided by net asset value. Note Funding Circle's net asset value has reduced due to principal repayments therefore the rate has been calculated using the average of the start of year value and the close of year 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 31/03/2021

Annex B

	2016/17	2017/18	2018/19	2019/20	2020/21
Carrying Value	Carrying Value 31.3.2017	Carrying Value 31.3.2018	Carrying Value 31.3.2019	Carrying Value 31.03.2020	Carrying Value 31.03.2021
	£	£	£	£	£
CCLA Property Fund	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
UBS Multi Asset Fund	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
Total	10,000,000	12,000,000	12,000,000	12,000,000	12,000,000

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

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

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 2020/22
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	164,434	4.03%	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%
Schroders Bond Fund	127,340	4.30%	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%
UBS Multi Asset Fund	100,600	3.33%	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%
CCLA Diversification Fund	n/a	n/a	62,732	3.27%	67,030	3.38%	66,284	3.67%	62,069	3.17%
Total	392,375		508,691		488,040		513,473		507,679	

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
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	(92,996)	-2.28%	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%
Schroders Bond Fund	16,634	0.56%	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%
UBS Multi Asset Fund	36,559	1.21%	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%
CCLA Diversification Fund	n/a	n/a	(78,743)	-4.10%	60,910	3.07%	(177,974)	-9.86%	151,682	7.76%
Total	(39,803)		(36,146)		(37,327)		(938,874)		747,460	

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
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	71,438	1.75%	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%
Schroders Bond Fund	143,974	4.86%	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,503	17.00%
UBS Multi Asset Fund	137,159	4.54%	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%
CCLA Diversification Fund	n/a	n/a	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	213,751	10.93%
Total	352,572		472,545		450,713		(425,401)		1,255,139	

Peer to Peer Investment	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21
Funding Circle	£	%	£	%	£	%	£	%	£	%
Carrying Value	2,003,355		2,075,341		2,056,664		1,831,028		863,160	
Interest Paid by Borrowers	181,892		181,014		184,654		193,170		127,982	
Less FC Service fee	(19,121)		(19,668)		(19,729)		(19,611)		(12,462)	
Promotions/Transfer payment							470		0	
Bad Debts	(58,163)		(61,288)		(111,152)		(127,649)		(80,881)	
Recoveries	8,219		14,780		27,428		30,253		42431.08	
Net Yield	112,827	5.63%	114,838	5.53%	81,201	3.95%	76,634	4.19%	77,070	8.93%
Provisions for future losses	0		0		(10,000)					

*Funding Circle Net yield - this has been calculated against the current value, however principal has been withdrawn throughout the year. If calculated against the average of the opening and closing value then the net yield would be 5.7%