

TANDRIDGE DISTRICT COUNCIL**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 5 November 2021 at 10.00am.

PRESENT: Councillors Bourne (Chair), Cooper, Elias and Langton

ALSO PRESENT: Councillors Farr

APOLOGIES FOR ABSENCE: Councillor Jones

1. MINUTES OF THE MEETING HELD ON THE 24TH SEPTEMBER 2021

The minutes were confirmed and signed as a correct record.

2. SUMMARY INVESTMENT AND BORROWING POSITION AT 30TH SEPTEMBER 2021

The investment analysis at Appendices A and B was presented.

The Chair explained that the anticipated remodelled report from Link Group (the Council's treasury advisors) would now be presented to the Sub-Committee's meeting on the 21st January 2022. This would help to inform a decision on the use of the redeemed proceeds from Funding Circle which had accumulated since the decision to cease re-investing in its peer to peer loans and to withdraw funds as those loans were repaid. It was confirmed that the 11.2% yield rate from Funding Circle (Appendix A refers) reflected the withdrawal of the principal element of the investment, together with a one-off recovery of non-performing loans amounting to £38,000 and did not reflect pure income.

Members reiterated their wish from the 11th June 2021 meeting that the term 'high yielding' should be removed from future investment reports.

RESOLVED – that the Council's investment and borrowing position at 30th September 2021, as set out in Appendices A and B, be noted.

3. **GRYLLUS HOLDINGS, GRYLLUS HOUSING AND GRYLLUS PROPERTY FINAL ACCOUNTS 2020/21**

The Sub-Committee considered financial statements for the year ended 31st March 2021 in respect of these Council owned subsidiary companies, together with a report from Kreston Reeves LLP arising from its audit of the accounts.

The key issues identified within the Officer covering report were:

- Gryllus Holdings had been dormant during the reporting period and an unqualified audit opinion had been issued. (The term 'dormant' was questioned during the debate, but it was acknowledged that the company had not been trading and that no movement of balances had taken place).
- Gryllus Housing had been dormant during the reporting period and the accounts were unaudited.
- Gryllus Property Limited had recorded a loss of £1,792,530 arising from revaluations of the company's three properties (30-32 Week Street, Maidstone; 80-84 Station Road East, Oxted and Castlefield House, Reigate). This had been expected as Castlefield House was purchased during the 2020/21 reporting year and its valuation had attracted one off purchase costs. Without such costs, the company made an operational post tax profit of £72,373. An unqualified audit opinion had been issued.

The Kreston Reeves audit had identified:

- a late VAT payment (by one day) which had incurred an HMRC penalty fine
- an incorrect posting of £205,583 rental income.

Consequently, Kreston Reeves had recommended measures to reduce the likelihood of such errors reoccurring, namely additional staffing capacity to deal with VAT payments and a quarterly reconciliation of actual and expected rental income. It was confirmed that these matters would be addressed as part of the Finance Transformation Programme.

The Chief Finance Officer (Anna D'Alessandro) advised that she had replaced Simon Jones as a director of all three companies.

RESOLVED – that the following be noted:

- (i) the annual financial statements for Gryllus Holdings Limited, Gryllus Housing Limited and Gryllus Property Limited for the year ended 31st March 2021;
- (ii) the report from Kreston Reeves arising from its annual audit of Gryllus Holdings Limited and Gryllus Property Limited for the year ended 31st March 2021; and
- (iii) the management accounts for Gryllus Property Limited (profit by property).

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 officer report advised Members about the performance of the of the commercial investment properties owned by the Council and its subsidiary company, Gryllus properties:

TDC properties:

- Quadrant House, Caterham Valley
- Redstone House, South Nutfield
- Village Health Club, Caterham on the Hill

Gryllus properties:

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

The information comprised an update about asset management activity for each property; an analysis of opportunities and risks; and valuations carried out by Wilkes, Head and Eve (WHE) in December 2020 for the Gryllus properties and February 2021 for the TDC properties. Members considered that future WHE valuations would benefit from input from the asset management team to ensure they were as realistic as possible.

Members were also provided with:

- rent / service charge collection data for Quadrant House and a risk register compiled by Huntley Cartwright quantity surveyors; and
- an options analysis from Colliers (property consultants) regarding the future use of 30-32 Week Street. Arising from this, it was acknowledged that the property would be marketed 'to let'.

The officer report advocated that Redstone House be sold. Under the Council's scheme of delegation (Part E of the Constitution) such a disposal, due its value being more than £1 million, would need to be recommended by the Strategy & Resources Committee for ratification by Full Council. The property had recently been vacated by the Surrey & Borders Partnership NHS Foundation Trust which had been paying rent of approximately £50,000 per annum to the Housing General Fund. The rationale for selling the property had been presented in a briefing note to the Sub-Committee, Bletchingley & Nutfield Ward Councillors and Housing Committee members. The briefing note was appended to the agenda pack for the meeting and explained why the property was considered inappropriate for use as social housing.

The Sub-Committee supported the recommendation to sell Redstone House but considered that planning permission should be sought by the Council with a view to the property being offered for sale with the required consents in place.

Members also requested additional information regarding the capital expenditure requirements for Linden House prior to its re-letting. Officers undertook to provide this after the meeting.

RESOLVED – that

- A. the recent and proposed property asset management activity be noted; and
- B. Redstone House be marketed for sale and that planning consent for the necessary changes of use be sought to enable the property to be sold with the required planning permission already in place.

COUNCIL DECISION

*(subject to ratification by the
Strategy & Resources Committee and Full Council)*

RECOMMENDED – that Redstone House be sold for the best consideration as can be achieved by the Executive Head of Communities.

ACTIONS:

		Officers responsible for ensuring completion	Deadline
1	Future external property valuations be informed by contributions from the Council's asset management team	Claire Hinds (Finance Business Partner) to liaise with Kate Haacke (Lead Asset Management Specialist)	As soon as practicable prior to the next valuation
2	E-mail to Sub-Committee members confirming the capital expenditure requirements for Linden House prior to its re-letting	Kate Haacke (Lead Asset Management Specialist)	19.11.21

Rising 11.24 am

Summary of Investments and Borrowing

Appendix A

Investment	Investment Amount 31/03/21 £	Net Asset Value 30/09/21 £	Yield Rate Note 1 %	Forecast Return 2021/22 £	Previous Year Actual £
Non - Specified (Financial Investments)- Long Term (over 12 mths)					
CCLA Property Fund	4,000,000	4,448,206	3.65	162,300	179,910
Schroders Bond Fund	3,000,000	2,915,856	4.38	127,600	125,529
UBS Multi Asset Fund	3,000,000	2,794,549	4.34	121,300	140,171
CCLA Diversification Fund	2,000,000	2,051,402	3.23	66,200	62,069
Funding Circle	863,160	637,686	11.20	84,900	77,070
Sub Total Non-specified (Financial Investments)	12,863,160	12,847,699		562,300	584,749
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	139,023
Freedom Leisure- Loan (TLP)	774,857	774,857	5.50	42,600	53,271
Freedom Leisure- Loan (de Stafford)	496,571	496,571	7.58	37,600	47,050
Gryllus Property Company Loan - 80-84 Station Rd East	1,012,500	1,012,500	5.81	54,979	54,979
Gryllus Property Company Loan - Castlefield	11,664,000	11,664,000	6.10	711,504	711,504
Gryllus Property Company Share Capital Note 2	5,251,500	5,251,500	-	-	0
Sub Total Non-specified (Non-Financial Investments)	21,593,429	21,593,429		985,706	1,005,827
Total Non-Specified Investments	34,456,589	34,441,128		1,548,006	1,590,576
Specified Investments-Short Term (less than 12 mths)					
Notice Accounts	4,000,000	4,042,002	0.17	7,000	11,449
Money Market Funds	3,250,000	12,285,000	0.02	2,700	15,870
Total Specified Investments	7,250,000	16,327,002		9,700	27,319
Total Non- Specified and Specified Investments	41,706,589	50,768,130		1,557,706	1,617,895
Total Investment Income Budget 2021/22				1,515,700	2,764,200
Over/(under) budget				42,006	(1,146,305)

Borrowing	Loan Amount £	Interest %	Forecast Cost 2021/22 £	Previous Year Cost £
General Fund Borrowing				
Gryllus Loan	3,420,000	2.46	84,132	84,132
Freedom Leisure Loan	2,225,000	2.45	54,513	54,513
Village Health Club	938,678	2.38	22,341	22,341
Linden House	4,175,000	2.69	112,308	112,308
Linden House	254,000	2.42	6,147	6,147
Quadrant House	15,340,000	2.41	369,694	369,694
Quadrant House	800,000	2.28	18,240	18,240
Gryllus - 80-84 Station Road	724,400	2.28	16,516	16,516
Gryllus - Castlefield	15,549,000	2.91	452,476	450,913
Sub Total General Fund Borrowing	43,426,078		1,136,366	1,134,803
Total GF PWLB Budget 2021/22			1,137,000	1,889,000
Over/(under) budget			(634)	(754,197)
HRA Borrowing				
Public Works Loan Board	61,189,000	2.70	1,632,209	1,661,341
Sub Total HRA Borrowing	61,189,000		1,632,209	1,661,341
Total HRA PWLB Budget 2021/22			1,662,500	1,926,500
Over/(under) budget			(30,291)	(265,159)
Total Borrowing	104,615,078		2,768,575	2,796,144
Total Budget 2021/22			2,799,500	3,815,500
Total Over/(under) budget			(30,925)	(1,019,356)

Notes:

1. Yield Rate - forecast annual return divided by net asset value. Funding Circle yield rate - forecast annual return divided by average opening & closing net asset value adjusted for estimated principal withdrawn Sept 21 to Mar 22
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 30/09/2021

Appendix 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

2021/22
Carrying Value 30.09.2021
£
4,000,000
3,000,000
3,000,000
2,000,000
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

2020/21
Market Value 30.09.2021
£
4,448,206
2,915,856
2,794,549
2,051,402
12,210,013

	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)

2020/21
Surplus/ (Deficit) 30.09.2021
448,206
(84,144)
(205,451)
51,402
210,013

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
	£	%	£	%	£	%	£	%	£	%
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		42,431	
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 have been 8.93% as there was a large recovery received in June 2021 (£38,494) which has inflated this yield.