TANDRIDGE DISTRICT COUNCIL

INVESTMENT SUB COMMITTEE

Minutes of the meeting of the Sub-Committee held in the Council Chamber, Council Offices, Station Road East, Oxted on the 17th June 2022 at 10.00am.

PRESENT: Councillors Booth, Cooper, C.Farr (substitute in place of Crane), Hammond, Jones and Langton

PRESENT (Virtually): Councillor Caulcott (substitute in place of Botten)

IN ATTENDANCE (Virtually): David Green (Arlingclose Limited)

APOLOGIES FOR ABSENCE: Councillors Botten and Crane

1. ELECTION OF CHAIR FOR THE REMAINDER OF 2022/23

Councillor Langton was elected Chair of the Sub-Committee for the remainder of 2022/23.

2. MINUTES OF THE MEETING HELD ON THE 5TH NOVEMBER 2021

These minutes were approved and signed as a correct record.

3. MINUTES OF THE MEETING HELD ON THE 21ST JANUARY 2022

These minutes were approved and signed as a correct record.

4. SUMMARY INVESTMENT AND BORROWING POSITION AT 31ST MARCH 2022

The Sub-Committee was presented with a summary of the Council's investment and borrowing position as per Appendix A. The report set out the final position for financial year 2021/22, together with an update and accompanying scenario planning on the future of the Council's long-term investments. This reflected the recommendation from the previous meeting to retain investments in the following four funds until the Government decides whether to extend the current 'statutory override' (of usual accounting practice) which prevents gains and losses in capital values from impacting on the revenue budget:

(i) CCLA (diversification fund)
(ii) CCLA (property fund)
(iii) Schroders bond fund
(iv) UBS multi-asset fund

The accompanying report advised that the Council's contract for expert Treasury Management advice with Link Group had terminated on 30th April 2022 and a new contract had been entered into with Arlingclose.

In response to Members' questions, it was confirmed that:

- the rate of interest charged on loans from the Public Works Loan Board was fixed until maturity

- a debt profile of the various loans taken out by the Council, together with associated maturity dates, could be provided

- the swings in the value of short term investments held in money market funds over the course of the year, and since the last report, reflected a fluctuating cash position, e.g. due to Government funded grant schemes which the Council was required to administer

- quoted yield rates are based on current asset values, a presentation that should be reviewed.

The report also confirmed that the current statutory override would remain until 31st March 2023 and that the Government is expected to consult shortly before deciding whether to renew it. It was hoped that a decision would be made in time to inform the 2023/24 budget setting process. In the meantime, the Council's investment options, according to whether the override would continue, had been scoped in accordance with Appendix C.

In the event of the override being removed, Arlingclose had advised that disinvesting from funds (i), (iii) and (iv) should not present difficulties. While this was not necessarily the case for the CCLA property fund, there did not appear to be any appetite among other authorities to withdraw and the Council was advised to maintain its investment.

A discussion took place regarding the redemption proceeds from Funding Circle loans. This related to the meeting on 24th January 2020 when the Sub-Committee agreed to disinvest from Funding Circle, with the redemption proceeds being invested elsewhere within the Council's treasury portfolio, namely 25% to each of the funds at (i) to (iv) above. However, in light of the challenges imposed by the pandemic, redeemed Funding Circle proceeds had, instead, been used ever since to support the Council's cashflow. Following a suggestion from Councillor Jones, it was agreed that this matter be reviewed at the Sub-Committee's next meeting.

R E S O L V E D – that:

A. the Council's investment and borrowing position at 31st March 2022, as set out in Appendices A and B, be noted;

B. the scenario planning work underway to prepare for decisions expected from Government on the future of the statutory override be noted; and

C. the use of the redeemed proceeds from Funding Circle be reviewed at the Sub-Committee's next scheduled meeting on 4th November 2022, including an analysis of the potential sum available in light of the Council's cash flow requirements and debt profiles.

5. PROPERTY INVESTMENT 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.

A verbal update was given about the following commercial investment properties owned by the Council and its subsidiary company, Gryllus properties:

TDC properties:

- Linden House, Caterham on the Hill (the existing tenant was in the process of renewing their lease, the terms of which were discussed)

- Redstone House, South Nutfield (the property was being marketed for sale – Members were informed of progress)

- Quadrant House, Caterham Valley (the refurbishment scheme was now scheduled for completion by the end of September - the marketing process for letting the vacant units was underway - issues regarding rent arrears were discussed).

Gryllus properties:

- Castlefield House, Reigate

- 80-84 Station Road East, Oxted

- 30-32 Week Street, Maidstone (Members were informed about expressions of interest from prospective new tenants. It was agreed that options regarding this asset should be presented to the next scheduled meeting on 4th November 2022).

> ***R E S O L V E D*** - that an options analysis regarding the future of 30-32 Week Street, Maidstone be presented to the Sub-Committee on 4th November 2022 to enable Members to assess the relative financial merits of selling, letting or leaving the building unoccupied for a limited period.

Rising 11.04 am

Summary of Investments and Borrowing **Appendix A**

Investment	Investment Amount 31/03/21 £	Net Asset Value 31/03/22 £	Yield Rate Note 1 %	Actual Return 2021/22 £
Non - Specified (Financial Investments)- Long Term (over 12 mths)				
CCLA Property Fund	4,000,000	4,888,056	3.25	158,867
Schroders Bond Fund	3,000,000	2,775,151	4.63	128,455
UBS Multi Asset Fund	3,000,000	2,639,592	4.57	120,654
CCLA Diversification Fund	2,000,000	2,046,513	2.39	48,871
Funding Circle	863,160	391,191	-	87,136
Sub Total Non-specified (Financial Investments)	**12,863,160**	**12,740,503**		**543,983**
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
Freedom Leisure- Loan (TLP)	674,857	481,140	5.50	42,631
Freedom Leisure- Loan (de Stafford)	496,571	372,431	7.58	37,600
Gryllus Property Company Loan - 80-84 Station Rd East	1,012,500	1,012,500	5.43	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)	**21,493,429**	**21,175,572**		**985,737**
Total Non-Specified Investments	**34,356,589**	**33,916,075**		**1,529,720**
Specified Investments-Short Term (less than 12 mths)				
Notice Accounts	4,000,000	1,995,487	0.19	3,826
Money Market Funds	3,250,000	13,260,000	0.05	7,775
Total Specified Investments	**7,250,000**	**15,255,487**		**11,601**
Total Non- Specified and Specified Investments	**41,606,589**	**49,171,562**		**1,541,321**
Total Investment Income Budget 2021/22				1,515,700
Over/(under) budget				**25,621**

Borrowing	Loan Amount £	Interest %	Actual Cost 2021/22 £
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	452,476
Sub Total General Fund Borrowing	**43,426,078**		**1,136,366**
Total GF PWLB Budget 2021/22			**1,137,000**
Over/(under) budget			**(634)**
HRA Borrowing			
Public Works Loan Board	58,839,000	2.70	1,632,098
Sub Total HRA Borrowing	**58,839,000**		**1,632,098**
Total HRA PWLB Budget 2021/22			**1,662,500**
Over/(under) budget			**(30,402)**
Total Borrowing	**102,265,078**		**2,768,464**
Total Budget 2021/22			**2,799,500**
Total Over/(under) budget			**(31,036)**

Notes:

1. Yield Rate - forecast return divided by net asset 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 31/12/2021

Appendix B

Carrying Value	2016/17 Carrying Value 31.3.2017	2017/18 Carrying Value 31.3.2018	2018/19 Carrying Value 31.3.2019	2019/20 Carrying Value 31.03.2020	2020/21 Carrying Value 31.03.2021	2021/22 Carrying Value 31.03.2022
	£	£	£	£	£	£
CCLA Property Fund	4,000,000	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	3,000,000
UBS Multi Asset Fund	3,000,000	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	2,000,000
Total	**10,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**	**12,000,000**

Market Value	2016/17 Market Value 31.3.2017	2017/18 Market Value 31.3.2018	2018/19 Market Value 31.3.2019	2019/20 Market Value 31.03.2020	2020/21 Market Value 31.03.2021	2021/22 Market Value 31.03.2022
	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,082,986	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056
Schroders Bond Fund	2,963,563	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151
UBS Multi Asset Fund	3,018,705	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592
CCLA Diversification Fund(indicative market value)	n/a	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513
Total	**10,065,254**	**12,029,108**	**11,991,781**	**11,052,907**	**11,800,366**	**12,349,313**

Surplus/(Deficit)	2016/17 Surplus/ (Deficit) 31.3.2017	2017/18 Surplus/ (Deficit) 31.3.2018	2018/19 Surplus/ (Deficit) 31.3.2019	2019/20 Surplus/ (Deficit) 31.03.2020	2020/21 Surplus/ (Deficit) 31.03.2021	2021/22 Surplus/ (Deficit) 31.03.2022
	£	£	£	£		
CCLA Property Fund	82,986	276,854	276,005	188,063	158,183	888,056
Schroders Bond Fund	(36,437)	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)
UBS Multi Asset Fund	18,705	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)
CCLA Diversification Fund	n/a	(78,743)	(17,833)	(195,807)	(44,126)	46,513
Total	**65,254**	**29,108**	**(8,219)**	**(947,093)**	**(199,634)**	**349,313**

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	Full Year outturn at 31.03.2022 Yield 2021/22	Yield 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	164,434	4.03%	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%	158,867	3.25%
Schroders Bond Fund	127,340	4.30%	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%	128,455	4.63%
UBS Multi Asset Fund	100,600	3.33%	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%	120,654	4.57%
CCLA Diversification Fund	n/a	n/a	62,732	3.27%	67,030	3.38%	66,284	3.67%	62,069	3.17%	48,871	2.39%
Total	**392,375**		**508,691**		**488,040**		**513,473**		**507,679**		**456,847**	

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	Full Year outturn at 31.03.2022 Surplus/ (Deficit) 2021/22	Surplus/ (Deficit) 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	(92,996)	-2.28%	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%	729,873	14.93%
Schroders Bond Fund	16,634	0.56%	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%	(133,760)	-4.82%
UBS Multi Asset Fund	36,559	1.21%	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%	(137,805)	-5.22%
CCLA Diversification Fund	n/a	n/a	(78,743)	-4.10%	60,910	3.07%	(177,974)	-9.86%	151,682	7.76%	90,639	4.43%
Total	**(39,803)**		**(36,146)**		**(37,327)**		**(938,874)**		**747,460**		**548,946**	

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	Full Year outturn at 31.03.2022 Net Yield 2021/22	Net Yield 2021/22
	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	71,438	1.75%	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%	888,740	18.18%
Schroders Bond Fund	143,974	4.86%	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,503	17.00%	(5,305)	-0.19%
UBS Multi Asset Fund	137,159	4.54%	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%	(17,152)	-0.65%
CCLA Diversification Fund	n/a	n/a	(16,011)	-0.83%	127,940	6.45%	(111,690)	-6.19%	213,751	10.93%	139,510	6.82%
Total	**352,572**		**472,545**		**450,713**		**(425,401)**		**1,255,139**		**1,005,794**	

Peer to Peer Investment	2016/17	2016/17	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	31.03.22 2021/22	2021/22
Funding Circle	£	%	£	%	£	%	£	%	£	%	£	%
Carrying Value	**2,003,355**		**2,075,341**		**2,056,664**		**1,831,028**		**863,160**		**391,191**	
Interest Paid by Borrowers	181,892		181,014		184,654		193,170		127,982		66,749	
Less FC Service fee	(19,121)		(19,668)		(19,729)		(19,611)		(12,462)		(6,279)	
Promotions/Transfer payment							470		0		0	
Bad Debts	(58,163)		(61,288)		(111,152)		(127,649)		(80,881)		(36,103)	
Recoveries	8,219		14,780		27,428		30,253		42,431		62,769	
Net Yield	**112,827**	**5.63%**	**114,838**	**5.53%**	**81,201**	**3.95%**	**76,634**	**4.19%**	**77,070**	**8.93%** *	**87,136**	**13.89%**
Provisions for future losses	**0**		**0**		**(10,000)**							

*Funding Circle Net yield December 2021 - as principal has been withdrawn throughout the year this has been calculated as net earnings against the average of the opening and closing value. Note there was a large recovery received in June 2021 (£38,494) which has inflated this yield. Excluding this recovery the yield would be 6.4%

APPENDIX C **APPENDIX C**

Scoping of investment options, according to whether or not the 'statutory override' will continue

Scenario	**Override continued**	**Override removed**
Outline	General Fund continues to be insulated from gains and losses in fair value. The gain / loss on the asset would have a General Fund impact if the investment was withdrawn at greater than or lower than the initial investment.	General Fund is no longer insulated from gains and losses in fair value. The change in value at 31st March each year would be part of the Council's General Fund outturn against budget.
Potential responses	• Maintain the current portfolio of investments if they still demonstrate strong in-year yield; or • Disinvest in current funds and then re-invest in funds that offer the strongest in-year yield but set aside surpluses into a reserve to manage volatility in funds that would be felt if the Council needed to disinvest from the asset; or • Reduce the investment portfolio in overall size.	• Maintain investment in the funds, and manage the year-to-year volatility through reserves; or • Disinvest in current funds and reinvest in funds that offer the best combination of asset value security and in-year yield; i.e. total return; or • Sell the investments and move into lower yielding deposits, causing a budget pressure; or • Sell the investments and move into higher risk alternatives where the override is not required; or • Reduce the investment portfolio in overall size
Preferred response	• **The portfolio of funds should be kept under review to maximise in-year yield whilst providing adequate long-term security of Council investments;** • An element of in-year yield could be credited to a reserve to guard against falls in value upon disinvestment – a target level of reserve for this purpose would be developed in consultation with Arlingclose	• When a decision is made by Government, funds currently below their market value should be withdrawn when their capital value recovers to at least the amount invested, or if it becomes clear that their value will not be recovered further; • Losses in these funds would currently be covered by the gain in CCLA Property;

<table>
<tr><th>Scenario</th><th>Override continued</th><th>Override removed</th></tr>
<tr><td></td><td>• The appropriate overall value of investments will continued to be gauged against cash requirements and the differential in interest rates on new borrowing and investment return</td><td>• Cash should then be reinvested in funds that offer the best total return (i.e. the combination of in-year yield and capital value)

• An element of in-year surpluses should be held in reserves to cover future volatility of funds – a target level of reserve for this purpose would be developed in consultation with Arlingclose

• The appropriate overall value of investments will continued to be gauged against cash requirements and the differential in interest rates on new borrowing and investment return</td></tr>
<tr><td>Risks</td><td>The continuation of the override may be time-limited, or the prevailing financial position of the Council may require disinvestment from funds, potentially at a loss. The statutory override does not protect the General Fund in the event of disinvestment.</td><td>In-year volatility in the market value of investments may impact the delivery of the General Fund Budget.</td></tr>
<tr><td>Mitigations</td><td colspan="2">Although the risks differ in timing, ultimately the General Fund would bear the risk of falls in the value of investments. The potential mitigations are the same in both scenarios.

An element of surpluses should be credited to a specific reserve in order to manage the risk that losses in investment values will ultimately be a General Fund impact (either each year if the override is discontinued or on disinvestment if it is not).

The reserve may require a level of up-front funding. It is proposed that this is achieved through either a) from in-year surpluses in investment income (if achievable) or;
b) a contribution from the General Fund at a level to be determined through the 2023/24 budget process and in consultation with Arlingclose.

Any losses could also be mitigated by recognising the gain from a stronger-performing investment.</td></tr>
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