

**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 The gain / loss on the asset would have a General Fund impact if the investment was withdrawn at greater than or lower than the initial investment.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 31 <sup>st</sup> March each year would be part of the Council's General Fund outturn against budget.
Potential responses	<ul style="list-style-type: none"> <li>• Maintain the current portfolio of investments if they still demonstrate strong in-year yield; or</li> <li>• 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</li> <li>• Reduce the investment portfolio in overall size.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain investment in the funds, and manage the year-to-year volatility through reserves; or</li> <li>• 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</li> <li>• Sell the investments and move into lower yielding deposits, causing a budget pressure; or</li> <li>• Sell the investments and move into higher risk alternatives where the override is not required; or</li> <li>• Reduce the investment portfolio in overall size</li> </ul>
Preferred response	<ul style="list-style-type: none"> <li>• <b>The portfolio of funds should be kept under review to maximise in-year yield whilst providing adequate long-term security of Council investments;</b></li> <li>• 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</li> </ul>	<ul style="list-style-type: none"> <li>• When a decision is made by Government, funds currently below their market value should be withdrawn when their capital value recovers to at least the amount invested, or if it becomes clear that their value will not be recovered further;</li> <li>• Losses in these funds would currently be covered by the gain in CCLA Property;</li> </ul>

Scenario	Override continued	Override removed
	<ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li><b>Cash should then be reinvested in funds that offer the best total return (i.e. the combination of in-year yield and capital value)</b></li> <li>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</li> <li>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</li> </ul>
Risks	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.	In-year volatility in the market value of investments may impact the delivery of the General Fund Budget.
Mitigations	<p>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.</p> <p>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).</p> <p>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.</p> <p>Any losses could also be mitigated by recognising the gain from a stronger-performing investment.</p>	