

**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 4th November 2022 at 10.00am.

PRESENT: Councillors Langton (Chair), Booth, Botten, Cooper, C.Farr, Hammond and Jones

ALSO PRESENT: Councillor Sayer

1. MINUTES OF THE MEETING HELD ON THE 17TH JUNE 2022

These minutes were approved and signed as a correct record.

2. SUMMARY INVESTMENT AND BORROWING POSITION AT 30TH SEPTEMBER 2022

The Sub-Committee was presented with a summary of the Council's investment and borrowing position as per Annexes A and B, together with updates on the following three matters:

Statutory override update

This referred to the 'override' of usual accounting practice, which meant that gains and losses in the capital value of investments did not impact on the revenue budget. The Government had still not decided whether to extend, amend or remove the override beyond 31st March 2023.

Officers had responded to a Government consultation in August, advocating that the override should be made permanent as it represented the lowest risk to the revenue budget and enabled options to change the mix of investment portfolios if deemed appropriate. The previous analysis of TDC's investment options in light of whether or not the override continued (submitted to the 17th June meeting) was re-presented.

Cash flow strategy and Funding Circle loans

Members were advised that the use of redeemed proceeds from Funding Circle had been under continual refinement since the adoption of a more robust, software-based approach to cash flow forecasting. In this respect, the Council had updated its cash flow projections to 30th September 2023 and a detailed 12-month cash flow analysis had been circulated to members of the Sub-Committee separately. In accordance with advice from Arlingclose (the Council's treasury advisors) cash balances, including redeemed Funding Circle proceeds, were being used to both:

- avoid or delay the need to borrow to fund the capital programme; and
- invest in money market funds.

This would remain the case whilst PWLB loan rates were in the region of 5%, as it represented a positive yield on the cash balances whilst avoiding undue risk.

Prudential Indicators

Performance data against the Council's prudential indicators (PIs) was presented.

The Chief Finance Officer confirmed that the internal auditors had recently upgraded their assurance opinion on the Council's arrangements for treasury management from 'limited' to 'reasonable'. Outstanding actions were to comply with key recommendations, namely training for Members; the provision of performance information to the Sub-Committee regarding PIs; and more regular reconciliation of investment balances to the finance system.

In response to Members' questions, the Chief Finance Officer advised that:

- Officers were endeavouring to obtain current information from Funding Circle about redemption proceeds arising from the repayment of its peer-to-peer loans.
- Information would be provided to members of the Sub-Committee to inform them about how Council's £3M investment holding with UBS was being applied.
- Arlingclose had recommended that TDC should consider whether surplus returns from money market funds (generated via rising interest rates) should be allocated to a financial reserve to mitigate against other potential budgetary deficits. The Sub-Committee supported this approach which would ultimately be discussed by the Strategy & Resources Committee, pending confirmation of the surplus position at outturn.
- Arlingclose had confirmed that the method of calculating revenue yields from money market funds (i.e. forecast return ÷ Net Asset Value) reflected the industry standard.

RESOLVED – that:

- A. the Council's investment and borrowing position at 30th September 2022, as set out in Annexes A and B, be noted;
- B. the update on the future of the statutory override be noted;
- C. the update on the Council's cash flow position and review of the use of redeemed proceeds from Funding Circle loans be noted; and
- D. the update on the Council's performance against its prudential indicators, as set in the Capital, Investment and Treasury Management Strategy for 2022/23, be noted.

ACTIONS:

	Action	Responsible Person	Deadline
1.	Current information to be circulated to the Sub-Committee about loan redemption proceeds from Funding Circle	Mark Hak-Sanders	TBA
2.	Details of the Council's £3M investment holding with UBS to be circulated to the Sub-Committee	Mark Hak-Sanders	TBA

3. 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.

A report was presented to update the Sub-Committee about the commercial investment properties owned by the Council and its subsidiary company, Gryllus properties. The properties concerned and the issues discussed were:

TDC properties:

Linden House, Caterham on the Hill

The renewal of the lease completed on 26th August 2022.

Quadrant House, Caterham Valley

The refurbishment scheme had reached practical completion at the end of September 2022 with an official re-opening event held on 6th October. Efforts were ongoing to secure tenants for unlet suites. Members were advised that, due to contract variations and inflationary pressures, the cost of works could exceed budget by a significant margin. The exact adverse variance wasn't yet clear as the final account was still being negotiated, although greater clarification would be provided for the Strategy & Resources Committee meeting on 1st December.

While Members welcomed the many positive aspects of the project and acknowledged the complex challenges associated with bringing it to fruition, the potential level of overspend was an issue of great concern. The Chair requested that a detailed report be submitted to the next meeting and cascaded throughout the Council to raise awareness of the lessons learned for future project management purposes. These included the need for:

- financial risks to be shared by third parties commissioned to provide professional advice to the Council, upon which the financial viability of projects relies; and
- a more realistic contingency fund in future to protect against unforeseen circumstances.

Village Health Club, Caterham on the Hill

The implications of the financial challenges facing Freedom Leisure (the Council's tenant) were discussed.

Gryllus properties:

30-32 Week Street, Maidstone

The lease to Marks & Spencer had expired on 28th September, although they had not traded from the property since March 2020. A temporary letting had been secured for up to one year. Details about a further offer to rent the property were discussed as part of a future options analysis.

Castlefield House, Reigate

80-84 Station Road East, Oxted

The report also confirmed that the sale of Redstone House, South Nutfield completed at a price of £1,400,000 on 16th August 2022.

R E S O L V E D - that

- A. the content of the report be noted; and
- B. the options analysis for 30-32 Week Street, Maidstone be noted and concerns be raised with the Gryllus board about the actions to be taken.

Rising 11.10 am

Summary of Investments and Borrowing

Investment	Investment Amount 31/03/22 £	Net Asset Value 30/09/22 £	Yield Rate Note 1 %	Forecast Return 2022/23 £
<u>Non - Specified (Financial Investments)- Long Term (over 12 mths)</u>				
CCLA Property Fund	4,000,000	4,848,829	3.33	161,569
Schroders Bond Fund	3,000,000	2,452,677	5.98	146,567
UBS Multi Asset Fund	3,000,000	2,178,270	8.50	185,183
CCLA Diversification Fund	2,000,000	1,871,049	3.82	71,500
Funding Circle (Note 2)	391,191	236,668	-	-
Sub Total Non-specified (Financial Investments)	12,391,191	11,587,493		564,819
<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)	674,857	484,286	5.50	31,963
Freedom Leisure- Loan (de Stafford)	496,571	310,357	7.58	28,230
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)	21,493,428	21,116,643		965,699
Total Non-Specified Investments	33,884,619	32,704,136		1,530,518
<u>Specified Investments-Short Term (less than 12 mths)</u>				
Notice Accounts	4,000,000	1,990,648	1.01	20,010
Money Market Funds	3,250,000	14,600,000	0.05	142,148
Total Specified Investments	7,250,000	16,590,648		162,158
Total Non- Specified and Specified Investments	41,134,619	49,294,784		1,692,676
Total Investment Income Budget 2022/23				1,495,700
Over/(under) budget				196,976

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 2022/23			1,137,000
Over/(under) budget			(634)
HRA Borrowing			
Public Works Loan Board	58,839,000	2.70	1,640,708
Sub Total HRA Borrowing	58,839,000		1,640,708
Total HRA PWLB Budget 2022/23			1,639,600
Over/(under) budget			1,108
Total Borrowing	102,265,078		2,777,074
Total Budget 2022/23			2,776,600
Total Over/(under) budget			474

Notes:

1. Yield Rate - forecast return divided by net asset value. Arlingclose have advised that this is the standard approach, which allows for comparison of the current return to alternative investment options.
2. Return from Funding Circle investment has not been forecast as this is dependent upon information that is still to be received.

Market Value of Long Term Investments at 30/09/2022

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Carrying Value	Carrying Value 31.3.2018	Carrying Value 31.3.2019	Carrying Value 31.03.2020	Carrying Value 31.03.2021	Carrying Value 31.03.2022	Carrying Value 30.09.2022
	£	£	£	£	£	£
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	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Market Value	Market Value 31.3.2018	Market Value 31.3.2019	Market Value 31.03.2020	Market Value 31.03.2021	Market Value 31.03.2022	Market Value 30.09.2022
	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056	4,848,829
Schroders Bond Fund	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151	2,452,677
UBS Multi Asset Fund	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592	2,178,270
CCLA Diversification Fund(indicative market value)	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513	1,871,049
Total	12,029,108	11,991,781	11,052,907	11,800,366	12,349,312	11,350,825

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Surplus/(Deficit)	Surplus/ (Deficit) 31.3.2018	Surplus/ (Deficit) 31.3.2019	Surplus/ (Deficit) 31.03.2020	Surplus/ (Deficit) 31.03.2021	Surplus/ (Deficit) 31.03.2022	Surplus/ (Deficit) 30.09.2022
	£	£	£	£	£	£
CCLA Property Fund	276,854	276,005	188,063	158,183	888,056	848,829
Schroders Bond Fund	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)	(547,323)
UBS Multi Asset Fund	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)	(821,730)
CCLA Diversification Fund	(78,743)	(17,833)	(195,807)	(44,126)	46,513	(128,951)
Total	29,108	(8,219)	(947,093)	(199,634)	349,312	(649,175)

Full Year forecast at 30.09.22		
Yield	Yield	Yield
2022/23	2022/23	2022/23
£	£	%
161,569	161,569	3.33%
146,567	146,567	5.98%
185,183	185,183	8.50%
71,500	71,500	3.82%
564,819	564,819	

Full Year forecast at 30.09.22		
Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)
2022/23	2022/23	2022/23
£	£	%
(39,227)	(39,227)	-0.81%
(322,474)	(322,474)	-13.15%
(461,322)	(461,322)	-21.18%
(175,464)	(175,464)	-9.38%
(998,487)	(998,487)	

Full Year forecast at 30.09.22		
Net Yield	Net Yield	Net Yield
2022/23	2022/23	2022/23
£	£	%
122,342	122,342	2.52%
(175,907)	(175,907)	-7.17%
(276,139)	(276,139)	-12.68%
(103,964)	(103,964)	-5.56%
(433,668)	(433,668)	

Gross Revenue Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield
	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	2019/20	2019/20	2019/20	2020/21	2020/21	2021/22
£	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	4.33%	158,867	4.33%	158,867	3.25%
Schroders Bond Fund	105,413	3.62%	120,508	4.21%	124,418	4.90%	125,529	4.32%	128,455	4.32%	128,455	4.63%
UBS Multi Asset Fund	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	5.05%	120,654	5.05%	120,654	4.57%
CCLA Diversification Fund	62,732	3.27%	67,030	3.38%	66,284	3.67%	62,069	3.17%	48,871	3.17%	48,871	2.39%
Total	508,691		488,040		513,473		507,679		456,847		456,847	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)
	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	2019/20	2019/20	2019/20	2020/21	2020/21	2021/22
£	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%	729,873	14.93%	729,873	14.93%
Schroders Bond Fund	(50,726)	-1.74%	(47,707)	-1.67%	(325,192)	-12.80%	368,973	12.68%	(133,760)	-4.82%	(133,760)	-4.82%
UBS Multi Asset Fund	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%	(137,806)	-5.22%	(137,806)	-5.22%
CCLA Diversification Fund	-78,743	n/a	60,910	3.07%	(177,974)	-9.86%	151,681	7.76%	90,639	4.43%	90,639	4.43%
Total	(36,146)		(37,327)		(938,874)		747,459		548,946		548,946	

Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield	Net Yield
	2017/18	2017/18	2017/18	2018/19	2018/19	2018/19	2019/20	2019/20	2019/20	2020/21	2020/21	2021/22
£	£	%	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	387,626	9.06%	183,140	4.28%	97,298	2.32%	150,030	3.61%	888,740	18.18%	888,740	18.18%
Schroders Bond Fund	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,502	17.00%	(5,305)	-0.19%	(5,305)	-0.19%
UBS Multi Asset Fund	46,243	1.58%	66,832	2.33%	(210,235)	-8.34%	396,856	14.29%	(17,152)	-0.65%	(17,152)	-0.65%
CCLA Diversification Fund	n/a	n/a	127,940	6.45%	(111,690)	-6.19%	213,750	10.93%	139,510	6.82%	139,510	6.82%
Total	488,556		450,713		(425,401)		1,255,138		1,005,793		1,005,793	

	2017/18		2018/19		2019/20		2020/21		2021/22		2022/23	
	£	%	£	%	£	%	£	%	£	%	£	%
Peer to Peer Investment Note 1**												
Funding Circle	2,075,341		2,056,664		1,831,028		863,160		391,191		236,668	
Carrying Value												
Interest Paid by Borrowers	181,014		184,654		193,170		127,982		66,749			
Less FC Service fee	(19,668)		(19,729)		(19,611)		(12,462)		(6,279)			
Promotions/Transfer payment	-		-		470		0		0			
Bad Debts Recoveries	(61,288)		(111,152)		(127,649)		(80,881)		(36,103)			
	14,780		27,428		30,253		42,431		62,769			
Net Yield	114,838	5.53%	81,201	3.95%	76,633	4.19%	77,070	8.93%	87,136	13.89%	0	0.00%
Provisions for future losses	0		(10,000)									

Notes:

1. Funding Circle yield has not been forecast for 2022/23 as this is dependent upon information that is still to be received.