Summary Investment and Borrowing Position at 31 December 2022

Investment Sub Committee Friday, 20 January 2023

Report of: Chief Finance Officer (Section 151)

Purpose: For information

Publication status: Unrestricted

Wards affected: All

Executive summary:

This report updates the Investment Sub Committee on the Council's investment and borrowing position at 31st December 2022, provides an update on the outcome of the Government's consultation on the extension of the IFRS 9 statutory override, and reports the Council's Prudential Indicators, which are recommended for approval as part of the Capital, Investment and Treasury Management Strategy elsewhere on the agenda.

This report supports the Council's priority of: Building a better Council/ Supporting economic recovery in Tandridge.

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Recommendation to Committee:

That the Sub Committee notes:

A) the Council's Investment and Borrowing position at 31st December 2022 as set out in Appendix A & B
B) the outcome of the IFRS 9 statutory override
C) the estimates and limits in the Council's Prudential Indicators set out in Appendix C, which are recommended for approval as part of the Capital, Investment and Treasury Management Strategy

Reason for recommendation:

This report will be reviewed by the Sub Committee, which provides an update on the Council's investment and borrowing position.

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1. Introduction and background

1.1 The Capital, Investment and Treasury Management Strategy for 2022/23 was reported to the Strategy and Resources Committee on 1st February 2022. This covered the borrowing and investment plans for the Council. As detailed in this strategy, part of the Treasury Management function is to ensure that the cashflow is adequately planned and surpluses are invested while allowing for cash to be available when needed. Additionally, the treasury management function ensures that the Council can meet its capital spending plans. This requires the management of longer-term cash which will involve the use of long or short-term loans, or cash flow surpluses.

1.2 The proposed Strategy for 2023/24 is included as Item 6 on the agenda for this Committee, where it is recommended for approval by Full Council. The Treasury Management function continues to play an important role in the Council's prudent financial management.

2. Summary Investment and Borrowing Position

2.1 A summary of the Council's investment and borrowing at 31st December 2022 is set out in Appendix A.

- Total long term financial investments (over 12 months) amount to £10.9 million (a reduction of £643k since 30th September 2022, arising from a fall in the capital value of the CCLA Property Fund due to prevailing market conditions). Officers are pursuing information required from Funding Circle to update both the forecast return for the year and the net yield on the investment as documented in Appendix B. An update will be provided to this Committee when this information is available.

- Short term investments (less than 12 months) amount to £22.8 million (an increase of £6.2 million since 30th September 2022, due to increased balances invested in Money Market Funds).

- The Council also has £21 million in non-financial investments which is made up of capital loans to specific service providers and limited companies (a reduction of £79k since 30th September 2022, representing the value of loan repayments from Freedom Leisure).

- The total amount of Public Works Loan Board (PWLB) loans at 31st December 2022 is £102.3 million. This is made up of £43.4 million General Fund loans and £58.9 million Housing Revenue Account loans (unchanged from 30th September 2022).

3. Statutory Override Update

3.1 At its meeting on Friday 4th November 2022, Investment Sub Committee was provided with an update on what was then an ongoing Government consultation on the future of the IFRS 9 statutory override. The introduction of this override in 2018 required Councils to remove the impacts of fair value movements of pooled investment funds from their budgets, and record them in an unusable reserve on the balance sheet. This is known as an override as it results in a deviation from standard accounting practice. Its introduction mitigated the risk to the General Fund of movements in the fair value of certain investments and the resultant impact on service delivery. The Council's long-term investments comprise:

- CCLA Property Fund
- Schroeders Credit/Bond Fund
- UBS Multi Asset Fund
- CCLA Diversification Fund

3.2 The statutory override was time-limited to five years, ending on 31st March 2023. At that time, the Government said that it would keep use of the statutory override under review, but made no further commitments.

3.3 In August 2022, the Government launched the consultation on whether to extend the override, make it permanent or allow it to lapse. Officers expressed an opinion that the override should be made permanent. Following consideration of the responses to the consultation, the Government has decided to extend the override for a further two years until 31st March 2025.

3.4 The Council will now need to consider its options for future investments, which were set out in the ISC update on 17th June and then again on 4th November:

Scenario	**Override continued**
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.

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.
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 • 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
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.
Mitigations	An element of surpluses should be credited to a specific reserve in order to manage the risk that losses in investment values following disinvestment will ultimately be a General Fund impact. 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.

3.5 Officers will now revisit the mix of investments and report back to committee.

4 Update on the Council's Prudential Indicators

4.1 Following the publication of the 2021 Prudential Code and Treasury Management Code, the Council reports quarterly to this Committee its performance against its treasury management and other Prudential Indicators. The Codes require authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans by setting estimates and limits for a range of indicators.

4.2 Authorities are required to report estimates and limits annually as part of their capital and treasury management strategies, which the Council has done as part of the Capital, Investment and Treasury Management Strategy for 2023/24 included as Item 6 of the agenda. Appendix C to this report extracts the Prudential Indicators required by the Prudential and Treasury Management Codes from the Strategy into a standalone Appendix.

Key implications

5 Comments of the Chief Finance Officer

5.1 The forecast position at 31 December 2022 is for investment income for the year to be £433k more than budgeted. This is mainly due to the performance of the Council's investments in Money Market Funds, as generally funds have reacted to the increases in the Bank of England base rate. The forecast for General Fund and HRA loan interest payable is in accordance with budget.

5.2 The surplus could be released against the Council's overall outturn position for 2022/23. As another option, following the outcome of the consultation on the IFRS 9 statutory override outlined above, the Council could transfer a surplus to a specific reserve to manage the risk of losses in the value of investments following disinvestment, or in anticipation of the possibility that the override is not extended beyond March 2025. It is proposed that this decision is ultimately made by Committee as part of the outturn process for 2022/23.

5.3 With all investments there are risks attached. The Council manages these risks by holding diversified investments and through seeking expert advice from its Treasury Management Advisors and through the Finance Joint Working Agreement with the Orbis Centre of Expertise. The Council will continue to monitor the value of its investments in context of the regulatory environment.

6 Comments of the Head of Legal Services

6.1 The Council's Capital, Investment and Treasury Management Strategy Statement follows the latest codes of practice and the DLUHC and CIPFA guidance.

6.2 The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

7 Equality

7.1 The proposals within this report do not have the potential to disadvantage or discriminate against different groups with protected characteristics in the community.

8 Climate Change

8.1 There are no significant environmental/sustainability implications associated with the report. It is however recognised that some Council investments may be in companies that are considered to have a detrimental impact on the climate, for example oil companies. The Council will need to consider its strategy in respect of this.

Appendices

Appendix A – Summary of Investments and Borrowing

Appendix B – Market Value of Long-Term Investments

Appendix C – Prudential Indicators – performance and updated estimates

Background papers

Investment Sub-Committee Papers 17th June 2022 and 4th November 2022

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