

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 20th January 2023 at 10.00am.

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

IN ATTENDANCE (Virtually): David Green (Arlingclose Limited)
Hayley Woollard (in-house Treasury Management Team)

APOLOGIES FOR ABSENCE: Councillors Botten, Hammond and Langton

1. ELECTION OF CHAIR FOR THE MEETING

Councillor Chris Farr was elected Chair of the meeting in the absence of Councillor Langton.

2. MINUTES OF THE MEETING HELD ON THE 4TH NOVEMBER 2022

These minutes were approved and signed as a correct record.

3. SUMMARY INVESTMENT AND BORROWING POSITION AT 31ST DECEMBER 2022

The investment analysis at Annexes A and B was presented. This confirmed that, as at 31st December 2022:

- total long term financial investments (over 12 months) amounted 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)
- short term investments (less than 12 months) amounted 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 held £21 million in non-financial investments, comprising 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 loans was £102.3 million, comprising £43.4 million General Fund loans and £58.9 million Housing Revenue Account loans (unchanged from 30th September 2022).

Investment income for 2022/23 was forecast to be £433k over budget due to higher interest rates on the balances held in money market funds. Deployment of that surplus, which had not been factored into the General Fund revenue budget, would be considered by the Strategy & Resources Committee in due course.

It was confirmed that, following the consultation exercise referred to at the previous meeting, the Government had extended the 'IFRS 9 statutory override' until March 2025. Consequently, the General Fund would continue to be insulated from gains and losses in the capital value of investments. The Chief Finance Officer confirmed the need for a strategy to be in place before March 2025 for dealing with 'fair value' investment fund losses in the event of the override ceasing to apply thereafter.

The Chartered Institute of Public Finance and Accountancy's Prudential and Treasury Management Codes required authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans. In that respect, updated estimates and limits for the Council's Prudential Indicators were also presented.

RESOLVED – that the following be noted:

- A. the Council's investment and borrowing position at 31st December 2022, as set out in Annexes A and B;
- B. the outcome of the IFRS 9 statutory override; and
- C. the updated estimates and limits in the Council's Prudential Indicators set out in Appendix C to the report (and included within the Capital, Investment and Treasury Management Strategy referred to in item 4 below).

4. CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGY FOR 2023/24

This updated strategy sought to provide a framework for delivering the Council's capital programme. It summarised how the Council's capital expenditure plans (as agreed by the respective policy committees) were to be financed, along with the governance arrangements for managing the programme. It included:

- an 'Annual Minimum Revenue Provision policy statement' which defined how the revenue budget would be used to repay capital borrowing
- a treasury management strategy statement regarding the management of the Council's cash flows, borrowing, investments and the approach to risk
- an investment property strategy statement.

New content within the treasury management strategy included the ability for the Housing Revenue Account to borrow surplus cash from the General Fund as opposed to the Public Works Loan Board (PWLB). Information had also been added about the 'liability benchmark' which compared the amount of current borrowing with that needed to fund the capital programme over the longer term. This measure indicated that borrowing from external sources may be required within the next two years.

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

- explained the intention to avoid borrowing in advance of need and to seek advice from Arlingclose about how to manage 'in-year' cash surpluses more effectively (the advantages of:
 - participating in the inter-authority lending market; and
 - continuing to make short term investments in managed 'money market funds' were highlighted in this respect)
- acknowledged that the future presentation of capital expenditure plans could be enhanced by including funding source breakdowns for each scheme, i.e. the respective external sources, together with the proportion of the total cost to be financed by the Council in accordance with the treasury management strategy
- confirmed that borrowing from the PWLB was still relatively unconditional, provided levels were within previously declared overall borrowing forecasts and that borrowing would be used to fund capital projects, and not used to fund investment solely intended to generate a financial return
- explained the difference between General Fund reserves and cash balances
- confirmed that a further application would be made to the Department for Levelling Up, Housing and Communities seeking permission to use capital receipts to bolster General Fund reserves (i.e. for 2023/24).

RECOMMENDED – that the [Capital Investment and Treasury Management Strategy 2023-24](#), as at Appendix 1 to the report, be approved, subject to ratification by Full Council.

5. 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.

Latest information was circulated about the commercial investment properties owned by the Council and its subsidiary company, Gryllus properties. The properties concerned were:

TDC properties:

Quadrant House, Caterham Valley

Details of recent lettings were provided, together with an update on the ongoing work to arrive at the final capital cost for the refurbishment works. Progress regarding the marketing of vacant units and prospective future use types were also discussed.

Village Health Club, Caterham on the Hill

Options for the future use of the building were discussed.

Gryllus properties:

30-32 Week Street, Maidstone

The temporary tenant would vacate in February 2023. Prospective arrangements for the subsequent use of the building were discussed.

Castlefield House, Reigate

The next critical timeline was the rent review due on 25th March 2024. The current intentions of the existing tenant were noted.

80-84 Station Road East, Oxted

The current lease would expire on 17th September 2023.

Rising 11.32 am

Summary of Investments and Borrowing

Annex A

Investment	Investment Amount 31/03/22 £	Net Asset Value 31/12/22 £	Yield Rate Note 1 %	Forecast Return 2022/23 £
<u>Non - Specified (Financial Investments)- Long Term (over 12 mths)</u>				
CCLA Property Fund	4,888,056	4,098,139	4.23	173,184
Schroders Bond Fund	2,775,151	2,550,808	5.75	146,567
UBS Multi Asset Fund	2,639,592	2,203,110	7.14	157,323
CCLA Diversification Fund	2,046,513	1,856,251	3.29	61,150
Funding Circle (Note 2)	391,191	236,668	-	-
Sub Total Non-specified (Financial Investments)	12,740,503	10,944,976		538,224
<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)	481,140	435,857	5.50	31,963
Freedom Leisure- Loan (de Stafford)	372,431	279,321	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)	21,175,571	21,037,179		965,699
Total Non-Specified Investments	33,916,074	31,982,155		1,503,922
<u>Specified Investments-Short Term (less than 12 mths)</u>				
Notice Accounts	1,995,487	1,991,685	1.75	34,800
Money Market Funds	13,260,000	20,800,000	1.88	390,000
Total Specified Investments	15,255,487	22,791,685		424,800
Total Non- Specified and Specified Investments	49,171,561	54,773,840		1,928,723
Total Investment Income Budget 2022/23				1,495,700
Over/(under) budget				433,023

Borrowing	Loan Amount	Interest	Forecast Cost 2022/23
	£	%	£
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 Over/(under) budget			1,137,000 (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 Over/(under) budget			1,639,600 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 31/12/2022

Annex B

	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 31.12.2022
	£	£	£	£	£	£
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 31.12.2022
	£	£	£	£	£	£
CCLA Property Fund(mid-market value)	4,276,854	4,276,005	4,188,063	4,158,183	4,888,056	4,098,139
Schroders Bond Fund	2,912,837	2,865,130	2,539,938	2,908,911	2,775,151	2,550,808
UBS Multi Asset Fund	2,918,160	2,868,479	2,520,713	2,777,398	2,639,592	2,203,110
CCLA Diversification Fund(indicative market value)	1,921,257	1,982,167	1,804,193	1,955,874	2,046,513	1,856,251
Total	12,029,108	11,991,781	11,052,907	11,800,366	12,349,312	10,708,308

	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) 31.12.2022
	£	£	£	£		
CCLA Property Fund	276,854	276,005	188,063	158,183	888,056	98,139
Schroders Bond Fund	(87,163)	(134,870)	(460,062)	(91,089)	(224,849)	(449,192)
UBS Multi Asset Fund	(81,840)	(131,521)	(479,287)	(222,602)	(360,408)	(796,890)
CCLA Diversification Fund	(78,743)	(17,833)	(195,807)	(44,126)	46,513	(143,749)
Total	29,108	(8,219)	(947,093)	(199,634)	349,312	(1,291,692)

Gross Revenue Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield	Yield
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,758	4.53%	183,989	4.30%	185,240	4.42%	179,910	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	4.63%
UBS Multi Asset Fund	146,788	5.03%	116,513	4.06%	137,531	5.46%	140,171	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	2.39%
Total	508,691		488,040		513,473		507,679		456,847	

Full Year forecast at 31.12.22	
Yield	Yield
2022/23	2022/23
£	%
173,184	4.23%
146,567	5.75%
157,323	7.14%
61,150	3.29%
538,224	

Surplus/(Deficit)- Capital Value	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)	Surplus/ (Deficit)
	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22
	£	%	£	%	£	%	£	%	£	%
CCLA Property Fund	193,868	4.53%	(849)	-0.02%	(87,942)	-2.10%	(29,880)	-0.72%	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%
UBS Multi Asset Fund	(100,545)	-3.45%	(49,681)	-1.73%	(347,766)	-13.80%	256,685	9.24%	(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%
Total	(36,146)		(37,327)		(938,874)		747,459		548,946	

Full Year forecast at 31.12.22	
Surplus/ (Deficit)	Surplus/ (Deficit)
2022/23	2022/23
£	%
(789,917)	-19.28%
(224,343)	-8.79%
(436,482)	-19.81%
(190,262)	-10.25%
(1,641,004)	

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	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	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%
Schroders Bond Fund	54,687	1.88%	72,801	2.54%	(200,774)	-7.90%	494,502	17.00%	(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%
CCLA Diversification Fund	n/a	n/a	127,940	6.45%	(111,690)	-6.19%	213,750	10.93%	139,510	6.82%
Total	488,556		450,713		(425,401)		1,255,138		1,005,793	

Full Year forecast at 31.12.22	
Net Yield	Net Yield
2022/23	2022/23
£	%
(616,733)	-15.05%
(77,776)	-3.05%
(279,159)	-12.67%
(129,112)	-6.96%
(1,102,780)	

Peer to Peer Investment Note 1** Funding Circle	2017/18	2017/18	2018/19	2018/19	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23 '31.12.22	
	£	%	£	%	£	%	£	%	£	%	£	%
Carrying Value	2,075,341		2,056,664		1,831,028		863,160		391,191		236,668	
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	(61,288)		(111,152)		(127,649)		(80,881)		(36,103)			
Recoveries	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.