

# Summary investment and borrowing position at 31<sup>st</sup> March 2023

## Investment Sub Committee – 16<sup>th</sup> June 2023

Report of: Chief Finance Officer (Section 151)

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Purpose: For information

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Publication status: Unrestricted

Wards affected: All

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### Executive summary:

This report updates the Investment Sub Committee on the Council's investment and borrowing position at 31st March 2023 and reports performance against the Council's approved Prudential Indicators for 2022/23.

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

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### Recommendations to the Sub-Committee:

That the Sub Committee recommends to Strategy & Resources Committee:

- A. That the surplus investment income of £447k, as set out in Appendix A, be added to an Investment Performance Equalisation Reserve to offset risks to the market value of assets, and therefore not be reflected in the Council's overall General Fund outturn position.

That the Sub Committee notes:

- B. the Council's Investment and Borrowing position at 31<sup>st</sup> March 2023 as set out in Appendices A and B.
- C. The Council's actual performance against the Indicators set within the Treasury Management Strategy for 2022/23 in Appendix C.
- D. The update on ongoing work to review options following the extension of the IFRS 9 statutory override.

## **1. Introduction and background**

- 1.1 The Capital, Investment and Treasury Management Strategy 2022/23 was reported to the Strategy & Resources Committee on 1<sup>st</sup> February 2022 and adopted by Full Council on 10<sup>th</sup> 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 Tandridge District Council's contract for expert Treasury Management advice with Link Group came to an end on the 30<sup>th</sup> April 2022. The new contract, with Arlingclose Ltd, began on 1<sup>st</sup> May 2022.

## **2. Summary Investment and Borrowing Position**

- 2.1 A summary of the Council's investment and borrowing at 31<sup>st</sup> March 2023 is set out in Appendix A.
  - Total long term treasury investments (over 12 months) amount to £10.8 million.
  - Short term investments (less than 12 months) amount to £6 million.
  - The Council also has £16.7 million in non-treasury investments which is made up of capital loans to specific service providers and limited companies.
  - The total amount of Public Works Loan Board (PWLB) loans at 31<sup>st</sup> March 2023 is £99.4 million. This is made up of £43.4 million General Fund loans and £56.0 million Housing Revenue Account loans. The HRA PWLB balance has reduced by £2.9m since the Q3 update due to the repayment of a PWLB loan that the Council has not yet needed to refinance.
- 2.2 The presentation of Appendix A has been amended from previous iterations to show the net asset values of investments for both 2022/23 and 2021/22, as well as the values of the original investments in pooled funds. This presents a clearer picture of movements and performance over time.

## **3. Statutory Override Update**

- 3.1 At its meeting on Friday 20<sup>th</sup> January 2023, Investment Sub Committee was provided with an update on the outcome of the Government consultation on the future of the IFRS 9 statutory override. This update confirmed that override had been extended by a further two years until 31<sup>st</sup> March 2025.

- 3.2 As outlined in the update, the override requires 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. Its introduction and extension has mitigated the risk to the General Fund of movement in the fair value of the Council's long-term investments, which currently comprise:
- CCLA Property Fund
  - Schroders Credit/Bond Fund
  - UBS Multi Asset Fund
  - CCLA Diversification Fund
- 3.3 It was confirmed at the January meeting that, in light of the extension to the override, officers would continue to consider its options for future investments. As set out in Appendix A to this report, to date the Council has experienced losses against its original investments in certain funds which have so far been mitigated by the override. The current carrying loss is £1.3m. The General Fund is protected against this until the 31<sup>st</sup> March 2025, and losses may be recouped in the meantime. For context, the carrying loss in 2019/20 was £0.9m, and this recovered to a surplus of £0.3m by 2021/22. Market conditions lead to significant volatility in the carrying value. Work is ongoing to review the options outlined in the January report and a further update will be provided to Investment Sub Committee in due course.
- 3.4 Additionally, it is recommended that the £447k surplus investment income received in-year and shown in Appendix A be added to an Investment Performance Equalisation Reserve. This will begin to mitigate against reductions in the carrying value. Surpluses held in the reserve can be released to the General Fund if and when confidence in the assets' market value recovers.

#### **4. Performance against Prudential & Treasury Indicators**

- 4.1 Following the publication of the 2021 Treasury Management Code and Prudential Code, performance against the Council's treasury and other prudential indicators are reported to this Sub-Committee. Performance for 2022/23 is outlined in Appendix C.

### **Key implications**

#### **5. Comments of the Chief Finance Officer**

- 5.1 The outturn position is for investment income of £447k 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. General Fund loan interest payable is in accordance with budget. HRA loan interest payable is £44k under budget due to the Council's cash position allowing us to avoid the immediate re-financing of maturing loans through internal borrowing.

5.2 All investments carry a degree of risks. 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 Climate Change Action Plan that is currently being draw up will have an action included to consider our current investment approach and determine if changes can or should be made.

## **Appendices**

Appendix A – Summary of Investments and Borrowing

Appendix B – Market Value of Long Term Investments

Appendix C – Prudential Indicators – actual performance

## **Background papers**

Investment Sub-Committee papers 20th January 2023

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