
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE – SPECIAL – FINAL ACCOUNTS	AGENDA ITEM: 11
DATE OF MEETING:	26th JULY 2018	CATEGORY: RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/treasury management/lending policy/Lamit Property Fund/Land Property Fund Proposal Additional Investment July 18
SUBJECT:	THE LOCAL AUTHORITIES' PROPERTY FUND	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the Council invests an additional £1m into the CCLA Lamit Property Fund for an indefinite period, subject to quarterly review.
- 1.2 That progress on the value of the cash deposit together with dividend returns is reported to the Committee on a quarterly basis.

2.0 Purpose of the Report

- 2.1 To consider a proposal to invest a further proportion of the Council's cash deposits into the Local Authority Property Fund (*the Fund*).

3.0 Detail

Background

- 3.1 In August 2017, the Committee approved a deposit of £1m into a Local Authority Pooled Property Fund managed by the CCLA (Churches, Charities and Local Authorities). This is an organisation that manages investments on behalf of charities, religious organisations and the public sector.
- 3.2 The deposit formed part of the Council's arrangements for managing its cash reserves and helped to bring greater diversity into the Council's investment portfolio. This was due to the increasing level of cash and reserves available for deposit.
- 3.3 The decision to deposit £1m was based on a detailed options appraisal, together with a due diligence exercise regarding the performance and

governance of the Fund. This report does not repeat that detail but can be accessed within the documents at the Committee's meeting on 31st August 2017.

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/2074/Committee/442/Default.aspx>

Performance of the Fund

- 3.4 The Council made its £1m deposit on 30th September 2017 and bought 317,985 units at an (offer) price of £3.14p per unit. The Fund is effectively a unit trust fund. When an investment is made into the Fund, the cash deposit buys units.
- 3.5 On 30th September 2017, the **bid price** was £2.90p per unit. This is the price which determines the capital amount repaid on exiting the Fund. Therefore, the capital value of the Council's cash deposit of £1m was immediately reduced to approximately £920,000 (317,985 * £2.90).
- 3.6 As at 30th June 2018, the bid price had risen to £2.99p per unit, increasing the capital value back to approximately £950,000.
- 3.7 Interest, in the form of a dividend, is declared and paid quarterly. The dividends paid to the Council between 30th September 2017 and 30th June 2018 is shown in the following table.

Period	Dividend per Unit	Income £	AER*
Dec-17	3.38p	10,738	4.30%
Mar-18	3.21p	10,215	4.10%
Jun-18	3.20p	10,176	4.07%
<u>31,129</u>			

** Annual Equivalent interest Rate*

- 3.8 The income received is not currently budgeted in the Medium Term Financial Plan and is therefore additional income. A dividend in excess of 4% in a period of extremely low interest rates is considered to be an excellent rate of return.

The Overall Fund

- 3.9 The Fund has been in existence since 1972, but it is only in recent years that it has become the first choice for long term investments for many local authorities.
- 3.10 The overall Fund itself continues to grow with over 200 local authorities currently investing over one billion pounds of cash. Although this can seem impressive, some caution should be expressed regarding too much exposure to the property market and the saturation of the Fund, i.e. it just becomes too large to operate.

3.11 However, the Fund is governed independently by trustees appointed from within local government representative bodies such as the Local Government Association. Amongst other things, their role is to monitor the performance of the Fund and to ensure that it meets its objectives of good rates of return, together with the appreciation of capital values in the longer term.

Diversity of the Fund

3.12 In addition, the spread of property owned by the Fund is diverse and has little in the form of retail holdings such as individual shops and wholesale shopping centres. These are considered to be the greatest risk in today's economy which reflects the change in shopping habits as more people shop on-line.

3.13 The Fund currently has 47% of its holdings in industrial and retail warehousing and storage facilities, with a further 30% in office space within major cities.

The Council's Current Cash and Reserves Position

3.14 The Council continues to have substantial cash reserves which are currently deposited as follows:

	£
Government's Debt Management Office	6,000,000
Other Local Authorities	20,000,000
Overnight Reserve Accounts	3,700,000
Money Market Funds	4,000,000
Property Fund	1,000,000
Total Deposits as at 6th July 2018	<u>34,700,000</u>

3.15 Except for the Property Fund, all other deposits are largely instant access accounts. Deposits with other local authorities tend to be for fixed and longer periods but are less than 1-year to satisfy investment criteria. The Property Fund is only a small proportion of overall deposits.

3.16 The overall portfolio has become more diverse over the last 12 months with the Property Fund and deposits being made into Money Market Funds. However, the Council's Lending Policy and Counterparty List remains tight given the substantial changes to the structure of financial markets in recent years, which has adversely affected the credit ratings of many financial institutions.

3.17 This does reduce the risk associated with deposits, although it can constrain where cash is deposited within the Council's approved Policy. The Lending Policy sets limits on where and how much can be invested with any one institution. This reduces risk by prioritising liquidity and security of deposits before yield. This is in accordance with Government regulations.

3.18 However, given the Council's cash and reserves position, staying within the limits becomes more difficult. Therefore, it is considered that placing some of the cash longer-term would be beneficial.

Could the Council Afford to Invest Further in the Fund?

3.19 Based on the Council's medium-term spending plans, it is likely that the level of cash and reserves will remain well above spending requirements and commitments into the foreseeable future.

3.20 The value of the Council's usable reserves totalled approximately £35.1m as at 31st March 2018 as shown in the following table.

	£m
General Fund	10.0
Earmarked Reserves	6.1
Section 106 Funds	6.0
Housing Revenue Account	5.1
Capital Receipts	3.6
Major Repairs / Debt Repayment (HRA)	4.3
Total Usable Reserves as at 31st March 2018	<u>35.1</u>

3.21 The Council has approved minimum reserve balances of £2.5m - £1.5m for the General Fund and £1m for the HRA.

3.22 Based on the current MTFP and HRA Financial Projection, it is considered very unlikely that the Council's overall reserves will fall to anywhere near this level over the next 5-years. In addition, the drawdown of other reserves is likely to be incremental over this period and may in some instances continue to grow in the interim from further asset sales, etc.

3.23 Therefore, it is considered that the Council could afford a further investment at this time into the Property Fund and £1m is recommended.

Longer-term Investments

3.24 Longer-term deposits (greater than 1-year) can be more risky in that capital is tied up and the value of that capital can reduce, or even disappear altogether. This has been the case in the recent past where some local authorities have incurred some substantial losses in their longer-term investment portfolio.

3.25 There are many authorities in the Council's situation in that tightening of investment criteria, coupled with increasing cash reserves, has increased demand for diversification and to look beyond traditional cash deposits. In addition, some authorities are looking for a greater return given the current level of low interest rates.

3.26 Longer-term investments are just that – the investment needs to be made into the longer-term so that any downturn in capital valuation or yields is evened out over a period of years.

The Risks and Benefits

- 3.27 The main risk is that property valuations and prices can vary and indeed reduce. This is dependent on prevailing economic conditions.
- 3.28 In addition, dividend yields can vary and are not guaranteed unlike fixed bank deposits. Yields from the Fund have consistently been well above short-term interest rates in recent years.
- 3.29 Property values usually appreciate over time and recover from major downturns in the economic cycle. Clearly though, this cannot be guaranteed.
- 3.30 Following the uncertainty immediately following the UK's decision to leave the EU in 2016, property values did reduce. However, they have since recovered and have risen over the last year. Discussions with the Council's Treasury Advisors confirm that uncertainty will probably exist in the economy until the outcome of Brexit is agreed.
- 3.31 The Fund is a simple and efficient route to invest in property. Whereas a directly held property portfolio requires a substantial scale to achieve an appropriate spread of investments, a unitised approach can work regardless of the scale of the investor.
- 3.32 The pooled Fund allows the efficient management and maintenance of the underlying property and offers a geographical and diverse spread.
- 3.33 Although units can be cashed at any time, it is not a liquid asset given the limited trading days and notice required to withdraw cash. Even the literature produced by the Fund Managers, stresses "that the investment horizon for investors in the Fund should be measured in years".

4.0 Financial Implications

- 4.1 As detailed in the report

5.0 Corporate Implications

- 5.1. None directly

6.0 Community Implications

- 6.1 None directly

7.0 Background Papers

- 7.1 Further details of the Fund, including analysis of performance and accounts, etc. are available at:

<https://www.ccla.co.uk/investment-solutions/fund/the-local-authorities-property-fund>