



Finance and Audit Committee

Tuesday, 12 September 2017

Dear Councillor

You are advised that the attached documents form part of the main agenda papers for this meeting.

Please ensure you bring them with you to the meeting.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S Kilkie', written over a horizontal line.

S Kilkie
Assistant Director (Communities)

List of documents attached

- a) Alternative Treasury Management Investment Option (Pages 3 - 10)

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Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Finance and Audit Committee
Date: 12 September 2017
Reporting officer: Director (Corporate Services)
Subject: Alternative Treasury Management Investment Options

Purpose and summary of report:

To inform Members of the findings of initial investigations into alternative treasury management investment options, in particular the use of Diversified Income Funds. To present a proposal to progress the use of Diversified Income Funds as an alternative investment option for the council, subject to further due diligence work by officers.

Recommendations:

1. The Finance and Audit Committee endorse the work to investigate alternative investment options and support further due diligence by officers on Diversified Income Funds.
2. The Finance and Audit Committee recommends to Full Council that the Treasury Management Strategy Statement (TMSS) for 2017-18 is amended to include the use of Diversified Income Funds in the list of non-specified investments at Appendix 1 of the TMSS.
3. The Finance & Audit Committee recommends to Full Council that once the Director (Corporate Services) is satisfied that due diligence on Fund suitability has been undertaken, £10 million of treasury balances are placed in Diversified Income Funds, with a maximum of £5 million placed into each Fund at the time of deposit.
4. The Finance & Audit Committee recommends to Full Council that the Diversified Income Fund governance arrangements mirror those for Property Funds, in that the use of Diversified Income Funds be considered by the Property Acquisitions Cross Party Working Group, enabling Members to be actively involved in the selection process and provide advice to officers.

1. Introduction

- 1.1 In response to historically low interest rates that had prevailed for a number of years the Council reviewed its sole use of traditional cash deposits and certificates of deposits in 2016. Following a due diligence exercise the Treasury Management Strategy Statement (TMSS) was reviewed and the use of externally managed Property Funds included. Subsequently £10m was placed across three funds, Lothbury, Hermes and CCLA. These funds generate investment returns through rental income and capital growth and as there can be restriction on redemption and the associated entry and exit fees, investment in such funds are

generally regarded to be for five to seven years. Revenue returns on Property Funds averaged 4.27% in 2016/17 compared to 0.575% achieved on internally-managed funds.

- 1.2 A ten year cashflow model has been created and shared with Members of the Finance and Audit Committee over the course of the last year to demonstrate the capacity within the Council's cash balances to support the investment in Property Funds as well as the acquisition of commercial properties. The latest version of the cashflow model can be found at Appendix 2 of this report.
- 1.3 Due to the fact that interest rates are expected to remain at very low levels for the foreseeable future, inflation is forecast to rise and the value of the pound has fallen, the value of cash investments are permanently reduced both in real terms of income generation and capital value.
- 1.4 Officers are continually looking for alternative investment options which can provide stronger returns whilst maintaining a balanced approach towards risk.

2. Commercial Property Acquisition

- 2.1 In February 2016, Full Council approved a Property Acquisition Strategy which included an £10m of investment balances being made available to purchase commercial properties.
- 2.2 This scheme has been very successful and during the period May 2016 and February 2017, three properties have been purchased and are now generating a revenue income stream for the Council.
- 2.3 On 27 June 2017, Full Council agreed to the scheme being extended and a further £10m from the investment balances was made available of this scheme.
- 2.4 Due to uncertainties resulting from Brexit, the property purchase market has changed significantly over the past year with fewer properties coming onto the market and when they do there are also now more potential investors looking for properties. As a result commercial properties are becoming harder to come by.
- 2.5 Until such time as suitable commercial properties for purchase can be identified, officers have been giving some thought as to how the investment balances can be invested to generate higher returns for the Council.

3. Diversified Income Funds

- 3.1 The aim of Diversified Income Funds (DIF's) is similar to that of Property Funds and provides investors with income as well as the potential for capital growth.
- 3.2 DIF's are managed as a portfolio which includes a wide range of asset types. This has the effect of spreading risk across the portfolio and gives protection to the investors against fluctuations in asset values.
- 3.3 Assets that are included in the portfolios could include traditional investment categories such as property and equity as well as less traditional investment categories such as infrastructure which includes civil, social, and environmental and energy related operating assets.

- 3.4 Fund Managers can actively change the balance of the portfolios to reflect the changing economic environment and due to the way they are operated are more liquid, meaning entry into and out of DIF's is much easier than Property Funds.
- 3.5 Returns on DIF's are generally higher than traditional investment options at around 3% but lower than the return generated by Property Funds which is as a result of the diversified portfolio.
- 3.6 It is important to remember that as with all investments of this nature it is the value of investments can go up as well as down and that past performance is not a guarantee of future performance.

4. How the Funds Work

- 4.1 There is a minimum investment level for entry into DIF's but this may vary from fund to fund.
- 4.2 Fees are chargeable on entry to and exit from the fund. These are understood to be significantly lower than the fees incurred on entry to the Property Funds (at around 1.5%). There are also annual management charges, which are netted of dividends paid to investors on a quarterly basis.
- 4.3 Initial discussions with Capita, the Council's Treasury Management Consultants suggests that this type of investment can be classified as revenue.

5. Way Forward

- 5.1 The long term cash flow has been reviewed and it has been concluded that there is scope to place up to a further £10m in a longer term investment tool for an eighteen month/two year period, in addition to the £10m that has been committed in the capital programme for further commercial property acquisitions. It is felt that DIF's may provide a suitable investment option for this period. Modelling over this period has suggested that a return of £680,000 may be generated.
- 5.2 The cashflow model shown at Appendix 2 of this report shows the position as at June 2017, which was used to demonstrate to Members there was sufficient cash balances to extend the Property Acquisition programme by a further £10 million. The second line on the chart represents the following assumptions.
 - 5.2.1 The additional £10m for Property Acquisitions is fully utilised in November 2017 and as a result is generating a return at around 5.5%.
 - 5.2.2 A further £10m is invested in DIF's at the start of November 2017 for a 2 year period and is generating a return in line with that detailed in Para 5.1.
- 5.3 This second line on the cashflow demonstrates that there is sufficient headroom within our investable cash balances to make a £10m investment in DIF's for a period of 2 years.
- 5.4 It is recognised that due diligence needs to be undertaken on the available DIF's is conducted to identify the most appropriate fund(s).
- 5.5 As with Property Funds, it is our intention to involve Capita, the Council's Treasury Management Advisors in the process.

- 5.6 Factors such as liquidity will be a key factor in determining which DIF's are selected.
- 5.7 Following this process, if suitable funds are identified, it is suggested that as with the Property Funds, the Property Acquisition Cross Party Working Group is convened to discuss the proposal and that a decision on investment is made by Director (Corporate Services) in consultation with the group.
- 5.8 Any use of these funds will require an amendment to the TMSS. Therefore, in preparation of this, Finance and Audit Committee are being asked to make a recommendation to Full Council that this be enacted to allow the investment to take place, should a decision be reached that DIF's provide a suitable investment option.

6. BACKGROUND PAPERS

- 6.1 Anyone wishing to inspect background papers should, in the first place, be directed to Committee & Electoral Services who will make the necessary arrangements.

IMPLICATIONS	APPENDIX 1
Legal	<p>As per Section 1.13B.67 of the Council's constitution, the Chief Finance Officer has delegated responsibility for Cabinet</p> <p>"in respect of borrowing and investments to arrange such loans are legally permitted to meet the Council's borrowing requirements"</p>
Finance and Value for Money	<p>Due to the nature of the report, the financial implications are contained within the report.</p> <p>In order to achieve a balanced budget, the authority relies upon generating maximum interest from its investments whilst minimising and managing the exposure to risk. In order to achieve this, investments are only placed with institutions which meet the criteria set out within the TMSS.</p>
Risk Assessment	<p>A summary of the perceived risks associated with Treasury Management were identified in the Treasury Management Strategy approved by Council on 21 February 2017. Officers continue to monitor the risks on a day to day basis and identify mitigating actions to minimise risks..</p>
Equality Impact Assessment	<p>Screening for Equality Impacts</p> <p>Question</p> <p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer. No</p> <p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer. N/A</p> <p><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>
Corporate Plan	<p>Corporate Objective Four - a Sound and Self Sufficient Council.</p>
Crime and Disorder	<p>Treasury Management activities are carried out in accordance with the Treasury Management Strategy and Annual Investment Strategy which minimises the risk of criminal activities.</p>
Digital and website implications	<p>None</p>

Safeguarding children and vulnerable adults	
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GBC Cashflow as at August 2017 compared to GBC Cashflow as at June 2017



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