

Report to Council

Agenda
Item:

18(iv)

Meeting Date: 15 July 2014
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Considered under general exception
Within Policy and Budget Framework YES
Public / Private Public

Title: TREASURY MANAGEMENT COUNTERPARTIES
Report of: DIRECTOR OF RESOURCES
Report Number: RD06/14

Purpose / Summary:

This report was considered by the Executive on 12 May and 23 June, and has been considered by ROSP on 26 June.

This report requests approval to amend the limits that can be invested with different counterparties and the use of a Property Investment Fund for a longer term investment.

Recommendations:

Council is asked to:

- (i) Approve the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7, for recommendation to Council;
- (ii) Approve the use of the CCLA managed LAMIT Property Fund for inclusion in the Council's investment portfolio for recommendation to Council

Tracking

Executive:	12 May 2014 & 23 June 2014
Overview and Scrutiny:	13 May 2014
Audit Committee:	10 July 2014
Council:	15 July 2014

Report to Executive

Agenda
Item:

Meeting Date: 23 June 2014
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Considered under general exception
Within Policy and Budget Framework YES
Public / Private Public

Title: TREASURY MANAGEMENT COUNTERPARTIES
Report of: DIRECTOR OF RESOURCES
Report Number: RD006/14

Purpose / Summary:

The Treasury Management Strategy for 2014/15 was approved at Council on 4 February 2014. Since this date, the Council has been investigating alternative ways of increasing the available counterparties available to invest with. As a result of these investigations, Members are asked in this report to consider options for adding an additional institution to the Council's approved list and also to gauge Members interest in investing in a managed property fund which would provide an alternative for the capital receipts generated by the Asset Business Plan.

Recommendations:

The Executive is asked to consider and recommend to Council:

- (iii) The approval of the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7, for recommendation to Council;
- (iv) The approval of the use of the CCLA managed LAMIT Property Fund for inclusion in the Council's investment portfolio for recommendation to Council

Tracking

Executive:	12 May 2014 & 23 June 2014
Overview and Scrutiny:	13 May 2014
Audit Committee:	10 July 2014
Council:	15 July 2014

1. BACKGROUND

- 1.1 The Council has been investigating alternative ways of increasing the available counterparties the Council is able to invest with. As a result of these investigations, Members are asked in this report to consider options for adding an additional institution to the Council's approved list and also to gauge Members interest in investing in a managed property fund.
- 1.2 The Council has historically limited its investment strategy to investing only with UK financial institutions (or institutions authorised by the UK regulatory bodies – Financial Conduct Authority and Prudential Regulation Authority).
- 1.3 The Council bases its criteria for investments on the credit ratings of these institutions and since the banking crash of 2008, has seen a number of institutions fall below the Council's minimum criteria for investment. This has led to a much reduced investment counterparty list.
- 1.4 The Council's Treasury Advisors (Capita Asset Services – formerly known as Sector) provides the Council with weekly updates of credit risk associated with all global financial institutions.
- 1.5 The Council maximises the use of the Government backed banks, RBS and Lloyds group and primarily utilises these banks for longer dated investments, typically 1 year, where the rates are slightly more attractive (approx 1%). For shorter dated investments, the Council uses the other rated banks and building societies on its approved list, e.g. Barclays and Nationwide. For overnight investments, the Council was using AAA rated Money Market Funds, however, the return on these has now dropped to below 0.35%. This led the Council to negotiate a overnight deposit account with its day to day bankers, HSBC which offered 0.50%. We are unaware of any other authority who has managed to secure such a good rate with HSBC.
- 1.6 Unfortunately, HSBC has notified the Council that this rate cannot remain in place much longer which means the alternative is to place funds with the Money Market funds which offer a significantly lower return.

2. PROPOSAL – SVENSKA HANDELSBANKEN

- 2.1 Therefore, in order to try and maximise the return the Council can achieve on its short term investments whilst still maintaining security of the investment, an additional counterparty is proposed as set out below.

- 2.4 Svenska Handelsbanken is one of the largest global banks and has a long term credit rating of Aa3 and a short term rating of Prime-1 from Moody's with a stable Outlook. The ratings are the same as HSBC but Handelsbanken has a better Outlook. It also has better ratings and Outlooks than Lloyds, RBS, Barclays and Santander.
- 2.5 Handelsbanken is not, however, registered in the UK so does not class as a UK institution for the Council's current investment policy. It is registered in Sweden, which at the moment is one of the strongest economies in Europe and has maintained its AAA credit rating.
- 2.6 Handelsbanken operates a very traditional type of bank. They do not pay bonuses to employees and only deal in very plain normal banking products, e.g. deposits and savings. They have a large branch network throughout the UK and have an office based at Kingstown in Carlisle which has 8 employees who deal solely with the north Cumbria area. As they only operate basic banking products, they offer an instant access account that is currently offering 0.55%. Many Local Authorities are including Handelsbanken on their approved list.
- 2.7 Therefore, given the strength of Handelsbanken, the reducing number of counterparties and the diminishing returns on short term investments it is proposed that the Council's investment policy is amended to be able to include Handelsbanken on the Council's approved counterparty list.
- 2.8 The Council has approached its Treasury advisors, Capita Asset Services, regarding these proposals and they have indicated that this proposal does not put the Council's investments at any additional risk.
- 2.7 The revised limits and investment criteria are set out at **Appendix A**, and in summary would be as follows:

Lloyds Group/ RBS	£8million
HSBC	£6million (split £4m long term, £2million less than 1 month)
Other Credit Rated banks/institutions (Including Svenska Handelsbanken)	£4million
Non Credit Rated Banks/Building Societies	£2million

3. **ALTERNATIVE INVESTMENT OPPORTUNITIES**

- 3.1 The Council tends to invest its cash balances in cash deposits with banks and

other approved financial institutions. For some time now, returns on such cash deposits have been at historically low levels. This has had an adverse effect on the Council's overall budget as in 2007, investment returns were £1,865,000 or 5.75% based on average balances of £32.1million. Currently in 2013/14, investment returns are £223,000 or 0.86% based on average balances of £26million.

- 3.2 The Council's treasury management advisors, Capita Asset Services, suggest that interest rates will not rise from their historically low level until late 2015, and even then will only rise gradually. Alongside this, the credit outlook remains challenging, with the number of institutions accepting deposits being very restricted. These factors result in expectations for returns from cash orientated investments remaining low.
- 3.3 In theory, the Council could increase its exposure limits (i.e. amounts deposited with individual institutions) to the approved financial institutions, or it could revise its minimum credit thresholds lower than the current minimum acceptable thresholds in its policies. However, as the overriding principle in treasury management is security of capital, this would not be recommended. In any event, this would not increase returns significantly.
- 3.4 With these factors in mind, Officers have undertaken some research into alternative investment opportunities and have looked specifically at a property fund as a means of securing better returns and limiting exposure to financial institutions failing.
- 3.5 There are many managed property funds in the financial market, however Officers have made enquiries about is the LAMIT (Local Authority Mutual Investment Trust) property fund managed by CCLA (Churches, Charities and Local Authorities) which is owned by the Church of England Investment Fund (56%), the Charities Investment Fund (23%), Local Authorities' Mutual Investment Trust (14%) and others (7%).
- 3.6 As at 31 December 2013, there were 37 local authorities holding units in the fund. The fund was valued at £126m and owned 21 properties.
- 3.7 Details of the operation of the property fund are attached at Appendix B.
- 3.8 As noted at paragraph 4.5 below, investment in the LAMIT fund is classed as revenue expenditure and therefore treasury management. This is due to lobbying which has incorporated these rules in to the regulatory framework. Investment in other property funds may be treated as capital expenditure.

4. PROPOSAL TO INVEST IN A POOLED PROPERTY FUND

- 4.1 There are examples of authorities investing in property by directly purchasing/developing properties with the intention of securing a revenue income from that investment. The Council is undertaking this itself through its Asset Business Plan initiative. It is also felt that an alternative route to receive income from property would be to invest in an appropriate property unit trust. However, such investment would not preclude the Council also directly investing in property if there was a business case.
- 4.2 The LAMIT fund would give the Council exposure to a diversified portfolio of commercial property throughout the UK, but without the issues of maintenance, management and repairs, if it were to own the property directly. In the past income returns from this fund have been in the order of 5.5%-6% per annum. It is an actively managed property fund, which means that fund managers have the potential for growth in the income as, over time, higher rents can be achieved by buying properties in areas where demand is growing, by adjusting the exposure to different areas of the market and by improving the quality of the properties as appropriate. It should be noted that, due to its active management style, the returns can be more volatile, as it is more likely to have void periods (when no rental income is being earned on a property) than a passively managed fund. In addition, property prices may go down as well as up, which will impact the underlying price of each unit in the fund. This will have greatest impact at a point in the future when the Council looked to sell its position.
- 4.3 Units in the LAMIT fund can be bought or sold on any monthly valuation date (usually the last working day of the month). However, where redemptions are required, these may take longer depending on the size of the withdrawal and the notice given to do so. In some cases, the fund may need to sell property to raise the cash to meet a redemption request. This process is typical for redemptions from all property funds. **This could require notice of approximately 18 months prior to requiring the funds.**
- 4.4 **Should the Council wish to invest in this type of fund, it needs to be aware that it will be investing for a longer time period than usual and must commit itself to the stated monetary investment and time period. The fee for this particular fund is 0.65% per annum of the capital sum invested.**
- 4.5 Investment in the LAMIT fund is classed as revenue expenditure and the return on the investment is revenue income, as defined under the Capital Finance Regulations (SI 2010 No 454). This, therefore, means that the Council can use its short term investments to invest in the fund and the return on the investment can be shown as revenue income and not capital receipts. It is thus part of treasury

management. In contrast, direct investment in property would not be treasury management and would be classed as capital expenditure.

5.0 PROPOSAL TO INVEST

- 5.1 Before making a proposal it must be stressed that, as with any investment, there are risks and financial implications. As stated earlier, the Council needs to be confident that the cash invested will not be required at short notice, or within a short time span. Four to five years is seen as the norm for investing in this fund.
- 5.2 The Council has average balances of approximately £25million, although this is forecast to reduce in line with the capital programme in the MTFP that will see the balance of capital receipts almost exhausted by 2018/19. The Council will still have a 'core' balance of investments of over £10million. There is, therefore, scope within the current 'core' investment portfolio to invest for the longer term in this type of fund.
- 5.3 As investments in property funds are subject to fluctuations in the property market, any volatility in the valuation of the investment would need to be managed through the "Available for Sale Reserve". There will, therefore, be no impact on the Council's revenue account for the day-to-day fluctuations in the value of the investment. It is not until the investment is sold that any gain or loss on the principal sum invested will be recognised in the revenue account. However, it is important to recognise that when units are redeemed, a capital loss could be incurred. It is for this reason that this type of investment is best seen as a long term investment to reduce the likelihood of the volatility in the property market impacting on the Council's capital invested.
- 5.4 To acquire units in the fund the Council has two options:
- to buy directly from existing unit holders – this reduces the acquisition and sale costs but at present this is an unlikely option as those wishing to buy outnumber those wishing to sell;
 - to buy directly from the fund, as the above option is unlikely at present and will almost certainly be the means of acquiring units.

There is a 5% cost of acquiring units to cover a range of one-off costs, such as stamp duty and arrangement fees. There is also a 2% sale charge.

- 5.5 If the Council were to buy and then immediately sell, there would be a 7% cost. This is why it is important that the Council sees this as a longer term investment. Based on recent fund performance and likely trends on the commercial property market it is forecast that that capital growth would cover the 7% cost of buying and selling within a period of about two years. Obviously, such forecasts are not always accurate and the capital value of the fund could fall as well as increase. If

the Council were to invest in property directly, i.e. purchase a property for rental outright, it would still be subject to fluctuations in market values and upfront costs such as stamp duty.

- 5.6 Appendix C shows the index for units in the fund over the last ten years. The average increase in unit price (this is what any capital profit or loss would be based on) is 6.2%. However, as will be noted, there are some years when the unit price falls, e.g. 2008.
- 5.7 Assuming average annual capital growth and average rental return over the last ten years (see Appendix C) then after two years, the property fund will have recovered the 7% entry and exit charge and the foregone investment from a cash deposit. This means that assuming average returns the Council only has to continue investing in the fund for two years before it is making a higher return than a cash deposit.
- 5.8 Assuming that the Council redeems its investment after five years it would receive:
- five years net rental share - this is the income shown at 5.3 above and received quarterly;
 - five years' capital growth (or loss) less the buying and selling costs. This would be received or paid at the time of redeeming the units. Whilst termed "capital growth" this would, under the regulatory framework, be accounted for as revenue income or expenditure as appropriate.
- 5.9 The purchase of units in the fund is a treasury management transaction, therefore it does not impact on reserves. There would only be an impact if any capital gain or loss arose on redemption.
- 5.10 For example, if the Council were to invest £3million, it could achieve additional investment income as follows:

	£
Amount Invested (gross):	3,000,000
Less 5% entry cost (paragraph 7.2)	<u>-150,000</u>
Net Investment	2,850,000
Interest per Annum at 5%	142,500
Management Fee 0.65%	<u>-19,500</u>
Net Income	123,000
Current Net Income from £3m (0.87%)	<u>26,100</u>
Extra Income	96,900

N.B Any decision to withdraw this investment would have to take into consideration the entry and exit costs against any capital growth achieved. The longer the investment is left, the greater the opportunity for capital growth to outweigh the entry and exit costs.

The 5% return assumed is at the lower end of the projected rate of returns. Appendix C shows the return for each year over the last ten years; the average income return is 5.4%.

The additional income achievable by this investment opportunity would help towards the Council's transformation savings requirement.

- 5.11 Whilst unit holders can redeem their units, there may be some time delay and the intention is to hold units for a number of years to even out variations in capital fluctuation. Therefore, investing in the fund does reduce the council's financial management options to some degree.

6. DUE DILIGENCE

- 6.1 An investment in the LAMIT fund is a new treasury management approach for the Council and appropriate due diligence would need to be undertaken as follows:

- That the fund is recommended by the Council's treasury management advisers, Capital Asset Services, who are regulated by the Financial Conduct Authority (FCA);
- Checks that CCLA are regulated by the FCA;
- Thorough review of scheme information provided by CCLA
- Thorough review the latest annual accounts of the fund
- Obtaining two references from local authorities which hold units in the fund
- Confirming the taxation position of fund receipts (tax is fully reclaimable)
- Thorough review of the LAMIT Trust Deed

Risks

- 6.2 There are a number of risks in investing in this type of instrument. The main ones are as follows:

- The fund manager ceases to exist:
The Trust would appoint another manager or wind the Trust up and distribute the net assets, though there would be some cost in either of these;
- The fund is wound up:
The assets and liabilities of the fund are owned by the LAMIT which is a separate legal entity. Because of this, all unit holders would be legal and beneficial owners of the properties held by the fund. The fund would be wound up by selling the units and distributing the sums invested to all of the unit holders;
- Cash may not be immediately available:
See paragraph 4.3 above;
- Returns may vary and could be volatile in the short-run:
See paragraph 5.5 above.

- 6.3 The Council's current approach to Treasury Management is low risk. By investing in a property fund, the Council is clearly taking on higher risk (through reduced liquidity and increased volatility of valuation) for, potentially, a higher return.

7. CONSULTATION

- 7.1 The Council's Treasury Advisers have been involved in the Strategy and proposals contained within this report.

8. CONCLUSION AND REASONS FOR RECOMMENDATIONS

- 8.1 The Executive is asked to approve and recommend to Council:
- (i) the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7, for recommendation to Council;
 - (ii) the use of the CCLA managed LAMIT Property Fund for inclusion in the Council's investment portfolio for recommendation to Council

9. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 9.1 To ensure that the Council's investments are in line with appropriate policies including the Treasury Management Strategy Statement.

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Appendices attached to report:

- Appendix A - Approved investment instruments**
- Appendix B – The Local Authorities Property Fund – Scheme Information**
- Appendix C – The Local Authorities Property Fund – Historical Performance**
- Appendix D – Capita Briefing Note on CCLA**

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – n/a

Economic Development – n/a

Governance – The Treasury Management Strategy (TMS) does not currently provide for investment of the type described in this report and the purpose of this report is to ensure that the TMS allows the Council to so invest. This will ensure that that the council's investments are, and will continue to be, within its legal powers. The TMS is defined in Article 4 of the Constitution as being part of the authority's "Budget". As such, the matter should be considered by Overview & Scrutiny prior to recommendation to the Council by the Executive. Council must approve any amendment to the TMS.

Local Environment – n/a

Resources – Contained within the report. Any changes to counterparties form part of the Treasury Management Strategy Statement and Investment Policy that is required to be approved by Council. The use of individual counterparties and financial instruments that form part of the approved list, is delegated to the Director of Resources in line with the Council's constitution.

APPROVED INVESTMENT INSTRUMENTS

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. **A maximum of £4m of the investment portfolio** will be placed with any one counterparty or banking group, or a maximum of **£8m of the investment portfolio for Lloyds Group banks and RBS Group Banks and £6m with HSBC Bank (with £2m being limited to investments less than 1 month in duration)** whether by way of specified or non-specified investments except for building societies without a credit rating where **the limit will be £2m**.

Fixed Term Deposits with fixed rates and maturities:-	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	Government backed	In-house
Term deposits – local authorities	--High level of security	In-house
Term deposits – U K banks**	Short-term F1 (Fitch) or P1(Moodys)	In-house
Term Deposits – UK building societies**	Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Director of Resources	In-house
Term Deposits – Non UK Banks	Sovereign Rating AAA Short Term F1 (Fitch) or P1 (Moodys) or as determined by the Director of Resources	In-house
Fixed term deposits with variable rate and variable maturities: -	Minimum 'High' Credit Criteria	Use
Callable deposits	Short-term F1 (Fitch) or P1 (Moodys)	In-house
Certificates of deposits issued by UK banks and building societies	Short-term F1 (Fitch) or P1 (Moodys)	In-house buy and hold
UK Government Gilts	Government backed	In-house buy and hold
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -	Minimum 'High' Credit Criteria	Use
1. Money Market Funds	Short-term AAA	In-house
2. Enhanced Cash Funds	Short-term AAA	In-house
3. Government Liquidity Funds	Short-term AAA	In-house

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

Non-Specified Investments:

A maximum of 50% will be held in aggregate in non-specified investments

1. Maturities of ANY period.

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits with non credit rated UK Building Societies	As approved by the Director of Resources. Minimum asset base of £1bn	In-house	50	364 days

2. Maturities in excess of 1 year

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – local authorities	Any authority	In-house	50	3 Years
Term deposits – UK banks and building societies	Long-term A (Fitch) or A2 (Moody's)	In-house	50	3 Years
Fixed term deposits with variable rate and variable maturities	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Certificates of deposits issued by UK banks and building societies	Long-term A (Fitch) or A2 (Moody's)	In house on a 'buy and hold basis'	50	3 Years
UK Government Gilts	Government backed	In house on a 'buy and hold basis'	50	3 Years
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis.	50	3 Years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
1. Bond Funds	Long-term AAA	In-house	50	3 Years
2. Gilt Funds	Long-term AAA	In-house	50	3 Years

3. Approved Property Funds

	Use	Max % of total investments	Max. maturity period
CCLA Property Fund	In-house as determined by the Director of Resources	50	No maximum

The Council uses Fitch (primarily) or Moody's ratings to derive its counterparty criteria. All credit ratings will be monitored monthly. The Council is alerted to changes in credit ratings through its use of the Sector creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

Appendix B

The Local Authorities' Property Fund

Scheme Information

Scheme Information

The Local Authorities' Property Fund

Effective from September 2013

This Scheme Information summarises the terms on which the Fund operates. For full information as to the terms on which the units of the Fund are issued, reference should be made to the Fund's Trust Deeds. Copies are available on request from the Manager.

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The Fund

The Local Authorities' Property Fund (the Fund) is an unregulated collective investment scheme established under a Scheme approved by H M Treasury under Section 11 of the Trustee Investments Act 1961 and is subject to provisions of a Trust Deed dated 6 April 1972 and a supplemental Trust Deed dated 13 September 1978. The Fund operates as an open-ended Fund under Part IV of the schedule to the Financial Services and Markets Act 2000 (Exemption) Order 2001.

Trustee

The Local Authorities' Mutual Investment Trust (the Trustee) is the Trustee of the Fund. It is a company incorporated under the Companies Act 1948, limited by guarantee and not having a share capital. Under the provisions of the Financial Services and Markets Act 2000 (FSMA), LAMIT, as Trustee of the Fund, is not considered to be operating the Fund 'by way of business'. In consequence, it is not required to be regulated by the FCA and the members of LAMIT are not required to be authorised by the FCA for this purpose. The Trustee is controlled by members and officers appointed by the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and by the Trustee to represent unitholders.

Manager

CCLA Investment Management Limited (the Manager), registered in England as a company No. 2183088, authorised and regulated by the Financial Conduct Authority (FCA), manages the Fund's properties and provides administrative and registrar services for the Fund and company secretarial services to the Trustee under Agreements dated 1 October 1998.

Investment Objectives of the Fund

Investment Objectives

The Fund is invested in commercial and industrial properties in the United Kingdom. It aims to provide, over the long term, a satisfactory total capital and income return on the units of the Fund.

Investment Powers

The Fund's powers of investment are not restricted either to particular types of property, or subject to the consent of H M Treasury, to specific parts of the world, but it is the present policy to confine investment to freehold and leasehold commercial and industrial property in the United Kingdom.

The Fund is permitted to finance developments of, or improvements to, both freehold and leasehold property or purchase a right or interest in, or over,

freehold or leasehold land, or borrow for the purpose of gearing against the property assets of the Fund; provided that the aggregate borrowing does not exceed 25% of the value of the property of the Fund on any quarterly valuation date. With the prior written approval of the Council, the Manager may borrow for any purpose set out above up to the limit of 50% of the net asset value of the Fund.

Investment Restrictions

The Fund will maintain a suitable spread between different types of property and geographical location. Importance will be attached to location, standard of construction and quality of covenant with lease terms preferably embodying upwards only rent reviews at intervals of not more than five years.

Performance Benchmark

The performance benchmark for the Fund is the Balanced Property Unit Trust Index compiled and calculated by Investment Property Databank (IPD) and published by HSBC and the Association of Real Estate Funds (AREF), calculated on a net asset value basis; or such other performance benchmark as the Manager may agree.

Administration

The Manager provides the Trustee with all administrative and registrar services necessary for the management of the Fund. These include the valuation of the Fund's assets in conjunction with an appointed External Property Valuer, the issue and redemption of units in the Fund, the operation of the Fund's unit Register, the payment of dividends and the maintenance of the accounts of the Fund. The Fund operates on a financial year to 31 March.

Eligible Contributors

The units of the Fund can only be issued and owned by local authorities in England, Wales, Scotland and Northern Ireland. The Trustee under the Scheme and the Manager under the Money Laundering Regulations are required to satisfy themselves as to the identity of participants in the Fund.

Unit of the Fund

The Fund issues units which pay dividends quarterly.

Valuations

The Fund is valued monthly, at the end of each calendar month, for the issue and redemption of units (the Valuation Date). Properties held by the

Fund are valued at open market value. The assets of the Fund valued also include capital cash.

To calculate the issue and redemption price (offer and bid prices) of the units the net capital asset value of the Fund shall be divided by the number of units in issue. The Trustee may increase the issue price by such a surcharge and reduce the redemption price by such a deduction as in either case it may think fit with a view to protecting the holders of subsisting units from being adversely affected in respect of the values of the units by the effects of contributions and/ or withdrawals. The Trustee may vary the amount of the surcharge or deduction at any time.

The valuation of the Fund's properties is made by an External Property Valuer at each quarter-end and by the Manager, in consultation when necessary with External Property Valuers, on other monthly valuation dates. Additions to the portfolio are valued externally after acquisition.

Issue and Redemption of Units

Instructions for the issue or redemption of units must be made in writing to the Manager at Senator House, 85 Queen Victoria Street, London EC4V 4ET.

Purchases or sales of the Fund's Units can be made on any month end Valuation Date, subject to a period of notice or delay (or successive periods of notice or delay) of such period (or periods) as the Trustee or Manager may impose to permit properties to be sold to meet withdrawals or to protect the interest of Unitholders in the Fund.

In the event of the suspension of redemption requests in full or part (i) those applications for the redemption of units first made in respect of an earlier month end Valuation Date will be dealt with in priority to those first made in respect of a later month end Valuation Date (ii) without prejudice to (i) all applications for the redemption of units made in respect of particular month end Valuation Date shall be treated *pari passu*, irrespective of the time such applications for the redemption of units were actually received in respect of that month end Valuation Date and (iii) the Manager can accept in part an application for the redemption of units and, in the event that it does so, such application for redemption of units (and any other applications for redemption of units which are to be treated *pari passu* with it) shall be redeemed in part *pro rata*.

Application monies paid by cheque should be drawn on an EEA (European Economic Area) banking institution and

made payable to The Local Authorities' Property Fund. They must be received by the Manager not later than 5.00pm on the business day prior to the Valuation Date. Application monies so received will not earn interest and will be paid into a Fund bank account. Cheques made payable to CCLA Investment Management Limited will be returned.

Contract notes will normally be despatched by close of business on the next business day after the issue of the units. The contract note will show *inter alia*, the number of units and the issue or redemption price. Units will be issued to the nearest round number.

Redemption instructions must be received by 5.00pm on the business day preceding a Valuation Date and may be subject to a period of notice. Cheques in respect of redemption of units are issued within four business days after the Valuation Date on which the units are redeemed.

If a delay is imposed, proceeds of units redeemed (or the cost of units issued) will be calculated on the Valuation Date when the units can be redeemed (or issued) by the Fund and not on the Valuation Date when notice is received.

Secondary Market Units

From time to time the Manager may become aware of opportunities for unitholders to trade units other than via the Manager (the Secondary Market). In which case and at its discretion the Manager may, but is not obliged to, inform other unitholders and or other local authorities.

This can enable investors to transfer holdings on terms set between themselves, with the transfer or instructing the Manager as Registrar to amend its records accordingly.

Local Authorities should note that the Manager does not make a market and, therefore, may not be aware of every opportunity that exists to trade on the secondary market.

Minimum Investment

The minimum sum that can be invested initially is £25,000. Thereafter additions to unitholdings can be made of £10,000 or above.

Exchanging Existing Property

The Fund may consider accepting existing properties in exchange for units of the Fund.

However, the Trustee may do so but only if it is judged to be in the best interest of existing unitholders of the Fund and on the basis of an independent professional valuation. If accepted, the exchange would be made at the open market value of the property at the net asset value of the units issued. The Trustee has absolute discretion as to which properties it will accept.

Registration of Units

Units are registered in the name of the local authority or in recognised bank nominee names under a designated account. No certificates are issued and the Register of the unitholdings is the definitive evidence of title. The units have no par value and entitle the holder to a proportionate interest in the Fund. Units cannot be assigned or transferred except from one local authority to another subject to the payment of Stamp Duty Reserve Tax payable by the Trustee and recharged to the purchaser. The number of units held will be certified on written request for audit or other purposes.

Publication of Prices

The Fund's unit Price is published in the FinancialTimes.

Management Charges

Annual Management Charge

The Manager makes an annual charge on the assets of the Fund at a fixed rate of 0.65% per annum (plus VAT if applicable and if any). The Annual Management Charge is based on the valuation of the Fund on the last day of the preceding month. The charge accrues daily and is deducted from the income of the Fund on the last business day of each month. The Manager makes no charge in respect of transactions carried out by the Fund.

Preliminary Charge

The Manager makes no Preliminary Charge on the issue of units.

Costs and Expenses

The following expenses incurred for the Fund shall be paid either directly by the Fund or by the Trustees and recharged to the Fund:

- a) legal and other costs associated with obtaining and maintaining any authorisation or registration of the Fund
- b) any governmental duties payable in respect of the issue of the Fund's units
- c) cost of property transactions including, but not limited to, stamp duty, agents and survey fees
- d) External Property Valuer's fees
- e) legal Fees
- f) professional and agency fees

- g) audit fees
- h) bank charges
- i) any rates, taxes, insurance premiums, costs of security, maintenance and repairs and other costs and service charges related to specific properties which cannot be recovered
- j) the fee of any External Property Adviser to the Trustee
- k) cost of liability insurance for the Trustee
- l) costs incurred in respect of unitholder meetings or in modifying the constitution of the Fund
- m) such other fees or expenses as may from time to time be agreed with the Trustee

Taxation

The Trustee is not subject to capital gains tax but is subject to income tax at the basic rate. For each dividend payment, vouchers confirming the deduction of income tax are supplied for use by unitholders, as appropriate.

This is our understanding of the tax position as of the date of these Scheme Particulars. The tax position may change in the future. Investors should obtain their own tax advice in respect of their own position.

Dividends

Dividends are paid quarterly to a nominated bank account in respect of the three months to the end of June, September, December and March. They are paid one month after each quarter end. Income is calculated as income receivable by the Fund whether already received or not, less any costs and expenses accrued to date. Income is allocated to unitholders monthly but is not included in the unit price.

Treating Customers Fairly

CCLA is committed to Treating Customers Fairly (TCF). CCLA has reviewed this Scheme

Information in the context of TCF and believes it is in accordance with its commitment.

Authority to Open and Operate an Account

The Manager is entitled to assume that the person(s) signing an Application Form to purchase the Fund's units in a local authority's name are duly authorised. In the case of sales, money is only remitted to the local authority or its bank but not to third parties. Where instructions are received in respect of units held in a nominee name, the written confirmation from the local authority may be required by the Manager.

Acceptance of Terms and Conditions

By completing the Application Form, the unitholder acknowledges and accepts the terms and conditions of the unitholding and agrees to be bound by the provisions of this Brochure and of the Trust Deeds of the Fund.

Amendments

The Trustee and the Manager reserve the right to amend these terms and conditions at any time. Unitholders will be notified of any amendment material to them.

Regular Statements

Statements of unitholdings, Management Expenses and Dividends paid are provided as at 30 September and 31 March.

CCLA reserves the right to charge reasonable expenses in relation to printing and postage of any additional documentation required by the client.

Custody of Assets

The Trustee has appointed both The Royal Bank of Scotland plc, Securities Department, and Lovells to hold in safe custody the deeds, leases and other documents relating to the properties owned by the Fund. The Royal Bank of Scotland plc has also been appointed by the Trustee to hold cash balances of the Fund. The Trustee may review these arrangements from time to time.

Report and Accounts

Report and Accounts of the Fund are prepared at 30 September and 31 March, being the half year and year ends respectively. All Accounts are audited. Copies of the Half Year and Annual Report and Accounts are sent to all unitholders.

Regulatory Position

The Fund is constituted by a Scheme and Trust Deeds under the Trustee Investments Act 1961 and is an unregulated collective investment scheme. The Fund operates as an open ended Fund under Part IV of the schedule to the Financial Services and Markets Act 2000 (Exemption) Order 2001. Under the provisions of the Financial Services and Markets Act 2000 (FSMA), LAMIT as Trustee of the Fund, is not considered to be operating the Fund 'by way of business'. In consequence, it is not required to be regulated by the FCA and the members of LAMIT are not required to be authorised by the FCA for this purpose. The Manager is regulated by the FCA and this covers any investment advice given by the Manager about the Fund's units to a local authority.

The management of the properties of the Fund is outside the scope of the FSMA.

Compensation

Investments in The Local Authorities' Property Fund are not covered by the Financial Services Compensation Scheme. The Manager will pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Funds.

As the Fund is not an Authorised Unit Trust within the meaning of the FSMA 2000, investments in the Fund are not covered by the Financial Services Compensation Scheme. The Manager will pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund.

Further information is available from the Manager on request or via www.fscs.org.uk or at their address below:

Financial Services
Compensation Scheme,
7th Floor,
Lloyds Chambers,
Portsoken Street,
London, E1
8BN.

Risk Warning

The value of the Property Fund units and the income from them can fall as well as rise and a local authority may not get back the amount originally invested. Past performance is no guarantee of future returns.

Property and property related assets are inherently difficult to value because of the individual nature of each property. As a result, valuations are open to substantial subjectivity. There is no assurance that the valuations of the properties will reflect the sale price achieved even where such sale occurs shortly after a Valuation Point.

The performance of the Fund could adversely be affected by a downturn in the property market in terms of capital value or a weakening of rental yields. The income received by the Fund is dependent to a large extent upon the occupancy levels of any property owned by the Fund and the rents paid by these tenants. Rental revenues and property values are affected by changes in the general economic climate and local conditions. Property values

are dependent in particular on current rental values, prospective rental growth, lease lengths, tenant creditworthiness and the valuation yield (which is itself related to interest rates, the market appetite for property investments in general and with reference to the specific property in question) together with the nature, location and physical condition of the property concerned.

The units are intended only for long-term investment and are not suitable for money to be spent in the near future. They are realisable only on each monthly Valuation Date and a period of notice may be imposed for the redemption of units.

Complaints

Complaints concerning the operation or marketing of the Fund should be referred in writing to the Compliance Officer of the Manager, or to the Trustee: The Compliance Officer, CCLA Investment Management Limited, 85 Queen Victoria Street, London, EC4V 4ET or to: The Secretary, Local Authorities' Mutual Investment Trust, Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

Material Interests and Conflicts

The Manager operates a client relationship management service and the Fund's trustee, The Local Authorities' Mutual Investment Trust, owns 14% of the share capital of CCLA Investment Management Limited. The Manager operates a Conflicts of Interest Policy to ensure fair treatment of its clients. A brief summary is provided in Appendix 1 of this document.

Trustee Meetings

The Trustee and the Manager meet at least half yearly and the Trustee receives quarterly written reports from the Manager. The Trustee's Property Sub Committee meet each quarter with the Manager.

Winding Up

The Trustee has the power to wind up the Fund in accordance with the Trust Deed.

Applicable Law

Any agreement to invest in the Fund is governed by English law and subject to all applicable laws, regulations and rules. In the event of a conflict between such agreement and any such laws, regulations and rules, the latter shall prevail.

Data Protection

The Manager is the data controller and in accordance with data protection legislation will hold relevant personal details which have been supplied to the Manager for the purposes of fulfilling its

obligations to unitholders. Data will be stored by the Manager, either on computer or hard copy, in order to fulfil the services described. This will be treated as confidential. Any personal data will be maintained in accordance with the provisions of the Data Protection Act 1998. The Manager may pass your data to others in order to fulfil the service obligations described.

The Manager may use the information to contact you from time to time by post, fax, e-mail or telephone to bring your attention to additional products or services which may be of interest to you. You may ask us to stop doing this by contacting us at any time.

The Manager will keep records of all business transactions for at least five years. You have a right to inspect copies of contract notes and entries in The Manager's books or computerized records relating to your transactions. The Manager will treat all unitholders' records as confidential and so reserve the right to provide copies of your particular record, rather than allow access to files which may contain information about other clients.

Scheme Information

Any person relying on the information contained in the document which was current at the date shown, should check with the Manager that the document is the most current version and that no revisions or corrections have been made to the information contained herein. Copies of this document are available free of charge.

Appendix 1 The

Manager

The Manager, CCLA Investment Management Limited, is a limited liability company registered in England and Wales with its Registered Office at Senator House, 85 Queen Victoria Street, London, EC4V 4ET.

Incorporated on 26 October 1987 The directors of CCLA are:

J. Dawnay (Chairman)*
J. Bevan
R. Fitzalan Howard*
C. Peters
M. Quicke
A. Robinson
A. McMillan
T. Salmon*

J.Tattersall*

R. Williams*

*Non-Executive Director of CCLA

CCLA Customer Telephone Helpline Number is 0800 022 3505. Please note telephone calls may be recorded.

Registrar

The Registrar of the Fund is CCLA Investment Management Limited. The Register of unitholders may be inspected at the Registered Office of CCLA Investment Management Limited.

Regulator

CCLA Investment Management Limited is authorised and regulated by the Financial Conduct Authority, 25 The North Colonnade, Canary Wharf, London, E14 5HS.

Conflicts of Interest Policy

- CCLA operates a Conflicts of Interest Policy to ensure that our clients are fairly treated. Our policy seeks to avoid circumstances which we consider may give rise to potential conflicts of interest and materially disadvantage our clients. It describes the controls and arrangements for preventing CCLA and its staff from:
 - favouring one client above another;
 - market abuse and disclosing confidential information;
 - giving or receiving gifts and entertainment, monetary or otherwise, that would be in breach of our Conflicts of Interest Policy;
 - favouring one of CCLA's owners, The CBF Church of England Investment Fund (56%), COIF Charities Investment Fund (23%) and the Local Authorities' Mutual Investment Trust (14%) at the disadvantage of its clients;
 - not disclosing CCLA's close association with The CBF Church of England Funds, COIF Charity Funds and the Local Authorities' Property Fund or its ownership (above); and
 - not disclosing any remaining conflicts of interest to our clients before we advise or transact on their behalf.

Full details of CCLA's Conflicts of Interest Policy are available on request.

This document, issued by CCLA Investment Management Limited, is effective from September 2013.

CCLA INVESTMENT MANAGEMENT LIMITED

Senator House

85 Queen Victoria Street

London EC4V 4ET

Client Service:

Freephone: 0800 022 350

Email: clientservices@ccla.co.uk

Appendix C

LAMIT Property Fund

Total Capital Growth by Calendar Year

	%
2004	21.63
2005	17.09
2006	19.74
2007	-2.29
2008	-29.56
2009	-0.58
2010	17.15
2011	6.26
2012	3.88
2013	9.16

Dividends (Rental Income) Declared in Calendar Years (Not Fund Years)

Dividend is the gross after deduction of management expenses

	Pence per Unit	As % of Unit Price
2004	17.1283*	6.09*
2005	13.4361	4.27
2006	13.8299	3.82
2007	12.4352	3.64
2008	15.9201	6.99
2009	14.4137	6.85
2010	12.7127	5.45
2011	14.0716	6.03
2012	14.1522	6.20
2013	10.8479	4.57

CCLA Investment Management Limited (registered in England No. 2183088 at the above office) is authorised and regulated by the Financial Conduct Authority.

*In this year the dividend changed from half-yearly to quarterly and, therefore, has the equivalent of five quarters in the number

CCLA Property Fund

Description of the product offering

• Name	Local Authority Property Fund
• Fund Size	£100m (September 2013)
• Benchmark	IPD other Balanced Property Funds Index
• Type	Unregulated Collective Investment Scheme
• Net Asset Value (NAV)	Variable NAV
• Liquidity	Illiquid asset class
• Pricing	bid/ offer spread on the fund (Entrance and exit fee can equate to 7%)
• Primary Objectives	Generate long term growth in capital
• Minimum Initial Investment	£250k
• Management fees	0.65% plus VAT
• Income distribution	Quarterly basis
• Gearing	11% (can have a maximum gearing of 25%)

The fund structure as at June 2013:

• Retail	43.5%
• Offices	26.7%
• Industrial	28.7%
• Cash	1%

When investing in a property fund it should be treated as a long term investment and should only be considered in the context of 'core' cash. The funds would be invested in high quality properties that have strong covenants in terms of the occupiers of the properties.

Investment in this fund is a minimum of £250k. Fees can be quite high at c40bp entry and exit fee. Rental income is distributed quarterly. Investors in these funds need to take a five year view as generally the Managers of the funds do not allow any redemption for the first few years of the fund. Thereafter, there are often annual redemptions with a notice period required.

The fund will provide a well diversified portfolio not only through holding of different types of properties but also through geographical spread, to maximise the level of return and mitigate Portfolio Risk. It does carry a high market risk as the property value and performance will fluctuate based on the condition of the real estate market.

Liquidity: Property is an illiquid asset class and it is not always possible to sell units immediately. The cost of dealing is also relatively high. These two factors indicate that the investment horizon for this fund should be in years, minimum of 5 years.

Yield: Since 1970 the fund has returned relatively smooth income return (rental income) of an average of 5% each year; however capital growth should also be taken into consideration in order to recognise the true return on the fund.

English Authorities: The acquisition of share capital in a body corporate, including in unregulated collective investment schemes normally counts as capital expenditure under section 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. However, as the CCLA Property Fund is approved by the HM Treasury under section 11(1) of the Trustee Investment Act 1961, and in accordance with section 25(3)(d) of the regulations it does not count as capital expenditure.

Wales Authorities: No such exemption has been enacted by the Welsh Assembly, so in accordance with section 20(1)(d) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulation 2003 this will be capital expenditure.

Consideration of Risk: The value of the Property Fund Units and income can fall as well as rise and the Authority may not get the amount originally invested. The Units are intended only for long term investments and are not suitable for money to be spent in the near future. They are realisable only on each monthly valuation date and a period of notice, may be imposed for the redemption of units.

Accounting Issues:

To comply with the CIPFA Code of Practice on LA Accounting 2013, the Authority would need to classify the financial asset as either:-

- 1) Loans and Receivable
- 2) Fair Value through Profit or Loss
- 3) Available for Sale

Loans and receivables

7.1.5.4 If a financial asset meets the requirement to be classified as loans and receivables it shall be classified as loans and receivables. Loans and receivables have two defining characteristics. They:

- have fixed or determinable payments, and
- are not quoted in an active market.

As the units fluctuate in value this fund would not be a loan and receivable

Financial assets and liabilities at fair value through profit or loss

7.1.5.9 The category at fair value through profit or loss can apply to both financial assets and financial liabilities. A financial instrument that is 'held for trading' shall be classified as at fair value through profit or loss. The definition is met if it is:

IFRS 9 Financial Instruments is expected to replace IAS39 Financial Instruments – could be 2015. If they implement using current consultation approach, the Available for Sale category will disappear. The only choice will be amortised cost or Fair Value – this would mean all gains/losses (realised and unrealised) within the CCLA Property Fund will have to flow through the CI&ES. As the clients are being sold this fund as a long term (circa 3 to 5 year investment) the impact of this accounting change should be considered.

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 12 MAY 2014

EX.40/14 TREASURY MANAGEMENT COUNTERPARTIES
(Key Decision)

(With the consent of the Chairman, and in accordance with Rule 15 of the Access to Information Procedure Rules; and Regulation 10 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 this item was included on the Agenda as a Key Decision, although not in the Notice of Executive Key Decisions)

Portfolio Finance, Governance and Resources

Relevant Overview and Scrutiny Panel Resources

Subject Matter

The Finance, Governance and Resources Portfolio Holder submitted report RD.006/14 concerning Treasury Management Counterparties.

The Portfolio Holder outlined the background position, reminding Members that the Treasury Management Strategy for 2014/15 had been approved by Council on 4 February 2014. Since that date, however, the Council had been investigating alternative ways of increasing the counterparties available to invest with.

As a result of those investigations, and in order to try and maximise the return the Council could achieve on its short term investments whilst still maintaining security of the investment, an additional counterparty (Svenska Handelsbanken) was proposed, details of which were provided.

The Council had approached its Treasury advisors (Capita Asset Services) regarding the proposal, in response to which they had indicated that it did not put the Council's investments at any additional risk.

The Finance, Governance and Resources Portfolio Holder further summarised the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions	£4 million

(including Svenska Handelsbanken)

Non Credit Rated Banks/Building Societies £2 million

Turning to the issue of alternative investment opportunities, the Finance, Governance and Resources Portfolio Holder explained that the Council tended to invest its cash balances in cash deposits with banks and other approved financial institutions. For some time now, however, returns on such cash deposits had been at historically low levels. That had an adverse effect on the Council's overall budget as in 2007 investment returns were £1,865,000 or 5.75% based on average balances of £32.1million. Currently in 2013/14 investment returns were £223,000 or 0.86% based on average balances of £26 million.

The Council's treasury management advisors had suggested that interest rates would not rise from their historically low level until late 2015, and even then would only rise gradually. Alongside that the credit outlook remained challenging with the number of institutions accepting deposits being very restricted. Those factors resulted in expectations for returns from cash orientated investments remaining low.

In theory, the Council could increase its exposure limits (i.e. amounts deposited with individual institutions) to the approved financial institutions, or it could revise its minimum credit thresholds lower than the current minimum acceptable thresholds in its policies. However, as the overriding principle in treasury management was security of capital, that course of action was not recommended. It would not in any event increase returns significantly.

With those factors in mind, Officers had undertaken some research into alternative investment opportunities looking specifically at a property fund as a means of securing better returns and limiting exposure to financial institutions failing.

Although there were many managed property funds in the financial market, Officers had made enquiries about the LAMIT (Local Authority Mutual Investment Trust) property fund managed by CCLA (Churches, Charities and Local Authorities) which was owned by the Church of England Investment Fund (56%), the Charities Investment Fund (23%), Local Authorities' Mutual Investment Trust (14%) and others (7%).

As at 31 December 2013, there were 37 local authorities holding units in the fund. The fund was valued at £126m and owned 21 properties. Details of the operation of the property fund were attached at Appendix B.

Members' attention was particularly drawn to Sections 4 and 5 of the report which set out details of the proposal to invest in a pooled property fund and the associated risks and financial implications.

The Finance, Governance and Resources Portfolio Holder emphasised that, should the Council wish to invest in that type of fund, it needed to be aware that it would be

investing for a longer time period than usual and must commit itself to the stated monetary investment and time period. He further highlighted the due diligence which would need to be undertaken.

In conclusion, the Finance, Governance and Resources Portfolio Holder moved recommendations (i) and (ii), which were seconded by the Leader.

Summary of options rejected None

DECISION

That the Executive had considered Report RD.006/14 and referred to Overview and Scrutiny:

1. The approval of the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7 of Report RD.006/14 for recommendation to Council.
2. The approval of the use of the CCLA managed LAMIT Property Fund for inclusion in the Council's investment portfolio for recommendation to Council.

Reasons for Decision

To ensure that the Council's investments were in line with appropriate policies, including the Treasury Management Strategy Statement

EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 23 JUNE 2014

EX.54/14 **TREASURY MANAGEMENT COUNTERPARTIES
(Key Decision – KD.11/14)

(In accordance with Paragraph 15(i) of the Overview and Scrutiny Procedure Rules, The Mayor had agreed that call-in procedures should not be applied to this item)

Portfolio Finance, Governance and Resources

Relevant Overview and Scrutiny Panel Resources

Subject Matter

Pursuant to Minute EX.40/14, the Finance, Governance and Resources Portfolio Holder submitted report RD.006/14 concerning Treasury Management Counterparties.

The Portfolio Holder outlined the background position, reiterating that the Council had been investigating alternative ways of increasing the counterparties available to invest with.

As a result of those investigations, and in order to try and maximise the return the Council could achieve on its short term investments whilst still maintaining security of the investment, an additional counterparty (Svenska Handelsbanken) was proposed, details of which were provided.

The Council had approached its Treasury advisors (Capita Asset Services) regarding the proposal, in response to which they had indicated that it did not put the Council's investments at any additional risk.

The Finance, Governance and Resources Portfolio Holder summarised once again the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions (including Svenska Handelsbanken)	£4 million
Non Credit Rated Banks/Building Societies	£2 million

Turning to the issue of alternative investment opportunities, the Finance, Governance and Resources Portfolio Holder explained that the Council tended to invest its cash balances in cash deposits with banks and other approved financial institutions. For

some time now, however, returns on such cash deposits had been at historically low levels. That had an adverse effect on the Council's overall budget as in 2007 investment returns were £1,865,000 or 5.75% based on average balances of £32.1million. Currently in 2013/14 investment returns were £223,000 or 0.86% based on average balances of £26 million.

The Council's treasury management advisors had suggested that interest rates would not rise from their historically low level until late 2015, and even then would only rise gradually. Alongside that the credit outlook remained challenging with the number of institutions accepting deposits being very restricted. Those factors resulted in expectations for returns from cash orientated investments remaining low.

In theory, the Council could increase its exposure limits (i.e. amounts deposited with individual institutions) to the approved financial institutions, or it could revise its minimum credit thresholds lower than the current minimum acceptable thresholds in its policies. However, as the overriding principle in treasury management was security of capital, that course of action was not recommended. It would not in any event increase returns significantly.

With those factors in mind, Officers had undertaken some research into alternative investment opportunities looking specifically at a property fund as a means of securing better returns and limiting exposure to financial institutions failing.

Although there were many managed property funds in the financial market, Officers had made enquiries about the LAMIT (Local Authority Mutual Investment Trust) property fund managed by CCLA (Churches, Charities and Local Authorities) which was owned by the Church of England Investment Fund (56%), the Charities Investment Fund (23%), Local Authorities' Mutual Investment Trust (14%) and others (7%).

As at 31 December 2013, there were 37 local authorities holding units in the fund. The fund was valued at £126m and owned 21 properties. Details of the operation of the property fund were attached at Appendix B.

Members' attention was particularly drawn to Sections 4 and 5 of the report which set out details of the proposal to invest in a pooled property fund and the associated risks and financial implications.

The Finance, Governance and Resources Portfolio Holder emphasised that, should the Council wish to invest in that type of fund, it needed to be aware that it would be investing for a longer time period than usual and must commit itself to the stated monetary investment and time period. He further highlighted the due diligence which would need to be undertaken.

In conclusion, the Finance, Governance and Resources Portfolio Holder thanked officers for identifying opportunities which made the best of the Council's finances and moved recommendations (i) and (ii), which were seconded by the Leader.

Summary of options rejected other options set out in the report

Decision

The Executive had considered Report RD.006/14 and recommended to Council:

1. The approval of the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7; and
2. The approval of the use of the CCLA managed LAMIT Property Fund for inclusion in the Council's investment portfolio.

Reasons for Decision

To ensure that the Council's investments were in line with appropriate policies, including the Treasury Management Strategy Statement

EXCERPT FROM THE MINUTES OF THE RESOURCES OVERVIEW AND SCRUTINY PANEL HELD ON 26 JUNE 2014

ROSP.32/14 TREASURY MANAGEMENT COUNTERPARTIES

The Director of Resources submitted report RD.006/14 concerning Treasury Management Counterparties.

The Director of Resources outlined the background position, reiterating that the Council had been investigating alternative ways of increasing the counterparties available to invest with.

As a result of those investigations, and in order to try and maximise the return the Council could achieve on its short term investments whilst still maintaining security of the investment, an additional counterparty (Svenska Handelsbanken) was proposed, details of which were provided.

The Council had approached its Treasury advisors (Capita Asset Services) regarding the proposal, in response to which they had indicated that it did not put the Council's investments at any additional risk.

The Director of Resources summarised once again the revised limits and investment criteria (as set out at Appendix A), namely:

Lloyds Group / RBS	£8 million
HSBC	£6 million (split £4 million long term, £2 million less than 1 month)
Other Credit Rated Banks/institutions (including Svenska Handelsbanken)	£4 million
Non Credit Rated Banks/Building Societies	£2 million

Turning to the issue of alternative investment opportunities, the Finance, Governance and Resources Portfolio Holder explained that the Council tended to invest its cash balances in cash deposits with banks and other approved financial institutions. For some time now, however, returns on such cash deposits had been at historically low levels. That had an adverse effect on the Council's overall budget as in 2007 investment returns were £1,865,000 or 5.75% based on average balances of £32.1million. Currently in 2013/14 investment returns were £223,000 or 0.86% based on average balances of £26 million.

The Council's treasury management advisors had suggested that interest rates would not rise from their historically low level until late 2015, and even then would only rise gradually. Alongside that the credit outlook remained challenging with the number of institutions accepting deposits being very restricted. Those factors resulted in expectations for returns from cash orientated investments remaining low.

In theory, the Council could increase its exposure limits (i.e. amounts deposited with individual institutions) to the approved financial institutions, or it could revise its minimum credit thresholds lower than the current minimum acceptable thresholds in its policies. However, as the overriding principle in treasury management was security of capital, that course of action was not recommended. It would not in any event increase returns significantly.

With those factors in mind, Officers had undertaken some research into alternative investment opportunities looking specifically at a property fund as a means of securing better returns and limiting exposure to financial institutions failing.

Although there were many managed property funds in the financial market, Officers had made enquiries about the LAMIT (Local Authority Mutual Investment Trust) property fund managed by CCLA (Churches, Charities and Local Authorities) which was owned by the Church of England Investment Fund (56%), the Charities Investment Fund (23%), Local Authorities' Mutual Investment Trust (14%) and others (7%).

As at 31 December 2013, there were 37 local authorities holding units in the fund. The fund was valued at £126m and owned 21 properties. Details of the operation of the property fund were attached at Appendix B.

Members' attention was particularly drawn to Sections 4 and 5 of the report which set out details of the proposal to invest in a pooled property fund and the associated risks and financial implications.

The Director of Resources emphasised that, should the Council wish to invest in that type of fund, it needed to be aware that it would be investing for a longer time period than usual and must commit itself to the stated monetary investment and time period. He further highlighted the due diligence which would need to be undertaken.

The Executive had considered the report on 23 June 2014 (EX.55/14 refers) and agreed that

"The Executive had considered Report RD.006/14 and recommended to Council:

1. The approval of the investment counterparty limits as outlined at Appendix A and set out in paragraph 2.7; and
2. The approval of the use of the CCLA managed LAMIT Property Fund for inclusion in the Council's investment portfolio. "

In considering the Treasury Management Counterparties report Members raised the following comments and questions:

- *Would the income from the investment in the LAMIT fund be higher in subsequent years compared to the figure set out in 5.10 of the report?*

The Director of Resources confirmed that the income was expected to be higher in future years but there was an element of risk involved.

- *A Member felt that the investment in the LAMIT was a significant departure for the authority and stressed that Members must be fully aware of and understand the risks involved.*
- *A Member commented that appendix C of the report showed that the capital growth for the LAMIT Property Fund was quite volatile.*

The Director of Resources confirmed that there had been issues in 2008/09 but that was the reason why the overall return was set at 5%.

The Finance, Governance and Resources Portfolio Holder congratulated staff for finding the investment opportunity. He reminded the Panel that the economic growth had not yet reached Carlisle and although there was risk involved the Executive supported the investment.

RESOLVED – That, although the Panel agreed in principle to the Executive's recommendations to Council, Members agreed that Council must be made aware and understand the risks involved in the alternative proposals.