

## CABINET - 5TH JULY 2018

### Report of the Head of Finance and Property Services Lead Member: Councillor Barkley

#### Part A

#### ITEM 8 REQUEST FOR REINVESTMENT RESERVE FUNDING TO ENABLE INVESTMENT IN PROPERTY FUNDS

##### Purpose of Report

To seek approval for funding from the reinvestment reserve to enable the Council to undertake investment in an additional Property Fund.

##### Recommendation

That an amount of up to £160,000 is made available from the reinvestment reserve to fund investment in a further property fund during 2018/19 financial year.

##### Reason

To enable the Council to undertake investment in a further Property Fund in a timely and cost effective manner.

##### Policy Justification and Previous Decisions

The Council's treasury management strategy was amended to allow the Council to invest in property funds (see Treasury Management update – mid-year review for the 6 months ended 30th September 2017 – minute reference 60 relating to the meeting of 16th November 2017 refers).

Following an assessment exercise two property funds were subsequently selected with a view to undertaking an investment of £2.5m in each fund in March 2018. Fund investment requires payment of an upfront introductory fee and Cabinet was requested to approve a virement within the 2017/18 budget to cover the upfront fees in a report of 15th February 2018 (see report of that date titled: 'Request For Virement To Enable Investment In Property Funds'; minute reference 94 relating to that report refers).

Due to prevailing market conditions, it was not possible to invest in one of the selected funds in March 2018. The virement could only apply to transactions within the 2017/18 financial year so to enable the second fund investment in 2018/19 it is therefore necessary to request funding that is available within the current financial year. Hence this request to request funding from the Reinvestment Reserve.

The investment meets the criteria of the Reinvestment Reserve as it will fund a one off cost which will produce a payback to the Council.

## Implementation Timetable including Future Decisions and Scrutiny

Fund investment will be undertaken during 2018/19 as soon as suitable units become available.

### Report Implications

The following implications have been identified for this report.

#### *Financial Implications*

Funding of up to £160,000 is requested is from the Reinvestment Reserve, from which sufficient monies are available.

#### *Risk Management*

The risks associated with this decision are set out in the table below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Risk Management actions planned</i>
Returns from the investment fail to cover the cost of the introductory fees	Possible	Moderate	<ul style="list-style-type: none"><li>• Professional advice has been acquired in the selection of property funds for investment</li><li>• Full day assessment of funds undertaken with participation from Cabinet members and senior officers of the council</li><li>• Close ongoing monitoring of fund performance</li></ul>

Key Decision:

No

Background Papers:

Cabinet report of 15th February 2018: Request For Virement To Enable Investment In Property Funds

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## Part B

### Background

1. Prior to March 2018, the Council's portfolio of treasury investments comprised overnight and short term bank deposits and loans to local authorities. Returns on these investments inevitably correlate to the current very low interest rates, being in the order of 0.5% on bank deposits and 3-4% on local authority loans.
2. In the light of the low returns on shorter term investments the Council considered other types of investment in financial instruments and concluded, after taking professional advice, that investment in property funds offered an appropriate mix of risk and return. Broadly, it is envisaged that medium term returns of 4-5% are achievable and whilst poor fund performance can be experienced in the short term it is very unlikely that this would continue over an extended period.
3. The Council has therefore concluded that a proportion of the total funds available for investment (£5m of a total of c£40m) will be invested in property funds with a medium term view of retaining these investments for a minimum of five years. It is likely that this investment will increase the Council's returns in the range of £150,000 - £200,000 per annum.
4. Following a full-day of assessment involving cabinet members and senior officers, facilitated by an independent professional adviser, two funds were selected for an investment of £2.5m each being Lothbury Property Unit Trust and Hermes Property Trust, a total of £5m.
5. Following Cabinet approval of a virement request in February 2018 (minute 94), the Council invested in Lothbury property fund via the 'secondary market' in March 2018. In the period to 31st March 2018 this investment gained in value by £19k and is generating yields in the order of 3.2%
6. Rather than waiting for the funds to issue new 'units', the secondary market allows prospective purchasers to buy from existing unit holders. An introductory fee relating to brokers and commission is still payable but this fee is lower than would be required for the acquisition of new units (ie. the primary market). A further advantage of the secondary market is that it allows quicker access to the investment.
7. At the time of the initial Cabinet report, it was envisaged that the Council would place two investments of £2.5m each into property funds. Unfortunately the second investment was no longer available in March 2018. It is therefore requested that an amount of up to £160,000 be made available from the reinvestment reserve to fund a further £2.5m property fund investment during 2018/19 when either units become available on the secondary market or new units are issued. This funding would come from the reinvestment reserve. As per the initial request, it is anticipated that this investment will lead to higher investment returns which have already been included in the 2018/19

investment income budget in anticipation of fund investment. As noted in paragraph 5 above, the current property fund investment is performing well and generating good returns for the Council.