

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

From: Head of Corporate Resources	Report Number: JAC66
To: Joint Audit and Standards Committee	Date of meeting: 22 January 2016

TREASURY MANAGEMENT - NEW CASH INVESTMENTS

1. Purpose of Report

- 1.1 To outline the approach being taken for New Cash Investments in both the short and medium/long term and its links to the Medium Term Financial Strategy, as recommended by Joint Audit and Standards Committee on 15 June 2015 Paper JAC54, and subsequently approved at Full Council.
- 1.2 To provide Members with an update on the performance for the first period of the new areas of investments made with the CCLA, Funding Circle and other funds.

2. Recommendations

- 2.1 That the report be noted.

3. Financial Implications

- 4. These are detailed in the report.

5. Legal Implications

- 5.1 None.

6. Risk Management

- 6.1 Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Loss of investment	Unlikely	Bad	Diversification of investments to limit the impact and acting on advice from treasury management advisers
Return on investments is lower than anticipated	Unlikely	Noticeable	Investment performance is kept under review and changed where practicable

7. Consultations

- 7.1 The approach and procedures noted in this report have been fully discussed with the Councils' treasury management advisers, Arlingclose.

8. Equality Analysis

- 8.1 This is a technical report, so none of the groups with protected characteristics are affected by the contents and hence no equality analysis has been undertaken.

9. Shared Service / Partnership Implications

- 9.1 This is a joint report for Babergh and Mid Suffolk. The processes are the same for both Councils, but investments and returns may be made and received in different timescales.

10. Links to Joint Strategic Plan

- 10.1 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

Strategic Context

- 10.2 In February 2015 Babergh and Mid Suffolk District Councils approved the Joint Medium Term Financial Strategy (MTFS) which outlined the challenges facing the councils over the coming years. The refreshed and updated MTFS will be recommended to each Council in February 2016. The strategy sets out the approach each Council is taking to the delivery of its strategic priorities and the management of their finances over the next four years..

- 10.3 The strategic response to those challenges, to ensure long term financial sustainability, is set out in six key actions:

- (a) Aligning resources to the councils' refreshed strategic plan and essential services.
- (b) Continuation of the shared service agenda, collaboration with others and transformation of service delivery.
- (c) Behaving more commercially and generating additional income.
- (d) Considering new funding models (e.g. acting as an investor).
- (e) Encouraging the use of digital interaction and transforming our approach to customer access.
- (f) Taking advantage of new forms of local government finance (e.g. new homes bonus, business rates retention).

11. Key Information

Background Information

- 11.1 Discussions were held between Officers and the Councils' treasury management advisors, Arlingclose, to look at ways of generating additional income through investment opportunities and achieving higher rates of return.

- 11.2 The Joint Audit and Standards Committee on 25 June 2015 recommended, and the Councils approved in July 2015:

- an increase in investment and loan limits as follows:
 - a) Pooled funds from £2m to £5m
 - b) Investments without credit ratings from £2m to £10m
 - c) Non-specified investments from £5m to £10m
 - d) Loans to unrated corporates £500k to £1m
- Section 151 Officer (Head of Corporate Resources) to have delegated powers to enter into arrangements with:
 - a) Churches, Charities and Local Authorities Property Fund (CCLA)
 - b) Funding Circle
 - c) Other Funds

12. Performance Review

CCLA Property Fund

- 12.1 CCLA is a specialist fund manager that only works for churches, charities and local authorities and manages a local authority property fund. The fund has been in existence since 1971, and as at 1 December 2015 the fund was approximately £569million with 139 investors. The average yield over the last 7 years has been in the 4-6% range and at the end of November 2015 was 4.72%.
- 12.2 Both councils invested £5million each into the Fund, Babergh on 27 August 2015, and Mid Suffolk on 29 October 2015.
- 12.3 The Fund performance statements are received on a quarterly basis, the latest one being for 30 September 2015. Interest income is received and management expenses are deducted on the same basis.
- 12.4 To date, Babergh District Council has been paid one month's interest for Quarter 3 of the calendar year, which was received in October 2015. The Fund performance for the final quarter of the year (October to December) will be produced in January and interest will be received at the end of the month.
- 12.5 Table 1 below shows the investments and returns for Babergh to Quarter 3 of 2015

Table 1	£
Amount invested	5,000,000
Interest received	21,474.27
Management Expenses paid	2,359.88

- 12.6 Due to the timing of the investments for Mid Suffolk, notification of interest received and management expenses paid will not be available until later this month.

Funding Circle

- 12.7 Funding Circle is the leading global peer to peer business lender. It was established in 2010 and has employees in both the US and UK. The UK arm has funded loans of £600million to over 7,000 small and medium enterprises (SME's).

- 12.8 Funding Circle, like CCLA, should be viewed as a longer term investment. Money will be recycled to the councils, as loans are repaid by the businesses, but to maintain the revenue return this will be reinvested in other businesses.
- 12.9 Both councils invested £100,000 each, on 30 October 2015, into Funding Circle, split £50,000 in National and £50,000 in Local accounts (for local businesses).
- 12.10 Repayments are made of principal and interest on a monthly basis, less a management fee.
- 12.11 Loans are accepted or rejected through a bidding process at the end of an allotted period of time, via the Funding Circle website. To date, Babergh has lent £11,560 and Mid Suffolk £14,000. All funds invested so far have been through the National account, as no local businesses have applied during this period.
- 12.12 The Fund performance statements are available on a monthly basis through their website.
- 12.13 Table 2 below shows the performance to 31 December 2015 for both councils.

Table 2	Babergh District Council	Mid Suffolk District Council
Investments -		
5 Year Loans	£5,560	£10,000
3 Year Loans	£6,000	£4,000
Rejected Bids	3	2
Unallocated funds	£88,440	£86,000
Income received -		
Principal repaid	£171.31	£181.87
Interest received	£70.67	£88.31
Promotional Cashback received	£20.00	£20.00
Expenses - Fees paid	£7.97	£10.02
Average rate of return over period	8.92%	8.86%

Other Funds

- 12.14 Another new investment opportunity has been taken for Babergh by investing in the UBS Multi Asset Income Fund (UK). UBS has managed local authority assets for over 50 years and also currently manages £13.1 billion of pension fund assets in the UK.
- 12.15 The Fund managers seek to generate an income equal to the 1 month LIBOR (London Interbank Offered Rate) + 3%, net of fees. By managing the Fund conservatively they aim to achieve a stable and sustainable yield.
- 12.16 The Fund invests in various types of assets including cash, bonds, property and equity across various economic areas such as the US, EU and emerging markets.
- 12.17 The value of this Fund, as at 30 September 2015, was £31million. Babergh District Council has invested £2million on 1 December 2015.

12.18 Fund performance statements will be received quarterly. Interest received less the management fee will be paid on the same basis, we have not yet received our first performance statement.

13. Background Documents

13.1 Joint Treasury Management Strategy 2015/16 approved by Councils in February 2015 (Paper P100R in Babergh and X/09/15R in Mid Suffolk)

13.2 Capital Investment Strategy (Report no. JAC54)

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