



**Report to: Income Generation Sub-Committee, 16<sup>th</sup> January 2018**

**Report of: Head of Finance**

---

**Subject: POOLED PROPERTY FUND INVESTMENT**

**1. Recommendation**

- 1.1 That the Committee review the proposal to extend the council's list of approved investment instruments to include Pooled Property Funds and recommend its approval to the Policy and Resources Committee on 6<sup>th</sup> February 2017.**
- 1.2 That the Committee review the proposal to invest up to £5m in the CCLA Property Fund and recommend its approval to the Policy and Resources Committee on 6th February 2017.**

**2. Background**

- 2.1 The council currently invests all available surplus funds on deposit for a period between 3 and 12 months. The rate of interest earned varies with the length of time committed but is currently an average, over the last 5 years, of approximately 0.58%.
- 2.2 The return achieved by the council on its cash investments has declined in recent years. In 2008/09 the return achieved was 5.2%.

	08/09	09/10	10/11	11/12	12/13	13/14	14/15	15/16	16/17	17/18
Investment return achieved	5.20%	1.41%	1.02%	1.16%	0.96%	0.58%	0.53%	0.62%	0.57%	0.61%

- 2.3 The value of surplus funds available varies according to short-term cash-flows but currently averages £15m. This may decline over time depending on the level of spend from earmarked reserves and the City Plan Fund and the timing of refunds arising from business rates appeals.
- 2.4 The council's borrowing currently stands at £8.4m against an approved operational limit of £17.8m. Further borrowing of £4.4m was approved for the construction of the swimming pool but has not yet been taken out.
- 2.5 The council's Capital Financing Requirement currently stands at £11.5m confirming the underlying need for further borrowing. At present this is covered by internal borrowing. However this proposed property fund investment is likely to bring forward the need to take out additional borrowing.

2.6 The interest rates available from the PWLB for new borrowing vary according to market expectations of future rate changes. The rates are monitored closely to ensure that the required borrowing is taken out at a competitive rate. **Appendix 1** shows the daily rates available since September 1<sup>st</sup> 2017.

### 3. Preferred Option

3.1 There is an opportunity for the council to extend the scope of its investments to include Pooled Property Funds. The returns from property investment have consistently exceeded those from cash deposits.

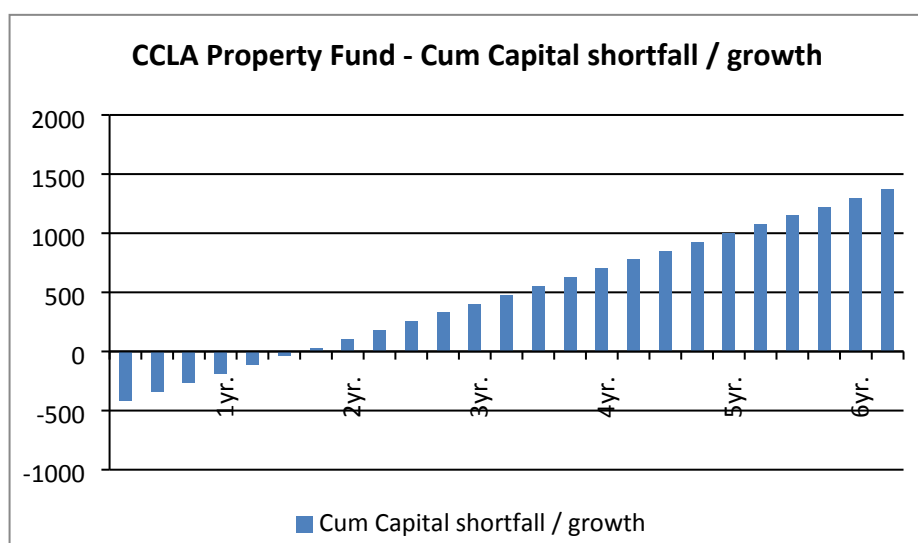
3.2 The CCLA property fund has a total value of £836m invested in property across a broad range of sectors and regions in the UK. This spread means that it is deemed to be low risk. **Appendix 2** is the factsheet published by the fund.

3.3 The income element of the return has been consistent, recording an average return of 5% over the last 3 years. The income, which is paid quarterly, is currently 4.6% p.a. less an annual management charge of 0.65%. This compares to the interest rate currently achieved by the council of approximately 0.58%. This means the net benefit of investing in the property fund compared to placing the funds on deposit is 3.4%. In addition there is the potential for an increase in the capital value.

3.4 It is proposed to invest up to £5m in the CCLA fund with the decision on the value and timing to be delegated to the Head of Finance depending on the latest cash flow forecasts.

3.5 The investment needs to be viewed as being for the medium to long-term. There is a spread of 8.3% between the bid and offer price of each unit purchased in the fund. To be sure of recovering this and overcoming any short-term fluctuations in market property values, the investment needs to be for a minimum of, say, 3-5 years.

3.6 The spread between the bid and offer price would reduce the value of the £5m invested by an initial £415k. The average annual growth over the last five years in the capital value of the fund has been 6.5%. Assuming that this continues and applies evenly, the value of the investment would return to £5m after approximately 18 months with the opportunity for further growth thereafter.



#### **4. Alternative Options Considered**

- 4.1 The alternative option is to continue to invest all surplus funds on deposit for varying fixed terms. Although this carries no risk, the interest rate earned is very low at an average of only 0.58%.

#### **5. Implications**

##### **5.1 Financial and Budgetary Implications**

The draft budget for 2018/19 includes the assumption that this investment will be made and will generate an incremental interest receipt of £0.2m. Should this proposal not be approved, there would be a budget deficit and alternative cost savings or income generation opportunities would have to be identified.

##### **5.2 Legal and Governance Implications**

As covered in this report.

##### **5.3 Risk Implications**

The CCLA property fund carries a comparatively low level of risk as a form of property investment because the pool contains a wide portfolio of assets in different location and different commercial sector. Economic downturn affecting one sector will be mitigated by holdings in other sectors. The income generated by the Fund has, however, remained consistent over time and the capital value has increased over the long-term.

While an increase in property values would have a positive impact, forthcoming proposed changes in accounting practice may mean that the impact of reduced property values would be reflected in a direct charge to the Council's revenue accounts. This would reduce the value of the Council's holdings and will require a decision whether to accept the loss or retain the holdings at a reduced value until the market had recovered sufficiently to realise the initial value.

##### **5.4 Corporate/Policy Implications**

The Council has identified a need to generate increased income as part of its financial policies and set out a planned approach in the October 2016 pre-budget report. This will be further developed through the Commercial Strategy which is considered by the Committee elsewhere on the agenda.

##### **5.5 Equality Implications**

None

##### **5.6 Human Resources Implications**

None

##### **5.7 Health and Safety Implications**

None

**Ward(s):** All  
**Contact Officer:** Mark Baldwin – Tel: 01905 722007  
Email mark.baldwin@worcester.gov.uk  
**Background Papers:** None