

Part A

Report to: Cabinet

Date of meeting: Monday, 7 September 2020

Report author: (Shared Services) Director of Finance

Title: Appointment of Money Market Fund Managers

1.0 Summary

- 1.1 In July 2019 the Council acquired Croxley Business Park by way of 40 year finance lease. As part of the acquisition the Council received a reserve fund of £92M in cash, made up of £68M towards planned programme maintenance and £24M in respect of a rent guarantee fund to cover rental losses due to future voids. The financial appraisal took into account this income in assessing the overall value for money of the project.
- 1.2 Council, noting that this reserve fund is earmarked specifically to mitigate risk within the proposal, authorised that the Director of Finance make appropriate investment of the top up fund in accordance with the financial model, providing the right balance between security, liquidity and yield, based on advice from the Council's investment manager and amend the Treasury Management Policy accordingly.
- 1.3 This report seeks endorsement of the investment of the reserve fund with Royal London Asset Management.

2.0 Risks

- 2.1 No Treasury investment is risk free, leaving the money in the Government's Debt Management Office protects the initial capital but is currently making a return lower than inflation so is losing value in real terms. Money Market Funds invest money across a range of investments and instruments to manage that risk and are suitable for investments over the longer term where longer term growth should outweigh shorter term volatility. By working with the fund managers and regularly reviewing the Croxley Park cash flows, the relevant proportion of the cash will be kept in cash plus funds to provide short term liquidity and avoid having to withdraw funds from the main investment at a sub-optimal time.

Nature of risk	Consequence	Suggested Control Measures	Response (treat, tolerate, terminate or transfer)	Risk Rating (combination of severity and likelihood)
Failure to invest Croxley Park Money outside of DMO.	Returns are not made in line with Croxley Park model. Money loses in value in real terms as interest is less than inflation.	Investment proposed with Royal London Asset Management	Treat	6
Money not available when needed for Croxley Park	The Council would have to borrow short term incurring interest costs.	Investment to be managed working with fund managers based on cash flow projections that are regularly reviewed.	Manage	6
Capital at risk	£92M is not available when needed.	The investment is not risk free and the capital is at risk. The Money Market Fund offers the opportunity to balance risk and yield over the longer term. A conservative benchmark of out-performing inflation is used for yield.	Manage	6
Treasury Management Risks	Security Liquidity and Yield are not appropriately balanced.	All treasury management activity is subject to risk. The Treasury Management Policy details treasury risks and sets out how these are managed.	Manage	6

3.0 Recommendations

- 3.1 That Cabinet endorse the investment of the Croxley Park reserve fund with Royal London Asset Management using its Sustainable Managed Growth Trust Fund and Sustainable Diversified Trust. The final placement of the money between the two funds based on the advice of the fund managers given the expected cash flows within the Croxley Park model.

- 3.2 Notes that, in order to facilitate the longer term investment and give flexibility over timing of the initial investment, the money will be transferred initially into a suitable cash fund within RLAM.

Further information:

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Report approved by: Alison Scott

4.0 Detailed proposal

Background

- 4.1 In July 2019 the Council acquired Croxley Business Park by way of 40 year finance lease. As part of the acquisition the Council received a reserve fund of £92M in cash, made up of £68M towards planned programme maintenance and £24M in respect of a rent guarantee fund to cover rental losses due to future voids. The financial appraisal took into account this income in assessing the overall value for money of the project.
- 4.2 Council, noting that this reserve fund is earmarked specifically to mitigate risk within the proposal, authorised that the Director of Finance make appropriate investment of the top up fund in accordance with the financial model, providing the right balance between security, liquidity and yield, based on advice from the Council's investment manager and amend the Treasury Management Policy accordingly.
- 4.3 The Part B appendix to the report contains details of the appointment process. The Council's treasury management advisers, Link Asset Management provided advice throughout the process.

5.0 Implications

5.1 Financial

- 5.1.1 The Shared Director of Finance comments that the investment of the £92M with RLAM will allow the council to achieve the returns assumed in the Croxley Park Model. Councillors should note, however, that investments of this type are not without risk both in terms of returns and capital values. This investment is long term in nature allowing the Council to manage short term volatility and leaving the £92M in the Governments deposit facility would result in the value of the £92M falling behind inflation so losing real value.

5.1.2 Attention is drawn to the risks outlined in the Councils Treasury Management Policy and the changes to the Policy consequent on making the investment outlined in this paper. An updated Treasury Management Policy is attached at Appendix 1.

5.2 **Legal Issues** (Monitoring Officer)

5.2.1 The Group Head of Democracy and Governance comments that a competitive process was undertaken to acquire the Fund Manager in accordance with the council's contract procedure rules

5.3 **Equalities, Human Rights and Data Protection**

5.3.1 None.

5.4 **Staffing**

5.4.1 None

5.5 **Accommodation**

5.5.1 None

5.6 **Community Safety/Crime and Disorder**

5.6.1 None

5.7 **Sustainability**

5.7.1 The investment will be in Royal London Asset Management's sustainable funds which specifically target investments in companies with high environmental social and governance ratings.

Appendices

Appendix 1 – Revised Treasury Management Policy
Part B – Confidential Appendix - Detail of the Appointment Process

Background papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

- Confidential: Link - External Fund Manager Selection Additional Statistical Analysis July 2020