Appendix C

Proposal for Future investment strategy.

Introduction and Background

The Financial landscape in relation to Investment Income has changed significantly in the past 2 years with interest rates falling to record lows and the available level of resources being impacted by wider Council decisions.

This paper seeks to provide members with information on the current position and possible future investment opportunities it may wish to invest in.

1 The Council's financial strategy in the past seventeen years has worked towards increasing financial sustainability and it has been successful through the use of a number of strategies such as the 10-year revenue budget.

2 The investment income has played a significant role in helping to reach a balance budget position in the 10-year budget increasing from £192,000 in 2010/11 to £300,000 in 2020/21.

3 However, the Financial landscape in relation to Investment Income has changed significantly in the past 2 years with interest rates falling to record lows and the available level of resources being impacted by wider Council decisions.

4 It is now necessary to refresh our investment strategy to maximise returns and more closely align our approach with the risk appetite of the authority.

Current Position

5 Table 1 below sets out both the income budget and actual figures for income from investments for the last 3 years together with the average rate of return

Table 1

	19/20 £	20/21 £	Forecast 21/22 £
Investment Income Budget	200,000	300,000	188,000
Investment Income -Actual	254,295	79,277	22,000

Average % return	0.89%	0.35%	0.11%

6 The table above just shows the interest earnt on cash placed with counterparties but that is only part of the picture when looking globally at how our cash has been utilised.

7 Sevenoaks DC has provided financing by way of loans and equity to Quercus 7 to facilitate its acquisition of a number of investment opportunities. To date loans of £5.9m have been made to Quercus 7 earning an average of 4.61%. These are reported within the Property Investment Strategy income.

8 In addition, as part of the approved capital programme, agreed by members, it was projected that we would borrow £8m externally to part fund the White Oak Leisure Centre construction. To date we have not borrowed but rather funded this capital expenditure through internal borrowing and therefore saved £190,000 a year based on the rate of borrowing when it had initially been planned that the loan would be taken.

9 If this information is then reapplied to Table 1 we see a more accurate reflection of the financial impact of the global decisions.

Table 2

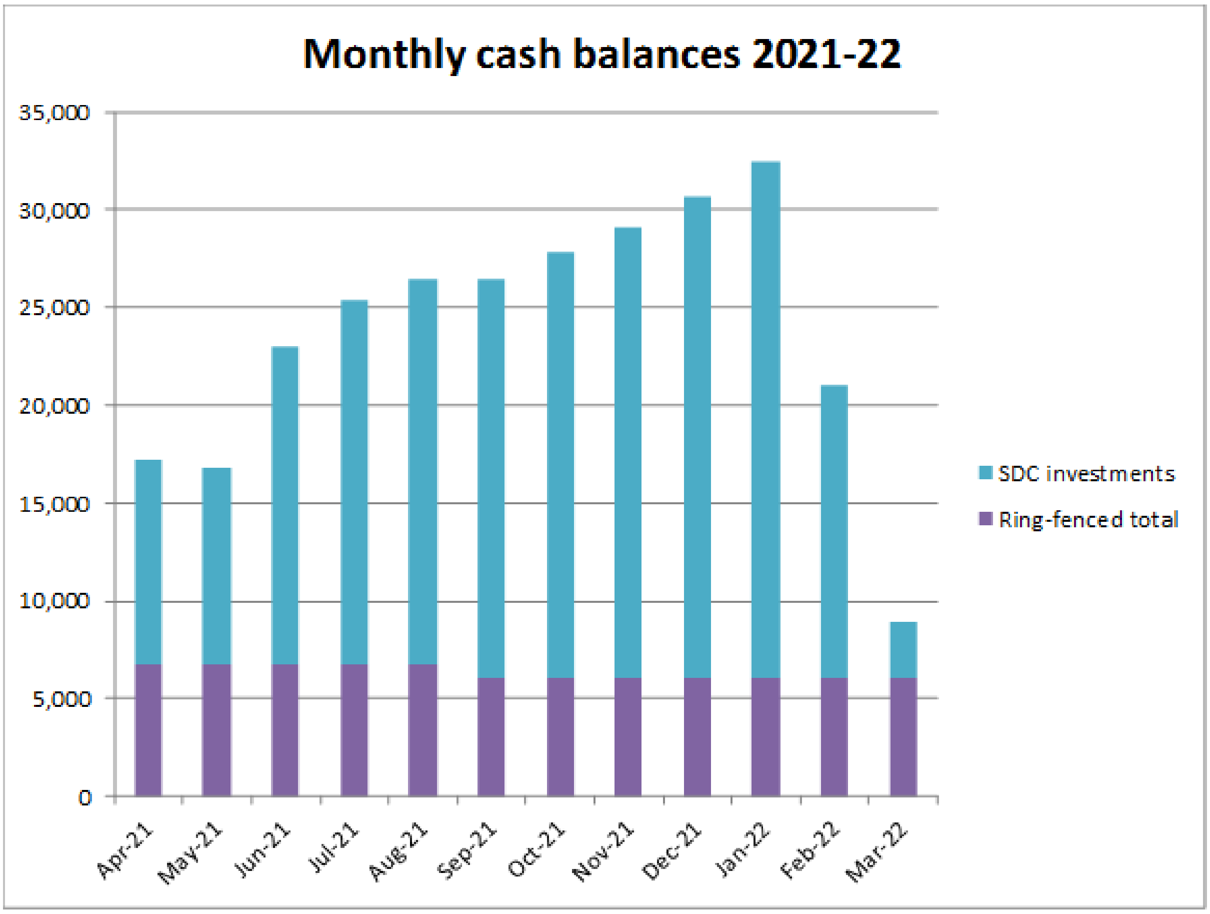
	19/20 £	Average percentage	20/21 £	Average percentage	Forecast 21/22 £	Average percentage
Income Budget	200,000		300,000		188,000	
Investment Income	254,295	0.89%	79,277	0.35%	22,000	0.11%
Interest from Loans	138,895	3.34%	224,068	4.93%	307,807	4.76%
Interest saved on not borrowing externally	96,658	2.36%	290,258	2.39%	290,258	2.39%
Total	489,848		593,603		620,065	
Average cash balance	24.9m		22.6m		20.0m	
Average Loan	4.1m		4.5m		6.5m	
Average % return		1.48%		1.51%		1.61%

10 From the information in Table 2 it can be seen that as the sums invested in cash-based investments drop, those funds are utilised in property-based investment where it achieves higher returns.

11 The ability to accurately forecast our cash needs and therefore the ability to either fund acquisitions, capital expenditure or invest for an investment return is central to making sure that we maximise the real return on our available resources.

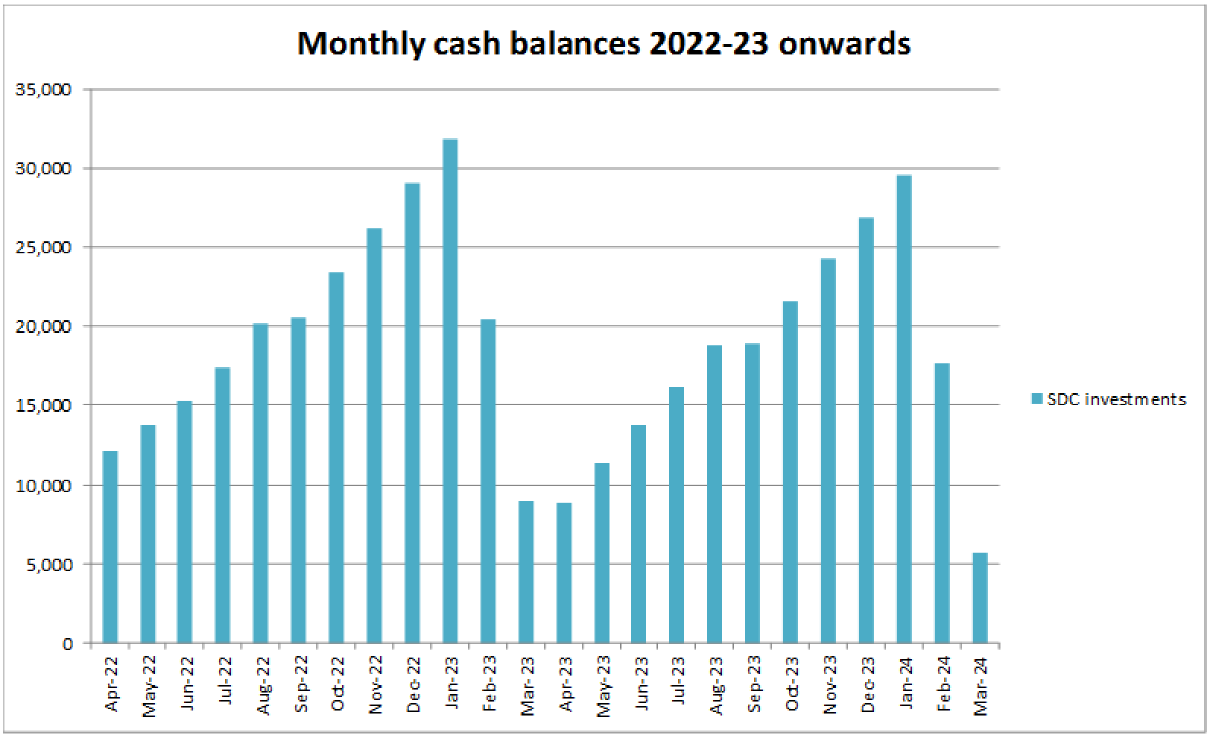
12 Graph 1 below shows the expected cash balances for 21/22 and Graph 2 shows the expected cash balances for 23/23 & 23/24. The data feeding into these graphs is very detailed and includes the current approved capital schemes, NDR & Council Tax receipts, Precept payments as well as receipts from capital disposals and grant funding. The forecasts are updated on a monthly basis to ensure the most accurate and up to date information is used.

Graph 1



13 This graph shows that in March 22 we would be carrying very low cash balances and would be the most likely time that we would need to borrow externally. February and March are months of low cash inflow as Council Tax payments are taken from April to January, but the precept payments are paid in 12 instalments.

Graph 2



14 Graph 2 again shows the cash balances recovering from April as the Council Tax payments are received but again these dip in February & March.

15 Neither Graph currently shows any external borrowing but this position will change as capital schemes continue in their development.

Future options

16 With returns on conventional money markets and inter-authority lending at an all-time low, as well as the requirement for investment returns to perform well in order to help fund the net revenue budget, it is time to look at other investment opportunities.

17 Multi-Asset Income Funds (MAIF) are not new to the market and were approved as part of the Treasury Strategy for the last 2 years. The next 3 pages give a summary of MAIF's, including details of fundamentals of MAIF's, the potential returns and volatility of returns over both the short and long term

Fundamentals – Multi-Asset Income Funds (MAIF)

Security

- Pooled Investment vehicle with low entry level.
- Investing in a mixture of assets, such as cash, bonds, property, equity and various other income producing products. Most funds will include non-sterling investments, hedged back to sterling, in portfolio.
- Unrated - look to the quality and process for selecting the underlying assets.
- Risk is diversified via the spread of investments, with ‘risk-return efficiency’ above average.

Liquidity

- Can be sold on a daily basis, with settlement typically T+3.
- Funds hold variety of extremely liquid assets to meet investor liquidity requirements and dividend payments.

Cost

- Annual management fees typically 75-150bps.

Yield

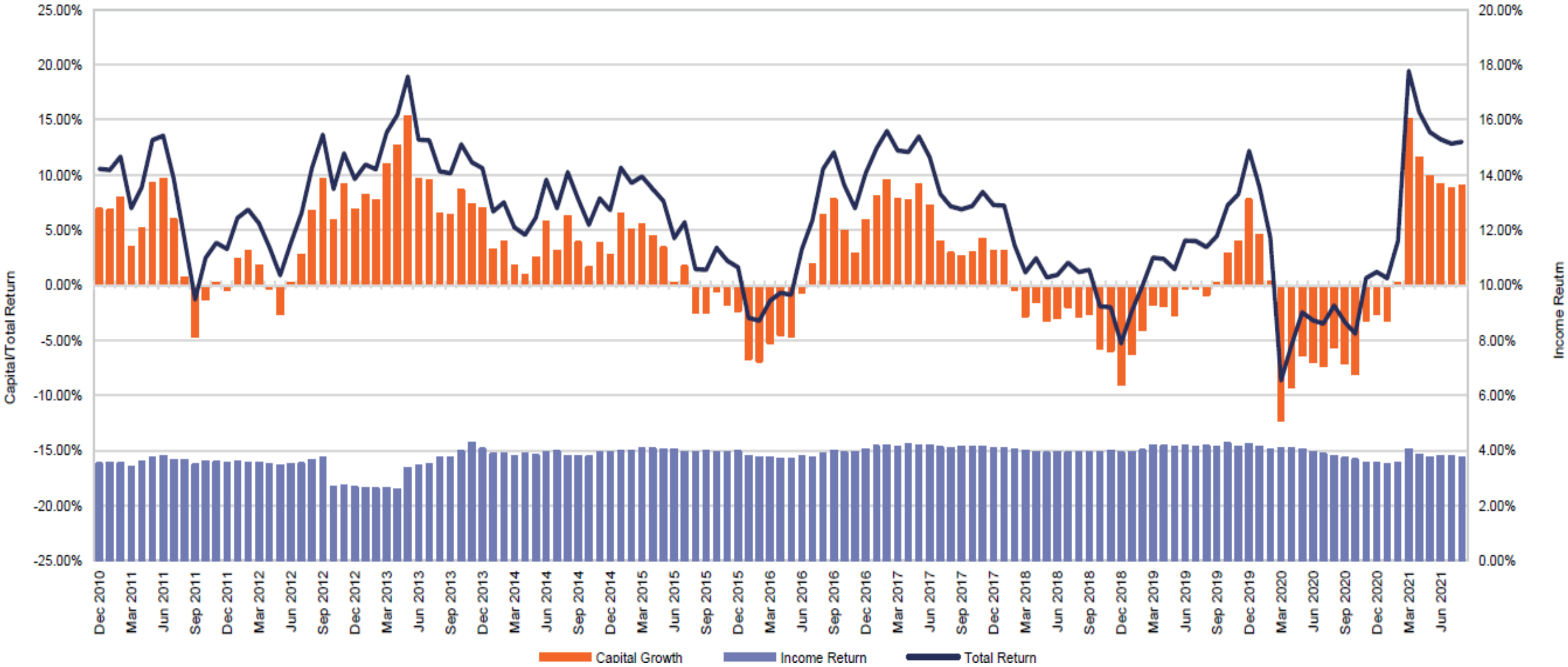
- Variable returns, although diversity in assets aim to give stability to income payments.
- Managers typically aim for 4-6% in yield, but current environment providing lower range.

Consideration

- Increased volatility of performance.
- Lack of council control of underlying investments within the fund.
- Unrated credit, derivatives and other complex instruments are regularly used.
- We would always suggest undertaking a selection process to ensure that the most suitable fund is selected.
- Relatively ‘new’ products, most fund 5-10 years old.

Performance Split – Income Vs Capital (Average for MAIF)

Rolling Periods	Income Return			Income - Standard Deviation			Capital Growth			Capital - Standard Deviation		
	Average	Max	Min	Average	Max	Min	Average	Max	Min	Average	Max	Min
1 year	3.99%	5.88%	0.52%	0.44%	0.86%	0.14%	1.13%	29.30%	-23.88%	6.16%	9.77%	3.04%
3 years*	4.02%	5.60%	1.48%	0.30%	0.91%	0.03%	0.51%	11.71%	-13.57%	2.24%	5.84%	0.49%
5 years*	4.04%	5.51%	2.27%	0.23%	0.64%	0.03%	0.85%	9.68%	-7.67%	1.42%	4.12%	0.29%



Volatility & Investment Horizons (MAIF)

- Your investment time horizon is key to suitability
- These are suited to long-term investing only
- Typically, 5yrs+ due to higher-risk investments providing high volatility
- Mismatches could produce negative returns, with longer investment periods more likely to produce positive returns
- See below for example of how these perform over a range of rolling time periods

Rolling Periods	Number of Funds	Positive Periods			Total Return			Standard Deviation		
		Average	Max	Min	Average	Max	Min	Average	Max	Min
1 month	16.00	66.91%	78.05%	58.00%	0.47%	15.65%	-15.47%	2.17%	3.33%	1.27%
3 months	16.00	74.56%	92.94%	55.88%	1.41%	16.00%	-23.40%	3.59%	5.17%	2.10%
6 months	16.00	74.90%	87.88%	46.15%	2.77%	25.70%	-19.70%	4.74%	7.13%	2.70%
1 year	16.00	77.70%	95.70%	44.07%	5.22%	35.13%	-20.91%	6.33%	10.00%	3.16%
3 years	16.00	91.40%	100.00%	45.71%	4.53%	16.16%	-9.89%	2.38%	5.93%	1.06%
5 years	15.00	91.93%	100.00%	9.09%	4.86%	14.17%	-2.92%	1.43%	4.20%	0.30%

18 Current projection, in line with the capital programme it is anticipated that £10m of external borrowing will be taken in April 2022 as per the cashflow (Graph 2) the year-end cash available for investment never drops below £5m and therefore it is suggested that we should be relatively comfortable tying that amount up over the long term in a Multi-Asset Fund type of investment.

19 The average return over the past 9 years the MAIF have been in the mainstream market has been 4.75% but it is important to point out that some showed returns close to 0% and other came out at 9%. This average return is also net of annual fees which are commonly 1% but can be lower. There are also in some cases entry & exit fees dependant on the fund and on average are 1% of the amount invested.

20 Using this average of 3.75% the return would be:

Amount Invested	Average annual return 5 years	average annual return 10 years
£5,000,000	£937,500	£1,875,000

Conclusion

21 It is clear from the information within this report that if Sevenoaks should wish to invest in a MAIF then this is probably the right time to do so with the current returns from other market options low.

22 Members need to be entirely happy with the volatility of this type of investment and the need to commit to the full length of the investment.

23 Furthermore members need to satisfy themselves that the initial amount invested is available to be committed for either 5 or 10 years.

24 This should be considered to be a pilot with returns being compared to the global investment, i.e investments for traditional funds, loan interest etc.