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Full Council Meeting

Date: 1st April 2021

Agenda Item FC125: Consider Investing in the CCLA Public Sector Deposit Fund

1. Introduction

The CCLA (Churches, Charities and Local Authorities) is an organisation who specifically provide fund management options for churches, charities and local authorities, by providing specialist investment opportunities for these organisations to use their combined funds to obtain higher returns than those which are currently available on the High Street.

During recent SLCC events I have attended their presentations regarding investments and have also had a 1-1 call with them to understand in greater detail the options that are available.

Overall town and parish councils have over £100m invested in the Public Sector Deposit Fund. This is still a relatively small proportion of the total fund size, currently £1.3bn.

CCLA is rated as a AAmmf financial institution by Fitch Ratings London, most recently in November 2020, and is covered by the Financial Conduct Authority and Bank of England Prudential Regulation Authority.

The Local Authorities Mutual Investment Trust (LAMIT) board is a body controlled by members and appointed by the Local Government Association. All three of the Local Authority funds managed by CCLA have governance and oversight from the LAMIT board (this includes the two funds as described below).

Currently we hold £171k in our NS&I account, which is a combination of the S106 funds received for Horsefield Green and our Precept failure reserves. We also have £123k in our Unity Trust current account of which £77k is earmarked reserves.

2. Findings

The CCLA offer 2 types of fund, Cash and Property.

Public Sector Deposit Fund (Cash)

This is a low risk option whereby funds are invested across a portfolio of approx. 30 organisations which are monitored daily. The CCLA's top priority is the security of the funds invested, something which is especially important as they are not covered

by the financial services compensation scheme (FSCS) should something go wrong. Should one of the organisations fail, any funds invested with that organisation would be lost, however the risk monitoring profile is such that the CCLA would remove funds from an at risk organisation before that happened.

Detailed information about the fund can be viewed at <https://www.ccla.co.uk/investment-solutions/fund/the-public-sector-deposit-fund> and the 'Factsheet' can be seen at Appendix A to this report.

Property Fund

This is a long-term commercial property investment fund, with a minimum of 5 years recommended, due to the higher risks involved. Units in the fund are purchased at 1 price, then sold at approx. 8.3% lower than the purchase price, hence the need for this to be a long-term investment to allow for property prices to rise to offset the loss when units are sold.

CCLA have approx. 250 clients in the fund, of which approx. 100 are Parish/Town Councils (including MDSC).

This fund is actively managed and contains a mixture of retail (very limited), retail warehouses (e.g. B&Q type stores), industrial warehouses (e.g. distribution centres) and offices. In 2020 they collected 98% of their rates as on the whole all their tenants are still paying their rents.

To invest in this fund Cuckfield Parish Council would have to be professional investor to qualify for this we would have to have £10 million available to invest. As we don't, there is the option to become an elective professional investor, which requires a suitability report from a Financial Advisor. CCLA are currently working to identify a provider for this service as the previous provider is no longer supporting this sector.

3. Costs

The following costs are involved with each fund.

Cash Fund

The minimum investment is £25,000.

CCLA Fees are 0.08% of the interest earned.

A typical monthly return on investment of 0.04% is realised (after deduction of fees).

Funds can be withdrawn the same day if notification is made before 11.30am.

Property Fund

The minimum investment is £25,000.

CCLA Fees are 1% of the interest earned.

A typical monthly return on investment of 4.5% is realised (after deduction of fees). 90 day withdrawal period.

NS&I

£25 minimum investment to keep account open.

No fees.

Interest of 0.01% is paid annually on 1st January.

Withdrawals made by postal application; below £50k will be next day, over £50k would take 3-5 working days from receipt of form.

4. Recommendation

Considering the low risk of the cash fund and the potential to quadruple our return on investment, I recommend Council considers nominating a sum of money to invest in CCLA's Cash Fund, subject to review after a set period of time e.g. 1 year.

This would also provide diversification of the Council's savings due to the Financial Services Compensation Scheme (FSCS) being set at £75,000 per bank, building society or credit union.

Sam Heynes
Parish Clerk/RFO

22nd March 2021

Appendix

Attached are factsheets providing details about the investment funds offered by CCLA.



LAPF

factsheetDecember20



LAPF

profileDec20.pdf



PSDF

factsheetFeb21.pdf

Detailed below is further information about the schemes offered.

The Public Sector Deposit Fund/CCLA:

- CCLA (Churches, Charities & Local Authorities) is a mutually owned firm of investment managers, owned by LAMIT (Local Authorities Mutual Investment Trust), the Church of England (Central Board of Finance) Investment Fund and the Charities (COIF) Investment Fund;
- we have 35,000+ clients and manage £12.5bn+ of cash and investments;

- the Local Government Association invited us to develop the Fund in collaboration with the sector, as a result of the Icelandic banking crisis. It was launched in May 2011;
- it is an AAmmf rated (Fitch Ratings) money market fund with the priorities of security, liquidity and yield;
- the Fund boasts strong governance with an Advisory Board made up of representatives of the LGA, CIPFA and treasury specialists from the sector, including representatives of the LB of Waltham Forest and the GLA;
- transparency is key with everything published on CCLA's website - <https://www.ccla.co.uk/investment-solutions/fund/the-public-sector-deposit-fund>. You will find the latest yield (0.0417%, net of fees at close of business on 15/03/2021), yield history, counterparty exposure, fund size, outstanding transactions by maturity date, etc - all updated at close of business each day;
- the Fund is managed on a very conservative basis (beyond the requirements of AAmmf rating), only using plain cash products and instruments with well rated (minimum F1 short term) banks: call; term and certificates of deposit - the kind of products that Councils themselves feel comfortable using. There is no exposure to the stock market, derivatives, other funds, asset backed securities - nothing exotic;
- the minimum initial investment is just £25,000 so there are a number of parish and town councils making use of the Fund, besides principal authorities;
- access is same day. We have an 11:30 cut-off time for instructions;
- the Fund has exceeded £500m under management with 600+ clients (including 22 County/unitary Councils, 400+ Parish, Town and Community Councils and 100+ District/Borough Councils, Police, Fire plus the LGA, NALC, 6 County Associations, SLCC, NILGA, 3 Port Authorities and 2 crematoriums), a trigger point for the activation of additional share classes. However, the minimum requirement for share class 4 investors (£15m) has been waived for the time being to allow all investors to take advantage of the lowest fee and most favourable yield, highlighted above. The yield we quote on-line is net of all fees;
- finally, as the Fund grows and a dividend payment would be due to LAMIT, it has been agreed to reduce fees in the true spirit of mutuality. As a share class 4 investor the fee is currently 0.08%, reduced from 0.10% in November 2015.

The Public Sector Deposit Fund is a short term LVNAV Qualifying Money Market Fund. This change from the previous Constant Net Asset Value (CNAV) structure is the result of European reforms intended to replicate some of the utility of the previous CNAV funds but with greater sensitivity to market pricing and extra controls built into the fund structure to protect investors. The Fund is not covered by the Financial Services Compensation Scheme, nor is it a guaranteed investment. An investment in the Fund is different to an investment in deposits and Investors may not get back what was invested. The risk of loss is borne by the Investor. The Fund does not rely on external support for

guaranteeing liquidity or stabilising the share price. Further information can be found in the Scheme Prospectus.

The Local Authorities' Property Fund

There are currently 250 authorities investing £1.195bn, including 104 Parish and Town Councils. I have attached the 31/12/20 fact-sheet. The latest yield is 4.42% (February '21).

Please be aware and note the following:

- Council must be comfortable with a long-term view, ideally 5+ years;
- The costs associated with property investment are high. The Fund has a bid/offer spread of 8.3%, made up of stamp duty (5%) plus legal, agents and valuation fees – all the costs associated with buying commercial property. None of these costs are levied by CCLA. Our management charge is 0.65% p.a. taken from income before the distributions are paid to you;
- The impact of costs is severe. If you invested £100k this month and sold next you would take the full hit of the spread and get less than £92k back, assuming no change in capital values. This is a key reason why the sector is a sensible choice only for those able to commit for a multi - year period;
- Capital values will move around due to sentiment and external factors in the market (Covid-19, Brexit, election result, etc). However, due to the unique accounting treatment available to local authorities and councils, you hold the asset at cost, not current value. The market value only comes in to play when you sell. It should be noted that CCLA does not provide advice in these matters and therefore your capacity to utilise this accounting treatment should be independently verified;
- Only professional investors are eligible to invest in the Fund. Parish and Town Councils do not meet the criteria but may be eligible to be opted-up to elective professional status following a qualitative and quantitative assessment by an independent financial adviser (“IFA”). CCLA can provide you with the details of an IFA who charges £495 to prepare a suitability report;
- Income is not guaranteed but we believe that it is solidly based. The portfolio is well diversified - we own more than 75 commercial properties – retail warehouses, industrial warehouses, offices, car showrooms and just a few shops – and have 200+ tenants, including M&S IT HQ, Astra-Zenaca, DHL, Hermes, Rolls-Royce, Royal Mail, B&Q, etc;
- CCLA is part-owned by LAMIT (Local Authorities' Mutual Investment Trust), a local government body whose Council members are appointed by the LGA. LAMIT is the Trustee of the Fund, representing investors and providing external oversight;
- Subscriptions are monthly, at month-end, redemptions require 3-months' notice and whilst we will endeavour to redeem units for a Parish or Town Council as long as cash is available, the Scheme Information allows us to reserve the right to suspend

any redemption requests for up to 6-months, as we may need to sell an asset to meet withdrawal requests or to protect the interests of investors in the Fund.

This document is a financial promotion and is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice. CCLA have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our product is suitable, please read the Fund Factsheet document and the Scheme Information. Investment in the Fund is for Eligible Local Authorities only. Past performance is not a reliable indicator of future results. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money.

CCLA Fund Managers Limited is authorised and regulated by the Financial Conduct Authority and is the manager of the Local Authorities Property Fund.