Kirklees COUNCIL

Name of meeting: Corporate Governance and Audit Committee

Date: 17 May 2019

Title of report: Annual Report on Treasury Management 2018-19

Purpose of report
Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the previous financial year. The report reviews borrowing and investment performance.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**Not applicable**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports)?	**Yes**
The Decision - Is it eligible for "call in" by Scrutiny?	**Yes**
Date signed off by Service Director & name **Is it also signed off by the Service Director for Finance, IT and Transactional Services?** **Is it also signed off by the Service Director for Governance and Commissioning Support?**	**Eamonn Croston : 8 May 2019** **As above** **Julie Muscroft – 9 May 2019**
Cabinet member portfolio	**Cllr Graham Turner**

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: **Public**

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations

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1. Summary

1.1 The Council's treasury management operation for the year has followed the strategy approved by Council on 14 February 2018.

Investments averaged £45.2 million, were largely deposited in instant access accounts and earned an average interest rate of 0.67%. Total external borrowing decreased for the year by £18.8 million to £394.4 million. (£413.2m 31st March 2018) The decrease is due to a variety of reasons including; repayment of existing debt, slippage in the capital plan and higher internal borrowing due to increases in overall reserves levels from budgeted. The majority of actual temporary borrowing in-year was on fixed rate terms and the average borrowing rate for 2018-19 was 4.62%.

1.2 In 2017-18 the Council approved a revision to its Minimum Revenue Provision (MRP) policy, which relates to the amount of revenue resources set aside each year to provide for its outstanding debt repayments over the longer term. This was done by updating its approach to Supported Borrowing from 2007-08 onwards, moving from a 4% reducing balance to an annuity basis in its repayment of debt.

1.3 In updating the approach the Council effectively over-provided in previous years the re-payment of debt to the sum of £91.1m. Within the Treasury Management Strategy 2018-19 the Council set out its approach to unwind this over-provision at £9.1m each year over the next 10 years, starting from 2017-18 onwards.

1.4 Following approval within the 2019-20 Treasury Management Strategy there is a further increase in the un-winding for 2018-19 and 2019-20. The maximum amount of un-wind in any one year cannot be more than the overall annual MRP calculation, as otherwise the Council would end up in a negative MRP position, which is not allowable under accounting rules. The maximum unwind allowable in 2018-19 is £13.5m. In the 2018-19 accounts this has resulted in the budgeted over-provision element of £13.4m being transferred to revenue reserves in order to strengthen the Council's overall financial resilience as per the Council's approved reserves strategy.

1.5 Treasury management costs incurred in the year include £10.1 million on net interest payments and £0.1 million on providing for the repayment of debt (MRP). The Council complied with its treasury management prudential indicators in the year.

1.6 This report also notes a number of early 2019-20 treasury management issues for consideration. These include options for re-financing a current Lender Option-Borrower Option loan of £10m, and also considers potential Council investment in a property fund investment fund, CCLA, specifically set up for not-for profit investors, including local authorities.

2. Information required to take a decision

2.1 Background

2.1.1 The Council has adopted the CIPFA Code of Practice on Treasury Management and operates its treasury management service in compliance with this Code and various statutory requirements. These require that the prime objective of the activity is to secure the effective management of risk, and that borrowing is undertaken on a prudent, affordable and sustainable basis.

2.1.2 Council Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the year. Cabinet is responsible for the implementation and monitoring of the treasury management policies. Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management.

2.1.3 In reviewing 2018-19 performance, reference will be made to the Treasury Management Strategy Report approved by Council on 14 February 2018.

2.2 Borrowing and Investment Strategy 2018-19

2.2.1 The Councils overall Treasury Management Strategy prioritises security, liquidity and risk management which was adhered to in 2018-19. The Council aims to invest externally balances of £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested “internally”, offsetting borrowing requirements. The investment strategy is designed to minimise risk, investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds.

2.3 The economy and interest rates

Below paragraphs 2.3.1-2.3.2 are a commentary from our external treasury management advisors, Arlingclose

2.3.1 UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year on year, just above the consensus forecast but broadly in line with the Bank of England’s February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

2.3.2 After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

2.4 Investment activity

2.4.1 The Council's treasury management investments totalled £39.1 million as at 31 March 2019 (£36.1 million 31 March 2018). The Council invested an average balance of £45.2 million externally during the year (£37.9 million 2017-18). Income of £195k was generated through these investments (£98k 2017-18). Appendix 1 shows where investments were held at the beginning of April, the end of September and the end of March, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.67% (0.26% 2017-18). The increase in interest rates between the years reflects the Base Rate in 17-18 being 0.5% and in the current year there was an increase in August of 0.25% to 0.75%, but there is also an element of lag in institutions passing on the benefit of higher interest rates.

2.4.2 The majority of investments were placed in instant access bank deposit accounts/Money Market Funds (MMFs). MMFs offer greater diversification of counterparties and thus lower risk, as well instant access and relatively good returns.

2.5 Borrowing requirement and debt management

2.5.1 In terms of borrowing, long-term loans at the end of the year totalled £389.1 million and short-term loans (excluding interest accrued) £5.3 million (£392.5 million and £20.7 million 31 March 2018), an overall decrease of £18.8 million. There was no new long term borrowing in 2018-19. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2019.

2.5.2 Fixed rate loans account for 81.25% of total long-term debt (see also Appendix 5) giving the Council stability in its interest costs. The maturity profile for all long-term loans is shown in Appendix 3 and shows that no more than 9% of all debt is due to be repaid in any one year. This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in any one particular future year, when interest rates might be at a relatively high level.

2.5.3 The primary source of the Council's borrowing is from the Government ie Public Works Loan Board (PWLB).

2.5.4 The table below sets out the estimated external borrowing requirement against actual requirements;

	2017-18 £m actual	2018-19 £m estimated	2018-19 £m actual
General Fund CFR - Non PFI	420.3	458.9	436.6
PFI	52.3	49.3	49.3
HRA CFR - Non PFI	182.8	175.3	175.3
PFI	54.9	52.9	52.9
Total CFR	710.3	736.4	714.1
Less: Other debt liabilities*	107.1	102.2	102.2
Borrowing CFR	603.2	634.2	611.9
Less: Deferred Liabilities	4.1	3.9	3.9
Less: Internal borrowing	185.9	136.6	213.6
PWLB Loans	278.6	286.6	275.3
LOBOs	76.6	76.6	76.6
Loan Stock (Fixed Rate)	7.0	7.0	7.0
Other LT Loans (Fixed Rate)	30.3	30.2	30.2
Temporary Borrowing	20.7	93.3	5.3
Total : External Borrowing	413.2	493.7	394.4
Investments	36.1	30.0	39.1

2.5.5 As can be seen from the table above the temporary borrowing requirement is far lower than expected due to a combination of an increase in internal balances (it was expected that these would reduce in year by £49.3m from £185.9m) and additional slippage in the capital plan of £30.8m.

2.5.6 The Local Capital Finance Company established in 2014 by the Local Government Association as an alternative source of local authority finance. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. It has yet to issue any loans but officers will continue to monitor developments of this potential new funding source.

2.5.7 In terms of debt rescheduling, the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity in 2018-19.

2.5.8 The average long term borrowing rate for 2018-19 for the Council's long-term loans outstanding was 4.62% (4.76% 2017-18).

2.6 <u>Trends in treasury management activity</u>

2.6.1 Appendix 4 shows the Council's borrowing and investment trends over the last 5 years. This highlights the current trend to re-pay long term debt at maturity and where required borrow over the short term.

2.7 Risk and Compliance Issues

2.7.1 The Council has complied with its prudential indicators for 2018-19, which were approved as part of the Treasury Management Strategy. Details can be found in Appendix 5. Indicators relating to affordability and prudence are highlighted in this appendix.

2.7.2 When the Council has received unexpected monies late in the day, officers have no alternative but to put the monies into the Barclays Business Reserve Account overnight. The account is maintained so that usually, daily balances are under £100k. The maximum daily amount deposited in this account overnight as a result of unexpected late payments was £1.100m. Whilst this is not an ideal situation, the Council is still within investment limits as per the Treasury Management Strategy which is set at £10m per counterparty.

2.7.3 In line with Council treasury management strategy, the Council has not placed any direct investments in companies as defined by the Carbon Underground 200.

2.7.4 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants (Arlingclose), has proactively managed the debt and investments over the year.

2.7.5 The CIPFA Code of Practice requires that treasury management performance be subject to regular member scrutiny. The Corporate Governance and Audit Committee performs this role and members have received reports on strategy, half yearly monitoring and now the outturn for the year 2018-19. Training was provided to Members on the 16th November 2018.

Looking ahead – Treasury Management developments in 2019-20

2.8 Re-financing/re-payment of current Long Term Borrowing

2.8.1 As outlined within the Council approved Treasury Management Strategy 2019-20, the Council will continue to look to repay existing long term debt when the opportunity arises where it becomes beneficial for the Council to do so.

2.8.2 Within the next 12 months there may be Lenders Option Borrowers Option (LOBO) loans which present us with an option to convert or re-finance and these as detailed further below.

2.8.3 The Council currently has a £10.0m Range LOBO with Barclays. The Range LOBO has an annual rate of interest of 3.4% when the 6 month London Interbank Offered Rate (LIBOR) Rate is between 4%-6%, and a rate of 4.1% when it falls outside of this. Currently the LIBOR Rate is 0.83% and hasn't been as high as 4% since November 2008. The current interest rate is therefore 4.1%.

2.8.4 Barclays have approached the Council to convert the LOBO loan to a fixed rate interest loan. The rate is currently subject to discussion between both parties, and would remain until maturity of the loan on 15th January 2067. This could generate immediate savings per annum. By way of illustration, a mid-point fixed rate of 3.75% would equate to immediate £35k annual savings to the Council for the remainder of the loan.

2.8.5 On LOBO loans the Lender has the option to exercise their right to change the interest rate. At which point the borrower can then choose to accept the new interest rate or choose to re-pay at no additional cost.

2.8.6 It is intended that Council officers liaise with the Council's external Treasury Management advisors, Arlingclose, to review lender options, and proceed if they are considered to be in the longer term best interests of the Council.

2.9 Loan Funding Sources

2.9.1 The Council may be presented with additional sources of long-term funding at certain points in time, beyond those currently listed in the Council's current treasury management strategy. These may be at preferential rates of interest and therefore the Chief Financial Officer (s151 officer) will look to maximise the use of source funds when it is preferential to do so.

2.9.2 One such opportunity is with SALIX Finance Ltd. SALIX Finance Ltd provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £5.9m interest free loan to part fund the £11m approved street lighting replacement scheme in the Council's approved capital plan.

2.10 Investment Opportunities

2.10.1 The Service Director Finance, supports the approach that the borrowing and investment strategy for 2019-20 continues to place emphasis on the security of the Council's balances. Although credit conditions have been steadily improving, the global recovery is still fragile and regulation changes have increased local authority exposure in the event of a possible default of any financial institutions

2.10.2 Average current Council cashflow balances remain consistent at about £45m, and officers consider that an investment of up to £10m will still enable sufficient remaining headroom to accommodate the £30m day-to-day cashflow requirement as noted in the Treasury Management Strategy.

2.10.3 In order to increase investment returns, alternative investment options were considered. There was member approval to add the Local

Authorities Pooled Investment Fund (LAPF) as an approved Council Investment in the 2019-20 Treasury Management Strategy approved as part of the budget on 13 February 2019.

2.10.4 The Local Authorities Property Fund was established in 1972 and is managed by CCLA Fund Managers. Any Local Authority in the United Kingdom can invest in the Fund and the minimum investment is £25k. As at December 2018 there are assets under management of £1,104m. The Fund aims to provide investors with a high level of income and long-term capital appreciation, and it is an actively managed, diversified portfolio of UK commercial property. It principally invests in UK assets, but may invest in other assets. There is an accompanying prospectus and factsheet appended to this report, for information.

2.10.5 Such funds tend to generate a higher rate of return. For example, 2017-18 returned a 4.2% dividend yield on the Local Authority Property Fund compared with the Council's average rate of return on investments of 0.67% in 2018-19.

2.10.6 Clearly there are increased risks associated with higher yield investment opportunities, and any potential investment would need to be considered very much as a much longer term investment strategy, pro-actively managed by CCLA, to manage those risks over time. Indeed 10 year returns for CCLA show an annualised total return of 8.7%.

2.10.7 Given the nature of the underlying investment (UK based diversified property portfolio) and the potential for domestic economic volatility in the run up to UK's expected withdrawal from the EU, advice has been sought from the Council's external treasury advisors, as well as detailed officer discussions with the LAPF's Fund Manager, CCLA. Approved Council budget plans factored in a potential investment of up to £10m part way through 2019-20, with an assumed net income yield of £150k in 2019-20, increasing to £300k from 2020-21 onwards.

2.10.8 It is intended that the Council will make an initial Investment in LAPF of £5m, with a view to consideration for a further investment tranche later in the year. Splitting the total investment in to two batches would potentially reduce the timing risk of the investment. It should also be noted that there is an 8% 'spread' on this particular investment. This is made up of a purchase charges of 6.5% and selling charges of 1.5%.

2.10.9 The nature of this type of investment is such that it has to be seen as a much longer term investment to mitigate against any short-term market volatility or risk. Any initial net yield gains would be offset to some extent by these transaction costs. There are also annual management charges that are payable to reflect the fact that the fund is actively managed. These costs are 0.65% and are deducted from dividend payments.

3. Implications for the Council

3.1 Working with People – no impact
3.2 Working with Partners – no impact
3.3 Place Based Working – no impact
3.4 Improving outcomes for children - no impact
3.5 Other (e.g. Legal/Financial or Human Resources) – Any changes in assumed borrowing and investment requirements, balances and interest rates will be reflected in revenue budget monitoring reports during the year.

4. Consultees and their opinions

None.

5. Next steps and timelines

Comments and feedback from CGAC will be incorporated into this report which will be subsequently considered at Cabinet in June and Council in July 2019 as part of the overall financial outturn and rollover report 2018-19.

6. Officer recommendations and reasons

CGAC are asked to consider and make any comments on the following recommendations before they are considered for Cabinet and Council approval;

6.1 note treasury management performance in 2018-19 as set out in this report;

6.2 agree officer proposals to review any LOBO loan re-financing options in conjunction with Arlingclose, and to proceed if considered beneficial to the Council;

6.3 note officer intention to undertake an investment in the Local Authorities Property Fund through 2019/20.

7. Cabinet portfolio holder's recommendations
To follow

8. Contact officer

James Anderson	Senior Finance Manager
Rachel Firth	Finance Manager

9. Background Papers and History of Decisions
CIPFA's Code of Practice on Treasury Management in the Public Services.
CIPFA's Prudential Code for Capital Finance in Local Authorities.
Public Works Loan Board Website.

Treasury Management Strategy Report approved by Council on 14 February 2018.
Local Authorities Property Fund & Factsheet

10. Service Director responsible

Eamonn Croston 01484 221000

APPENDIX 1

		Kirklees Council Investments 2018/19									
Counterparty		**Credit Rating Mar 2019***	**1 April 2018** £m	**Interest Rate**	**Type of Investment**	**30 September 2018** £m	**Interest Rate**	**Type of Investment**	**31 March 2019** £m	**Interest Rate**	**Type of Investment**
Specified Investments											
Barclays	Bank	F1+/A1				0.8	0.05%	Instant Access			
Lloyds	Bank	F1+/A1				6.0	0.75%	32 Day Notice			
Santander	Bank	F1+/A1				7.0	0.85%	35 Day Notice	2.0	0.85%	35 Day Notice
Svenka Handelsbanken	Bank	F1+/AA						Instant Access			
Svenka Handelsbanken	Bank	F1+/AA				6.6	0.77%	35 Day Notice			
Aberdeen Standard	MMF**	AAAmmf	9.9	0.46%	Instant Access	9.9	0.67%	Instant Access	9.8	0.79%	Instant Access
Aviva	MMF**	Aaa-mf	10.0	0.42%	Instant Access	10.0	0.66%	Instant Access	10.0	0.65%	Instant Access
Deutsche	MMF**	AAAmmf	9.0	0.37%	Instant Access	0.9	0.64%	Instant Access			
Goldman Sachs	MMF**	AAAmmf	7.2	0.37%	Instant Access	9.9	0.64%	Instant Access	7.2	0.72%	Instant Access
Thurrock Council	Local Auth'y								5.0	0.94%	Local Authority
Suffolk County Council	Local Auth'y								5.0	0.95%	Local Authority
			36.1			**51.1**			**39.0**		
Sector analysis			**£m**	**%age**		**£m**	**%age**		**£m**	**%age**	
Bank						20.4	40%		2.0	5%	
Building Society											
MMF**			36.1	100%		30.7	60%		37.0	95%	
Local Authorities/Cent Govt											
			36.1	100%		**51.1**	100%		**39.0**	100%	
Country analysis			**£m**	**%age**		**£m**	**%age**		**£m**	**%age**	
UK						13.8	27%		2.0	5%	
Sweden						6.6	13%				
MMF**			36.1	100%		30.7	60%		37.0	95%	
			36.1	100%		**51.1**	100%		**39.0**	100%	

*Fitch short/long term ratings, except Aviva MMF (highest Moody rating). See next page for key. ** MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

Key – Fitch's credit ratings:

		Long	Short
Investment Grade	Extremely Strong	AAA	
	Very Strong	AA+	
		AA	F1+
		AA-	
	Strong	A+	
		A	F1
		A-	
	Adequate	BBB+	F2
		BBB	
		BBB-	F3
Speculative Grade	Speculative	BB+	
		BB	
		BB-	
	Very Speculative	B+	B
		B	
		B-	
	Vulnerable	CCC+	
		CCC	
		CCC-	C
		CC	
		C	
	Defaulting	D	D

Appendix 2

Long-term loans repaid and short-term loans outstanding 31 March 2019

Long-term loans repaid during 2018/19

	Amount £000s	Rate %	Date repaid
Repayments on maturity			
PWLB (498254)	2,768	4.24	24 Dec 18
PWLB (498438)	4,612	4.10	17 Sep 18
Repayments on annuity loans			
PWLB (496956)*	337	4.58	01 Oct 18
PWLB (496956)*	345	4.58	29 Mar 19
Total	**8,062**		

* represents loan extended to Kirklees College, for which the College is making similar repayments to the Council

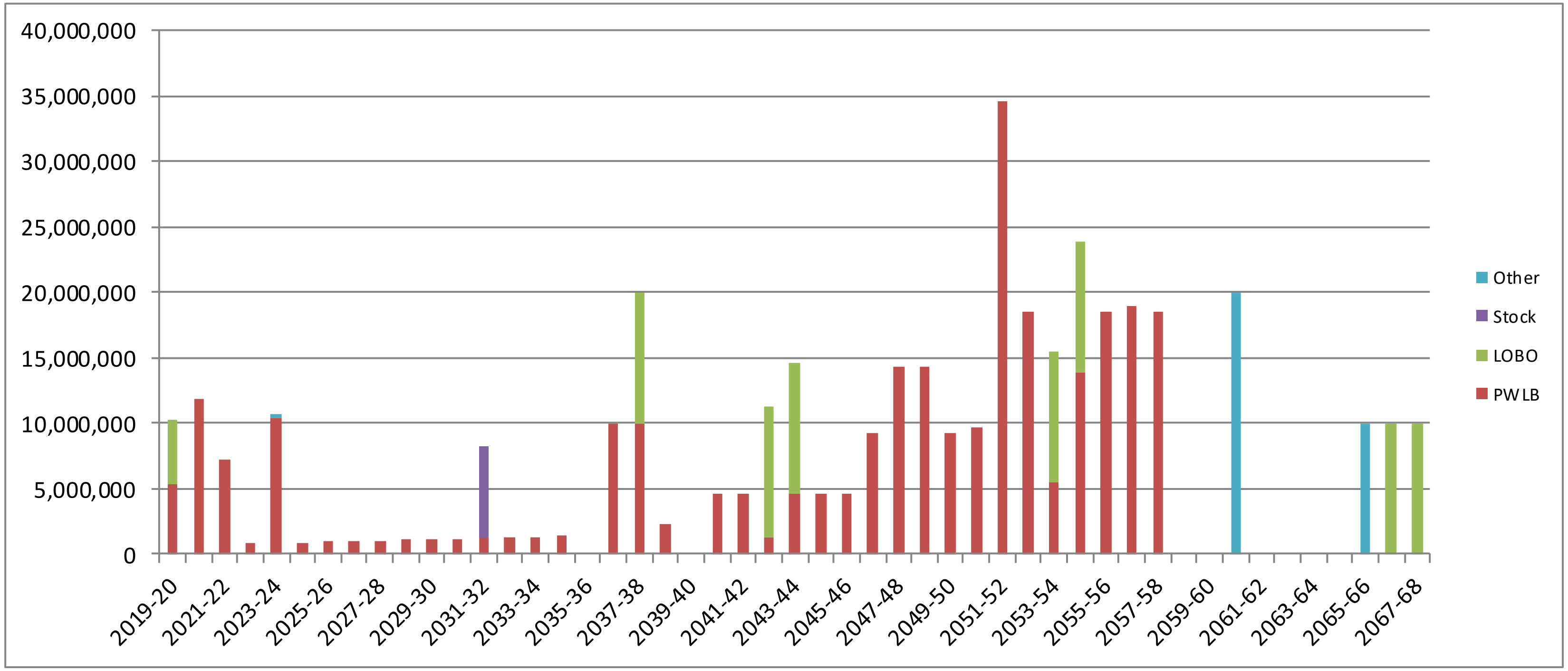
Short-term loans outstanding 31 March 2019

	Amount £000s	Rate %	Length (days)
Temporary borrowing from the Money Market			
London Borough of Newham	5,000	0.45	19
Gateshead Council	5,000	0.55	9
Local lenders/Trust Funds	1,714		
Long-term loans due to mature in the next twelve months	5,366		
Total*	17,080		

* excludes interest accrued

Kirklees Council Loan Maturity Profile (All Debt)

Appendix 3



Appendix 4

Kirklees Council - Borrowing and Investment Trends

At 31 March	2019	2018	2017	2016	2015
Investments	39.0m	36.1m	31.3m	38.3m	38.7m
ST Borrowing (excl interest accrued)	5.3m	20.8m	37.7m	16.0m	21.1m
LT Borrowing	389.1m	392.4m	400.5m	408.4m	422.6m
Total Borrowing	394.4m	413.2m	438.2m	424.4m	443.7m
Deferred liabilities (non PFI)	3.9m	4.1m	4.1m	4.3m	4.4m
Net debt position	**351.5m**	**373.0m**	**411.0m**	**390.4m**	**409.4m**
Capital Financing Requirement (excl PFI)					
General Fund	436.6m	420.3m	412.8m	411.3m	422.2m
HRA	175.3m	182.8m	186.2m	192.4m	196.6m
Total CFR	**611.9m**	**603.2m**	**599.0m**	**603.7m**	**618.8m**
Balances “internally invested”	213.6m	185.9m	156.7m	175.0m	170.7m
Ave Kirklees’ investment rate for financial year	0.7%	0.3%	0.4%	0.5%	0.4%
Ave Base rate (Bank of England)	0.7%	0.3%	0.3%	0.5%	0.5%
Ave LT Borrowing rate (1)	2.6%	2.5%	2.5%	3.2%	3.7%

(1) Based on average PWLB rate throughout the year on a 20 year loan repayable on maturity.

APPENDIX 5

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2018-19	Actual 2018-19
Interest at fixed rates as a percentage of net interest payments	60% - 100%	81%
Interest at variable rates as a percentage of net interest payments	0% - 40%	19%

The interest payments were within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Council having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

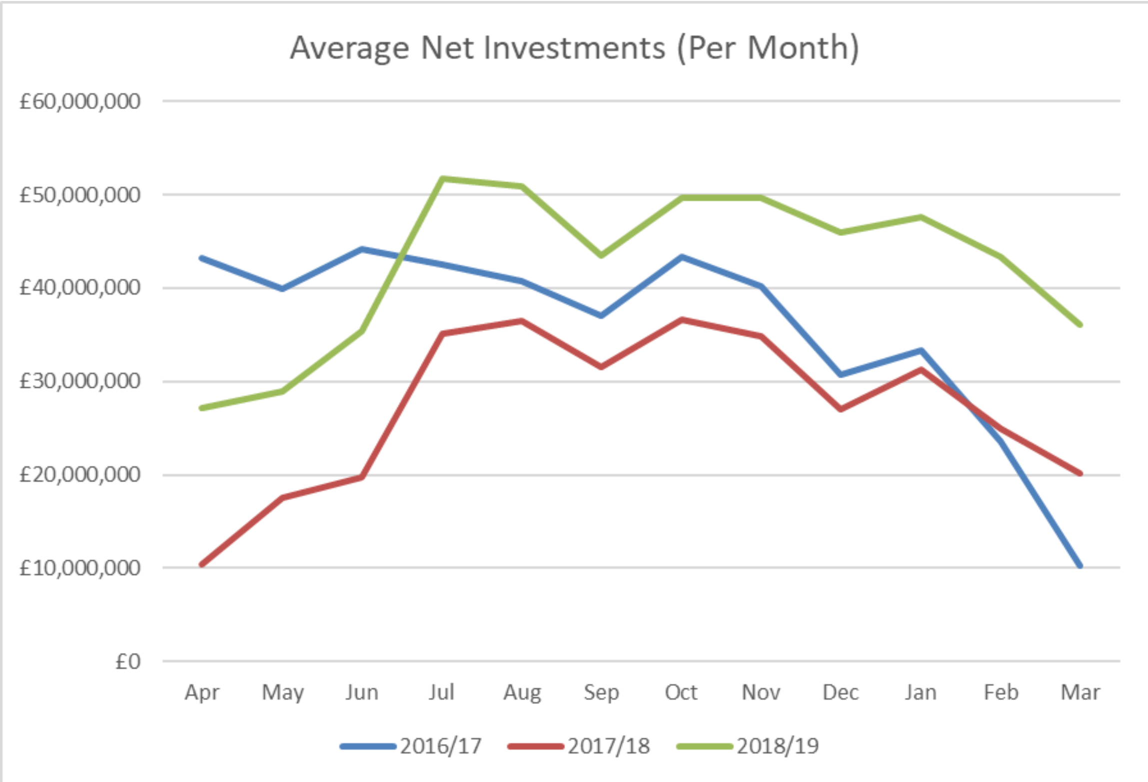
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2018-19	Actual Levels 2018-19
Under 12 months	0% - 20%	2%
12 months to 2 years	0% - 20%	4%
2 years to 5 years	0% - 60%	6%
5 years to 10 years	0% - 80%	1%
More than 10 years	20% - 100%	87%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Council has not invested any sums longer than 364 days.

APPENDIX 6



Average Net Investments (Per Month)
£60,000,000
£50,000,000
£40,000,000
£30,000,000
£20,000,000
£10,000,000
£0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2016/17
2017/18
2018/19

The Local Authorities' Property Fund
Fund Fact Sheet – 31 December 2018

Investment objective
The Fund aims to provide investors with a high level of income and long-term capital appreciation.

Investment policy
The Fund is an actively managed, diversified portfolio of UK commercial property. It will principally invest in UK commercial properties, but may invest in other assets.

Suitability
The Fund is suitable for the long-term funds of any local authority seeking exposure to UK commercial property.

Independent Governance
The trustee is the Local Authorities' Mutual Investment Trust (LAMIT) a body controlled by members and officers appointed by the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and investors in the Fund.

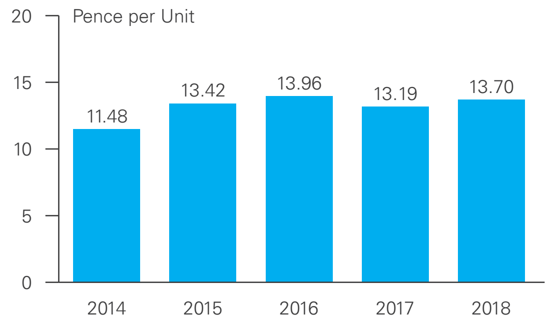
Who can invest?
Any local authority in England, Wales, Scotland and Northern Ireland.

Income

Gross dividend yield	4.21%*
MSCI/AREF UK Other Balanced Quarterly Property Fund Index yield	3.52%
Official Bank Rate	0.75%

* Based upon the net asset value and historic gross annual dividend of 12.9794p. Distribution for the most recent quarter has been estimated.

Rolling 12 month distributions to 31st March:

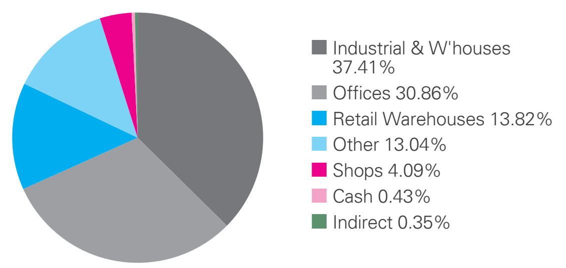


Fund update
The prime focus of our strategy is on asset selection and management. We try to identify assets which, through active management, can make a significant contribution to both capital and income returns. This is supported by an active approach to sub-sector weightings which are biased to reflect our view of long-term prospects. At present, this means a relatively high weighting to industrial and office assets and a low exposure to retail. Recent activity has resulted in an increase of holdings in the 'other' sector, a grouping which includes hotels and car showrooms.

Cash flows into the Fund continued with just over £36m received during the period. Three assets were acquired, the largest a warehouse in Northampton at a cost of around £19.4m. The other two buys, a Glasgow office and an industrial asset in Aberdeen, augmented existing holdings. They are attractive in their own right, but provide the potential for added value from development. Lease management activity continued at a high level, the key lettings were of the Blythswood Square office in Glasgow and at Kingsway in London. As a result of these changes, the void rate fell to around 7% from 8.9% at the end of September.

The Fund is not materially affected by the spate of store closures and CVA issuance in the retail sector. Similarly, exposure to standard retail units is low and there are no holdings in shopping centres.

Asset allocation at 31 December 2018



The Fund has credit facilities which, at quarter end, were not utilised.

Discrete year total return performance (net)

12 months to 31 December	2018	2017	2016	2015	2014
The Local Authorities' Property Fund	+7.60%	+9.68%	+2.12%	+14.09%	+19.50%
Benchmark	+7.43%	+10.58%	+3.66%	+12.97%	+17.34%

Annualised total return performance (net)

Performance to 31 December 2018	1 year	3 years	5 years
The Local Authorities' Property Fund	+7.60%	+6.42%	+10.44%
Benchmark	+7.43%	+7.18%	+10.30%

Benchmark – MSCI/AREF UK Other Balanced Quarterly Property Fund Index. Net performance shown after management fees and other expenses. Past performance is no guarantee of future returns. Source: CCLA

Top ten property holdings at 31 December 18 – total 34.97%

London, Kingsway
London, Beckton Retail Park
London, Goodman's Yard
London, Stockley Park, Longwalk
Elstree, Centennial Park
Leeds, Park Row
Bracknell, The Arena
Coventry, Torrington Avenue
Bristol, Gallagher Retail Park
Brighton, West Street

Key facts

Total fund size	£1099m
Current borrowing	£0m
Number of holdings	73
	Income units
Offer (buying) price	329.35p (xd)
Net asset value	308.53p (xd)
Bid (selling) price	303.75p (xd)
Launch date	18 April 1972
Unit types	Income
Minimum initial investment	£25,000
Minimum subsequent investment	£10,000
Dealing day	Month end valuation day*
Sedol & ISIN numbers	0521664, GB0005216642
Dividend payment dates	End January, April, July & October
Annual management charge (taken 100% from income)	0.65%

* Instructions for the issue or redemption of units must be received by CCLA no later than 5pm on the business day prior to the Valuation Date. If the valuation day is a bank holiday, the dealing day will be the previous working day. Units are only realisable on each monthly dealing date and redemptions may not be readily realisable; a period of notice not exceeding six months may be imposed for the redemption of units.

Tax reclaims should be addressed to: Glynis Free, Specialist Repayment Team 7 South, Ty - Glas, Cardiff, CF14 8HR.
Telephone 03000 580618, 9.30am - 1pm.

Risk Warning

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 Particulars. We strongly recommend you seek independent professional advice prior to investing. Investors should consider the following risk factors identified as specific to the Fund before investing: Counterparty/Tenant/Credit Risk (financial institution/tenants may not pay), Market Risk (investment value affected by market conditions), Operational Risk (general operational risks), Expiry/Maturity Profile (timing of maturity of tenancies), Liquidity Risk (investment in non-readily realisable assets), Interest Rate risk (changes to interest rate affecting income), Concentration Risk (need for diversification and suitability of investment), Business Risk (possibility of lower than anticipated profits). Please see the Fund Scheme Particulars for further details.

Disclosure

Investment in the Fund is for Eligible Local Authorities only. Past performance is not an indicator of future performance. 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. Any forward-looking statements are based upon our current opinions, expectations and projections. We undertake no obligations to update or revise these. Actual results could differ materially from those anticipated. Investments in the Fund and the Fund itself are not covered by the Financial Services Compensation Scheme (FSCS). However, the Manager may pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund. The Fund is an Alternative Investment Fund and an Unregulated Collective Investment Scheme established under a Scheme approved by H M Treasury under Section 11 of the Trustee Investments Act 1961 and is subject to provisions of a Trust Deed dated 6 April 1972 and a supplemental Trust Deed dated 13 September 1978. The Fund operates as an open-ended Fund under Part IV of the schedule to the Financial Services and Markets Act 2000 (Exemption) Order 2001. CCLA Fund Managers Limited (registered in England No. 8735639 at the office below) is authorised and regulated by the Financial Conduct Authority and is the manager of the Local Authorities Property Fund. For information about how we obtain and use your personal data, please see our Privacy Notice at https://www.ccla.co.uk/our-policies/data-protection-privacy-notice.

CCLA

The Local Authorities' Property Fund

Fund Profile – 31 December 2018

A unique, specialist Property Fund available only to Local Authority Investors

Price at 31.12.18	Net asset value
Income units	308.53p (xd)
Gross dividend yield	4.21%*

* Based upon the net asset value and historic gross annual dividend of 12.9794p. Distribution for the most recent quarter has been estimated.

Strong governance

The trustee is the Local Authorities' Mutual Investment Trust (LAMIT). LAMIT is controlled by members and officers appointed by the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and investors in the Fund to represent unitholders. As fully independent trustee, LAMIT approves the investment strategy and the risk profile of the portfolio and reviews performance.

Meeting your needs

Suitable for Local Authorities, the Fund aims to provide investors with a high level of income and long-term capital appreciation.

The Property Fund is designed to achieve long term capital growth and a rising income from investments in the UK commercial property sector.

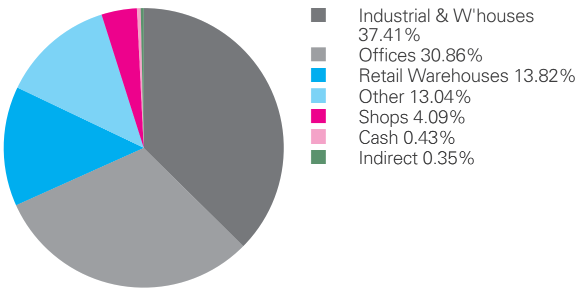
The portfolio is actively managed with a focus on asset selection. The intention is to boost returns by lease and tenant management and property improvement.

The Fund has a broad sector spread, with prudent diversification to keep risks under control.

Sector strategy

The portfolio favours industrial assets and well placed offices. The allocation to hotels has been increased. Traditional shop exposures are low, there are no holdings of shopping centres.

Asset allocation at 31 December 2018



The Fund has credit facilities which, at quarter end, were not utilised

Fund size: £1,099 million

Property portfolio details

Top 5 properties = 21.2 % of the portfolio

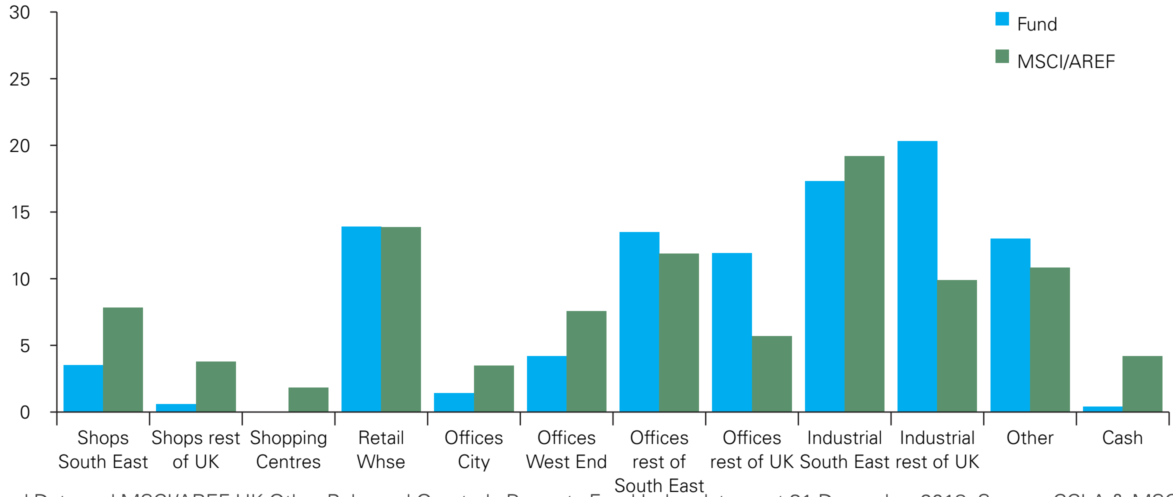
Top 5 tenants = 18.1% of rental income

Weighted unexpired lease term years 7.0 yrs

Void rate excluding developments in progress 3.9%

Void rate including developments in progress 6.6%

Asset allocation by region and category 31 December 2018



Fund Data and MSCI/AREF UK Other Balanced Quarterly Property Fund Index data as at 31 December 2018. Source: CCLA & MSCI/AREF

Top ten property holdings – total 34.97%

London, Kingsway
London, Beckton Retail Park
London, Goodman's Yard
London, Stockley Park, Longwalk
Elstree, Centennial Park
Leeds, Park row
Bracknell, The Arena
Coventry, Torrington Avenue
Bristol, Gallagher Retail Park
Brighton, West Street

Market update

The prime focus of our strategy is on asset selection and management. We try to identify assets which, through active management, can make a significant contribution to both capital and income returns. This is supported by an active approach to sub-sector weightings which are biased to reflect our view of long-term prospects. At present, this means a relatively high weighting to industrial and office assets and a low exposure to retail. Recent activity has resulted in an increase of holdings in the 'other' sector, a grouping which includes hotels and car showrooms.

Fund activity

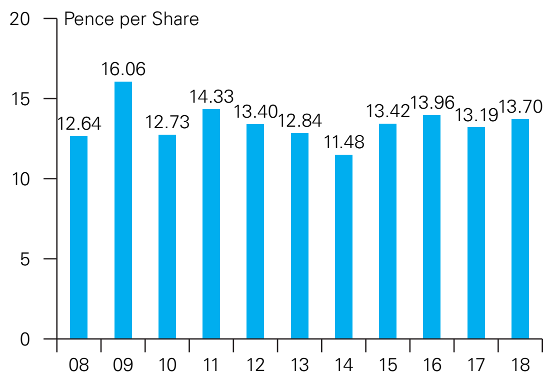
Cash flows into the Fund continued with just over £36m received during the period. Three assets were acquired, the largest a warehouse in Northampton at a cost of around £19.4m. The other two buys, a Glasgow office and an industrial asset in Aberdeen, augmented existing holdings. They are attractive in their own right, but provide the potential for added value from development. Lease management activity continued at a high level, the key lettings were of the Blythswood Square office in Glasgow and at Kingsway in London. As a result of these changes, the void rate fell to around 7% from 8.9% at the end of September. The Fund is not materially affected by the spate of store closures and CVA issuance in the retail sector. Similarly, exposure to standard retail units is low and there are no holdings in shopping centres.

Outlook

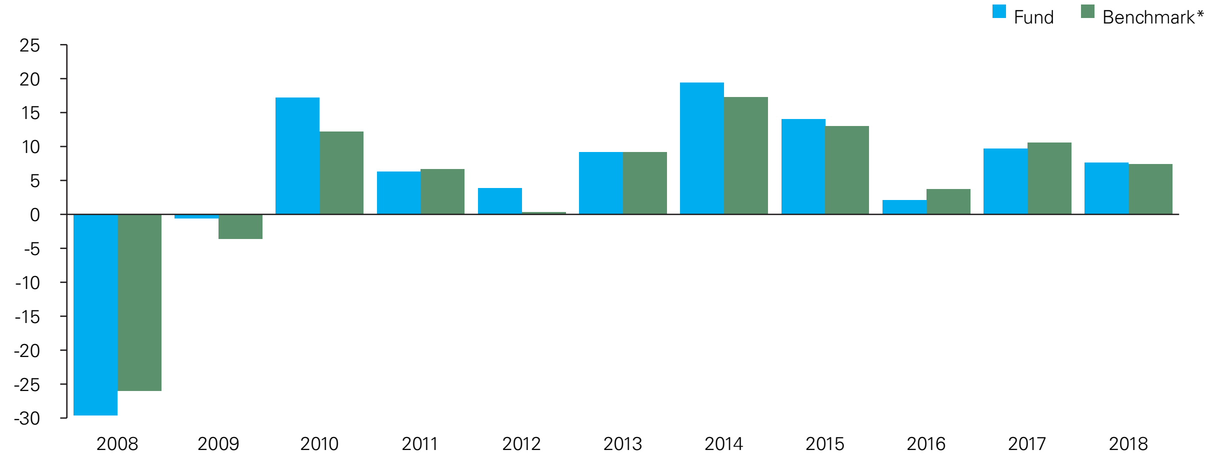
In the near term Brexit uncertainties will continue to depress transaction volumes. Underlying this, the sub-sector trends evident in 2018 are likely to continue; sources of secure income such as industrial assets and others, including hotels will remain in favour, conventional retail will stay under pressure. Overall capital values are expected to decline, but we expect total returns to stay positive reflecting the sector's high yield.

Dividend history of The Local Authorities' Property Fund

Years to 31 March

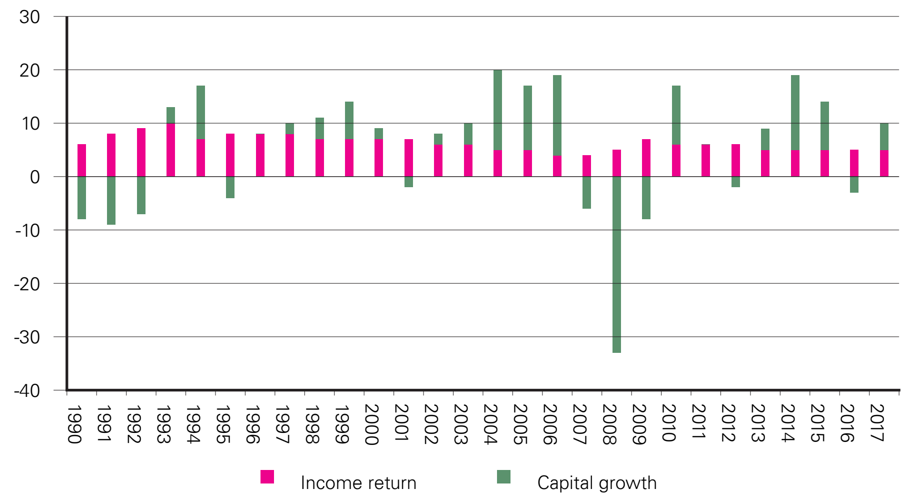


Calendar performance versus the benchmark (net)

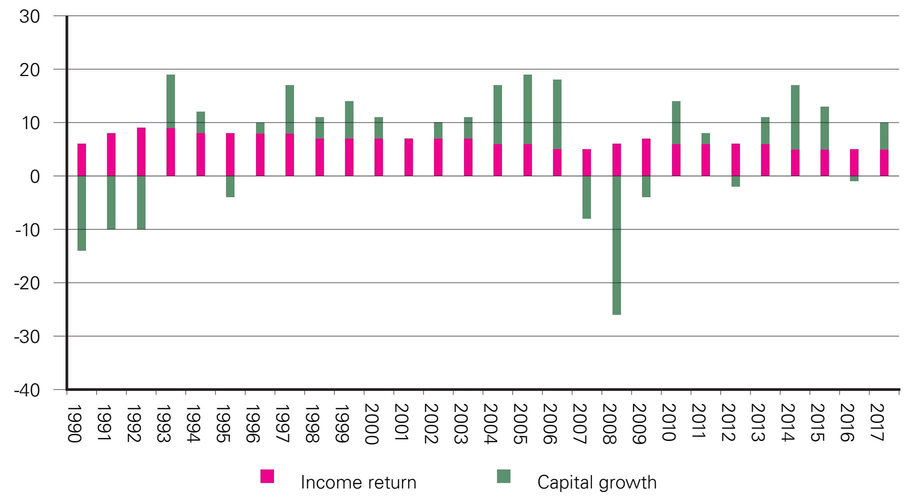


* The benchmark is the MSCI/AREF UK Other Balanced Quarterly Property Fund Index.
Performance shown after management fees and other expenses. Past performance is not a guide to future performance and future returns are not guaranteed.
Source: CCLA & MSCI/AREF
Note: Fund calendar performance refers to total return whereas investment returns (shown below) splits the total return between income and capital. A small difference arises as a result of the compounding on the income and capital components.

The Local Authorities' Property Fund investment returns (after expenses)



MSCI/AREF UK Annual Property Digest returns (before expenses)



Source: CCLA & MSCI/AREF
Income from Property and the Fund has been consistent even in downturns, a reflection of its contractual basis.

Long-term performance

Total return performance (net) 12 months to 31 December

	2018	2017	2016	2015	2014
The Local Authorities' Property Fund	+7.60%	+9.68%	+2.12%	+14.09%	+19.50%
Benchmark	+7.43%	+10.58%	+3.66%	+12.97%	+17.34%

The benchmark is the MSCI/AREF UK Other Balanced Quarterly Property Fund Index.
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Source: CCLA & MSCI/AREF

Costs and charges

Our policy is always to keep costs and charges low - we believe that high costs and charges have a very damaging cumulative effect on investor returns. We negotiate to keep expenses low and monitor dealing costs closely. We have no entry or exit fees, the only income taken by the investment manager is the annual charge of 0.65%.

Key facts

Dealing day	Month end valuation day*
Minimum initial investment	£25,000
Minimum subsequent investment	£10,000
Dividend payment dates	End January, April, July & October
Annual management charge	0.65% (deducted from income)
Unit types available	Income
Sedol number	0521664
ISIN number	GB0005216642

Income payments are now made gross of tax.
Any outstanding historic tax reclaims should be addressed to:

Glynis Free
Specialist Repayment Team
7 South
Ty - Glas
Cardiff CF14 8HR
Telephone 03000 580618 9.30am - 1pm

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