

Committee/Panel:	Thames Basin Heaths Joint Strategic Partnership Board		
Date:	19 th September 2019		
Title:	Investment working group update		
Report From:	Investment working group		
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1. Introduction

- 1.1. This report presents an update to the Joint Strategic Partnership Board (JSPB) on the investments made and the investment strategy.

2. Investment Strategy Statement

- 2.1. At the meeting of 6th December 2018 the Investment Working Group presented a draft investment strategy document (Appendix 1) that was agreed in principle, subject to a legal opinion on the document and any comments from partner authorities.
- 2.2. No amendments have been raised with the Investment Working Group, and therefore the JSPB is requested to agree that the strategy can now be formally signed off by the JSPB, or alternatively agree any required amendments to the strategy document.
- 2.3. The investment strategy provided for review of the strategy at no more than two yearly intervals, with the next review being due by December 2020.

3. Independent financial advisors – contract management

- 3.1. The contract with Arlingclose to provide independent financial advice to the Board began on 1 December 2018.
- 3.2. The contract will be renewed annually, unless the JSPB gives written notice to the contrary at least 3 months prior to the contract renewal date (ie by 1st September each year).
- 3.3. This was discussed at the JSPB meeting of 8 March 2019, with regard to retaining the services of Arlingclose for the period 1 December 2019 to 30 November 2020. It is expected that the JSPB will consider whether the services of Arlingclose will be retained for the period 1 December 2020 to 30 November 2021 at the meeting currently planned for June 2020.
- 3.4. At the meeting of 8 March 2019, it was agreed that the JSPB would be presented with updates on these investments every six months, and a summary of the updated value of the investments is shown in section 4 below.
- 3.5. Arlingclose have indicated they would be happy to attend future JSPB meetings to give an overview of the performance of the investments made and to give advice on future investments. The JSPB should consider whether they wish to invite Arlingclose to the next, or a future, JSPB meeting.

4. Update on investments made

- 4.1. At the meeting of 6 December 2018, the JSPB agreed to the investment of £6m from the Endowment Fund, on 17 December 2018 (or practically as soon thereafter as possible), to be split equally between the three funds recommended by Arlingclose:
- CCLA Property Fund - £2m
 - Kames Diversified Monthly Income Fund - £2m
 - Schroder Income Maximiser Fund - £2m
- 4.2. These investments were made on behalf of the JSPB by Hampshire County Council (as the Administrative Body) in December 2018 and February 2019.
- 4.3. The values of those investments as at 31st March 2019 and the dividends to 31st March 2019 are shown in the table below:

Investment	CCLA £'000	Kames £'000	Schroder £'000	Total £'000
Amount invested	2,000.0	2,000.0	2,000.0	6,000.0
Value as at 31/03/19*	1,833.6	2,000.0	2,035.1	5,868.7
Growth	(166.4)	0.0	35.1	(131.3)
Dividends received	0	24.3	0	24.3
Dividends accrued	20.1	9.1	31.3	60.4
Total dividends	20.1	33.4	31.3	84.7

*Market value, exclusive of any exit fees. No specific market value is available for the Kames fund.

5. Updated Cash Flow Forecast

- 5.1. As has been highlighted with previous cash flow forecasts, there are significant difficulties in making accurate long-term projections and variations in tariff income, project costs, inflation and investment returns could have a significant impact on the long-term financial viability of the partnership.
- 5.2. Tariff income forecasts have been compiled by the Administrative Body using projections from the respective planning authority partners. It is important that these forecasts are as accurate as possible and that the Administrative Body is informed of changes in a timely manner, so that figures can be updated to assist the JSPB in making sound investment decisions.
- 5.3. The income forecasts currently do not include the impact of any inflationary uplift to the tariff charged to developers. This was raised at a previous meeting and a separate report is being brought to this meeting on increasing the tariff. In view of this, the detailed cash flow forecasts have not been updated since the 6th December report, pending the outcome of the tariff review. However, the projected tariff income and Fund balances for the financial years to 31st March 2022 are shown in the table below:

	2018/19 Actuals £'000	2019/20 Projected £'000	2020/21 Projected £'000	2021/22 Projected £'000
Total tariff income	3,464	1,733	1,410	1,737
End of year balances held as cash funds by the Administrative Body				
Maintenance Fund	1,000	1,000	921	931
Endowment Fund	4,465	5,619	6,327	7,256

5.4. In view of the cash balance currently held within the Endowment Fund, it is recommended that the JSPB consider taking further advice from Arlingclose about potential future investments to utilise the balance.

6. Investment decisions

- 6.1. Investment decisions are to be made by the JSPB and all risks associated with these investments rest solely with the JSPB, as the Administrative Body cannot provide financial advice and therefore accepts no responsibility for the decisions made.
- 6.2. Any instructions will need to clearly document the amount to be invested (or sold), the investment to be bought (or sold) and the date on which the investment is to be made.
- 6.3. Before any investments are made, the Administrative Body will check that the investment instructions have fully taken account of, and are in accordance with, written financial advice provided to the JSPB, as required by the SAMM agreement. The Administrative Body will not make any investments on behalf of the JSPB that are not in accordance with documented independent investment advice.
- 6.4. It should be noted that potential investments are subject to any relevant minimum/maximum limits and timing restrictions of particular funds. Furthermore, as investments are made on behalf of the JSPB by Hampshire County Council (as the Administrative Body), the investments must therefore also be made within Hampshire County Council's Treasury Management Strategy Statement limits (the HCC TMSS).
- 6.5. The HCC TMSS is approved in February each year for the year ahead, and it is therefore recommended that the JSPB consider what their potential investment amounts could be for the next year to ensure provision is made for this in the HCC TMSS.
- 6.6. Although investments are made on behalf of the JSPB by Hampshire County Council as the Administrative Body, all investment risk sits with the JSPB.

7. Recommendations

- 7.1. It is recommended that the JSPB:
 - 1) Approves the investment strategy document originally discussed at the 6th December 2018 meeting or determines any amendments to be made

- 2) Notes the next review of the investment strategy document should be undertaken by December 2020
- 3) Notes the annual timescales for deciding whether or not to renew the contract with Arlingclose, and adds this to the forward agenda for a decision to be made at the June 2020 meeting for the year from 1st December 2020
- 4) Agrees when to next invite Arlingclose to attend a meeting of the JSPB
- 5) Notes the value of the investments made and dividends due as at 31st March 2019
- 6) Considers taking further advice from Arlingclose about potential future investments to utilise the balance within the Endowment Fund
- 7) Notes the requirements surrounding investment decisions, before any investments can be made by the Administrative Body on behalf of the JSPB
- 8) Considers the potential investment amounts for the coming year to enable this to be built into the Hampshire County Council Treasury Management Strategy Statement.

Appendix 1 – Copy of the Investment Strategy Statement agreed by the JSPB at the meeting of 6th December 2018

Thames Basin Heath Joint Strategic Partnership Board Investment Strategy Statement

In 2009 the Thames Basin Heath Joint Strategic Partnership Board (JSPB) was formed as part of the Thames Basin Heaths SPA – Strategic Access Management and Monitoring Project Memorandum of agreement.

1. Introduction.

- 1.1. The South East Plan (2009) contained proposals for over 55,000 new residential dwellings around the SPA and includes a specific policy identifying a series of mitigation measures which new developments must provide in order to avoid having an adverse effect on the SPA.
- 1.2. The mitigation to be provided by all new residential dwelling includes the provision of a Strategic Access Management and Monitoring Project. Each Local Authority is required to collect a fixed tariff from developers for each new dwelling and to transfer these as a contribution towards a joint fund for the Project. The contributions will be collected and administered by the Administrative Body.
- 1.3. It was agreed that the first Administrative Body would be Hampshire County Council.
- 1.4. The JSPB was established to provide the vehicle for joint working between local authorities and other organisations responsible for protection of the Thames Basin Heaths SPA. The Contribution Fund provides for:
 - 1.4.1. The provision of a Project Coordinator including any recruitment costs, redundancy costs and other related employment costs.
 - 1.4.2. Wardening of the SPA sites
 - 1.4.3. Survey and monitoring of visitor numbers and patterns, planning applications and the three-bird species on the SPA
 - 1.4.4. Interpretation and education services including the provision of an Education and Communications Officer including any recruitment costs, redundancy costs and other related employment costs associated with this role.
 - 1.4.5. Treasury functions and other management fees
 - 1.4.6. A long-term fund to enable the Project to be funded in perpetuity

This document defines the governance arrangements for the long-term fund.

2. Investment Working group

- 2.1. The Investment Working Group (IWG) will be a Working Group of the JSPB.
- 2.2. The Investment Group will consist of a minimum of three members who are nominated by the JSPB together with the current Independent Financial Advisor (IFA), Arlingclose.
- 2.3. Where a member of the IWG is a Councillor from Hampshire County Council, the member will not be involved in deciding which investments to make.
- 2.4. Any involvement of officers of the Administrative Body will not be in a decision making or advisory capacity and will be purely to support financial administration, as set out in the SAMM Agreement. The Administrative Body cannot provide financial advice.
- 2.5. Membership of the IWG will be reviewed bi-annually.

- 2.6. The Investment Group will meet at least six monthly and, on an ad-hoc basis as required. With a plan of meetings at the beginning of each financial year, taking into account commitments of partners. At least 10 days' notice of any ad-hoc meeting will be given for each meeting. The Working Group may meet "electronically" if required. In such a circumstance it will be made clear by what date members are required to respond.
- 2.7. The JSPB will delegate authority to the IWG, in consultation with the Chairman, to take immediate action to sell an investment should it become apparent that the investment is likely to fail.
- 2.8. the Investment Group will report all recommendations to the JSPB, these will be made by the councillor members having considered the advice of the IFA.
- 2.9. It is proposed that representatives of the IFA should attend the relevant JSPB meetings.
- 2.10. The role of the Group is to review and recommend appropriate policies/actions to the JSPB in respect of the following:
 - 2.10.1. The Strategic Asset Allocation of the Fund.
 - 2.10.2. The investment performance of the Fund.
 - 2.10.3. New investment products/mandates and their suitability for investment by the Fund.
 - 2.10.4. To recommend the appointment or termination of investment mandates.
 - 2.10.5. Such other matters as may be relevant to managing the investments of the Fund.
- 2.11. The final decisions on any proposed investment will be made by the JSPB.

3. Investment Objectives

- 3.1. Investment objective were agreed at the JSPB meeting of the 21st September 2018.
- 3.2. Approximately £1 million should be kept in cash in the Maintenance Account, to fund projected expenditure for a period of two years. This sum will be reviewed annually.
- 3.3. The primary aim would be to generate income, rather than capital growth.
- 3.4. The investment should have the lowest risk possible.
- 3.5. A target rate of return on investment should be calculated using the current balance held within the Endowment Account, plus a reasonable assumption of the future income (as provided by the Partners) to give a target percentage rate of return required to meet projected costs in perpetuity.
- 3.6. The IFA would be asked to advise on a recommended mix of investment types anticipated to meet that target rate of return at the lowest risk, and specific funds that would meet these requirements.
- 3.7. The JSPB should acknowledge that the target rate of return will vary, depending on actual income and expenditure, and that the target percentage rate of return may not be achieved. In either of those circumstances it would be necessary to review and revise the investment strategy, and/or to review and revise both the planned expenditure and the SAMM charges accordingly.

4. Investment strategy statement.

- 4.1. This is the first such statement published by the JSPB and it will be reviewed regularly by the IWG and at no more than 2 -year intervals. Recommendations will be made to the JSPB who will consider any proposed changes.

A requirement to invest fund money in a wide range of instruments.

- 4.1.1. The JSPB policy is that the fund should have a highly diversified investment portfolio spread across different asset classes and different asset managers using differing approaches as appropriate. This ensures that the fund money is invested in a wide range of instruments.
- 4.1.2. JSPB has established an Investment Working Group which meets bi-annually to review the fund's performance, asset allocation and ability to meet its target return. In addition, the Investment Working Group reviews potential new investment ideas and products and opines whether such ideas are consistent with the investment strategy of the fund and a suitable investment.
- 4.1.3. The Investment Working Group receives advice from suitably qualified Independent Financial Adviser, Arlingclose.
- 4.1.4. To achieve sufficient diversification the fund divides assets across 4 broad buckets: equities, bonds, real assets and absolute return strategies. The size of each bucket will vary depending on investment conditions.
- 4.1.5. Any investment strategy will have associated risks, including primarily that of not meeting the returns required to ensure the long-term ability of the fund to pay for the work of Natural England who are currently the project delivery team. To mitigate these risks the Investment Working Group regularly reviews both the performance and the expected returns from the portfolio to measure whether it has met and is likely to continue to meet its return objective,

5. The JSPB's assessment of the suitability of particular investments and types of investments.

- 5.1. In assessing the suitability of investments JSPB takes into account a number of factors including prospective return, risks, concentration or diversification of risk as well as geographic and currency exposures.
- 5.2. Performance benchmarks are set for the fund as a whole (target return UK CPI+3%) as well as for individual allocations.
- 5.3. In ensuring the suitability of investments the JSPB pays regard to both the potential returns and risk (including possible interactions with other investments in the portfolio). JSPB will also consider the reputational risk of being connected with or investing in any investment proposal. JSPB expects its managers to consider Environmental, Social and Governance issues when making an investment.
- 5.4. The IFA will advise the IWG on returns and the volatility of those returns from investments on a quarterly basis.

6. The JSPB's approach to risk, including the ways in which risks are to be measured and managed

- 6.1. The JSPB will seek the lowest risk consistent with meeting the investment objectives.
- 6.2. Looking specifically at investment risk JSPB is of the view that diversification of the fund investment portfolio will help to minimise investment risk (volatility of returns). The fund targets a long-term return of UK CPI+3%; this would be sufficient for it to meet its long-term liabilities. In setting the investment strategy, the JSPB decided that this return should be achieved with a low degree of volatility –the fund targets volatility below 10% per annum over the medium term.
- 6.3. As a patient long-term investor, the fund is prepared to ride-out short-term volatility in investment markets and may, if suitable opportunities arise, adapt its investment strategy accordingly.

7. The JSPBs policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The JSPB accepts that there are differing views on how social, environmental and corporate governance considerations should be taken into account and believes that no “one size fits all” policy can possibly be implemented across a diverse portfolio. Nevertheless, JSPB seeks to protect its reputation as an institutional investor and ensures that its investment managers take into account these issues when selecting investments for purchase, retention or sale. JSPB will not place social, environmental or corporate governance restrictions on its managers but relies on them to adhere to best practices in the jurisdictions in which they are based, operate and invest.