



Saltash Town Council



Policy/Procedure:

Annual Investment Strategy 2020-21 DRAFT

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This is a Policy or Procedure document of Saltash Town Council to be followed by both Councillors and employees.

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ANNUAL INVESTMENT STRATEGY 2020/2021

1 INTRODUCTION

- 1.1 Saltash Town Council (the Council) acknowledges the importance of prudently investing the surplus funds held on behalf of the community.
- 1.2 This strategy Complies (as appropriate) with legislation including the revised requirements set out in the Guidance on Local Government Investments issued by the Secretary of State for Housing Communities and Local Government in 2018 for periods after 1st April 2018.

In accordance with Section 15 (1) of the Local Government Act 2003 Act, the Council will have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify.

The Local Government Act 2003 states that a local authority may invest:

- For any purpose relevant to its functions under any enactment
 - For the purpose of prudent management of its financial affairs
- 1.3 This Strategy complies with the requirements set out in:
 - The Department of Communities and Local Government Guidance on Local Government Investments
 - Section 15 (1) (a) of the Local Government Act 2003
 - Guidance within Governance and Accountability for Local Councils

Investments are defined as all the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit.

Practitioner's Guide

- 1.4 The Council defines its treasury management activities as the management of the Council's investments, cash flows, its banking and money market transactions, the effective control of the risks associated with those activities, and the pursuit of best value performance consistent with those risks

2 POLICY

- 2.1 This strategy establishes formal objectives, policies and practices and reporting arrangements for the effective management and control of the Council's treasury management activities and the associated risks and should be read in conjunction with the council's financial regulations.
 - a The Council holds just over £300,000 of invested funds as at February 2020 representing income received in advance of expenditure plus

balances and reserves held. Over the coming year investment balances are expected to range between **£300,000 and £500,000**.

3 INVESTMENT OBJECTIVES

- 3.1 Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security (protecting the capital sum from loss) and liquidity (ensuring funds are easily available when required) of its investments before seeking the highest rate of return/yield.
- 3.2 The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The Council will therefore aim to achieve the optimum return on its investments commensurate with appropriate levels of security and liquidity.
- 3.3 The Council's investment priorities therefore are, in order of importance:
 - the security of its reserves
 - the adequate liquidity of its investments
 - the return (yield) on investments
- 3.4 All investments will be made in sterling.
- 3.5 The Department for Communities and Local Government maintains the borrowing of money purely to invest or to lend and make a return is unlawful and the Council will not engage in such activity. The Council will take account of and seek to invest, where appropriate, to support high social, environmental and other ethical standards.
- 3.6 Investment limits are set by reference to the lowest published long-term credit rating from Fitch Rating Ltd, Moody's Investors Service Ltd or Standard & Poor's.

Credit ratings are obtained and monitored by the Finance Officer who advises the Council on appropriate credit criteria and will also notify changes in credit ratings as they occur.

However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

- 3.7 The Council may invest its surplus funds with any of the counterparty types below, subject to the cash limits (per counterparty) and time limits shown:
 - Call accounts which provide instant access, notice accounts and term deposits with UK banks and building societies on an unsecured basis*:

with a credit rating of A- (A minus) or higher: £1.5 million up to a maximum period of 1 year

- Pooled Funds including Money Market Funds: £1.5 million per fund

(note: these funds do not have a maturity date)

*it should be noted that call/notice accounts and term deposits are not secured on the bank's or building society's assets. These investments are subject to the risk of credit loss via a bail-in should the banking regulator determine that the institution is failing or likely to fail.

3.8 Investments in pooled funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds offering same-day liquidity and very low or no volatility provide an alternative to instant access bank accounts.

3.9 The Council will monitor the risk of loss on investments by regularly reviewing credit ratings across the three main agencies. The Council will only invest with institutions deemed to be of 'high credit quality' based on rating agency information (see 4.1 below).

3.10 Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made
- any existing investments that can be recalled or sold at no cost will be
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

3.11 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other information, including credit default swaps, financial statements, information on potential government support, and reports in the financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet credit rating criteria.

3.12 Investments will be spread over different providers in line with agreed limits in order to reduce counterparty risk.

4 SPECIFIED INVESTMENTS

4.1 The CLG Guidance defines specified investments as those

- denominated in pound sterling
- due to be repaid within 12 months of arrangement
- not defined as capital expenditure by legislation, and
- invested with one of:
 - the UK Government

- a UK local authority, parish council or community council, or
 - a body or investment scheme of 'high credit quality'.
- 4.2 The Council defines 'high credit quality' organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds 'high credit quality' is defined as having credit rating of A- or higher.
- 4.3 Specified investments typically offer lower risk and higher liquidity. All investments made by the Council will be denominated in sterling and for no more than 12 months. Such short-term investments made with the UK Government, a local authority or a Town/Parish Council will be specified investments.
- 4.4 For the prudent management of its treasury balances, including maintaining sufficient levels of security and liquidity, the Council will place deposits with banks, building societies, local authorities and other public authorities/bodies.
- 4.5 The choice of institution and length of deposit will be at the discretion of the Policy and Finance Committee.
- 4.6 Saltash Town Council's current investments are with Barclays Bank, Nationwide, Cornwall Council and CCLA Public Sector Deposit Fund (see Appendix A). As part of the strategy investments are spread across different counterparties in order to reduce counterparty risk.
- 4.7 Day-to-day banking is with Barclays Bank Plc. We hold around 5% of the annual operational expenditure in the current account for cash flow purposes.

5 NON-SPECIFIED INVESTMENTS

- 5.1 Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares.
- 5.2 Non-specified investment will therefore be limited to long-term investments (i.e. those that are due to mature 12 months or longer from the date of arrangement) and investments with bodies or schemes not meeting the definition of 'high credit quality'.

6 NON-FINANCIAL INVESTMENTS

- 6.1 Non-financial investments are non-financial assets that the organisation hold primarily or partially to generate a profit. The asset will normally be a physical asset that can be realised to recoup the capital invested.

The Town Council does plan to invest in non-financial assets in the foreseeable future.

7 LIQUIDITY OF INVESTMENTS

- 7.1 The Council uses cash flow forecasting to determine the maximum period for which funds may be prudently committed.
- 7.2 The Policy and Finance Committee will determine the maximum periods for which funds may prudently be committed so as not to unacceptably increase liquidity risk.
- 7.3 Investments will be regarded as commencing on the date the commitment to invest is entered into rather than the date on which the funds are paid over to the counterparty.

8 LONG-TERM INVESTMENTS

- 8.1 Long-term investments are defined in the DCLG Investment Guidance as those due to be repaid in over 12 months from arrangement.
- 8.2 The Council does not currently hold any long-term investments, and none are envisaged as being taken out during the financial year 2020/21.

9 END OF YEAR INVESTMENT REPORT

- 9.1 At the end of the financial year the Finance Officer will report on investment activity to the Policy and Finance Committee.

10 REVIEW AND AMENDMENT OF REGULATIONS

- 10.1 The Investment Strategy will be reviewed annually by the Policy and Finance Committee.
- 10.2 The Council reserves the right to make variations to the Investment Strategy at any time subject to the approval of Council. Any variations will be made available to the public.
- 10.3 The investment strategy must be approved by Policy and Finance Committee but may be varied from time to time as circumstances dictate.

11 CAPACITY, SKILLS AND CULTURE

11.1 The Council is committed to ensuring that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the Council and to enable them to understand how the quantum of these decision have change the overall risk exposure of the Council.

11.2 This will be achieved by

- Appropriate training of members and officers
- Use of appropriate expert external advisors
- Reporting to Council in the most open, clear, understandable and transparent way possible
- The use of existing regular communication procedures between senior members and officers to facilitate constantly improved capacity, skills and information exchange.

12 SALTASH TOWN COUNCIL INVESTMENT STRATEGY 2020-21

12.1 An annual cash flow forecast will be carried out to ascertain expenditure commitments for the coming year. The council is mindful of the need not to make the administration of investments too complex, especially when considering the low rates of return and the administration costs associated with managing multiple accounts and creating new accounts. The following have been identified using Moody's and Fitch ratings:

12.2 For 2020-21 the council will invest as much of its surplus funds in low risk products in order to achieve its investment objectives. All investments are held for treasury management purposes only.

The investments will be split between

- Barclays Active Saver – This is an instant access account for all day to day operational expenditure. The finance officer has delegated authority to make all necessary transfers between this account and the council's current account to meet day to day financial commitments of the council. All transfers get reported to Full Council on a monthly basis.
- Cornwall Council – This is an instant access call account and with a slightly higher interest rate than the Barclays Active Saver. The council is currently undertaking large projects and will continue into 2020-21 and the liquidity of funds is therefore a higher priority than a return on

investment especially when the differential in rates of interest are very modest.

- CCLA Public Sector Deposit Fund – This account is an instant access but currently holds around 75% of the council's contingency funds.
- Nationwide Business 95 Day Saver – This account is on 95 Day Withdrawal Notice and holds around 25% of the council's contingency funds.

12.3 The maximum value of any one investment held with any bank or institute as detailed above will be £500,000.

This strategy will be made available on the Town Council's website.

APPENDIX A

Statement of Reserves Position as at **February 2020**

1. At the end of the 2018/19 financial year Saltash Town Council had £253,940 in its General Reserve including £90,000 contingency fund and £380,636 in its Earmarked Reserves.
2. The precept of £1,156,981 was received in 2019/20.
3. The precept of £1,304,083 for 2020/21 will be paid into the current account in two tranches, 50% in April 2020 and 50% in September 2020.
4. A report containing a summary of the reserves position was considered by Policy & Finance Committee in February 2020
5. The current balance – as at date 6th February 2020 - in each of the specified investments is as follows: -
 - Barclays Active Saver – (Fitch Rating: A+) £496,233, Instant Access – 0.3% Interest Rate
 - Cornwall Council Call A/c - £452,174 – Instant Access – 0.8%-0.9% Typical Daily Interest Rate
 - Nationwide 95 Day Notice Saver (Fitch Rating: A) - £100,650 – 95 Day Withdrawal Notice – 1.1% Interest Rate
 - CCLA Public Sector Deposit Fund - £200,000 – Instant Access – 0.6-0.7% Typical Daily Interest Rate
6. The Finance Officer will report on all investment rates of return at every Policy and Finance Committee held throughout the financial year.