

CULLOMPTON TOWN COUNCIL



POLICY TITLE	INVESTMENT STRATEGY
POLICY NO	27
APPROVAL DATE	Adopted February 2016, reviewed and updated 6 January 2022
REVIEW DATE	January 2023
POLICY AIM	This strategy sets out the Town Council's investment criteria ,objectives and scope.

1. INTRODUCTION

The strategy has been produced to comply with the guidance issued by the Secretary of State under Section 15(1) of the Local Government Act 2003 (3rd edition, effective for financial years commencing on or after 1 April 2018). Cullompton Town Council acknowledges its responsibilities to the community and the importance of prudently investing the temporary surplus funds held on behalf of the community.

The Town Council will ensure it has adequate though not excessive cash resources or standby facilities to enable it at all times to have the level of funds available which are necessary for the achievement of service objectives.

2. OBJECTIVES

2.1 The Council's objective is prudent investment of its balances. The Council's investment priorities are:

- (i) The security of its reserves.
- (ii) The liquidity of its investments.

Yield will be borne in mind when making decisions about where to invest but will not be an overriding consideration or objective (see 2.3 below)

2.2 The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

2.3 In balancing risk against return, the Town Council will be careful to avoid risks rather than to maximise returns.

- 2.4 Where external investment managers are used, they will be contractually required to comply with this Strategy.

3. POLICIES

- 3.1 All the Town Council's investments will be Specified investments which are those offering high security and high liquidity. This means that:
- (i) All investments will be made in sterling and any payments or repayments will also be made in sterling.
 - (ii) Long term investments will be limited to a maximum of £100,000.00 and be reviewed annually.
 - (iii) All investments will be made with a body or investment scheme which has been awarded a high credit rating by a credit rating agency (i.e. Standard and Poor's, Moody's Investors Service Ltd and Fitch Ratings Ltd) For the purposes of this Strategy "high credit rating" is an organisation with a credit rating of A- or higher that is domiciled in the UK or a sovereign rating of AA+ or higher for organisations domiciled in a foreign country.
 - (iv) The Town Council may use the following:
 - Deposits with banks, building societies, local authorities or other public authorities
 - Other recognised funds specifically targeted at the public sector
 - (v) All investments will be made through banks and building societies. The choice of institution and length of deposit (if required) will be in the remit of the Resources Committee.
- 3.2 For prudent management of its balances, the Town Council, maintaining sufficient levels of security and liquidity, implements a policy whereby funds which are likely to be surplus for up to three months can be invested in short term deposits with one or more of the UK major clearing banks and/or building societies.
- 3.3 The Department of Communities and Local Government maintain that borrowing monies purely to invest or lend and make a return is unlawful and the Town Council will not engage in such activity.

4. Quantative Indicators

The quantative indicators that allow Councillors and the public to asses a local authority's total risk exposure as a result of its investment decisions will be used as at Appendix 1.

5. REVIEW OF THE STRATEGY

- 5.1 The Resources Committee will review the policy annually.
- 5.2 At the end of the financial year during the preparation of the accounts the Town Clerk will report on the investment activity
- 5.3 The Resources Committee may recommend variations to the strategy for the approval of the Full Council with the guidance from the Secretary of State.
- 5.4 The Resources Committee will review the Council's banking arrangements every two years.

Definitions (from the Statutory Guidance on Local Government Investments)

Investments (S4)

The definition of an investment covers all of 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; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

Specified Investments (S31)

An investment is a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.
- The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option
- The making of the investment is not defined as capital expenditure by virtue of Regulation 25 (1) (d) of the Local Authorities (Capital finance and Accounting (England) Regulations 003 (as amended)
- The investment is made with a body or an investment scheme described as high quality (see paragraph 33 [of the Statutory Guidance] or with one of the following bodies:
 - i The United Kingdom Government
 - ii A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; or
 - iii A parish or community council

Non Specified Investments (S35)

A non specified investment is any financial investment that is not a loan and does not meet the criteria to be treated as a specified investment

Security (S26)

Protecting the capital sum invested from loss

Liquidity (S26)

Ensuring the funds invested are available for expenditure when needed

Debt to net service expenditure (NSE) ratio	<i>Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.</i>
Commercial income to NSE ratio	<i>Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.</i>
Investment cover ratio	<i>The total net income from property investments, compared to the interest expense.</i>
Loan to value ratio	<i>The amount of debt compared to the total asset value.</i>
Target income returns	<i>Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.</i>
Benchmarking of returns	<i>As a measure against other investments and against other council's property portfolios.</i>
Gross and net income	<i>The income received from the investment portfolio at a gross level and net level (less costs) over time.</i>
Operating costs	<i>The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.</i>
Vacancy levels and Tenant exposures for non-financial investments	<i>Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure</i>

(Source: Statutory Guidance on Local Authority Investments (3rdEdition))