

## **Southborough Town Council (STC)**

### **Investment Strategy**

#### **1. Introduction:**

1.1. Southborough Town Council (the Council) recognises the importance of prudently investing the surplus funds held on behalf of the community.

1.2. 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 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.

2.2. The Council holds some £1.3m of funds as of June 2021 representing a capital receipt from the sale of Speldhurst allotment land, plus income received in advance of expenditure plus balances and reserves held. In the past 12 months the Council's fund balance has ranged between £700,000 and £290,000. Over the coming year fund balances are expected to range between £1,900,000 and £1,400,000.

#### **3. Investment Objectives:**

3.1. In accordance with Section 15 (1) of the Local Government Act 2003, the Council will have regard to

- such guidance as the Secretary of State may issue, and
- such other guidance as the Secretary of State may by regulations specify.

- 3.2. 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/available when required) of its investments before seeking the highest rate of return/yield.
- 3.3. 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.

3.4 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

3.5 All investments will be made in sterling.

3.6 The Department for Communities and Local Government maintains that 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.

3.7 Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Credit ratings may be obtained and monitored by employing the services of a treasury adviser, who as part of the services provided would advise 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.

3.8 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: [£700,000 – to cover period immediately after precept received] up to a maximum period of 1 year (limit to be reviewed when new counter parties agreed)
- 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.

3.9 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.

- 3.10 The Council will monitor the risk of loss on investments by 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 4.2 below).
- 3.11 Credit ratings will be monitored by the RFO. 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.
  - the RFO will consider the recall or sale of any existing investments with the affected counterparty and make recommendations to the Finance & GP Committee.
- 3.12 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 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.
- 3.13 Investments will be spread over different providers where possible in line with agreed limits in order to reduce counterparty risk.
- 3.14 Where external investment managers are used, they will be required to comply with this Strategy.

#### **4. Specified Investments:**

- 4.1. The CLG Guidance defines specified investments as those
- denominated in pounds 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 which has 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 are those offering high security and high liquidity, made in sterling and maturing within no more than a year. Such short-term

investments made with the UK Government, or a local authority or town parish council will automatically 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 Finance & General Purposes Committee.
- 4.6 Southborough Town Council's current investment is with Lloyds Bank (see Appendix A). However, as part of the new strategy investments will be spread across different counterparties with higher credit ratings in order to reduce counterparty risk.
- 4.7 Day-to-day banking will remain with Lloyds Bank.
- 4.8 The Council will give initial consideration to investments with:
  - Lloyds Bank PLC – Fixed Term Deposits and Call Account
  - CCLA – The Public Sector Deposit FundAny additional counterparties will be recommended to Full Council by the Finance & General Purposes Committee.

## **5. Non-Specified Investments:**

- 5.1. Any investment not meeting the definition of a specified investment is classed as non-specified.
- 5.2. Non-specified investments 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 on 'high credit quality'. These investments have greater potential risk – examples include investment in the money market, stock and shares.
- 5.3 Capital growth of the fund should be considered and equal to RPI whilst being consistent with other priorities.

## **6. Liquidity of Investments:**

- 6.1. The Council will use cash flow forecasting to determine the maximum period for which funds may be prudently committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet financial commitments.
- 6.2. The Finance & GP Committee will determine the maximum periods for which funds may prudently be committed so as not to unacceptably increase liquidity risk.

6.3. 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.

## **7. Long-Term Investments:**

7.1. Long-term investments are defined in the DCLG Investment Guidance as those due to be repaid in over 12 months from arrangement.

7.2. The Council does not currently hold any long-term investments, and none are envisaged as being taken out during the financial year 2021/22.

## **8. End of Year Investment Report:**

8.1. At the end of the financial year the Responsible Finance Officer will report on investment activity to the Finance & GP Committee.

## **9. Review and Amendment of Investment Strategy:**

9.1. The Investment Strategy will be reviewed annually by Full Council.

9.2. The Investment Strategy must be approved by Full Council but may be varied from time to time as circumstances dictate. The Council reserves the right to make variations to the Investment Strategy at any time on the recommendation of the Finance and GP Committee. Any variations will be made available to the public.

## **10. Treasury Management Advice:**

10.1. Southborough Town Council recognises that neither members nor officers are experts in the field of treasury management. Given the significant level of reserves that have arisen from the Council's sale of land, the Town Clerk may recommend that independent, external, expert 'Treasury Management' advice is sought to both review this Investment Strategy and the allocations of Specified Investments. The Council should review its level of investment on an annual basis and assess if there is a requirement to obtain independent, external, expert 'Treasury Management' advice in reviewing the Investment Strategy and the allocations of Specified Investments.

10.2 Treasury Management advice would typically come from:

- the principal local authority
- NALC, KALC
- treasury management advisory firms who specialise in local authority and local town & parish councils (such as CCLA)

- Other independent financial advisors with expertise in advising charities and local authorities with significant cash sums to manage and invest (such as Arlingclose Ltd).

**Statement of Reserves Position at May 2021**

Southborough Town Council has the following reserves:

	As of 31 March 2021,	As of 31 May 2021,
Current working balance	£292,000	277,000
General Unallocated Reserves	£489,000	£1.7m
Medical Centre Structural Maintenance Fund (escrow account)	0	0
Civic Centre General and Structural Maintenance Sinking Fund	0	0
<b>TOTAL</b>	<b>781,000</b>	<b>1,977,000</b>

1. The precept of £541,429 was received in 2021/22.
2. Southborough Town Council is expected to build up its Civic Centre General and Structural Maintenance Sinking Fund in the light of advice from its RICS surveyor. The Medical Centre's Tenants' Internal Repairing Lease Service Charge provisions (Schedule 1, para 6 (d)(vi)) only provide for its sinking fund contributions to be for known future expenditure to be reasonably expected to be incurred at any time in connection with providing the Services under its lease. See 4 below for its Structural Maintenance Fund.
3. Southborough Town Council is expected to set aside the £20,000 rent payable by the GP practice, net of the applicable VAT, into the Medical Centre Structural Maintenance Fund.

**Adopted at STC Full Council 24.6.21**