



## Investment Strategy

### Introduction

The Investment of surplus funds by local authorities is governed by the Local Government Act 2003, section 15(1)(a) and Guidance issued by the Secretary of State under that Act.

The guidance applies to Credition Town Council (CTC) should total investments exceed or are expected to exceed £100,000 at any time during the financial year. Where the expectation is for total investments to be between £10,000 and £100,000 it is encouraged to adopt the principles in the Guidance.

The Guidance recommends that a council produces an Annual Investment Strategy which sets out its policy for managing its investments giving priority to two underlying objectives:

- Security – protecting the capital sum invested from loss
- Liquidity – ensuring the funds invested are available for expenditure when needed.

Financial Investments can fall into one of three categories:

- Specified Investment – one which is made in sterling, is not long term (less than 12 months), not defined as capital expenditure and is placed with a body which has a high credit rating or made with the UK Government, a UK Local Authority or a parish or community council
- Loans – these can be made to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth, even though those loans may not be seen as prudent if adopting a narrow definition of prioritising security and liquidity
- Non-specified investments – any financial investment that is not a loan and does not meet the criteria to be treated as a specified investment.

Local authorities should keep strategies simple and maintain prudence at all times.

CTC has adopted the following Investment Strategy, which establishes formal objectives, policies, practices and reporting arrangements for the effective management and control of treasury management activities, and the associated risks, and should be read in conjunction with the Council's Financial Regulations.

### Investment Objectives

- 1.1 CTC acknowledges the importance of prudently investing its temporary surplus funds held on behalf of the Credition community.
- 1.2 CTC's priorities will be centred on the security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed) of its reserves.

- 1.3 To comply with the Secretary of State's Guidance in relation to council investments in full (Department for Communities & Local Government "Guidance on Local Government Investments" 3rd Edition updated February 2018).
- 1.4 Carry out an annual cash flow forecast to ascertain expenditure commitments for the coming financial year.

### **Specified Investments**

- 2.1 On the basis of the cash flow forecast CTC will only invest in:
  - Specified Investments
  - Bodies with high credit ratingsThe type of investments used will be:
  - Deposits with banks, building societies, local authorities or other public authority
  - Other approved public sector investment funds.

### **Loans**

- 3.1. Loans are not currently included in the Investment Strategy as they are considered unacceptable due to their potential risk.
- 3.2 Should CTC choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth, it should be noted that in considering loans CTC must have regard to the Guidance and must be able to demonstrate that:
  - Total financial exposure to these types of loans are proportionate
  - They must use an allowed "expected credit loss" model for loans as set out in the "International Financial Reporting Standard (IFRS) 9 Financial Instruments" as adopted by proper practices to measure the credit risk of the loan portfolio
  - There are appropriate credit control arrangements to recover overdue repayments in place
  - The Town Council has formally agreed the total level of loans by type that it is willing to make and that the total loan book is within self-assessed limits.

### **Non Specified Investments**

- 4.1 Non-specified investments are not currently included in this Investment Strategy as these investments are considered unacceptable due to the higher potential risk.

### **Borrowing in Advance of Need**

- 5.1 CTC cannot borrow more than, or in advance of their needs, purely in order to profit from the investment of the extra sums borrowed.
- 5.2. In exceptional circumstances where CTC chooses to disregard the Prudential Code, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Guidance and borrows/has borrowed purely to profit from the investment of the extra sums the Council must explain:

- a) Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance
  - b) The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.
- 5.3 The purpose of this disclosure is to allow external auditors, taxpayers and other interested parties to understand why the Council has chosen to disregard the Guidance, and to be able to hold CTC to account.

### **Use of Investment Managers**

- 6.1 CTC does not employ, in-house or externally, any financial advisors but will rely on information which is publicly available.
- 6.2. If external investment managers are used, they will be contractually required to comply with this strategy.

### **Governance & Risk**

- 7.1 There will be due regard to the Financial Services Compensation Scheme and CTC will aim to spread 'specified investments' over a range of different providers in such a way as to limit exposure and minimise risk.
- 7.2 The Responsible Finance Officer (RFO) in consultation with the Council Affairs Committee and/or Full Council (as applicable) will determine the maximum periods for which funds may prudently be committed so as not to compromise liquidity.
- 7.3 CTC will only invest in institutions of "high credit quality" as set out in point 2.1 of this strategy.
- 7.4 CTC will monitor the yield on investments by having regard to the general financial, economic and political environment nationally.
- 7.5 Only Full Council has the authority to make and approve any short-term investments (maximum of twelve months), in accordance with the Annual Investment Strategy, based upon recommendations from the Council Affairs Committee and Responsible Finance Officer.
- 7.6 All resolutions relating to investments will be noted in the minutes.
- 7.7 All members do not necessarily need formal training to understand investment or the potential risks to satisfy the Guidance. However, it may be appropriate for the RFO to prepare a report/presentation setting out the opportunities and risks in such terms that a member can understand and therefore make an informed decision.

## Review & Amendment

- 8.1 CTC's investment position will be reviewed regularly (as a minimum every six months) by the Responsible Financial Officer and reported to the Council Affairs Committee and/or Full Council for consideration.
- 8.2 This Investment Strategy will be reviewed annually.
- 8.3 The Council reserves the right to make variations to the Strategy at any time, subject to the approval of the Full Council. Any variations will be minuted and made available to the public.