North Petherton Town Council

Investment Strategy

Approved by Town Council 15 August 2022 (Minute 96/2022)

1. Introduction

1.1. The power to invest money is provided in section 12 of the Local Government Act 2003. Section 15 of that Act requires a local authority to have regard to such guidance as the Secretary of State may issue. The current guidance is set out in "Guidance on Local Government Investments" issued in 2018 by DHCLG.

1.2. The guidance applies to all local authorities in England, but insofar as parish and town councils are concerned, those not expecting its investments to exceed £10,000 in any financial year can ignore the guidance, those expecting their investments to exceed £100,000 are bound by it, and those in between have to decide the extent to which they take it into account. North Petherton currently has funds available for investment of around £250,000, and so is bound by the guidance

1.3. North Petherton Town Council acknowledges its responsibilities to the community and the importance of prudently investing the temporary surplus funds held on behalf of the community.

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

1.5. The Department of Communities and Local Government maintains that borrowing monies purely to invest or lend and make a return is unlawful and the Town Council will not engage in such activity.

2. Principles

2.1. The main thrust of the guidance is that the council should have an Investment Strategy that is reviewed at least annually. The strategy then forms the basis against which any particular investment decision is taken.

2.2. The objective of the strategy should be firstly to ensure that the funds invested are secure, secondly that they will be available to the council as and when they are needed, and lastly (and least importantly) that a good return is achieved. This is the SLY approach – *Security, Liquidity and Yield – in that order.*

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

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

2.5. Investments are categorised into two types.

2.5.1. Specified investments – these are in sterling, are not long term, i.e. for greater than 12 months, are not to be treated as capital expenditure, and are made with a body or in an investment scheme of *high credit quality* or with the UK government or a local authority in England or Wales.

2.5.2. Non-specified investments – these are the rest.

2.5.3. The guidance also covers investments in non financial instruments, such as property, but this is not likely to be relevant to local councils.

2.6. The guidance requires the use of non-specified investments to be closely prescribed in the Strategy, setting out where, when and how they can be use and who has authority to make decisions in relation to them.

2.7. In determining investment risk, the Strategy should make clear the extent to which credit ratings are to be used, and if they are, the frequency with which they are reviewed, and what other sources of information are to be used.

2.8. The Strategy should also cover the use of investment advisers and set out procedures for determining the maximum period for which funds may prudently be committed.

3. Investment Strategy

3.1. Subject to para 3.2 decisions on investing surplus funds should be made by full council after having considered the advice of the Finance and General Purposes Committee and the Responsible Finance Officer and should be in line with this strategy.

3.2. Funds not needed immediately to meet on-going requirements can be invested in the Council's Reserve Account with its bank.

3.3. Where possible investments should be spread so that not more than £75,000 is invested with a particular counter party at any one time, in order to take advantage of the council's inclusion the Financial Services Compensation Scheme.

3.4. No more than 40% of the council's invested funds at any one time should be in non-specified investments, and such investments should be denominated in sterling and be with bodies with a credit rating at least equivalent to that of the Council's banker.

3.5. All specified 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, 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.

3.6. Before investing in an investment with a maturity date exceeding twelve months, the council should consider a report from the RFO outlining the council's likely funding requirements.

3.7. 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

3.8. The use of independent financial advisers is permitted if deemed advisable by the RFO in conjunction with the Chairman of Council and the Chairman of the Finance and General Purposes Committee. Where external investment managers are used, they will be contractually required to comply with this Strategy.

4. Quantative Indicators

4.1 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.

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

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