



FINANCE AND GENERAL PURPOSES COMMITTEE

INVESTMENT STRATEGY, POLICY AND RISK MANAGEMENT for the 2020/21 financial year

1. Introduction:

- Sevenoaks Town Council (the Council) acknowledges the importance of prudently investing surplus funds held on behalf of the community.
- Statutory Powers: The Council's Investment Strategy complies with the revisions set out in:
 - the Statutory Guidance on Local Government Investments (3rd Edition) for financial years commencing 1 April 2018.
 - The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes

2. Reporting, Approval, Review and Amendment

- 2.1. The Council is required to approve an annual Investment Strategy and Prudential Indicators so that borrowing and investments remain prudent, affordable and sustainable. The policy in line with CLG Guidance Note, will be reviewed by the Responsible Finance Officer for consideration and approval annually
- 2.2. The Annual Strategy for the coming financial year will be prepared by the RFO and presented for approval to the Finance and General Purposes Committee before the start of the financial year
- 2.3. The Council reserves the right to make variation to the Strategy at any time subject to the approval of Full Council. Any variations will be made available to the public.
- 2.4. Fund balances and Investment activity is to be reported at every Finance and General Purposes Committee.

3. Investment Objectives

- 3.1. Guidance on local government investments issued by the Department for Communities and Local Government (CLG) currently suggests that investment strategy should have regard to the informal policy: **Security – Liquidity – Yield** – in that order.

The Council's investment priorities are as follows:

- Security of reserves i.e. protecting the capital sums invested from loss,
- Liquidity of its investments i.e. ensuring that funds invested are available for expenditure when needed. Cash available from the current account should be judged as adequate to cover the Council's commitments during the period of the investment(s).
- Yield i.e. the return on investment is considered once the first two objectives are satisfied.
- All investments will be made in sterling.
- The Council will carry out quarterly cash flow forecasts to ascertain expenditure commitments for the coming financial year.

3.2. The Guidance Note makes a distinction between investments that are:

- high security and high liquidity (specified investments); and,
- those with potentially greater risks and lower liquidity (non-specified investments)

The strategy should determine which categories of investment may be prudently used during the financial year and state the upper limits for the amounts which, at any time during the financial year, may be held in each category.

A 'Specified Investment' is one which is made in sterling, is not long term (less than 12 months) not defined as capital expenditure and is

- I. placed with a body which has a high credit rating or made with the UK Government,
- II. a UK Local Authority or a parish or community council.

Any other type of investment is considered 'Non Specified Investment' to which there can be greater risk and where professional investment advice might be required.

4. Policy

- 4.1. The Council's strategy requires investment in Bodies with high credit ratings i.e. ratings of UK clearing banks and building societies should be at least A- or equivalent.
- 4.2. The Council will only invest in 'Specified' investments as per the criteria defined above.
- 4.3. The Council's policy is to retain not less than 3 months estimated working capital and capital requirements in current and deposit accounts giving immediate access.
- 4.4. Amounts representing the balance on Revenue Reserves at the beginning of the financial year to be placed on deposit of up to one year's duration, depending on the prevailing interest rates and forecast cash flow requirements;
- 4.5. Other funds to be placed on deposit of up to one year's duration, depending on the prevailing interest rates and forecast cash flow requirements.
- 4.6. The Council policy is to invest for the best income return having regard to the Statutory Guidance and the absolute requirement to avoid a capital loss.

5. Investment Risk

5.1. Risk Management:

Limits

As a rule, not more than 40% of the funds are to be placed with any one institution, however authorised officers may use their discretion to increase this to 50%.

Categories

Funds only to be deposited or invested in the following categories of specified investments (as defined by the 2003 Act)¹:

- a) UK clearing banks or their subsidiaries, together with those former major building societies now banks;

- b) The Treasury Departments of building societies which are members of BSA with assets over £2bn;
- c) Non-UK financial institutions approved by the Finance and General Purposes Committee;
- d) UK Government stocks;
- e) UK local authority stocks or bonds;
- f) The money-market management operations of a UK public body or authority², where the council's funds are pooled and invested on the money markets under the name of such UK public body or authority.

Monitoring of Investment Counterparties

In the case of (a) and (b) above, for investments with maturity of 6 months or less the receiving body of investment scheme should generally have a short term credit rating of not less than A2 or equivalent as indicated by Standard and Poors, Moody's Investors Services or Fitch Ratings.

For investments with maturities over 6 months, the long-term credit rating should be A- or equivalent. The Committee may take other information into account in assessing the creditworthiness (e.g. sovereign support).

In the case of (c) and (f) above, where ratings are available, such credit ratings should be equivalent to A or above, and subject to prior approval by the Finance and General Purposes Committee.

Ratings are to be monitored not less than quarterly and if the rating of any Council investment has fallen below the appropriate rating, the Council will take the earliest opportunity to withdraw the investment and re-invest the proceeds appropriately depending on the best rates of return on offer at the time.

Category (f) should include any investment via Sevenoaks District Council of deferred payment of the half-yearly precept.

5.2. Treasury Management Advice

Within the limited range of potential investments identified it is not considered necessary to engage the services of a treasury management adviser. Independent research including internet research has been considered adequate.

5.3. Investment Training

The Guidance recommends that the Strategy should state the process adopted for reviewing and addressing the needs of the authority's treasury management staff for training in investment management.

² For example the Public Works Loans Board, or the treasury departments of a county or district local authority.

5.4. Investment of money borrowed in advance of need

- The Guidance maintains that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrows.

6. Investment strategy review

6.1. Specified Investments

The Council currently has 5 approved institutions, which are sufficient for it to keep within the 40-50% maximum investment limit for any one institution. Short term investments will be with any of the following, depending on the interest yield at the time of the investment.

Most of STC's investments currently fall within the 'specified investments' category.

Credit ratings are from all three rating agencies but Standard and Poor ratings are listed. Ratings are assessed at least on a quarterly basis. The last review listed was as at December 2019.

Name of Institution	Investment Period	Short Term Credit Rating	Long Term Credit Rating	Yield
Bank of Scotland	1 month rolling	A1	A+	0.80%
Handelsbanken	35 Day notice	A1+	AA-	0.25%
Nationwide	Instant access	A1	A	0.60%
HSBC Business Money Manager	Instant access	A1+	AA-	0.20%
CCLA-Public Sector Deposit Fund (PSDF)		AAA (Fitch)		0.71%

As at 1st April 2020, the Council will continue to hold its money in a current account with the NatWest bank (A1, A) and receive interest at the current applicable rate.

The Council has an existing account with Clydesdale (rating BBB+), which remains open with a £1 balance in case Councillors choose to invest with the bank in the future.

CCLA Fund - Public Sector Deposit Fund

It is an FCA regulated qualified money market fund with an AAA Fitch rating. The fund is instant access (although access does involve the selling of income shares) with interest paid at the end of each month. It aims to maximise net asset value of the Fund by investing in deposits with a range of highly rated sterling denominated deposits and instruments. The PSDF is a "Qualifying Money Market Fund" (QMMF) which is classed as a "low volatility net asset value" (LVNAV) short-term money market fund under the EU Money Market Funds Regulation. The weighted average maturity of the PSDF's investments will not exceed 60 days. The weighted average life of the PSDF's investments will not exceed 120 days.

It offered a dividend yield of 0.7267% net of fees (0.08%) as at December 2019.

Investment was made for the first time in September 2019 to ensure that the Council does not invest more than 40% in any one investment fund.

Owing to capital projects and related spending, funds will continue to be invested at maturities of no more than one year. Quarterly cashflow predictions will be used to ensure that funds required for projects anticipated to occur in the next quarter are held at appropriate maturities.

Overall, funds invested will be reviewed continually and aligned with both cashflow and projects. Maturities of a longer duration will only be considered after consideration of security and the absolute requirement to avoid capital loss.

6.2. Consideration of alternative investments

The Council may wish to introduce additional investments as requirements change so that funds can be spread more widely (but within reason) in order to minimise financial risk.

Consideration may be given to unspecified investments, CCLA funds and investing through a broker.

CCLA Funds - Local Authorities Property Fund

Aims to provide investors with a high level of income and long-term capital appreciation. Fund invests in UK commercial properties. Capital growth is achieved while property prices continue to increase – but fund values would decrease in the event that property prices fall (e.g. in the event of a significant rise in interest rates).

It offered a dividend yield of 4.35% at the end of September 2019. Fund size is £1.181bn at 1/7/19 – 247 authorities, including 95 parish and town councils.

The investment is regarded as for the long term. Councillors should bear in mind the Council's current investment strategy which has an absolute requirement to avoid capital loss.

Investments through a broker

Investing through a broker would allow access to building society and money market funds which may not be accessible directly. Brokers furnish an introduction to available funds, and provide information and facilitate the administration of opening accounts. No funds are provided to them, and there are no charges associated with their services – they charge the borrower.

Minimum investments are generally £1m for money market funds, but building societies will accept investments down to £500,000. While this would not be appropriate in normal circumstances for STC, information may be sought should the opportunity arise.

Recommendations

Having carefully considered the current guidance and the council's cash flow and investment requirements, it is recommended that:

Members adopt the existing strategy document and policy noting investment in the CCLA Public Sector Deposit fund for the first time in 2019/20 which will continue into 2020/21.