



ANNUAL INVESTMENT STRATEGY 2018/2019

1. INTRODUCTION

- 1.1 Royal Sutton Coldfield Town Council (the Council) acknowledges 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 £1.5m of invested funds as at Jan 2018 representing income received in advance of expenditure plus balances and reserves held. In the past 12 months the Council's investment balance has ranged between £1m and £1.5m. Over the coming year investment balances are expected to range between £2m and £3.5m.

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 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 are obtained and monitored by the Authority's treasury adviser, Arlingclose, who as part of the services provided advise the Council on appropriate credit criteria, 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 from our advisors 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:
- Deposits with the Debt Management Agency Deposit Facility (DMADF) – this is essentially investing with the UK government – for periods up to 6 months, which is currently the longest term offered by the DMADF
 - 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: £1.5 million up to a maximum period of 1 year
 - 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' 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 regularly 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 4.1 below).
- 3.11 Credit ratings are obtained and monitored by the Council's treasury advisers, Arlingclose, who will notify changes in ratings as they occur. 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
 - any existing investments that can be recalled or sold at no cost will be
 - full consideration will be given to the recall or sale of all other existing investments with the affect counterparty
- 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 credit default swaps, 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 in line with agreed limits in order to reduce counterparty risk.

4. SPECIFIED INVESTMENTS

- 4.1 The CLG Guidance defines specified investments as those
- denominated in pound 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 with 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 typically offer lower risk and higher liquidity. All investments made by the Council will be denominated in sterling and for no more than 12 months. Such short-term investments made with the UK

Government, a local authority or a Town/Parish Council will 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 Royal Sutton Coldfield Town Council's current investment is with Unity Trust 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 Unity Trust Bank (previously a subsidiary of the Co-operative Bank; Co-op now has a small residual shareholding in Unity Trust Bank).

5. NON-SPECIFIED INVESTMENTS

- 5.1 Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares.
- 5.2 Non-specified investment 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 of 'high credit quality'.
- 5.3 The Council's investments with Unity Trust Bank are non-specified investments as the bank is not credit rated. During 2018/19, the Council does not envisage making investments which have maturities longer than 12 months.

6. LIQUIDITY OF INVESTMENTS

- 6.1 The Council uses 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 & General Purposes 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 2018/19.

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 & General Purposes Committee.

9. REVIEW AND AMENDMENT OF REGULATIONS

- 9.1 The Investment Strategy will be reviewed annually by Full Council.
- 9.2 The Council reserves the right to make variations to the Investment Strategy at any time subject to the approval of Council. Any variations will be made available to the public.
- 9.3 The investment strategy must be approved by Full Council, but may be varied from time to time as circumstances dictate.

10. TREASURY MANAGEMENT ADVICE

- 10.1 Given the significant level of reserves that have arisen from the Council's first year of operation and the forecast level of General Reserves of £600,000, the Town Clerk and Responsible Finance Officer recommended that independent, external, expert 'Treasury Management' advice is sought to both review this Investment Strategy and the allocations of Specified Investments.
- 10.2 Treasury Management advice would typically come from either:
- the principal local authority
 - treasury management advisory firms who specialise in local authority and local town & parish councils
 - other local independent financial advisors with expertise in advising business and individuals with significant cash sums to manage and invest.
- 10.3 The Finance and General Purposes Committee approved that Arlingclose be appointed to provide independent treasury management advice at their meeting on Oct 2017.

Approved by the Town Council February 2018

Statement of reserves position at Jan 2018

1. At the end of the 2016/17 financial year RSCTC had £1,309,125 in its general reserve.
2. The precept of £1,832,982 was received in 2017/18.
3. The precept of £1,850,868 for 2018/19 will be paid into the current account in two tranches, 50% in April and 50% in Oct 2018.
4. RSCTC is expected to have £600,000 in general reserves for the next 3 years (as recommended by F&GP 17 May 2017).
5. The current balance – as at date 31st Jan 2018 - in each of the specified investments is as follows:-
 - Deposit Account - £1,500,000. Due to mature on 03/04/2018
 - Current Account - £949,764