



STOKESLEY

TOWN COUNCIL

ANNUAL INVESTMENT STRATEGY

Adopted 10 May 2016

STOKESLEY TOWN COUNCIL

Document Version Control

<u>Version Number</u>	<u>Comments</u>	<u>Date</u>
0.1	Final Draft for Approval	31 January 2016
1.0	Document Approved by Parish Council Meeting	10 May 2016
1.01	Replaced Parish Council with Town Council	1 March 2017

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1 INTRODUCTION

- 1.1 Stokesley Town Council ('the Council') acknowledges the importance of prudently investing surplus funds held on behalf of the community.
- 1.2 The Secretary of State for the Department of Communities and Local Government issues guidance on investments that is applicable to all local authorities in England (i.e. including the Council). A full copy of this guidance is given in Appendix 1
- 1.3 The preparation each year of an Annual Investment Strategy is central to this guidance. It encourages the formulation of policies for the prudent investment of the funds that authorities hold on behalf of their communities. In addition, the need for the Strategy to be approved by the full council ensures that these policies are subject to the scrutiny of elected Members.
- 1.4 The Strategy outlined below complies with the requirements set out in the Office of the Deputy Prime Minister's Guidance on Local Government Investments and Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes and takes account of the Section 15(1) (a) of the Local Government Act 2003 and best practice from the National Association of Local Councils and CIPFA.
- 1.5 This Strategy should be read in conjunction with the Council's Financial Regulations.

2 INVESTMENT GUIDANCE

- 2.1 In accordance with Section 15(1) of the 2003 Act, the Council will have regard to:
 - a) such guidance as the Secretary of State may issue, and
 - b) such other guidance as the Secretary of State may by regulations specify.
- 2.2 The guidance defines a prudent investment policy as having two objectives: achieving first of all security (protecting the capital sum from loss) and then liquidity (keeping the money readily available for expenditure when needed). The generation of investment income is distinct from these prudential objectives and is accordingly not a matter for the guidance. However, that does not mean that authorities are recommended to ignore such potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with those priorities.
- 2.3 This widely-recognised investment policy is sometimes more informally and memorably expressed by the acronym '**SLY**' that is, in order of priority:
 - S**ecurity of reserves
 - L**iquidity of investments
 - Y**ield
- 2.4 Two types of investments are specified in the guidance as outlined below.
- 2.5 **Specified Investments** are investments with relatively high security and high liquidity, to which only minimal reference needs be made in the strategy. All such investments must be in sterling and with a maturity of no more than a year. Investments with the UK Government, a local authority or parish council count as specified investments, as are those with bodies or in investment schemes of "high credit quality".
- 2.6 The strategy should deal in more detail with **Non-Specified Investments**, given the different levels of potential risk. There is no intention of discouraging authorities from pursuing these options, but the aim is to ensure that proper procedures are in place for assessing and mitigating risk. Therefore the strategy should identify the types of such investments that may be used during the course of the year and should set a limit to the amounts that may be held in such investments at any time in the year. The limit may be a sum of money or a percentage of total investments or both. The

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strategy should also lay down guidelines for making decisions on such investments, e.g. on the circumstances in which professional advice is to be sought.

3 INVESTMENT OBJECTIVES

- 3.1 Based on the guidance summarised above, in all its investments the Council's investment strategy will seek the highest rate of return, consistent with the proper levels of security and liquidity and commensurate with appropriate levels of administration
- 3.2 The Council will make all investments only in sterling.

4 SPECIFIED INVESTMENTS

- 4.1 Specified Investments are those offering high security and high liquidity, made in sterling and with a date of maturity of no more than a year from the date of investment.
- 4.2 The most basic requirement is to have accounts which enable the Council to undertake on a day to day basis the receipt of cash and cheques and make approved payments. Therefore the current strategy is based on maintaining the present Current Account held with HSBC. Assessment of traditional account transactions indicates that the amount of money to be held in this account will be typically approximately £3,000.
- 4.3 Any significant additional funds over this level would be transferred to other Specified Investment accounts. Similarly transfers from other Specified Investment accounts would be used to ensure sufficient funds are available to make all arising payments. This approach recognises that these current accounts are non-interest bearing.
- 4.4 The requirement for the balance of the funds in Specified Investments is to secure the optimum level of interest. All the leading, traditional High Street banks all offer similar accounts to the current HSBC Money Manager Account which has traditionally been used for this money. However, none of them offer any significantly better rates of interest for the sums of money which the Council wishes to invest in such accounts.
- 4.5 A limited number of either current, or former, building societies offer interest bearing, instant access, on-line business and / or charity accounts which are available for use by the Council. Following the changes implemented to the Financial Services Compensation Scheme (FSCS) as from 1 January 2016 such accounts now offer full protection to Town Councils subject to an upper limit of £75,000 with any one institution. Therefore such accounts meet the high security test.
- 4.6 The Council is required under statute to maintain adequate reserves in order to meet the requirements of the organisation. Section 50 of the Local Government Act 1992 requires that billing and precepting authorities have regard to the level of reserves needed to meet estimated future expenditure. No minimum level of reserves is specified, it is the responsibility of the Responsible Finance Officer (RFO) to advise, and the decision of the Council to determine, this value.
- 4.7 The RFO and the Council have confirmed that a minimum value of approximately £80,000 meets this minimum level of reserves requirement. Additional to this value the bi-annual precept receipts will also be held in Specified Investment compliant accounts.
- 4.8 Two such accounts will be operated by the Council. These will be the Nationwide Instant Saver Account and the HSBC Money Manager Account. The balance of monies in these two accounts will be optimised to limit the number of transactions in the Nationwide account in which no more than the full protected balance of £75,000

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will be held at any time and which at April 2016 paid 0.80% gross interest. The remainder of the money to be held in Specified Investment compliant accounts will be held in the HSBC Money Manager Account. Whilst this account yields a much lower rate of interest it benefits from greater ease of administration in the transfer of funds to and from the current account and supports the effective management of a minimum balance in the current account.

5 NON-SPECIFIED INVESTMENTS

- 5.1 The strategy, thus far, has focused on those items which relate to short term investments that provide high liquidity. However the remaining monies held by the Council relate to meeting longer term requirements. These are characterised by a lesser need for liquidity and by a greater imperative to maintain the purchasing power of the funds in the longer term.
- 5.2 Whilst, as outlined above, non-specified investments carry a greater degree of risk, such risks are mitigated if investments are held over the long term and by seeking and using professional advice on such matters.
- 5.3 Initial discussions were held with two independent financial advisors, each of which has extensive experience working with charities and other bodies where the requirement of maintaining the security and purchasing power of their assets whilst generating a regular income is key. As a result of these discussions the strategy includes the use of a long term investment portfolio.
- 5.4 Following interviews conducted by the Finance Committee which examined both the historical performance of the two companies and the fees charged for their services, a local company, namely Redmayne Bentley, based in Stokesley was chosen as fund manager.
- 5.5 Redmayne Bentley will manage a portfolio of investments which match an agreed and specified risk profile agreed with the Council, with an asset allocation to an agreed set of goals and objectives recommended by the Finance Committee and approved by the full Council. Redmayne Bentley will manage the specific allocation of assets in response to changes in markets, rebalancing the portfolio by taking tactical views in response to those movements.
- 5.6 A 'Low to Medium Balanced' investment profile has been agreed. 'Balanced' in that the objective is to provide a balance between capital growth and income, such that the income requirement should not erode the potential to maintain the capital value of the portfolio in real terms. 'Low to Medium Risk' in that investments will be in short and medium dated UK Government securities (gilts) supplemented by investment grade infrastructure and real estate investment trusts. The non-fixed income investments provide the basis for the future protection of purchasing power.
- 5.7 More specifically an asset mix of approximately one third gilts and two thirds other investment trusts, with a small balance held as cash will be managed by Redmayne Bentley using their discretionary management service
- 5.8 The choice of Investment Managers for the non-specified investment portfolio will be reviewed every 5 years.
- 5.9 Initially dividends from the investment portfolio will be reinvested unless a need for additional cash is identified. This approach has the objective of obtaining a better yield than is currently available from the banks whilst ensuring the portfolio is positioned to at least keep pace with inflation. Any change from re-investing the dividends to holding the cash on deposit will be made by the Finance Committee based on the forward income and expenditure projections of the Council.

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6 LIQUIDITY OF INVESTMENTS

- 6.1 In order to provide immediate liquidity all the monies in specified investments will be in instant access accounts.
- 6.2 Whilst the strategy for the non-specified investment portfolio is to provide for the long term the gilts and funds in which the investments are made are well traded. This means, should an unforeseen emergency need arise, that any, or all, of the investments can be sold and converted into cash in the possession of the Council within 5 working days.

7 LONG TERM INVESTMENTS

- 7.1 In the Guidance on Local Government Investments a long-term investment is defined as any investment other than one where the local authority making the investment may require it to be repaid or redeemed within 12 months of the date on which the investment was made.
- 7.2 Whilst the intention of the above investment portfolio is for it to be held for the long term the fact that the holdings are in gilts and funds that are well traded and can be sold on demand means that the portfolio is not classified as a Long Term Investment using the above guidance.

8 REPORTING ON PERFORMANCE OF INVESTMENTS

- 8.1 Investment performance statements will be distributed once per quarter to members of the Finance Committee. Redmayne Bentley is required to report in an identical format on a six monthly basis to the Finance Committee, with an annual presentation to the full Council providing fuller detail.
- 8.2 Such reports will contain a comparison of the performance of the fund against industry benchmarks, these will include using RPI as a benchmark as well as the WMA Balanced Total Return Index and the FTSE All Share Total Return Index. Capital growth of the investment portfolio should be at least equal to RPI.
- 8.3 The Council has agreed with the Investment Managers a set of social, ethical and environmental factors or criteria which will be used when selecting, retaining or disposing of assets.
- 8.4 Investment forecasts for the coming financial year will be included when the budget for that year is prepared.

9 TRAINING

- 9.1 The Council will ensure that both Finance Committee members and the Responsible Finance Officer have sufficient training to underpin their responsibilities to scrutinise the annual investment strategy

10 REVIEW AND AMENDMENT OF THE STRATEGY

- 10.1 This Strategy will be reviewed at least annually. The Annual Strategy for the coming financial year will be prepared by the Responsible Finance Officer and the members of the Finance Committee.
- 10.2 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 made available to the public.

11 FREEDOM OF INFORMATION



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11.1 Copies of the Annual Investment Strategy will be available of request from the Responsible Financial Officer and will be published on the Council's Website.

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APPENDIX A

GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS
Issued by the Secretary of State
under section 15(1)(a) of the Local Government Act 2003

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1 APPLICATION

- 1.1 This guidance is issued to all local authorities as defined in section 23 of the 2003 Act and in regulations made under that section. It applies from 1 April 2004.

2 DEFINITIONS

- 2.1 In this guidance, 2003 Act means the Local Government Act 2003. An investment is a transaction which relies upon the power in section 12 of the 2003 Act and is recorded in the balance sheet under the heading of investments within current assets or long-term investments. The term does not include pension fund and trust fund investments, which are subject to separate regulatory regimes and are therefore not covered by this guidance.
- 2.2 A long-term investment is any investment other than one where the local authority making the investment may require it to be repaid or redeemed within 12 months of the date on which the investment was made.
- 2.3 A credit rating agency is one of the following three companies:
Standard and Poor's;
Moody's Investors Service Ltd;
Fitch Ratings Ltd.

3 ANNUAL INVESTMENT STRATEGY

- 3.1 A local authority shall, before the start of each financial year, draw up an Annual Investment Strategy for the following financial year, which it may vary at any time. The Strategy and any variations are to be approved by the full Council (or at equivalent level in authorities without a Council) and are to be made available to the public.
- 3.2 The Strategy should set out the local authority's policies for giving priority to the security and liquidity of its investments, rather than to the yield. In so doing, the Strategy must deal explicitly with the matters specified in paragraphs 9, 10 and 11 of this guidance.

4 SECURITY OF INVESTMENTS

4.1 Specified Investments

- 4.1.1 An investment is a specified investment if it satisfies the conditions set out below:
- 4.1.2 The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
- 4.1.3 The investment is not a long-term investment (as defined in paragraph 4).
- 4.1.4 The investment does not involve the acquisition of share capital or loan capital in any body corporate.
- 4.1.5 Either of the following conditions is met:
- 4.1.5.1.1 The investment is made with the UK Government or a local authority (as defined in section 23 of the 2003 Act) or a parish council or community council.
- 4.1.5.1.2 The investment is made with a body or in an investment scheme which has been awarded an investment grade rating (BBB) by a credit rating agency (as defined in paragraph 5).
- 4.1.6 For the purposes of paragraph 3.1 above, the Annual Investment Strategy is to state how high credit rating is to be defined for the categories of investments which the local authority intends to use in the financial year, and how frequently credit ratings are to be monitored and what action is to be taken when ratings change.

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4.2 Non-specified Investments

4.2.1 With regard to non-specified investments (i.e. those not meeting the definition in paragraph 4.1), the Annual Investment Strategy is to:

4.2.1.1 set out procedures for determining which categories of such investments may prudently be used

4.2.1.2 identify which categories of such investments have so far been identified as prudent for use during the financial year

4.2.1.3 state the maximum amounts which may be held in each identified category at any time during the financial year (the maximum being defined by reference to a sum of money or a percentage of the local authority's overall investments).

5 LIQUIDITY OF INVESTMENTS

5.1 The Annual Investment Strategy is to:

5.1.1 set out procedures for determining the maximum periods for which funds may prudently be committed

5.1.2 state the minimum amount which is to be held during the financial year in investments other than long-term investments (the minimum being defined by reference to a sum of money or a percentage of the local authority's overall investments).

Office of the Deputy Prime Minister 15 December 2003
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