



# FELIXSTOWE

## TOWN COUNCIL

### Annual Investment Policy & Strategy 2019/20

#### 1 Introduction

- 1.1 Felixstowe Town Council acknowledges the importance of prudently investing the temporarily surplus funds held on behalf of the community.
- 1.2 In preparing its investment strategy the Council is required under Section 15(1) of the Local Government Act 2003 to have regard to such Guidance as the Secretary of State may issue.
- 1.3 The current statutory Community and Local Government (CLG) Investments Guidance Note came into force on 1 April 2018 and is appended to this document.
- 1.4 The Guidance Note makes distinction between investments that are:
  - a) high security and high liquidity (specified investments); and
  - b) those with potentially greater risks and lower liquidity (non-specified investments)
- 1.5 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 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. 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.
- 1.6 This strategy is prepared with regard to the appended guidance and in accordance with Council's Financial Regulations where it relates to Loans & Investments and Risk Management.

#### 2 Investment Objectives

- 2.1 Felixstowe Town Council's priorities will be centred on the security of reserves (protecting the capital sum from loss) and then liquidity of its investments (keeping the money readily available for expenditure when needed).
- 2.2 All investments will be made in Sterling.
- 2.3 The Department for Communities and Local Government maintains that borrowing of monies purely to invest, or to lend and make a return, is unlawful and this Council will not engage in such activity. **See 33.**

Instead insert below ?

2.3 Although the Department for Communities and Local Government allow a local authority to make loans to local enterprises, charities etc, they may not be seen as prudent. Therefore this Council will not engage in such activity.

2.4 If external investment managers are used, they will be contractually required to comply with the policy.

### 3 Specified Investments

3.1 Specified Investments are, by definition in the Guidance note, those offering high security and high liquidity, made in Sterling and with a maturing of no more than a year. Such short term investments made with the UK Government or a local authority to Town/Parish Council will automatically be Specified Investments, as will those with bodies or investment schemes of "high credit quality"<sup>1</sup>.

3.2 For the prudent management of its treasury balances, maintaining sufficient levels of security and liquidity, the Council will use:

- Deposits with UK banks, UK building societies, UK local authorities or other UK public authorities
- The debt management agency of HM Government

***Felixstowe Town Council currently holds investments with Close Brothers Treasury (one-year fixed investment maturing in July 2019), Barclays Base Rate Reward Account (Deposit – instant access with loss of one month's interest), Barclays Business Tracker (instant access) and Barclays Business Current Account (instant access).***

### 4 Non-Specified Investments

4.1 These investments have greater potential risk - examples include investment in the money market, subordinated bonds from banks, permanent interest-beating shares from building societies and corporate stocks and shares.

***Given the unpredictability and uncertainties surrounding such investments, the Council will not use this type of investment.***

### 5 Liquidity of Investments

5.1 Subject to retaining no less than three months' average working capital requirement in current and deposit accounts giving immediate access, the Town Clerk, as the Council's Responsible Financial Officer, will determine the amounts and maximum period for which funds may be prudently invested, in accordance with paragraph 3 above, so as not to compromise liquidity.

5.2 The placement of surplus funds shall be delegated to the Town Clerk, as the Responsible Financial Officer, such delegated authority to be confirmed at the Annual Council Meeting each year.

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<sup>1</sup> A credit rating agency is defined in the guidance as one of the following three companies: Standard and Poor's; Moody's Investors Service Ltd; Fitch Ratings Ltd.

- 5.3 Credit Ratings will be monitored at quarterly intervals. If the credit rating falls during that period, the Town Clerk, in consultation with the Chairman of Finance & General Purposes Committee, will decide on the appropriate action.

## **6 Long-term Investments**

- 6.1 Long term investments are defined in the Guidance note as greater than 12 months and it requires that, should any Council wish to invest for periods greater than 12 months, it must identify the procedures for monitoring, assessing and mitigating the risk of loss of invested sums.

***The Council does not currently hold any funds in long term investments. No long term investments are envisaged during the financial year 2019/20.***

## **7 End of Year Report**

- 7.1 Investment forecasts for the coming financial year were accounted for when budget was prepared. At the end of the financial year, the Town Clerk will report on investment activity to the Finance and General Purposes Committee.

## **8 Review of this Strategy**

- 8.1 The Investment Strategy shall be reviewed annually by the Finance & General Purposes Committee, and approved by full Council before the commencement of a new financial year.

- 8.2 Council shall be able to amend or make variations to the Strategy at any time.

## **9 Alternative Formats**

- 9.1 If you require this document in another formats please contact the Council on 01394 282086 or email [enquiries@felixstowe.gov.uk](mailto:enquiries@felixstowe.gov.uk).

## **10 Freedom Of Information**

- 10.1 In accordance with the Freedom of Information Act 2000, this Document will be published on the Council's Website [www.felixstowe.gov.uk](http://www.felixstowe.gov.uk) and is also available by contacting Felixstowe Town Council, Town Hall, Undercliff Road West, Felixstowe, IP11 2AG. Telephone: 01394 282086 or email: [enquiries@felixstowe.gov.uk](mailto:enquiries@felixstowe.gov.uk)

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**Policy Approved:**

**Review Body:** Finance & General Purposes Committee recommendation to Council

**Review Period:** Annually

**Next Review:** F&GP (January 2020) / Council (March 2020)

## STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS (3rd Edition)

Issued under section 15(1)(a) of the *Local Government Act 2003* and effective for financial years commencing on or after 1 April 2018

### POWER UNDER WHICH THE GUIDANCE IS ISSUED

1. The following Guidance is issued by the Secretary of State under section 15(1)(a) of the *Local Government Act 2003*. Under that section local authorities are required to “have regard” to “such guidance as the Secretary of State may issue”.

### DEFINITION OF TERMS

2. In this guidance the **2003 Act** means the *Local Government Act 2003*.
3. **Local authority** has the meaning given in section 23 of the *2003 Act*. To the extent that this guidance applies to parish councils and charter trustees (see paragraph 11) a reference to a local authority includes those councils and trustees.
4. 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.
5. For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party. The term does not include *pension funds* or *trust fund investments*, which are subject to separate regulatory regimes and therefore are not covered by this guidance.
6. A **credit rating agency** is one of the following three companies:
  - Standard and Poor’s;
  - Moody’s Investors Service Ltd; and
  - Fitch Ratings Ltd.
7. For the purposes of this guidance a **loan** is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.
8. The **Treasury Management Code** means the statutory code of practice issued by CIPFA: “*Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition*”.
9. The **Prudential Code** means the statutory code of practice, issued by CIPFA: “*The Prudential Code for Capital Finance in Local Authorities, 2017 Edition*”.
10. The **Capital Strategy** is the strategy required by the updates to the Prudential Code and Treasury Management Code.

## **APPLICATION**

### **Effective date**

11. This guidance applies for financial years commencing on or after 1 April 2018. It supersedes all previous editions of the Statutory Guidance on Local Authority Investments.
12. Strategies presented to Council or equivalent before 1 April 2018 but relating to 2018-19 and future financial years do not need to include all of the additional disclosures required by this edition of the guidance should it not prove practical or cost effective to do so. If a local authority chooses not to include the new disclosures in its 2018-19 Strategy, it must include the disclosures in full in the first Strategy presented to full Council or equivalent after 1 April 2018.

### **Local authorities**

13. This guidance applies to all local authorities in England.
14. This guidance applies to parish councils and charter trustees, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year. Where a parish council or charter trustee expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.

## **KEY PRINCIPLES**

### **Transparency and democratic accountability**

15. For each financial year, a local authority should prepare at least one Investment Strategy (“the Strategy”). The Strategy should contain the disclosures and reporting requirements specified in this guidance.
16. The Strategy should be approved by the full council. For authorities without a full Council, the Strategy should be approved at the closest equivalent level. The Secretary of State recommends that the Strategy should be presented for approval prior to the start of the financial year.
17. Where a local authority proposes to make a material change to its Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented.
18. The Strategy should be publicly available on a local authority’s website. Where a parish council or charter trustee does not maintain its own website, they should post a public notice detailing how local residents can obtain a copy of the Strategy, free of charge.
19. Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, or any other publicly available document, the disclosures required to be included in the Strategy can be published in those documents instead of in the Strategy.

## Contribution

20. Investments made by local authorities can be classified into one of two main categories:
  - Investments held for treasury management purposes; and
  - Other investments.
21. Where local authorities hold treasury management investments, they should apply the principles set out in the Treasury Management Code. They should disclose that the contribution that these investments make to the objectives of the local authority is to support effective treasury management activities. The only other element of this Guidance that applies to treasury management investments is the requirement to prioritise Security, Liquidity and Yield in that order of importance.
22. Local authorities should disclose the contribution that all other investments make towards the service delivery objectives and/or place making role of that local authority. It is for each local authority to define the types of contribution that investments can make and a single investment can make more than one type of contribution.

## Use of indicators

23. The Strategy should include quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions. This should include how investments are funded and the rate of return received. Where investment decisions are funded by borrowing the indicators used should reflect the additional debt servicing costs taken on.
24. Local authorities should consider the most appropriate indicators to use, given their risk appetite and capital and investment strategies. Whilst this guidance does not prescribe specific indicators or thresholds, the indicators used should be consistent from year to year and should be presented in a way that allows elected members and the general public to understand a local authorities' total risk exposure from treasury management and other types of investment.
25. Where a local authority has entered into a long term investment or has taken out long term debt to finance an investment the indicators used should allow Councillors and the general public to assess the risks and opportunities of the investment over both its payback period and over the repayment period of any debt taken out.

## Security, Liquidity and Yield

26. A prudent investment policy will have two underlying objectives:
  - **Security** – protecting the capital sum invested from loss; and
  - **Liquidity** – ensuring the funds invested are available for expenditure when needed.
27. The generation of **yield** is distinct from these prudential objectives. However, this does not mean that local authorities are recommended to ignore 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 these priorities.

28. When entering into treasury management investments, local authorities should consider security, liquidity and yield in that order of importance.
29. When entering into other types of investments local authorities should consider the balance between security, liquidity and yield based on their risk appetite and the contribution(s) of that investment activity.

## **Security**

### Financial Investments

30. Financial investments can fall into one of three categories:

- **Specified investments;**
- **Loans;** and
- Other **Non-specified investments.**

### Specified Investments

31. 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 2003 [as amended]*.
- The investment is made with a body or in an investment scheme described as high quality (see paragraph 33 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 council or community council.

32. For the purposes of paragraph 32 the Strategy should define high credit quality. Where this definition incorporates ratings provided by credit rating agencies paragraph 42 is relevant.

### Loans

33. A local authority may 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 even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.
34. Local authorities can make such loans whilst continuing to have regard to this guidance if they can demonstrate in their Strategy that:

- Total financial exposure to these type of loans is proportionate;
- They have used an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard (IFRS) 9 *Financial Instruments* as adopted by proper practices to measure the credit risk of their loan portfolio;
- They have appropriate credit control arrangements to recover overdue repayments in place; and
- The local authority has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.

#### Non-specified investments

35. 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.
36. For non-specified investments (i.e. those not meeting the criteria in paragraph 31), the Strategy should:
- Set out procedures for determining which categories of investments may be prudently used (and where these procedures involve the use of credit ratings, paragraph 32 is relevant).
  - Identify which categories of investments have been defined as suitable for use.
  - State the upper limits for the maximum amounts both individually and cumulatively that may be held in each identified category and for the overall amount held in non-specified investments and confirm that investments made have remained within those limits.

#### Non-financial investments

37. As defined in paragraph 4 of this guidance non-financial investments are non-financial assets that the organisation holds primarily or partially to generate a profit. Where a local authority holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested. Local authorities should consider whether the asset retains sufficient value to provide security of investment using the fair value model in *International Accounting Standard 40: Investment Property* as adapted by proper practices.
38. Where the fair value of non-financial investments is sufficient to provide security against loss, the Strategy should include a statement that a fair value assessment has been made within the past twelve months, and that the underlying assets provide security for capital investment.
39. Where the fair value of non-financial investments is no longer sufficient to provide security against loss, the Strategy should provide detail of the mitigating actions that the local authority is taking or proposes to take to protect the capital invested.
40. Where a local authority recognises a loss in the fair value of a non-financial investment as part of the year end accounts preparation and audit process, an updated Strategy should be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.



## Risk Assessment

41. The Strategy should state the local authority's approach to assessing risk of loss before entering into and whilst holding an investment, making clear in particular:
- How it has assessed the market that it is/will be competing in, the nature and level of competition, how it thinks that the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements.
  - Whether and, if so how, a local authority uses external advisors be they treasury management advisors, property investment advisors or any other relevant persons.
  - How the local authority monitors and maintains the quality of advice provided by external advisors.
  - To what extent, if at all, any risk assessment is based on credit ratings issued by credit ratings agencies.
  - Where credit ratings are used, how frequently they are monitored and the procedures for taking action if credit ratings change.
  - What other sources of information are used to assess and monitor risk.

## **Liquidity**

42. For financial investments that are not treasury management investments or loans the Strategy should set out the procedures for determining the maximum periods for which funds may prudently be committed and state what those maximum periods are and how the local authority will stay within its stated investment limits.
43. For non-financial investments the Strategy should set out the procedures for ensuring that the funds can be accessed when they are needed, for example to repay capital borrowed. It should also state the local authority's view of the liquidity of the investments that it holds, recognising that assets can take a considerable period to sell in certain market conditions. Where local authorities hold non-financial investment portfolios they can choose to assess liquidity by class of asset or at a portfolio level if appropriate.

## **Proportionality**

44. Where a local authority is or plans to become dependent on profit generating investment activity to achieve a balanced revenue budget, the Strategy should detail the extent to which funding expenditure to meet the service delivery objectives and/or place making role of that local authority is dependent on achieving the expected net profit. In addition, the Strategy should detail the local authority's contingency plans should it fail to achieve the expected net profit.
45. The assessment of dependence on profit generating investments and borrowing capacity allocated to funding these should be disclosed as a minimum over the life-cycle of the Medium Term Financial Plan. However, an assessment of longer term risks and opportunities is recommended.

## **Borrowing in advance of need**

46. Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

47. Where a local authority chooses to disregard the Prudential Code and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums borrowed the Strategy should explain:
- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
  - 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.

### **Capacity, skills and culture**

48. The Strategy should disclose the steps taken to ensure that those elected members and statutory officers involved in the investments decision making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the local authority and to enable them to understand how the quantum of these decisions have changed the overall risk exposure of the local authority.
49. The Strategy should disclose the steps taken to ensure that those negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.
50. Where appropriate the Strategy should comment on the corporate governance arrangements that have been put in place to ensure accountability, responsibility and authority for decision making on investment activities within the context of the local authority's corporate values.