



Winchcombe Town Council
Annual Investment Strategy



1. Introduction

Winchcombe Town Council recognises the importance of prudent investment of any temporarily surplus funds held on behalf of the community.

This strategy has been prepared in accordance with the Statutory Guidance on Local Government Investments 3rd Edition hereafter known as 'the Guidance', which has been issued under section 15(1)(a) of the Local Government Act 2003. Under that section of the act, local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

The guidance states that for each financial year, a local authority should prepare at least one investment strategy which should be approved by the full council and be made publicly available. The term 'investment' covers all financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit.

The guidance is effective for financial years commencing on or after 1 April 2018. It applies to Town and Parish Councils whose investments exceed or are expected to exceed £100,000 at any time during the financial year. Where a Town or Parish Council expects its investments to be between £10,000 and £100,000 it is encouraged to adopt the principles of the guidance.

2. Key Principles of the Strategy

- The Town Council will have regard to such guidance as the Secretary of State has issued and may issue.
- The strategy is based on two major principles of security (protecting the Town Council's funds from loss) and liquidity (ensuring funds are available when needed), plus a subsidiary principle of yield (where consistent with security and liquidity).
- Borrowing by the Town Council is regulated by law. The Council is not allowed to borrow more than or in advance of its needs purely to profit from an investment of borrowed funds.

The Town Council defines its treasury management activities as:

"the management of the Council's 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" and therefore has agreed to apply the Guidance as set out below.

3. Investment Objectives

The Council's investment priorities are:

- 1) The security of its reserves – protecting the sum invested from loss;

- 2) The liquidity of its investments – ensuring the funds invested are available for expenditure when needed and;
- 3) The yield – the return or yield is distinct from the first two prudential objectives. However, this does not mean that potential revenues should be ignored.

When entering into any treasury investment the Council will consider levels of security, liquidity, and yield in that order.

When entering into other types of investment the Council will carefully consider the balance between security, liquidity, and yield based on risk appetite and the contribution(s) of that investment activity.

4. Security of Investments

The Guidance defines three different types of financial investments:

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

Specified Investments

An investment is a specified investment if the investment is in sterling only and any payments or repayments are payable in sterling only, it offers high security and high liquidity with a maturity of no more than one year either as this is the expiry of the investment or through a non-conditional contractual option.

In addition, short-term sterling investments must be with organisations or institutions with “high credit ratings”.

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

- UK banks and UK building societies;
- Public Bodies (including Local Authorities and Police Authorities);
- UK Financial Conduct Authority (FCA) regulated qualifying money market funds with a triple A rating.

Loans

The Localism Act 2011 within the fundamental principles gave local authorities, including Parish and Town Councils, “a general power of competence” enabling the local authorities to do anything not specifically prohibited by law. This replaced the “powers of well-being” in the Local Government Act 2000 which previously governed the capabilities of Town and Parish councils.

The general power of competence came into effect for parish councils in England in April 2012 allowing councils specifically to:

- Carry out any lawful activity

- Undertake any lawful works
- Operate any lawful business
- Enter into any lawful transactions

This might include making grants or loans, giving guarantees, buying the freehold, or taking a lease, or subscribing for shares. However, eligibility conditions do apply; to qualify as having the general power of competence these are:

- Two-thirds of the Council must have been elected
- the clerk must be qualified
- The clerk must have undergone training in the general power of competence through the Certificate in Local Council Administration (CiLCA) module 7 2012.

In the current financial year, Winchcombe Town Council is unable to meet all the eligibility criteria and does not, therefore, have the power to make loans. Furthermore, loans are not included in the Town Council's Investment Strategy as they are considered unacceptable due to their potential risk.

Should the circumstances change in order for the Council to make loans it 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. It should be noted that in considering loans the Council must have regard to the Guidance and must be able to demonstrate that:

- Total financial exposure to these type of loans are proportionate
- They must use an allowed "expected credit loss" model for loans as set out in the "International Financial Reporting Standard (IFRS) 9 *Financial Instruments*" as adopted by proper practices to measure the credit risk of the loan portfolio
- There are appropriate credit control arrangements to recover overdue repayments in place and;
- The Town Council has formally agreed on the total level of loans by type that it is willing to make and that the total loan book is within self-assessed limits.

Non-specified investments

A Non-specified investment is defined by the Guidance as "any financial investment that is not a loan and does not meet the criteria of a specified investment. Non-specified loans are usually for longer periods (i.e. more than one year) and with bodies that are not highly credit-rated.

Non-specified investments are not included in the Investment Strategy for this Council as these investments are considered unacceptable due to their higher potential risk.

5. Liquidity of Investments

The Responsible Finance Officer (RFO) in consultation with the Finance Committee and/or Full Parish Council (as applicable) will determine the maximum periods for which funds may prudently be committed so as not to compromise liquidity.

6. Long Term Investments

Long-term investments shall be defined as greater than one year. The Council will use the same criteria for assessing long-term investment as identified above for specified investments.

The Council does not currently hold any long-term investments.

7. Risk Assessment

Although it is understood that some small local authorities such as Parish/Town Councils are covered by the Financial Services Compensation Scheme up to £85,000 per individually licensed financial institution should an authorised financial services firm fail, the Council must still be carefully managing its reserves to mitigate the risk of losses.

The Council will only invest in institutions of “high credit quality” as set out in section 3 of this strategy. Where appropriate the Council will consider spreading investments over a range of different providers to minimise risk.

The Council will monitor the risk of loss on investments by having regard to the general financial, economic, and political environment nationally.

The investment position will be reviewed regularly by the Responsible Financial Officer and reported to the Finance Committee and/or Full Council.

The Council does not employ, in-house or externally, any financial advisors but will rely on information that is publicly available.

8. Use of Investment Managers

If external investment managers are used, they will be contractually required to comply with this strategy.

9. Governance

The Guidance states that 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.

a) Investment Approval

Only the full Council has the authority to make and approve any short-term investments (maximum of twelve months), in accordance with the Annual Investment Strategy, based upon recommendations from the Finance Committee and Responsible Finance Officer and subject to the prior approval of the investment provider.

All resolutions relating to investments will be noted in the minutes.

b) Investment Reports

Just before the end of a specified investment period, the Responsible Finance Officer will prepare a report for the next full Town Council meeting (held on the first Wednesday of every month) to inform all Councillors so that a decision can be made on that investment activity.

Under exceptional circumstances due to time constraints and/or possible financial penalty or loss, the RFO in consultation with the Chairman and the Chairman of the Finance Committee may jointly decide to re-invest for a further period of time. The decision should be reported to the full Council and minuted at the very first opportunity.

A report will be prepared on Town Council investments for presentation to the Finance Committee when it meets (approximately quarterly) and an annual report for the annual budget, and precept setting meeting.

c) Review and Amendment of Regulations

The Investment Strategy should be reviewed annually. The Annual Strategy for the coming financial year will be prepared and reviewed by the Finance Committee which will then make a recommendation to the Full Council.

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 minuted and made available to the public.

10. Borrowing in advance of need

The Town Council cannot borrow more than, or in advance of their needs, purely in order to profit from the investment of the extra sums borrowed.

In exceptional circumstances where a local authority chooses to disregard the Prudential Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and this Guidance and borrows or has borrowed purely to profit from the investment of the extra sums the Council must explain:

- Why the local authority has decided not to have regard to this Guidance or 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.

The purpose of this disclosure is to allow external auditors, taxpayers, and other interested parties to understand why the Council has chosen to disregard the Guidance and to be able to hold the Council to account.

11. Capacity, skills, culture, and training

All Members do not necessarily need formal training to understand investment or the potential risks to satisfy the Guidance. However, it might be appropriate for the RFO and Chairman of the Finance Committee to prepare a report setting out the opportunities and risks in such terms that Members can understand and therefore make an informed decision.

12. Freedom of Information

In accordance with the Freedom of Information Act 2000, this Document will be posted on the Parish website and a hard copy will be available from the Parish Clerk.

13. References

- The Public Accounts Committee: The Financial Sustainability of Local Authorities inquiry
<https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/financial-sustainability-local-authorities-16-17/>
- Ministry of Housing, Communities and Local Government (MHCLG): Statutory Guidance on Local Government Investments (3rd Edition)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf
- Chartered Institute of Public Finance and Accountancy (CIPFA): *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*
- Chartered Institute of Public Finance and Accountancy (CIPFA): *The Prudential Code for Capital Finance in Local Authorities*