Chepstow Town Council

Reserves Policy, Investment Policy and Annual Investment Strategy 2021/2022

1. Introduction and Legislation

This Policy is prepared in accordance with the statutory guidance on Local Government Investments issued by the Welsh Government. This guidance applies to Town and Community Council's and Charter Trustees with total investments expected to exceed £250,000 at any time during the financial year.

The guidance is effective for financial years commencing on or after 1 April 2020.

This strategy complies with the requirements set out in:

- Section 15(1)(a) of the Local Government Act 2003.
- Guidance within Governance and Accountability for Local Council in Wales – A Practitioners Guide (2019).
- The Treasury Management Code issued by CIPFA – "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition.

The Local Government Act 2003 provides 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

All cash, bank balances, financial assets, borrowings and credit arrangements are defined as part of the Council's treasury management activities.

2. Relevant Guidance

The key principles of the guidance are transparency and democratic accountability and states that local authorities who hold treasury management investments[1] should apply the principles set out in the CIPFA Treasury Management Code.

There are 3 key principles within section 4 of the Code which are:

1. The Council should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

2. Policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use

[1] The responsibility to manage local authority investments

of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

3. The Council should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of risk management, their treasury management policies and practices should reflect this.

Furthermore, where authorities are holding treasury management investments for more than 12 months, they 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.

The authority should consider the most appropriate indicators to use, given their risk appetite and capital and investment strategies. 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.

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 it's payback period and over the repayment period of any debt taken out.

3. Policy Principles

This strategy sets out Chepstow Town Council's policies, objectives and reporting arrangements for the prudent management of its investments and for giving priority, firstly, to the security of those investments and, secondly, to their liquidity.

It identifies procedures for:

- monitoring, assessing and mitigating the risk of loss of invested sums;
- ensuring that such sums are readily accessible for expenditure whenever needed;
- sets out management arrangements for the investments held;
- procedures for determining the maximum periods for which funds may prudently be committed;
- risk assesses the committing of funds to longer term investments, and;
- agrees appropriate limits for each category of investment it carries out.

The Council hold £1,312,773 as at the 1st April 2021 represented by debtors, VAT recoverable and account balances.

4. Reserves Policy

The Town Council will only maintain reserves for the following reasons:

• A sum approximately equal to (3-12 months) of its Net Revenue Expenditure will be maintained as the General (non-earmarked) Reserve, in accordance with good practice.

• Other Reserves which are earmarked for special purposes or future development, or to meet commitments, will be maintained as necessary

5. Investment Strategy 2021

Chepstow Town Council acknowledges the importance of prudently investing the surplus funds held on behalf of the community and 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.

Chepstow Town Council holds investments for treasury management purposes. The contribution that these investments make to the objectives of Chepstow Town Council is to support effective treasury management activities.

Yields (returns) that are generated from financial investments will be added to:

- Unity Trust yield re-invested into the general reserve on a quarterly basis to contribute towards the future revenue.
- CCLA Public Sector Deposit Fund received on a monthly basis and reinvested towards capital projects.
- Gateway Credit Union re-invested towards capital projects.

6. Indicators

The guidance states that where authorities are holding treasury management investments for more than 12 months, they 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.

7. Investment Policy

Investment objectives

A prudent investment has two underlying objectives:

i) Security – protecting the capital sum invested from loss; and

ii) Liquidity – ensuring the funds invested are available for expenditure when needed.

Revenue on investment is also important and once proper levels of security and liquidity are determined it will be reasonable to consider what return on investments can be obtained.

Investment Priorities

Chepstow Town Council's investment priorities therefore are:

- the security of its reserves, and
- the adequate liquidity of its investments, and
- the return (yield) on investment - the Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

All investments of money under the control of the Council shall be in the name of Chepstow Town Council. All investments will be made in sterling. In drafting this Annual Investment Strategy, the Council has made appropriate arrangements for:

- Identification, management and control of risks in the investments/treasury management activities it undertakes,
- Budgeting, accounting and audit arrangements
- Its cash and cash flow management requirements,
- Segregation of responsibilities, organisational arrangements, adequate documentation and the identification of a responsible officer for investment/treasury management activities,

- Corporate governance,
- A procedure to ensure it is alert to the possibility it may become subject to an attempt to involve it in a transaction involving the laundering of money.

The Department for Communities and Local Government maintains that 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.

Where external investment managers are used they will be contractually required to comply with the Strategy.

8. Security

In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved financial institutions to minimise risk.

Financial investments can fall into one of three categories:

1. Specified Investments
2. Loans
3. Other Non-Specified Investments

<u>1. Specified Investments</u>

- Specified investments are those offering high security and high liquidity.
- All investments will be made in sterling.
- Specified investments are not long term, the local authority has contractual right to repayment within 12 months.
- The investment is made with a body or in an investment scheme described as high quality or with one of the following bodies:
    - o The United Kingdom Government
    - o A local authority in England or Wales (as defined in section 23 of the 2003 Act) for a similar body in Scotland or Northern Ireland; or
    - o A town/parish council or community council.

The Council will only invest in institutions of high credit quality – based on information from approved credit rating agencies (Moody's Investors Service Ltd, Fitch Ratings Ltd or Standard and Poor's).

High credit quality is defined as a body or investment scheme with an 'A' or P1 rating.

The Finance, Policy and Audit Committee will monitor the risk of loss on investments by review of credit ratings on a quarterly basis. The Council will assess the risk of loss before entering into, and whilst holding, an investment, however, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice may be taken into account.

<u>2. Loans</u>

The guidance states that 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. There are specific conditions that the local authority must be able to demonstrate in order to undertake this type of investment and the guidance contains a detailed explanation.

Chepstow Town Council does not participate in such investments and should it wish to do so in the future will be subject to a risk assessment.

3. Non- Specified Investments

Non-Specified Investments are those which are not a loan, nor does it meet the criteria to be treated as a specified investment.

Examples may be long term investments (longer than 12 months) and investment in stocks and shares. Given the unpredictability and uncertainty surrounding investments in stocks and shares, Chepstow Town Council will not participate in such investments.

The Council's policy on liquidity states that only short-term investments will be held. Investments will be spread over different providers where possible in line with agreed limes to reduce counterparty risk.

9. Liquidity

The Town Clerk/RFO and Chair of Finance, Policy and Audit Committee will determine the maximum period for which funds may prudently be invested, so as not to compromise liquidity.

The Town Council's policy will include short-term investments (no longer than 12 months) and ensure liquidity.

10. Return

The Town Council would prefer to only invest with banks/building societies which it defines as "High Credit Quality". This being those with a credit rating of A with Moody's Investors Service or BBB with Standard and Poor's or Fitch Ratings Ltd. However, the Council understand that credit ratings are good but tend to be more relevant to the larger financial banking corporations and therefore as a minimum will invest in financial institutions regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Town Council will also consider each financial institution in terms of their environmental impact/projects and efforts to hit net-zero carbon emissions by 2050.

11. Publication

The guidance states that the Council's Investment Strategy should be publicly available on a local authority's website.

12. Annual Reporting on Investments

At the end of the financial year, the Town Clerk/RFO will report on investment activity in the Statement of Accounts.

13. Review of Investment Policy

The Investment Policy will be reviewed annually by the Council prior to the start of the financial year. The Council shall be able to amend or make variations to the Policy at any time following consideration of recommendations from the Town Clerk/RFO.

14. Setting the Investment Strategy

For each financial year, a local authority should prepare at least one Investment Strategy which needs to contain the disclosures and reporting requirements specified in the guidance. The Strategy should be approved by the Full Council.

The Secretary of State recommends that the Strategy should be presented for approval prior to the start of the financial year. Where a local authority proposes to make a material change to its Investment

Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented.

15. Treasury Management Advice

Chepstow Town Council recognises that neither members or officers are expert's in the field of treasury management. As such, the Council should review its level of investment on an annual basis and assess if there is a requirement to obtain independent, external, expert 'Treasury Management' advice in reviewing the Investment Strategy and the allocations of Specified Investments. Treasury Management advice may potentially be sourced from the principal local authority or a specialist treasury management advisory firms who specialises in local authority and local town and parish councils.

16. Banking Arrangements

The Council will periodically review its banking arrangements by a competitive process which balances returns, high street presence, accessibility of funds, service level, bank charges and ethical credentials.
The banking arrangements of the Council will next be reviewed by the Finance, Committee at its meeting on 19th March 2020, following which recommendations to Council will be made.

17. Sums Invested and Credit Rating at as 1st June 2021

	£	**Credit Rating**
Gateway Credit Union - Community Saver Account	**£ 22,193.43**	FCA[2]
CCLA Investment Management Limited Public Sector Deposit Fund @ 30[1st] December 2020	**£406,067.88**	AAAmmf[3]
Unity Trust – working balance 31st March 2021	**£858,497.00**	No rating[4]

Signed: ……. **Date: ……**

CHAIRMAN of Financial Policy and Audit Committee

References

Welsh Government Statutory Guidance on Local Government Investments
https://gov.wales/sites/default/files/publications/2019-11/statutory-guidance-on-local-government-investments.pdf

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http://www.onevoicewales.org.uk/OVWWeb/UserFiles/Files/Front%20Page/Governance%20and%20Accountability%20A%20Practitioners%20Guide%20Wales%202019.pdf

Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition
https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2017-edition-online

[2] Protected under the Financial Conduct Authorities limit
[3] https://www.fitchratings.com/research/fund-asset-managers/fitch-affirms-2-ccla-money-market-funds-at-aaammf-11-11-2020
[4] ratings are required to facilitate inter-bank borrowing, and as Unity Trust Bank does not borrow money from other banks, we do not require a credit rating.