Alnwick Town Council Investments Policy (Reviewed March 2018)

Introduction

Section 15 of the Local Government Act 2003[1] requires local authorities to have regard to guidance issued about investments. The 2010 'Guidance on Local Government Investments'[2] produced by the Department for Communities and Local Government, is the current guidance.

As a parish council whose investments in any year do not exceed £500,000 Alnwick Town Council may decide on the extent which it would be reasonable to have regard to this guidance.

Parish councils are not obliged to have regard to the CIPFA guidance on Treasury Management in the Public Services or the Prudential Code for Capital Finance in Local Authorities.

Investment objectives

Alnwick Town Council's investment priorities are to ensure security of reserves and sufficient levels of liquidity to meet planned and unplanned expenditure, whilst aiming to secure returns which where possible meet or exceed the consumer prices index (CPI) rate of inflation.[3]

Preparation, approval and timing

This Town Council investment policy was approved at the October 2015 meeting of the Finance and Policy Committee, and the November 2015 meeting of the Full Council.

It is reviewed annually and will next be reviewed in March/April 2019, and if changes are recommended, these will be put for approval to the Full Council.

The current town council investment policy will be published on the Alnwick Town Council website.

Investment Security

Specified investments

The Council will ensure that no less than 4 months' expenditure is invested in an instant access current or savings account offered by a bank or building society which is a member of the Financial Services Compensation Scheme ('short term specified investments').[4]

The Council's other long term specified investments will:

- be denominated in sterling
- have a duration of 2 years or less
- be invested as cash with a bank or building society which is a member of the Financial Services Compensation Scheme.

The Council should, wherever possible, ensure that no more is invested with any individual bank or building society[5] than that protected under the FSCS. Where the council holds more than the maximum protected amount under the FSCS with a single firm, it should ensure that:

- the credit rating of the institution is A3 or above on the Moody's credit rating[6].
- it holds no more than 50% of its specified investments with that firm

[1] http://www.legislation.gov.uk/ukpga/2003/26/contents
[2] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/320206/1501971.pdf
[3] http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/index.html
[4] If the firm is on the Financial Services register (http://www.fsa.gov.uk/register/home.do) then the bank account will be.
[5] Taking account of the fact that many firms operate under more than one trading or brand name. The limit applies at a firm level, not to the brand or trading name.
[6] https://www.moodys.com/page/lookuparating.aspx

Unspecified investments

The Council may invest up to 20% of its total assets (excluding its last precept payment and its short term specified investments) in non-specified investments. These may be:

- Savings accounts or fixed-term bonds held in cash with a bank or building society which is a member of the Financial Services Compensation Scheme with a term of longer than 2 years.
- Unit trusts and open-ended investment companies offered by firms which are members of the Financial Services Compensation Scheme, within the following Investment Association sectors –Protected, Sterling Corporate Bonds, Targeted absolute returns, UK Gilts, UK Index-linked gilts which are identified as having a low level of volatility[7].
- Unit trusts and open-ended investment companies in other Investment Association sectors which are agreed to carry a similar level of risk.[8]

To meet the Council's objectives of security and liquidity, the Council will not invest in assets which bear an entry charge (for example, a bid-offer spread), and will not invest in individual equities, bonds or properties.

Investment Risk

The Council will monitor monthly the credit rating of any banks or building societies with which it holds current accounts, savings accounts or fixed term bonds in excess of the FSCS limit. Where the rating is below A3 on the Moody's credit score, it will make arrangements to reduce amounts invested below the FSCS wherever this can be done without penalty.

The Council will monitor the volatility of unit trusts and open-ended investment companies. Where the volatility persistently exceeds an FE Risk Score of 50, the Responsible Financial Officer and Chair of the Finance and Policy committee will consider disinvesting from the product where this can be done without 'locking in' a loss of above 5%. Where the loss from disinvesting will be in excess of 5%, the decision will be referred to the Finance and Policy Committee for consideration.

The Council will carry out its own investment research, and make decisions without external advisers.

Investment Liquidity

The Council must retain at least 4 months' minimum expenditure invested in instant access accounts.

A further 4 months' minimum expenditure must be accessible within a 12 month period, without penalty. In consultation with the Chair of the Finance and Policy Committee, the Responsible Financial Officer may opt to retain only 2 months' minimum expenditure accessible within 12 months, for periods of no longer than 1 month.

[7] Definitions of these from Investment Association website (http://www.theinvestmentassociation.org/investment-industry-information/fund-sectors/sector-definitions.html)–
Protected: "Funds, other than money market funds, which principally aim to provide a return of a set amount of capital back to the investor (either explicitly protected or via an investment strategy highly likely to achieve this objective) plus the potential for some investment return."
Targeted absolute returns - Funds in this sector may aim to achieve a return that is more demanding than a "greater than zero after fees objective." Funds in this sector must clearly state the timeframe over which they aim to meet their stated objective to allow the Investment Association and investors to make a distinction between funds on this basis. The timeframe must not be longer than three years.
UK Gilts - Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK government securities (Gilts).
UK Index-linked Gilts - Funds which invest at least 95% of their assets in Sterling denominated (or hedged back to Sterling) government backed index linked securities, with a rating the same or higher than that of the UK, with at least 80% invested in UK Index Linked Gilts.
UK Corporate bonds - Funds which invest at least 80% of their assets in Sterling denominated (or hedged back to Sterling), Triple BBB minus or above corporate bond securities (as measured by Standard & Poors or an equivalent external rating agency). This excludes convertibles, preference shares and permanent interest bearing shares (PIBs). Funds managed with the aim of delivering positive returns in any market conditions, but returns are not guaranteed.

[8] FE Risk Score is the volatility of the fund as compared with the FTSE 100 index, which is given a volatility of 100. See http://www.trustnet.com/learn/learnaboutinvesting/FE-Risk-Scores.html for more explanation.