

Investment policy

Background

1. Council has previously agreed to adopt an investment policy, in pursuit of its objective of being a well run and well governed council.
2. Council also notes its previously adopted financial regulations, in particular Regulation 9. Council is invited to note that there are internal inconsistencies within the regulation, and that it does not specify a mechanism by which new deposit or investment accounts may be identified, approved or opened. Regulation 9.27 and 9.28 are written as if the council only has one current account and one deposit account,
3. The mechanism for authorizing transfers between the council's current and deposit accounts in regulation 9.27 and 9.28 actively prevent efficient treasury management, and reflects previous approaches to internal control.
4. Council currently receives only a negligible amount of interest, when it would be possible to achieve significant rates of return if investments were made more actively. In the current environment it would be possible to achieve rates of return between 1% and 1.5%, which would represent £1000 to £1500 per £100,000 of balances.
5. The background to this report is, therefore, that the council does not have an investment policy or strategy, and has financial regulations that are out of step with its current circumstances.
6. In accordance with Section 15 (1) of the Local Government Act 2003, the Council should 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.
7. In order to understand the background some technical definitions need to be provided, and that is the purpose of the first part of this report.
8. For the purposes of the Financial Services Compensation Scheme, BTC currently qualifies as a smaller local authority, assuming an exchange rate in the range of 1.15 Euros to the £. This means that BTC enjoys protection for deposits/investments up to £75,000 with any UK bank, building society and credit union as well as with overseas firms PRA deposit-taking permission and UK branches of European Economic Area (EEA) credit institutions.
9. Short-term investments, which mainly include deposit and savings accounts typically provided by banks, are those that display the following characteristics:
 - a. are denominated in pounds Sterling;
 - b. have a maturity of less than 12 months;
 - c. the whole of the original sum invested can, from the time that the investment is made, be accessed for use by the authority without any reduction;
 - d. and the authority has assessed the counterparty and is satisfied that the original sum invested is not subject to unreasonable risk.

10. A long-term investment is any investment other than (a) one which is due to be repaid within 12 months of the date on which the investment was made or (b) one which the local authority may require to be repaid within that period.
11. Non-specified Investments are investments which have greater potential risk – examples include investment in the money market, stocks and shares.
12. Authorities are required by the Practitioners Guide for Local Councils to maintain a register of the fixed assets, long-term investments and other non-current assets that they hold.

Objectives

1. The Council's investment priorities are the security of its reserves, the adequate liquidity of its investments, and the return on investment - the Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. In cases of doubt, councillors and any staff to whom decisions have been delegated will rely upon the acronym SLY - Security, Liquidity and Yield, to make decisions, so that they do not consider yield until they are certain of their conclusions about first security, then liquidity.
2. Council is required to hold sufficient reserves to protect against contingencies that might arise. This inevitably gives rise to cash balances that constitute those reserves. Being able to address contingencies requires that the manner in which those reserves are held is relatively liquid, as short-term investments, although it should be noted that there are still mixes of liquidity options within short-term investments (e.g. notice accounts and fixed term accounts).
3. Long term investments may arise where council is holding funds for a specific purpose, or with the intention of accruing funds for a future purpose, provided the council's reserve needs are adequately addressed.

Policy Recommendations

1. For the prudent management of its treasury balances and operational reserves, maintaining sufficient levels of security and liquidity, the Council will use: deposits with banks or building societies, or other deposit takers who are members of the FSCS, denominated in sterling.
2. Council will not place investments in accounts where penalties might reduce the sum invested.
3. Council will not place more than one third of its total investments in notice or term accounts where investments cannot be accessed outwith the notice period.
4. Council will agree a level of reserves as part of the Medium term Financial Plan / Budget process, as previously discussed, and will limit the amount of that operational reserve to be invested in notice or term accounts to one half, or 50% of that sum. The remainder shall be invested in instance access savings accounts.
5. For the financial years 2016-17, and 2017-18, council acknowledges that it cannot determine what proportion of its reserves could be safely invested in long term investments. For this reason no investments will be made for these financial years with a term or notice period greater than 12 months.
6. Council is recommended to resolve to instruct the Responsible Financial Officer to draw up an alternative form of words for Regulation 9.5 to specify the decision making process for opening new deposit accounts, and for 9.27 and 9.28 for the control and management of balances between the current account and deposits.