Agenda No 16

Ilminster Town Council

Investment Strategy

1. **Introduction**
   1.1. The power to invest money is provided in section 12 of the Local Government Act 2003. Section 15 of that Act require a local authority to have regard to such guidance as the Secretary of State may issue. The current guidance is set out in "Guidance on Local Government Investments" issued in 2018 by DHCLG.
   1.2. The guidance applies to all local authorities in England, but insofar as parish and town councils are concerned, those not expecting its investments to exceed £10,000 in any financial year can ignore the guidance, those expecting their investments to exceed £100,000 are bound by it, and those in between have to decide the extent to which they take it into account. Ilminster currently has funds available for investment of around £400,000, and so is bound by the guidance

2. **Principles**
   2.1. The main thrust of the guidance is that the council should have an Investment Strategy that is reviewed at least annually. The strategy then forms the basis against which any particular investment decision is taken.
   2.2. The objective of the strategy should be firstly to ensure that the funds invested are secure, secondly that they will be available to the council as and when they are needed, and lastly (and least importantly) that a good return is achieved. This is the SLY approach – *Security, Liquidity and Yield – in that order.*
   2.3. Investments are categorised into two types.
      2.3.1. Specified investments – these are in sterling, are not long term, i.e. for greater than 12 months, are not to be treated as capital expenditure, and are made with a body or in an investment scheme of *high credit quality* or with the UK government or a local authority in England or Wales.
      2.3.2. Non-specified investments – these are the rest.
      2.3.3. The guidance also covers investments in non financial instruments, such as property, but this is not likely to be relevant to local councils.
   2.4. The guidance requires the use of non-specified investments to be closely prescribed in the Strategy, setting out where, when and how they can be use and who has authority to make decisions in relation to them.
   2.5. In determining investment risk, the Strategy should make clear the extent to which credit ratings are to be used, and if they are, the frequency with which they are reviewed, and what other sources of information are to be used.
   2.6. The Strategy should also cover the use of investment advisers and set out procedures for determining the maximum period for which funds may prudently be committed.

3. **Investment Strategy**
   - 3.1. Subject to para 3.2 decisions on investing surplus funds should be made by full council after having considered the advice of the Resources Committee and the Responsible Finance Officer and should be in line with this strategy.
   - 3.2. Funds not needed immediately to meet on-going requirements can be invested in the Council's Reserve Account with its bank.
   - 3.3. Where possible investments should be spread so that not more than £75,000 is invested with a particular counter party at any one time, in order to take advantage of the council's inclusion the Financial Services Compensation Scheme.
   - 3.4. No more than 40% of the council's invested funds at any one time should be in non-specified investments, and such investments should be denominated in sterling and be with bodies with a credit rating at least equivalent to that of the Council's banker.
   - 3.5. With regard to specified investments, high credit quality is defined as having at least the same credit rating as the Council's banker.
   - 3.6. Before investing in an investment with a maturity date exceeding twelve months, the council should consider a report from the RFO outlining the council's likely funding requirements.
   - 3.7. The use of independent financial advisers is permitted if deemed advisable by the RFO following consultation with the Chairman of Council and the Chairman of the Resources Committee.