**Shipley Town Council**

# INVESTMENT POLICY AND OPTIONS

**Report of the Town Clerk to the meeting of the Full Council on 25 June 2020**

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At the Inaugural Annual Meeting of Shipley Town Council on 28 May 2020, Council acknowledged that the precept to be transferred from Bradford Council to Shipley Town Council, plus any grants and rents expected to be received, would exceed the limit of protection under the Financial Services Compensation Scheme (FSCS), for deposits in any one institution covered by the scheme. The FSCS protects the funds of smaller authorities up to £85,000 for each institution (regardless of the number of accounts held with any one institution). This means that the Town Council will need to make one or more additional arrangements to provide full cover for the Council's funds. Funds for the financial year 2020/21 are unlikely to exceed £140,000, which is within the limit of two FSCS protected accounts (i.e. up to £170,000).

The Town Council's Management Committee further discussed this matter at its meeting on 4 July 2020. The Town Clerk indicated that the CCLA Public sector Deposit Fund should be investigated. The CCLA is short for Churches, Charities and Local Authorities Investment Management Limited, which is used by hundreds of public sector bodies. The Public Sector Deposit Fund is rated "AAAmmf" by Fitch. The CCLA is a signatory to the Principles of Responsible Investment (PRI). The PRI is a United Nations-backed initiative that aims to be the world's leading proponent of responsible investment, being awarded grade "A+" for responsible investment strategy, approach to considering environmental, social and governance issues in its listed equity investment process and its approach to active ownership. CCLA received received a median 'B' for its property investments.

Information about CCLA, sourced from CCLA.

*"CCLA is one of the UK's largest charity fund managers according to the latest Charity Finance Survey. Managing investments for charities, religious organisations and the public sector is all we do. Based in the City of London, with an office in Edinburgh, we are largely owned by our clients' funds.*
*Our products and services:*
*have a strong long-term performance record*
*are fairly priced*
*are managed responsibly*
*Our investment solutions for clients are flexible and our people understand the particular needs and challenges facing charity investors."*

*"CCLA can trace its roots back to 1958 with the launch of The Church of England Investment Fund, which allowed church organisations to pool their funds and enjoy efficient access to professional fund management services. This lead was followed in*

*1961 by local authorities and in 1963 by the Charity Commission for the broader charity market. Following the introduction of financial services regulation, CCLA (Churches, Charities and Local Authorities) Investment Management Limited was created in 1987 with a shareholding structure that reflected its client base.*
*More recently, we have launched global equity income, ethical funds and a money market fund for the public sector. We have also provided asset allocation advice and expanded our range of segregated and discretionary portfolio management services."*

*"We are owned by our clients, with CCLA's executive directors having a small interest. The two largest shareholders are The CBF Church of England Investment Fund and the COIF Charities Investment Fund. Between them, they have a substantial majority shareholding, although this represents less than 2% of the value of their funds. Each fund's priority is that we deliver strong returns for its clients, rather than seek to maximise our own profitability. We are in a strong financial position, with balance sheet reserves substantially in excess of regulatory requirements. The diversity of ownership avoids the pitfalls of control by a single body.*
*There is effective governance over the management of the funds, as the three major fund groups all have their own boards of directors that hold us to account every quarter on behalf of their respective client groups. Furthermore, CCLA's Board includes non executive directors, the majority of whom represent our clients' funds."*

The Town Council's Management Committee members suggested that ethical investments should be considered as priority. Two financial institutions, Ecology Building Society and Triodos were suggested. The Town Clerk reported that Charity Bank also appeared to meet a high ethical rating by commonly understood measures. The Town Clerk committed to researching these options and to producing a draft Investment Strategy, which would underpin the choice. An Investment Strategy is required in order to comply with the model/adopted Financial Regulations and *Governance and Accountability for Local Councils – Practitioner's Guide* (otherwise known as Proper Practices).

*STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS (3rd Edition)*
*Issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018*

*"This guidance applies to parish councils and charter trustees, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year. Where a parish council or charter trustee expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance".*

*Governance and Accountability for Local Councils – Practitioner's Guide: Investments*

*"In deciding whether it is appropriate to make long-term investments, the authority should follow the Guidance on local government investments issued by MHCLG with effect from 1 April 2018.*

*The authority's investment strategy will set out management arrangements for the investments held and procedures for determining the maximum periods for which funds may prudently be committed. The strategy should ensure and demonstrate that the authority has properly assessed the risk of committing funds to longer term investments and complies with legislative requirements. Long-term investments in assets whose capital values may fluctuate carry considerable risks and require active management. Investment management is a specialist area. Authorities may wish to seek independent professional assistance when developing their investment strategy".*

In drafting an Investment Strategy, the Town Clerk has had regard to the investment strategies of two other recently established town councils. Bingley Town Council produced an investment strategy in 2018. Sutton Coldfield Town Council produced an investment strategy in 2017/18, which is reviewed and re-adopted annually. Although both councils are of different sizes, the principles and legal basis on which both strategies rest appear to be the same.

It is apparent that there are conflicts between the aspiration of Shipley Town Council to invest in ethical arrangements and the requirement to observe the statutory guidance issued by the Government for local authority investments.

The first difficulty is defining the nature of an ethical investment. This can be overcome by adopting the commonly understood definition, although such commonly understood definitions have no legal basis. This is ultimately a matter for Shipley Town Council to determine.

Aside from the above, the principal difficulty is that of reconciling the ethical basis of those smaller banks and building society accounts, which score highly on conventional measures of ethical investments, with the requirement to demonstrate the security of investments. This is because the smaller building societies which achieve the highest ethical ratings are not credit rated. The security of investments is the foremost requirement of the statutory guidance on local authority investments. In the absence of credit rating, an alternative measure of security would have to be decided.

This matter was explored in a presentation given to Sefton Metropolitan Borough Council's Ethical Business Practices Working Group, which reported to the Full Council meeting of Sefton Council on 27 February 2020.

The author of the Sefton presentation notes:

*"Ethical Banks tend to be either unrated, or below our acceptable risk level:*

*Co-operative Bank – Fitch Long Term Rating = B*
*Charity Bank – Unrated*
*Triodos Bank – Unrated*
*Ecology Building Society – Unrated*

*Any investment in such banks would contravene statutory guidance – SECURITY is the Council's primary consideration. If an ethical bank had an acceptable rating, the Council could invest in it."*

Sefton Council resolved, that:

*"The Head of Corporate Resources be requested to make arrangements, via the Council's decision-making processes, to include the revised statement of draft ethical business/investment principles as referred to below in the Treasury Management Strategy and to adopt it as part of the Council's Policy for investment:*

*ETHICAL INVESTMENT POLICY*

*"The Local Authority at times invests surplus funds with third party organisations and institutions and the Council's core values will play a major role in making investment decisions which will be aligned where possible to the following four overarching core principles;*

*Sustainable and Responsible – manage the effect on the environment, community and for the good of society*
*Value Based – invest in businesses that are aligned with the organisations core values;*
*Maximising Impact – achieve a measurable positive, social or environmental impact, in addition to a financial return;*
*Green – improving the environment."*

*In deciding and then approving the counterparty list in which the Council will invest, the principles of security, liquidity and yield will always be the primary consideration to ensure compliance with statutory guidance. As part of this evaluation, the Council will consider ethical investment opportunities and identify and apply an appropriate weighting based on the Council's Core Values/overarching core principles.*

*Where the Council deposits surplus balances overnight or for a short-term, investments will be made with financial institutions in a responsible manner (aligned to the overarching core principles/councils core values) where possible and in accordance with advice from its Treasury Management Advisor. In the event that the Council has surplus balances that it can invest for the longer term (e.g. terms over 1 year) it will exclude direct investment in financial products that do not contribute positively to society and the environment. This will include the principle that investment in specific financial products whose performance is driven by off-shore trading, financial malpractice, debt swops, short selling, the arms trade and tobacco industry will be avoided. The same rigorous criteria will be used to assess whether investment in certain countries will be contrary to Sefton's core values.*

*It is recommended that the Head of Corporate Resources, to assess whether investment in certain countries will be contrary to Sefton's core values,* *give consideration to the exclusion of those countries on the EU list of non-cooperative tax jurisdictions (the black list and the grey list), which aims to tackle external risks of tax abuse and unfair tax competition, within the Council's Treasury Management Strategy.*

*In order for these organisations to be included on the Council's counterparty list they will be evaluated against the same criteria as other counterparties and assessed against the Council's core values and ethical business and investment principles/policy, including the ethical weighting to ensure balance and investments are aligned with the new policy.*

*The Council's Treasury Management Team will be continually engaged on progress in this sector, understanding where possible that Council investments and deposits are aligned with its core values – for example, generating income for social reinvestment and not investing in such companies as highlighted above.*

*This approach will be supported by considering the opportunity for ethical investments as part of the development of the annual Treasury Management Strategy and engaging with the Council's Treasury Management Advisors as to whether any investment is contrary to the Council's values (including the ethical investment weighting). A specific section in the annual Treasury Management report will cover how the adopted ethical investment strategy is being applied to investment decisions.*

*The Local Authority publishes a list of its investments to ensure openness and transparency."*

## RECOMMENDATIONS

**Recommendation 1**
**Consequently, it is my recommendation that Shipley Town Council needs to obtain specialist professional advice before proceeding with an investment(s) of Council funds that may contradict statutory guidance. In so doing, clarification can be sought as to the extent of weight to be given the ethical considerations, what these ethical considerations should be and how such considerations are to be assessed, measured and compared.**

**Recommendation 2**
**If the Town Council does not wish to engage the services of a specialist professional advice, the use of the CCLA appears to be acceptable within the requirements of the statutory guidance and ethical considerations. The CCLA may, therefore, present a satisfactory "middle way".**

**The below Draft Annual Investment Strategy 2020/21 is presented as an illustration of what Shipley Town Council's investment strategy is likely to include. The draft relies heavily on the work of Sutton Coldfield Town Council, for which credit must be given.**

**DRAFT ANNUAL INVESTMENT STRATEGY 2020/2021**

## 1. INTRODUCTION

1.1 Shipley Town Council (the Council) acknowledges the importance of prudently investing the surplus funds held on behalf of the community.

1.2 The Local Government Act 2003 states 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

1.3 This Strategy complies with the requirements set out in:

- The Ministry of Housing, Communities and Local Government (MHCLG) *Guidance on Local Government Investments*
- Section 15 (1) (a) of the *Local Government Act 2003*
- Guidance within *Governance and Accountability for Local Councils Practitioner's Guide*

1.4 The Council defines its treasury management activities as the management of the Council's investments, 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.

## 2. POLICY

2.1 This strategy establishes formal objectives, policies and practices and reporting arrangements for the effective management and control of the Council's treasury management activities and the associated risks.

2.2 The Council holds [£XXX,XXX] of invested funds as at [XXX 2020], representing income received in advance of expenditure plus balances and reserves held. Over the coming year investment balances are expected to range between £XXX,XXX and £XXX,XXX.

## 3. INVESTMENT OBJECTIVES

3.1 In accordance with Section 15 (1) of the Local Government Act 2003, the Council will have regard to:

- Such guidance as the Secretary of State may issue
- Such other guidance as the Secretary of State may by regulations specify

3.2 Both the Charted Institute for Public Finance and Accounts (CIPFA) Code and the MHCLG guidance require the Council to invest its funds prudently, and to have regard to the security (protecting the capital sum from loss) and liquidity (ensuring funds are easily available/available when required) of its investments before seeking the highest rate of return/yield.

3.3 The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The Council will therefore aim to achieve the optimum return on its investments commensurate with appropriate levels of security and liquidity.

3.4 The Council's investment priorities therefore are, in order of importance:

- the security of its reserves
- the adequate liquidity of its investments
- the return (yield) on investments

3.5 All investments will be made in sterling.

3.6 The MHCLG 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.

3.7 Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Credit ratings are obtained and monitored by the Council's Responsible Financial Officer, who will advise the Council on appropriate credit criteria and will notify the Council of changes in credit ratings as they occur. However, investment decisions are never made solely based on credit ratings and all other relevant factors, including external advice from appointed advisors, will be taken into account.

3.8 The Council may invest its surplus funds with any of the counterparty types below, subject to the cash limits (per counterparty) and time limits shown:

- Deposits with the Debt Management Agency Deposit Facility (DMADF) – this is essentially investing with the UK government – for periods up to 6 months, which is currently the longest term offered by the DMADF
- Call accounts which provide instant access, notice accounts and term deposits with UK banks and building societies on an unsecured basis*: with a credit rating of A- (A minus) or higher: £1.5 million up to a maximum period of 1 year
- Pooled Funds including Money Market Funds: £1.5 million per fund (note: these funds do not have a maturity date)

*it should be noted that call/notice accounts and term deposits are not secured on the bank's or building society's assets. These investments are subject to the risk of credit loss via a bail-in, should the banking regulator determine that the institution is failing or likely to fail.

3.9 Investments in pooled funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds offering same-day liquidity and very low or no volatility provide an alternative to instant access bank accounts.

3.10 The Council will monitor the risk of loss on investments by regularly reviewing credit ratings across the three main agencies. The Council will only invest with institutions deemed to be of 'high credit quality' based on rating agency information (see 4.1 below).

3.11 Credit ratings are obtained and monitored by the Council's Responsible Financial Officer. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

• no new investments will be made
• any existing investments that can be recalled or sold at no cost will be
• full consideration will be given to the recall or sale of all other existing investments with the affect counterparty

3.12 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other information, including credit default swaps, financial statements, information on potential government support, and reports in the financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet credit rating criteria.

3.13 Investments will be spread over different providers in line with agreed limits in order to reduce counterparty risk.

**4. SPECIFIED INVESTMENTS**

4.1 The MHCLG Guidance defines specified investments as those:

- denominated in pounds sterling;
- due to be repaid within 12 months of arrangement;
- not defined as capital expenditure by legislation; and;
- invested with one of: (a) the UK Government, (b) a UK local authority, parish council or community council, or (c) a body or investment scheme of 'high credit quality'

4.2 The Council defines 'high credit quality' organisations and securities as those having a credit rating of "A-" or higher that are domiciled in the UK or a foreign country with a sovereign rating of "AA+" or higher. For money market funds and other pooled funds, "high credit quality" is defined as having credit rating of "A-" or higher.

4.3 Specified investments typically offer lower risk and higher liquidity. All investments made by the Council will be denominated in sterling and for no more than 12 months. Such short-term investments made with the UK Government, a local authority or a town/parish council will be specified investments.

4.4 For the prudent management of its treasury balances, including maintaining sufficient levels of security and liquidity, the Council will place deposits with banks, building societies, local authorities and other public authorities/bodies.

4.5 The choice of institution and length of deposit will be at the discretion of the Full Council on the recommendation of the Management Committee.

4.6 Shipley Town Council's has no current investments. As part of the new strategy, investments will be spread across different counterparties with higher credit ratings in order to reduce counterparty risk.

4.7 Day-to-day banking will remain with Unity Trust Bank.

**5. NON-SPECIFIED INVESTMENTS**

5.1 Any investment not meeting the definition of a specified investment is classed as non-specified. Shipley Tow Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares.

5.2 Non-specified investment will therefore be limited to long-term investments (i.e. those that are due to mature 12 months or longer from the date of arrangement) and investments with bodies or schemes not meeting the definition of 'high credit quality'.

5.3 The Council's investments with Unity Trust Bank are non-specified investments as the bank is not credit rated (see Appendix B). During 2019/20, the Council does not envisage making investments which have maturities longer than 12 months.

**6. LIQUIDITY OF INVESTMENTS**

6.1 The Council uses cash flow forecasting to determine the maximum period for which funds may be prudently committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet financial commitments.

6.2 The Management Committee will determine the maximum periods for which funds may prudently be committed so as not to unacceptably increase liquidity risk.

6.3 Investments will be regarded as commencing on the date the commitment to invest is entered into rather than the date on which the funds are paid over to the counterparty.

## 7. LONG-TERM INVESTMENTS

7.1 Long-term investments are defined in the MHCLG Investment Guidance as those due to be repaid in over 12 months from arrangement.

7.2 The Council does not currently hold any long-term investments and none are envisaged as being taken out during the financial year 2020/21.

## 8. END OF YEAR INVESTMENT REPORT

8.1 At the end of the financial year, the Responsible Finance Officer will report on investment activity to the Management Committee.

## 9. REVIEW AND AMENDMENT OF REGULATIONS

9.1 The Investment Strategy will be reviewed annually by Full Council.

9.2 The Town Council reserves the right to make variations to the Investment Strategy at any time subject to the approval of Full Council. Any variations will be made available to the public.

9.3 The Investment Strategy must be approved by Full Council but may be varied from time-to-time as circumstances dictate.

## 10. TREASURY MANAGEMENT ADVICE

10.1 Given that the level of the 2020/21 precept, plus grants and rents, totals more than the maximum protection of the Financial Services Compensation Scheme in any one institution, the Responsible Finance Officer recommends that independent advice is sought to both review this Investment Strategy and the allocations of Specified Investments so that funds may be invested

10.2 Treasury Management advice would typically come from either:

- the principal local authority
- treasury management advisory firms who specialise in local authority finance
- other local independent financial advisors with expertise in advising business and individuals with significant cash sums to manage and invest

## APPENDIX A

Statement of reserves position at June 2020

1. At the start of the 2020/21 financial year, Shipley Town Council had no reserves

2. The precept for 2020/21 of £133,905 will be received in July 2020

3. The 2020/21 precept will be paid into the current account in one tranche

4. Grants and rents totalling approximately £4,336 are expected before 31 March 2021

5. An interim budget was considered by the Full Council in May 2020

6. A general reserve of £25,000 has been established

7. An earmarked reserve of £3,000 for allotment garden services has been established

## APPENDIX B

*Statement from Unity Trust Bank*

*Unity Trust Bank has a very strong liquidity position and therefore does not need to borrow money from the inter-bank markets or from any other organisation to fund its day-to-day activities. We are not impacted by the difficulties that some banks have been facing from the lack of liquidity in this market. It is also the reason that we have not had to purchase a credit rating from a third party rating agency. Such 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.*

*Unity Trust Bank has never traded in sub-prime investments or the complex financial instruments that have resulted in difficulties for many organisations. This is outside of both our corporate and social responsibility policies. As such we are unaffected by events in these markets.*

*Unity Trust Bank shares are not traded on any exchange and we are not therefore affected by the actions of speculators on various exchanges, or on market sentiment that has resulted in huge share price movements.*

*Unity Trust Bank funds its banking business entirely from shareholder capital and customers' savings. Our shareholders are long-term investors, having owned Unity Trust Bank since formation. Many of our shareholders are also customers and the comfort and stability provided by owning and controlling Unity Trust Bank means that we do not have a volatile savings base. This is reflected by the fact that many socially motivated organisations have chosen Unity Trust Bank as a socially responsible bank, exercising good stewardship of their funds.*

*Unity Trust is a bank specialising in the provision of banking services to organisations with a social conscience and not-for-profits, charities, voluntary organisations, social enterprises, Trade Unions. This business is less volatile than that undertaken by many UK banks and as such has not been impacted to any material degree by some of the situations faced by other banks.*

*Unity Trust Bank has a full banking licence, is regulated by both the Financial Conduct Authority and the Prudential Regulation Authority and is a member of UK Finance. Our business is conducted according to regulatory codes and subject to due supervision. Our eligible savers are covered by the Financial Services Compensation Scheme.*