North Petherton Town Council

Treasury Management Policy

Approved By the Town Council 15 May 2023

This policy sets out the Town Council’s policy regarding investments, lending and borrowing

Introduction

1. Treasury Management covers the borrowing, investment, loaning and cash flow activities of the Town Council and the effective management of risks in relation to those activities. Treasury Management is an important element in the overall management of the Town Council's financial affairs.

2. The Council's Treasury Management activities are controlled by the Local Government Act 2003 and any associated Regulations (e.g. the Local authorities Capital Finance and Accounting Regulations 2003).

3. In accordance with best practice, the Town Council will also give heed to CIPFA publications, such as The Treasury Management Code of Practice and the Prudential Code for Capital Finance in so far as they are relevant to the Town Council's circumstances and activities.

4. Treasury Management is concerned with how organisations manage their cash resources. Risk is inherent in all treasury management activities and it is necessary to balance risk and return. In the public services it is generally considered that the priority is to protect capital rather than maximise return.

Loans

5. The Town Council provides grants to support local organisations (see separate Grants Policy and Procedure) but occasionally an organisation may request a loan or the Town Council decides a loan is more appropriate.

6. The Town Council will consider provision of a loan from community organisations that are based within the area covered by the Town Council and provide a benefit to the residents of the town.

7. Each loan application will include a business case and the Town Council's evaluation will include the financial viability of the project, the demonstration / evidence of community need, value for money, the delivery time-scale and the ability of the organization to repay the debt.

8. Loans will be subject to the principles and conditions of the investment strategy section of this Treasury Management document.

9. The Loans policy section of this Treasury Management document is to be considered as guidance for when a loan is considered.

Loan Principles

10. A loan will usually only be considered to fund capital expenditure
11. The recipient organisation must be able to demonstrate that it has the ability to repay the debt.
12. The application for a loan must be made before any works relating to the application have been started.

13. Loans must not represent more than 30% of the total project costs. All other funding must be confirmed before the loan is advanced.
14. Security on the loan must be guaranteed
15. The Town Council will assess and decide all loan applications and reserves the right to refuse an application if it considers that the risk is unacceptable or that the benefit to the community is not commensurate with the loan.
16. Loans must be repaid within an agreed time-frame, which will not exceed the period for which the expenditure is forecast to provide benefit to the Town Council i.e. useful life of the asset. The maximum loan period will be 50 years for acquisition of, or work on or to, land, buildings roads or structures and 10 years in all other cases. (See also section 34)
    Consideration may be given for a payment holiday, normally up to two years.
17. The exact terms of any loan will be written into a legal Loan Agreement.
18. Interest will be payable but the Town Council may offer an interest free period, normally for up to two years.
19. Interest will usually be charged at the appropriate Public Works Loan Board (PWLB) rate for the amount and duration of the loan plus a premium of 0.5%; the rate will be determined on the date that the loan offer is made.
20. Cumulative interest will be charged therefore late repayments will result in additional interest becoming due. The interest rate will be charged from the date the loan advance is made. There will be no penalties for early repayment.
21. Loans must be repaid at the intervals / on the dates stated in the loan agreement and made by direct debit / standing order and include the capital and interest repayment. A repayment model will be included in the Loan Agreement.
22. A loan will not be made if the organisation does not have land or buildings (or ither assets / personal guarantees) on which a charge of the value of the loan can be made.
23. All loans will normally be for capital spend only.
24. Work must commence within 12 months of the application or the agreed timescale sent out in the Loan Agreement. Should the work not be carried out in the agreed time frame the Town Council must be informed and reserves the right to withdraw the offer.
25. The Town Council requires quarterly or six monthly progress reports, as stated in the Loan Agreement, on the project and the use of the loan.
26. Applications for loans can be made at any time.
27. If loans are not repaid, any outstanding debts will be pursued and may result in legal action including debtors being taken to court where all other means to secure payment have failed.

External Borrowing

28. The Town Council acknowledges the importance of borrowing funds and the financial impact on the Council and the local community. The Council will agree borrowing for specific capital projects (as defined in section 16 of the Local Government Act 2003); all borrowings must be approved by full council.
29. Approval for borrowing will be made following the appropriate guidelines and any relevant Regulations applicable and in force at the of submitting the application, at the time of drafting this strategy (February 2023) applications are made to the Secretary of State via Somerset Association of Local Councils.

30. Before a Council can borrow a sum of money, it must first receive an approval to borrow (loan sanction) from the relevant Secretary of State, (unless it is for a sum required temporarily to meet revenue expenditure).

31. The process to be followed and the criteria applied in deciding whether or not approval should be forthcoming are detailed in the Guide to Parish and Town Council Borrowing In England (jointly published by NALC and the Department)

32. The Town Council will apply the following criteria when considering requesting a borrowing approval:
    - The borrowing should only be used for the purposes of enabling a capital project
    - The borrowing amount should not be less than £5.00 multiplied by the number of local government electors in the area covered by the Town Council on the first day of the current financial year (1 April – 31 March)
    - Any unallocated balances including, where appropriate capital receipts beyond those required for the prudent financial management of the Town Council, should be used in the project for which the borrowing is required.
    - The Town Council should have a realistic budget for the servicing and repayment of the debt, considering affordability and the future effect on the council's precept and cash flow.
    - The Town Council must not mortgage or charge any of its property as security for money borrowed.
    - Any borrowing must reflect the priorities of the Town Council

33. Interest Rates

The Town Council will research in order to get best possible terms when borrowing but will usually use the Public Works Loan Board (PWLB). (The Town Council feels that the fixed term rates offered by the PWLB are relatively cheap and offer stability for the financial planning of the Town Council).

34. Period Of Loan

The Town Council will determine the period of each loan which should not exceed the period for which the expenditure is forecast to provide benefit to the Town Council i.e. useful life of the asset.

The maximum period will begin on the date on which the money is borrowed, and will be;
- 50 years for acquisition of, or work on or to, land, buildings roads or structures
- 10 years in all other cases.

35. Current External Borrowing

The Town Council currently (February 2023) has no external borrowing

36. Further Anticipated External Borrowing

The Town Council has resolved to provide grant and loan funding towards the construction costs of the Wilstock Hub

Investment Strategy

Approved by Town Council 15 August 2022 (Minute 96/2022)

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 requires 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. North Petherton currently has funds available for investment of around £250,000, and so is bound by the guidance

1.3. North Petherton Town Council acknowledges its responsibilities to the community and the importance of prudently investing the temporary surplus funds held on behalf of the community.

1.4. The Town Council will ensure it has adequate though not excessive cash resources or standby facilities to enable it all times to have the level of funds available which are necessary for the achievement of service objectives.

1.5. The Department of Communities and Local Government maintains that borrowing monies purely to invest or lend and make a return is unlawful and the Town Council will not engage in such activity.

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. The Town Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity

2.4. In balancing risk against return, the Town Council will be careful to avoid risks rather than maximise returns.

2.5. Investments are categorised into two types.

2.5.1. 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.

2.5.2. Non-specified investments – these are the rest.

2.5.3. The guidance also covers investments in non financial instruments, such as property, but this is not likely to be relevant to local councils.

2.6. 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.
2.7. 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.
2.8. 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 Finance and General Purposes 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. All specified investments, will be made with a body or investment scheme which has been awarded a high credit rating by a credit rating agency (i.e. Standard and Poor's, Moody's Investors Service Ltd, Fitch Ratings Ltd). For the purposes of this strategy "high credit rating" is an organisation with a credit rating of A or higher that is domiciled in the UK or a sovereign rating of AA+ or higher for organisations domiciled in a foreign country.
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 Town Council may use the following:
    - Deposits with banks, building societies, local authorities or other public authorities
    - Other recognised funds specifically targeted at the public sector

3.8. The use of independent financial advisers is permitted if deemed advisable by the RFO in conjunction with the Chairman of Council and the Chairman of the Finance and General Purposes Committee. Where external investment managers are used, they will be contractually required to comply with this Strategy.

4. Quantative Indicators

4.1 The quantative indicators that allow Councillors and the public to asses a local authority's total risk exposure as a result of its investment decisions will be used as at Appendix 1.

Definitions *(from the Statutory Guidance on Local Government Investments)*

Investments (S4)
The definition of an investment covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

Specified Investments *(S31)*
An investment is a specified investment if all of the following apply:

- *The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.*
- *The investment is not a long term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option*
- *The making of the investment is not defined as capital expenditure by virtue of Regulation 25 (1) (d) of the Local Authorities (Capital finance and Accounting (England) Regulations 003 (as amended)*
- *The investment is made with a body or an investment scheme described as high quality (see paragraph 33 [of the Statutory Guidance] or with one of the following bodies:*
  i The United Kingdom Government
  ii A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; or
  iii A parish or community council

Non Specified Investments *(S35)*
A non specified investment is any financial investment that is not a loan and does not meet the criteria to be treated as a specified investment

Security *(S26)*
Protecting the capital sum invested from loss

Liquidity *(S26)*
Ensuring the funds invested are available for expenditure when needed

Debt to net service expenditure (NSE) ratio	*Gross debt as a percentage of net service expenditure, where net service expenditure is a proxy for the size and financial strength of a local authority.*
Commercial income to NSE ratio	*Dependence on non-fees and charges income to deliver core services. Fees and charges should be netted off gross service expenditure to calculate NSE.*
Investment cover ratio	*The total net income from property investments, compared to the interest expense.*
Loan to value ratio	*The amount of debt compared to the total asset value.*
Target income returns	*Net revenue income compared to equity. This is a measure of achievement of the portfolio of properties.*
Benchmarking of returns	*As a measure against other investments and against other council's property portfolios.*
Gross and net income	*The income received from the investment portfolio at a gross level and net level (less costs) over time.*
Operating costs	*The trend in operating costs of the non-financial investment portfolio over time, as the portfolio of non-financial investments expands.*
Vacancy levels and Tenant exposures for non-financial investments	*Monitoring vacancy levels (voids) ensure the property portfolio is being managed (including marketing and tenant relations) to ensure*

(Source: Statutory Guidance on Local Authority Investments (3rdEdition))