

Investment Policy Review

Staffing & Finance Committee Report

27.01.2021 – Item 8

1. Background

The council receives c£775,000 Precept income in equal instalments in April and September. Following the receipt this September, cash balances were c£800,000 the majority of which have been placed on deposit with Lloyds Bank pending a review of investment options and policy.

Due to current economic circumstances bank interest rates are very low. For example, the best instant access rate available from Lloyds Bank is 0.01% and the highest 95-day notice rate is £0.10%. With other high street banks such as Santander and HSBC offer deposit rates of between 0.01% and 0.05%.

Many bank deposit accounts also do not accept investments from local authorities and local authorities with budgets in excess of €500,000 are not covered by the Financial Services Compensation Scheme (www.fscs.org.uk) for losses on bank and other deposits.

The council Investment Policy prioritises Security, Liquidity and Yield in that order which are still considered the appropriate goals. Within those parameters obtaining significant yields in current circumstances in constrained and investigating individual bank deposits is time consuming.

2. Cash Deposit Profile

Average council net expenditure is c£60,000 per month and cash balances over the next 12 months are estimated to be between £800,000 and £400,000 at different points in the year:

	<u>Estimate</u>
December 2020	£700,000
March 2021	£450,000
April 2021	£800,000
August 2021	£560,000
September 2021	£800,000
March 2022	£400,000

- There is a need to maintain immediate liquidity as the timing of significant project and capital costs are difficult to predict and so it is recommended that at least 3 months' worth of free cash, £180,000, is kept instantly accessible. With a balance of one month's cash being held with the current account provider, Lloyds Bank.
- A core cash balance of say £300,000 could be invested longer term, at 6- and 12-month maturities, a split of 6- and 12-month terms will ensue these funds are available at 6 monthly intervals.

- Other cash balances (estimated to be between £0 and £320,000 during the year) may be deposited on 30 and 90 day notice, so that they are more immediately available to replenish liquidity.

Accordingly, a proposed investment strategy is:

- Instant or easily accessible funds, of around 3 months net expenditure of £180,000 (of which £120,000 kept with Lloyds Bank/Money Market Fund)
- Longer term 6 and 12 month term deposits, around 5 months net expenditure, of £300,000
- Balance of funds in 30/90 day notice deposits, to the extent these obtain a higher yield than instant access deposits

The objective is to maximising yield, subject to ensuring Investment Policy Security and Liquidity is maintained with investment only with UK high credit quality (A rated or above) institutions or funds.

3. Investment Options

As noted above interest rates are currently low and a representative selection of current bank deposit rates is attached, ranging from 0.01% to 0.75%. PTC as a council may not be able to access all the products/rates listed.

An alternative, to managing investments directly with individual banks is to invest in a Money Market Fund (MMF) or via an investment platform that offers deposits with several providers. A MMF offers the benefit of diversification as it invests in a pool of banks/funds, whereas an investment platform provides choice, but investment risk remains in the specific bank/investment. A MMF also more immediately tracks market interest rates, beneficial should rates rise as well as offering a deposit choice.

Currently, excluding the funds held with Lloyds Bank investments are:

Bank/Product	Rate	£
Nationwide 95 Day Saver Issue 7	0.40%	104,000
Monmouthshire Corporate Direct 30-Day Issue 2	0.40%	50,000
Monmouthshire Corporate Direct Instant Issue 2	0.35%	5,000
Total existing investments		£159,000

These are old products to which new funds cannot be deposited but offer reasonably competitive returns relative to current rates and so should be maintained, at least until the current rates are withdrawn.

As Portishead Town Council is not covered by the FSCS a portfolio approach will lower risk and so it is recommended that balances with any individual institution should ideally not exceed c£100,000 (the Investment Policy has a cap of £200,000).

Reflecting the above, a proposed investment of current cash balances, subject to confirming the institutions can accept PTC deposits and are of a high investment grade is:

Investment	Rate	Amount £	Interest p.a. £
Instant Access:			
Lloyds current/deposit account – Instant (existing)	0.01%	60,000	6
CCLA Money Market Fund – Instant (new)	0.04%	60,000	24
Monmouthshire BS Corp Direct I2 – Instant (existing)	0.35%	5,000	18
Monmouthshire BS Business – Instant (new)	0.25%	55,000	138
30/90 Day Notice:			
Monmouthshire BS Corp Direct I2 – 30 Day (existing)	0.40%	50,000	200
Investec - 32 Day Notice (new)	0.55%	50,000	275
Redwood Bank – 35 Day Notice (new)	0.70%	50,000	350
Nationwide BS – 95 Day Notice (existing)	0.40%	104,000	416
6 Month term deposit:			
Aldermore/Clydesdale (new)	0.50%	150,000	750
12 Month term deposit:			
Hampshire Trust/Shawbrook/ United Trust	0.70%	150,000	1,050
Totals		£734,000	3,226

The inclusion of a Money Market Fund is recommended, to provide investment flexibility, as although current money market rates are low, they are higher than current account rates and rates change daily. The minimum MMF balance is £25,000 and it may only be used when quoted market rates are favourable.

The use of multiple institutions is to spread risk and the use of 6- and 12-month deposits is to lock in fixed rates, for cash that is unlikely to be needed as is broadly equal to the minimum level of general reserves (£300,000).

An alternative to directly investing with each bank, is to use a cash solutions platform, which offers a range of deposits through a single portal. This does not reduce investment risk (as funds are not pooled) but does simplify administration and offers a wider choice of investment than we (PTC) can practically research and so potentially better rates. However, there is a cost or fee for such convenience of around 0.25% of funds invested (c£1,800 p.a.). Whilst investigating the above deposit options, it is also recommended that a proposal is sought from Insignis to compare with direct investment.

4. Investment Policy

The current Investment Policy has been reviewed and is considered satisfactory and compliant with LGA guidance. Accordingly, significant change is not required. However, if Money Market Fund investments are to be made it is recommended that the following changes are made:

Clause 3.1.5 the reference to investment scheme should specifically include Money Market Funds, the clause amended to read ‘All investments will be made with a body or investment scheme (including a Money Market Fund) which has

been awarded a high credit rating by a * credit rating agency. (A high credit rating will be defined as 'A' 'High Credit Quality').

Clause 3.3 deposits should not be limited to UK High Street banks/building societies nor the funds surplus only for 3 months and so this clause should be widened to cover all surplus cash deposits with UK banks and/or building societies and/or Money Market Funds.

5. Proposal/Recommendation

Based on the above analysis the following is recommended:

- a. The investments proposed in the report should be investigated with the institutions concerned to ensure they can accept PTC funds and meet the High Credit Quality condition. Including the opening of a Money Market Fund.
- b. A proposal for use of a cash solutions platform should be sought for a similar investment portfolio.
- c. The results of a. and b. will be considered by an Investment Working Party (members to be agreed) to approve the final investment decision and use of a cash solutions platform.
- d. The Clauses 3.1.5 and 3.3 of the Investment Policy are amended to read:

Clause 3.1.5 All investments will be made with a body or investment scheme (including a Money Market Fund) which has been awarded a high credit rating by a * credit rating agency. (A high credit rating will be defined as 'A' 'High Credit Quality').

Clause 3.3 For prudent management of its balances, the Town Council, in order to maintain sufficient levels of security and liquidity, will adopt a policy whereby surplus funds can be invested in short term deposit with one or more UK banks and/or building societies and/or Money Market Funds.

Deposit Investment Rates @ 19.1.21								
	Interest rates:			Existing deposits				
Bank	Instant	30 day	60 day	90 day	120 day	180 day	270 day	1 Year
Lloyds Bank - Local Authority	0.01%	0.05%		0.10%		0.11%		
Monmouth Building Society - Business SA	0.25%	0.40%		0.50%				
Nationwide Building Society - Business SA	0.05%	0.20%		0.40%				0.30%
Santander - Corporate Savings	0.05%							0.15%
HSBC - Business	0.01%	0.01%	0.01%					
Clydesdale (Virgin Money) - Business SA	0.01%	0.05%	0.10%	0.30%	0.40%			
Clydesdale (Virgin Money) - Term Deposits				0.10%		0.45%		0.50%
Hampshire Trust Bank				0.20%				0.75%
Shawbrook Bank	0.40%		0.55%	0.59%				0.75%
United Trust Bank		0.70%						0.70%
Investec		0.55%						
Aldermore	0.50%					0.52%		0.55%
Redwood Bank		0.70%						
Platforms/Funds								
Flagstone Platform - Indicative Net%, 0.25% fee, min £250k	0.20%	0.05%		0.25%				0.50%
CCLA Public Sector Deposit (MMF) - Indicative rate, min £25k	0.04%							
Insignis Cash Solutions - Bespoke rates, 0.25% fee, min £50k								