

Investment Strategy & Policy Review

Town Council Report 17.3.21 – Item 18

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 of which the vast majority of which have been placed on deposit with Lloyds Bank pending a review of investment options and policy. At the end of January 2021 cash balances were just under £700,000.

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 deposits 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 any significant yield in current circumstances is constrained and investigating individual bank deposits is time consuming.

2. Cash Deposit Profile

Average council net expenditure is up to c£60,000 per month and cash balances over the next 12 months are estimated to be between £400,000 and £800,000 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 project and capital costs are unpredictable and so it is recommended at least £250,000, is kept instantly accessible. With a balance of at least £50,000 being held with the current account provider, Lloyds Bank.
- A core cash balance of say £200,000 can be invested longer term, at 6- and 12-month term maturities, a split of 6- and 12-month terms will ensue these funds are available at 6 monthly intervals. This is prudently consistent with the expected core minimum level of general reserves of c£300,000.

- Other cash balances (estimated to be between £0 and £400,000 during the year) may be deposited on 30-to-90-day notice terms, where this provides a higher yield, so they are more immediately available to replenish liquidity.

Accordingly, a proposed investment strategy is:

- Instant or easily accessible funds, of at least £250,000 (of which £50,000 is with Lloyds) are kept.
- Longer term 6 and 12 month term deposits of up to £200,000 in total may be made.
- Other funds may be invested in Notice deposits of up to 90 days, 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%. However, investigation has shown that many deposits are not open to Local Authorities and that finding suitable investments is time consuming.

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

Additional funds can be added to the Monmouthshire accounts but not to the Nationwide deposit. It is recommended that these deposits are retained, and the Monmouthshire Instant Access deposit is increased to £100,000.

An alternative, to managing investments directly with individual banks is to invest in a Money Market Fund (MMF) or via an investment platform.

A MMF offers the benefit of diversification as it invests in a pool of banks/funds and provides access to market interest rates. It is recommended that a MMF is used for part of instant access cash deposit, and the CCLA Public Sector Deposit Fund is recommended. This fund has a minimum investment of £25,000 and after charges of 0.08% is currently yielding 0.04%. It is proposed that £50,000 is invested in the CCLA Fund and it is further used where its yield is competitive to other deposits. Details of CCLA are available at www.ccla.co.uk which has a responsible investment policy.

An investment platform provides greater choice and so may identify better rates of interest than our own, time intensive, research. However, all investments are into a specially selected financial institution deposit account. It also provides easy

administration with management of multiple accounts via a single portal. The Insignis investment platform which has a minimum balance of £50,000 and an annual fee of 0.20% and is recommended to be used to manage longer term deposits and where the instant or notice account rates it offers are favourable. It is envisaged that £300,000 may be invested via the platform. Details of the Insignis platform are available at www.insigniscash.com

Better rates can often be obtained by investing with overseas banks, but it is not considered appropriate for the council to invest with a wholly non-UK institution. However, investment with offshore branches of UK banks and building societies is permitted. For example, the Guernsey branch of the Skipton Building Society.

As Portishead Town Council is not covered by FSCS protection spreading deposits over multiple banks is recommended so balances with an individual institution should ideally not exceed £150,000 (the Investment Policy has a cap of £200,000).

Reflecting the above, a proposed indicative¹ investment of current cash balances:

Investment	Rate	Amount £	Interest p.a. £
Instant Access:			
Lloyds current/deposit account – Instant (existing)	0.01%	50,000	5
CCLA Money Market Fund – Instant (new)	0.04%	50,000	20
Monmouthshire BS Corp Direct I2 – Instant (existing)	0.35%	100,000	350
Skipton BS (Guernsey) – Insignis Platform	0.20%	50,000	100
30 Day Notice:			
Monmouthshire BS Corp Direct I2 – 30 Day (existing)	0.40%	50,000	200
Redwood Bank – 35 Day Notice (new) – Insignis Platform	0.70%	50,000	350
90 Day Notice:			
Nationwide BS – 95 Day Notice (existing)	0.40%	104,000	416
6 Month term deposit:			
Insignis Platform – one or two deposits	0.50%	100,000	500
12 Month term deposit:			
Insignis Platform – one or two deposits	0.55%	100,000	550
Total Gross Interest Income		£654,000	2,491
Insignis Platform Fee – 0.20%			(600)
Total Net Investment Income			1,891

4. Investment Policy

The current Investment Policy has been reviewed and is considered satisfactory and compliant with LGA guidance². 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

¹ Rates change and investments will be in similar accounts available at the time of deposit.

² MHCLG Statutory Guidance on Local Government Investments (3rd Edition)

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 or 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 (including Channel Island branches of UK banks and building societies) and/or UK Money Market Funds.

5. Recommendation

Based on the above the investment working party recommends:

- a. The investments should be made with institutions that meet the High Credit Quality condition. Including at least £250,000 of cash being held on instant access terms and term investments of 6 and 12 months of up to £200,000 being permitted.
- b. A CCLA Money Market fund should be opened and used as part of the Instant Access deposits strategy.
- c. An Insignis investment platform account should be opened to manage term deposits of longer than 6 months and other deposits where it offers favourable rates.
- d. Deposits can be made with UK based High Credit Quality financial institution or fund, including Channel Island branches of such institutions.
- e. 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, 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 (including Channel Island branches of such UK banks or building societies) and/or UK Money Market Funds.

Deposit Investment Rates @ 17.2.21								
	Interest rates:			Existing deposits				
Bank	Instant	30 day	60 day	90 day	120 day	180 day	270 day	1 Year
Lloyds Bank - Business Savings Accounts	0.01%	0.05%		0.10%				
Lloyds Bank - Fixed Term Deposits				0.01%		0.03%	0.06%	0.10%
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 - not for Local Authorities	0.01%	0.05%	0.10%	0.30%	0.40%			
Clydesdale (Virgin Money) - Term Deposits - not Local Authorities				0.10%		0.45%		0.50%
Virgin Money - Business (not suitable for Local Authorities)	0.40%							0.50%
Hampshire Trust Bank (HTB) - OK				0.20%				0.60%
Shawbrook Bank - only available to Limited companies	0.40%		0.41%	0.42%				0.75%
United Trust Bank - OK								0.70%
Investec - but only available to Limited Companies		0.55%						
Aldermore - but only available to Limited Companies	0.50%					0.52%		0.55%
TSB - Business Banking - TSB CA Customers only	0.30%							
ICICI Bank - Business - CA Customers only	0.50%					0.25%		0.40%
Redwood Bank - OK		0.70%						
Close Brothers Savings - not Local Authorities				0.55%				0.45%
Hinkley and Rugby Building Society - not Local Authorities		0.30%		0.60%				
Buckingham Building Society - OK	0.10%	0.25%			0.40%			
Mansfield Building Society - Local businesses only		0.20%		0.35%		0.50%		
ICICI Bank - requires ICICI Current Account	0.50%					0.25%		0.40%
TSB Bank - requires TSB Current Account	0.30%							
MoneyCorp Bank - based in Gibraltar, so offshore				0.65%				
Platforms/Funds								
Flagstone Platform - Indicative Net%, 0.25% fee, min £250k	0.25%	0.25%		0.45%		0.55%		0.75%
CCLA Public Sector Deposit (MMF) - Indicative rate, min £25k	0.04%							
Insignis Cash Solutions - Bespoke rates, 0.20% fee, min £50k	0.20%			0.40%		0.55%		0.53%