Thame Town Council

Investment Policy

The Town Council acknowledges the importance of prudently investing surplus funds held on behalf of the community in order to benefit the community and local area. All investments will be made responsibly in line with the Council's aims, policies, financial procedures and observations, or advice received from the Council's internal and external auditors, supported as necessary by advice from the Council's financial advisors.

The Council will ensure it has adequate though not excessive cash resources, overdraft or standby facilities to always enable it to have the level of funds available which are necessary for the achievement of its service objectives.

Investment Strategies approved after 1 April 2018 must also be in line with the Government's "Statutory Guidance on Local Government Investments" which includes much detail on the provision of loans.

Investment Objectives

1. The Council's investment priorities are the security of its reserves and adequate liquidity of its investments.

2. The Council will aim to maximise income from its investments commensurate with proper levels of security and liquidity but, in balancing risk against return, the Council prioritises minimising risk over maximising return.

3. Where external investment managers are used, they will be contractually required to comply with this Policy.

4. The Council will endeavour to ensure its investment approach adds social value locally, acting where others do not or cannot. We will aim for the investments we make for the success of our place and community to also contribute to the local economy.

Specified Investments

5. A Specified Investment is a low-risk asset where the possibility of loss of the principal or investment income is negligible, such as short-term investments made with the UK Government or a local authority or town or parish council, and bank or building society deposits with a body that has been awarded a high credit rating by a credit rating agency.

6. Specified investments shall always be in Sterling currency.

7. The Responsible Finance Officer, using cash flow forecasts, will determine the maximum periods for which funds may prudently be committed so as not to compromise liquidity, cause the Council to borrow on unfavourable terms to meet financial commitments, or to withdraw investments under adverse market conditions.

8. For prudent management of its treasury balances, maintaining sufficient levels of security and liquidity, Thame Town Council will use:

   - Deposits with banks, building societies, local authorities, or other public authorities.

   - Other recognised funds specifically targeted at the Public Sector.

   - The choice of institutions will be agreed in consultation with the Corporate Governance Committee and reviewed every 3 years. The length of deposit will be at the discretion of the Responsible Financial Officer.

Non-Specified Investments

9. 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.

10. When entering into these types of investment local authorities are required to consider the balance between security, liquidity and yield based on their risk appetite and the contribution(s) of that investment activity.

11. These investments have greater potential risk, such as investments in the money market, stocks, and shares. The Council will use the services of an appointed FSA accredited financial advisor to manage the investment of these funds.

12. The choice of investment company will be reviewed within the four years of each administration following an election, or more frequently if the performance of the investments is not meeting the required objectives, or at the RFO's discretion.

13. The Council will expect the Investment Manager to invest in a balanced portfolio tailored to our specific risk profile, whilst having regard to the Council's objectives and criteria and the security of its investments. Following any substantial withdrawal or deposit the Investment Manager will be expected to rebalance the portfolio, in line with the risk profile, as soon as practicable.

14. The Council will invest ethically. It will adhere to high environmental, social and governance (ESG) standards across all of its investments. Appendix A sets out positive and exclusionary criteria that will guide the Council's investments.

15. The Council will maintain an open and constructive dialogue with its investment manager, suppliers, customers & regulatory authorities, and shall specify, and periodically review, the parameters (risk profile) for investments managed on its behalf.

16. At the end of each financial year the Investment Manager will present a report on the investment activity to the Corporate Governance Committee. On request from the Council, training will be provided from the Investment Manager.

17. Under no circumstances will the Council make non-specified direct investment without using the Investment Manager. Nor will the council seek to influence the judgement of the investment manager except in so far as specifically determined elsewhere in this policy.

18. The Council may borrow money for legitimate capital expenditure relating to local infrastructure and/or plant and equipment which enable the Council to carry out its responsibilities.

19. The Council will never borrow money in order to invest in non-specified investments, nor will it invest in land or property outside the parish.

Loans

20. The Statutory Guidance on Local Government Investments (3rd Edition) allows local authorities to make loans to third parties, including charities and local enterprises, even though those loans may not all be seen as prudent if adopting a narrow definition of prioritizing security and liquidity.

21. The maximum that the Town Council will loan out at any one time is 25% of the total sum available for Capital Investment.

22. Before withdrawing capital from investments to facilitate a loan the Council will consider the state of the markets and the performance of the portfolio, in order to determine whether the timing is appropriate.

23. Loan exposure will be reported annually against the IFRS 9 Expected Credit Loss Model.

24. All loan repayments will be placed in a ‘capital receipts’ fund and then returned to the investment pot in line with the Council’s Loan Policy.

25. Money released for investments to forward fund projects against expected S106 contributions shall be returned to the investment portfolio as soon as such contributions have been received.

Review and Amendment of Regulations

26. This Policy will be reviewed annually by the Corporate Governance Committee. The Committee reserves the right to make variations to the Policy at any time, subject to the approval of the Full Council.

27. For the purposes of transparency and accountability, and in accordance with the Freedom of Information Act 2000, this Document will be posted on the Council’s Website.

APPENDIX A – Environmental, Social and Governance (ESG) Investment Criteria

Positive Investment Criteria

The Council will favour investment in organisations or financial products such as:

- Local, sustainable economic development – enabling good local jobs.
- Improving social value locally and beyond
- Renewable energy
- Energy efficiency
- Pollution prevention
- Water sustainability
- Food sustainability and resilience
- High quality, affordable and sustainable housing
- Cyber Security
- Major disease treatment and healthcare
- Education
- Social enterprise and finance

Exclusionary Investment Criteria

The Council will not invest in organisations or financial products whose core activities include:

- Fossil fuel extraction and combustion
- Controversial[1] weapons manufacture
- Tobacco
- Gambling
- Adult entertainment
- Direct predatory lending (pay day loans)

The Council will not invest in organisations or financial products that consistently fail to meet international standards relating to:

- UN Global Compact Compliance violation
- Human rights norms violation
- Labour norms violation
- Significant negative impact on land use, habitats, biodiversity and water scarcity
- Modern slavery
- Child labour
- Corporate Governance

[1] https://disarmament.unoda.org/the-convention-on-certain-conventional-weapons

APPENDIX B – Purpose of this Document

This document explains the key factors and trade-offs involved in setting the Council's Investment Policy and monitoring how it performs. It's intended to help Councillors better understand how markets work, what influences investment decisions, which factors are outside our control, and how different levels of risk affect outcomes.

The Council must strike a balance between four main goals when investing: **security**, **liquidity**, **capital growth**, and **income**. These choices are guided by how much risk the Council is willing to take and what the investments are meant to achieve. The current approach, including risk levels and selection criteria, is set out in the Council's Investment Policy.

1. Security

Security means protecting the money we invest — making sure we don't lose the original amount. It's about how safe the investment is and what risks exist that could reduce or wipe out our capital.

2. Liquidity

Liquidity refers to how easily and quickly we can access our money when needed. Some investments, like fixed-term deposits, lock in funds for a set time. Getting the money out early could mean paying a penalty. Other investments, like shares or corporate bonds, can go up or down in value. If we sell them during a downturn, we might turn a temporary paper loss into a real one. It's essential that the Council keeps enough cash or liquid assets to meet its spending plans and any unexpected costs.

3. Income / Yield

Income is the money we earn from our investments. This could be interest (as with savings accounts or government bonds), or dividends (as with shares in companies). The **yield** of an investment is the income it generates divided by its current value. A higher yield can be attractive but often comes with more risk.

4. Capital Growth

Capital growth happens when the value of our investment increases over time. This can come from reinvesting earnings (which helps the investment grow faster through compounding) or from the market price of the investment rising. A key goal is for the total return — income plus growth — to at least keep up with inflation, so the real value of our investment isn't eroded.

5. Income vs Capital Growth

Income and capital growth often go hand-in-hand, but they usually pull in different directions. For example, shares that pay high dividends often grow more slowly in value, while faster-growing shares may pay little or no dividends. The difference comes down to what we prioritise: **regular income** or **long-term value growth**. The right choice depends on our goals, how much risk we're comfortable with, and how long we plan to invest. Many strategies aim for a **balanced return**, combining both income and capital growth.

6. Market Volatility

Volatility means that investment values can go up or down quickly and unpredictably. People often focus on the downside, but volatility includes sudden rises too. It's a normal part of investing and can be caused by broad economic or political events (known as **systematic risk**), or by events affecting specific sectors or companies (**unsystematic risk**).

Shares (equities) are especially known for their volatility. While markets usually recover in the long term, needing to withdraw money during a downturn can lock in losses. That's why equity investments are best suited to a long-term strategy — giving them time to ride out the ups and downs.

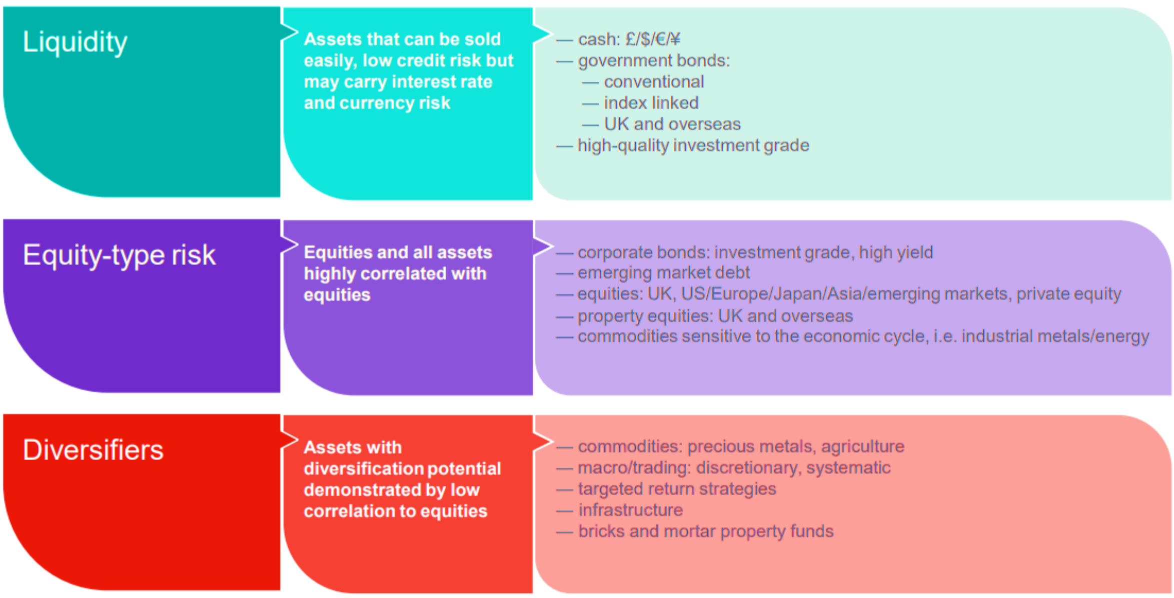
7. Risk

There's a basic rule in investing: **more risk can mean more reward — but also a greater chance of loss**. Safer investments tend to offer lower returns, while riskier investments have the potential for higher returns (but also bigger losses).

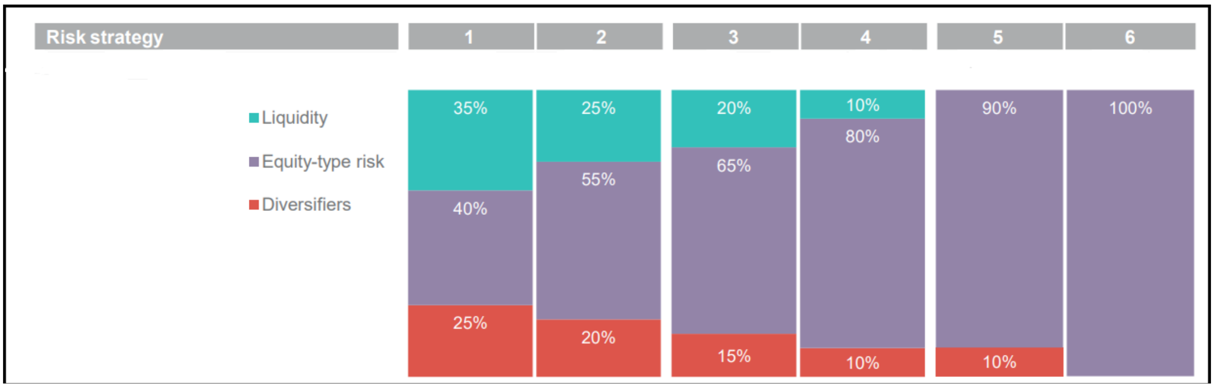
To manage this, the Council uses professional investment managers who build **diversified portfolios** — spreading investments across different types of assets, industries, and countries to reduce overall risk.

- A **low-risk** portfolio would hold more stable, easy-to-access investments like bank deposits and UK government bonds.
- A **higher-risk** portfolio would include more shares and other assets that can swing in value but may offer higher returns over time.

Investment managers build our portfolios to match the level of risk the Council is comfortable with, using a range of **asset classes**, which are grouped based on how they behave, not just what they're called.



Our current Investment Manager offer six levels of risk profile as illustrated below. Thame Town Council currently invest at a Level 2.



8. Ethical Investment

Over the past decade, ethical investing has gained traction and is now taken more seriously by investors. However, the term itself remains broad and somewhat loosely defined. In general, ethical investing takes a more holistic approach — looking beyond just financial returns to consider the broader impact investments have on society and the environment. It aims to support organisations that contribute positively to the world, while avoiding or limiting investment in those seen as harmful.

The most widely used framework for ethical investing is ESG, which stands for Environmental, Social, and Governance. ESG investing focuses on companies that demonstrate strong performance in areas such as environmental responsibility, social impact, and good corporate governance. These principles guide investment choices with the goal of aligning financial decisions with ethical and sustainability values.

 ENVIROMENTAL	 SOCIAL	 GOVERNANCE
• Climate change • Resource depletion • Waste • Pollution • Deforestation	• Human rights • Modern slavery • Child labour • Working conditions • Employee relations	• Bribery & corruption • Executive pay • Board diversity & Structure • Political lobbying & donations • Tax strategy

Ethical investing means different things to different people, and there’s no single definition or industry-standard approach to it. What one person sees as ethical may not be the same for someone else. However, there are independent organisations that provide benchmarks and ratings to help assess how well companies perform on **Environmental, Social, and Governance (ESG)** issues.

There are generally two ways to apply ethical investing principles:

- **Positive screening** – actively choosing to invest in companies that perform well on ESG criteria.
- **Negative screening** – avoiding companies involved in activities considered harmful or unethical, such as fossil fuel extraction, gambling, animal testing, weapons manufacturing, tar sands, or tobacco.