

THAKEHAM PARISH COUNCIL - Investment Strategy and Reserves Management Policy

1. Policy

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, and should be read in conjunction with the Council's Financial Regulations.

2. Key features of the Thakeham Parish Council reserves context

Thakeham Parish Council (TPC) acknowledges its duty of care to the community and the prudent investment of funds. This strategy and policy document relates to the management of TPC reserves, which comprise:

- *General operational reserve* – which is geared to safeguard against financial risks relating to the TPC core operations. Given its limited size (between 25% and 50% of total annual core expenditure) and need for liquidity, this reserve is not generally suitable for fixed-term investments;
- *Community Infrastructure Levy (CIL) funds* – which are held separately from general reserves and must be used in accordance with CIL criteria relating to 'community infrastructure'. The extent to which such funds can be invested in fixed-term financial products is limited by the expectation that these funds will be used without undue delay and should normally be spent within 5 years;
- *S106 funds* – which are linked to consented developments and have been transferred to TPC, predicated and ring-fenced for long-term (typically 20-year+) maintenance and management responsibilities for particular community assets. These funds are of a size and type that requires active investment management.

3. Relevant national guidance and other Council regulations

- 3.1 The Local Government Act 2003 Section 12 provides the power to invest (a) for any purpose relevant to its functions under any enactment or (b) for the purpose of the prudent management of its financial affairs. Section 15(1) of the Act requires a local authority to have regard to guidance issued by the Secretary of State.
- 3.2 Current applicable national guidance¹ applies to councils with total investments over £100K, and requires the adoption and publishing Investment Strategies which set out the risk profile of the PC's investments and how investment returns will contribute to service delivery. PCs are enjoined to prioritise Security, Liquidity and Yield in that order of importance, and to be especially clear about whether core service provision is in any way reliant on investments generating certain yields. Councils are also required to demonstrate that members and officers have appropriate capacity, skills and information to enable them to take informed decisions in this area.
- 3.3 This policy also complies with the expectations of the *Governance and Accountability for Local Councils Practitioners Guide 2019* and should be read alongside the Council's *Financial Regulations*.

4. TPC Operational Reserves policy

4.1 Background and regulatory context

It is unlawful for Parish Councils to operate in overdraft. The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure, but at the same time Councils have no legal power to hold reserves other than those for reasonable working capital needs or for specifically earmarked purposes. General (unrestricted)

¹ *Statutory Guidance on Local Authority Investment*, UK Secretary of State, April 2018

reserves can be used to smooth the impact of uneven cash flows or can be held in case of unexpected events or emergencies. Purposes for earmarked reserves can include renewal of assets; carry forward of underspends; specific augmentation of insurance cover, or other foreseeable liabilities. The amount of general reserve should be assessed annually in terms of risk and opportunity costs, and approved as part of the budget process to confirm as still appropriate. This is provided-for in the Parish's *Financial Regulations*.

4.2 Specific operational reserves policy

Councils are guided to build and maintain sufficient working balances to cover the key risks they face, and to look to their Responsible Financial Officer (RFO) for advice on levels of reserves and related procedures. There is no specified minimum level of general reserve; however, the TPC policy is to align with external guidance advising that general (miscellaneous) PC reserves are expected equate to between 3 and 6 months' (i.e. 25-50%) of annual operating costs.

5. General investment strategy principles

5.1 Council's policy is that its core operation, and the discharge of its responsibilities relating to ring-fenced funds for maintaining community assets, should not become financially dependent on investments producing any particular yield.

5.2 Funds for current expenditure will be in a mixture of current accounts and instant or short-notice access deposit accounts. Funds not required for current or planned future expenditure may be invested on longer term deposits of up to 3 years. The terminology in national guidance relating to different risk levels of deposits differentiates between investments that are 'specific' (up to 1 year) and 'non-specific' (for more than 1 year). Council has chosen not to frame its approach in those terms, as the prudent policies relating to Security (5.3.1 below) obviate the need for this distinction.

5.3 The council's investment approach will be guided by the principles of security, liquidity and yield.

5.3.1 **Security.** The Parish Council will seek to protect funds from loss, in these ways:

- a) All investment and deposits will be with schemes of high quality, which may include the UK Government, UK Financial Services Compensation Scheme (FSC)-registered financial institutions, or via another local authority.
- b) All investments, deposits and interest will be in £ sterling.
- c) In order to minimise financial risk, fixed-term investments will be made exclusively via FSC-guaranteed £85,000 maximum financial products, with checks to ensure that no more than the FSC-permitted maximum total deposit is made with any one financial entity (including parent/subsidiary entities).
- d) The choice of investment institutions/products will be subject to due diligence review making reference to relevant sources of financial, economic and ratings information.
- e) Risks relating to the holding of liquid funds (instant and short-notice access) will be spread and managed by depositing funds with at least two reputable (credit rating A) UK financial institutions, and by seeking to maximise FSC coverage of the levels of fund-holding with each institution.
- f) Monitoring procedures will include regular checks to ensure compliance with these policy lines.

5.3.2 Liquidity

- a) Procedures will ensure that at the start of each financial year sufficient liquid funds are available for that cycle as required by the PC's core operation and the management of ring-fenced assets. CIL funds will be managed with a particular focus on liquidity, for reasons set out in section 1.
- b) Regular in-year checks will be made to identify forthcoming payment requirements and to ensure appropriate funds are available.
- c) An additional contingency balance of liquid funds will be held in accounts from which transfers can easily be made to the Parish Council's current account, e.g. managed via on-line banking and which require no more than 95 days' notice to withdraw funds.

5.3.3 Yield

When deciding where to hold surplus funds, the Council will consider what yields are available. It will seek to maximise yield as long as the prudential objectives of security and liquidity are met.

6. Management and oversight

6.1. Capacity, Skills and Culture

Council commits to ensuring that members and staff involved in decisions relating to and management of investments have the relevant capacity, skills and information to make informed decisions as to whether to enter into a specific investment, to evaluate individual investments in the context of strategic objectives and to understand the impact of decisions on the overall risk exposure of the Parish Council.

The Parish Council will meet its commitment by being mindful of the need to gear its investment management approach to the needs of interpretation and management by non-specialists, and by providing training, using external advisers and reporting and communicating through appropriate communication channels as necessary.

6.2 Management and monitoring arrangements

6.2.1 The day-to-day management of this policy will be jointly overseen by the Clerk/Responsible Financial Officer of the Council, and the Chair of Finance and Legal Working Group.

6.2.2 Up-to-date information on investments and reserves will be reported regularly to the Finance & Legal Working Group and at least once a year to full Council meeting, before the start of each financial year and normally as part of the annual budget and precept-setting process. This process will include a summary of current investments.

7. Transparency and Accountability

7.1. This Investment Strategy shall be reviewed each year and presented for approval to the full Parish Council.

7.2 Any material change to this policy will be submitted to the full Parish Council for approval.

7.3. This Investment Strategy and subsequent updates will be published on the Parish Council Website.

Adopted: March 2020
Review: Annually, May

