



Investments & Reserves Policy

December 2018

VERSION CONTROL:

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0.1	Policy creation	Parish Clerk	Full Council	23/11/18	N/A	N/A
1.0	Amendments	Cllr Adam Prince	Full Council	26/11/18	10/12/18	Dec 2019

INTRODUCTION

Burnham Parish Council (the Council) acknowledges the importance of its fiduciary duty to prudently manage the money it holds on behalf of the community. To that end, this policy addresses both the *level* of funds it holds (reserves), and *how* those monies are held (investments).

PART 1: INVESTMENTS

1. LEGAL BASIS

The Council has affirmed the General Power of Competence¹ (GPC), which allows it to invest its money as it sees fit, (including the making of loans, investing in property, and commercial undertakings) so long as it is not contrary to any other statutory provision. Where GPC is not in place, The Local Government Act 2003 states that a local authority may invest:

- “(a) For any purpose relevant to its functions under any enactment.
(b) For the purpose of prudent management of its financial affairs.”*²

This policy is drafted in accordance with the requirements set out in the *Statutory Guidance on Local Government Investments*³, and the guidance within *Governance and Accountability for Smaller Authorities in England*⁴.

2. SCOPE

2.1 Purpose of the policy

The policy has three underlying objectives determining how its investments should be held, as outlined in the Ministry of Housing, Communities and Local Government (MHCLG) guidance (2018, p.4), and which are given the following order of importance:

- (a) **Security** – protecting from loss the capital sum invested
- (b) **Liquidity** – ensuring the funds are available for expenditure as needed
- (c) **Yield** – ensuring the maximum return is achieved

2.2 What is covered by the policy

For the purpose of this policy, the Council defines investments as:

“all of the financial assets of the Council as well as other non-financial assets that the Council holds primarily or partially to generate a profit; for example, investment property portfolios, and loans to third parties. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.”

¹ Localism Act 2011, c.20, s.1

² Local Government Act 2003, c.26, s.1

³(Ministry of Housing, Communities & Local Government (MHCLG), 2018), available at : https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf

⁴ (JPAG, 2018), available at: <https://www.nalc.gov.uk/library/publications/2655-governance-and-accountability-for-smaller-authorities-in-england-2018-sections-1-5/file>

3. POLICY STATEMENT

- 3.1 To protect the Council against currency value fluctuations, all investments shall be made in sterling,
- 3.2 The Council shall not borrow money purely for the purposes of investing or lending, in accordance with MHCLG guidance (2018).
- 3.3 The Council shall require any external investment managers it engages to comply with this policy.
- 3.4 The movement of all funds between institutions shall be authorised by two signatories, in accordance with the Council's Financial Regulations.

Specified investments

- 3.5 The Council notes that it is not an eligible body for the purposes of the Financial Services Compensation Scheme.
- 3.6 The Council shall only invest with banks, building societies, or funds which have a high credit rating, i.e. those with a rating of A- and above (Standard & Poor, and Fitch) and A3 and above (Moody's).
- 3.7 The Council shall review the credit ratings on an annual basis, in conjunction with its review of this policy.
- 3.8 The Council shall only keep in its primary bank accounts such funds as is necessary to ensure that it meets its short term expenditure requirement. This means that at all times the cleared balance shall be between 30 and 90 days' worth of payments.
- 3.9 Once 3.8 is satisfied, the Council shall hold an amount of no more than 180 days' worth of payments in a deposit fund with on-demand access.
- 3.10 The Council shall only consider additional investment, other than loans, where total cleared funds exceed 270 days' worth of payments.
- 3.11 The table below details the current investment thresholds and nominated institutions, which shall be reviewed on an annual basis:

Primary bank accounts	Barclays
Primary bank account balance – minimum	£93,000
Primary bank account balance – maximum	£279,000
Deposit fund	Public Sector Deposit Fund
Deposit fund account balance – maximum	£558,000
Total funds threshold before other investment	£837,000

- 3.12 Should at any time it become apparent that total cleared funds are likely to fall below the primary bank account minimum balance, the Responsible Financial

Officer shall recommend that the Council convene an extraordinary Council meeting to decide emergency means of funding.

Loans

- 3.12 The Council may “*choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth, even though those loans may not be seen as prudent if adopting a narrow definition of prioritising security and liquidity*” (MHCLG, 2018, p.5)
- 3.13 The Council shall only consider such loans, should they meet the following criteria:
- They shall not reduce total cash reserves below the primary bank account balance maximum amount detailed in the table above
 - Total financial exposure to these types of loans is proportionate
 - An allowed ‘expected credit loss’ model for loans has been used
 - Appropriate credit control arrangements are in place

Non-specified investments

- 3.14 These investments – including money markets, stocks, and shares – represent a greater risk. Given the unpredictability and uncertainty, the Council shall not use this type of investment.

Non-financial investments

- 3.15 Non-financial investments are defined as such “*non-financial assets that the organisation holds primarily or partially to generate a profit*” (MHCLG, 2018, p.6). To clarify, this will not include such assets that the Council holds primarily for the fulfilment of its statutory or non-statutory services to the community, but which may, as a bi-product, generate a profit.
- 3.16 At present, the Council does not hold any such non-financial investments, nor does it anticipate doing so within the next 12 months.

Long-term investments

- 3.17 Long term investments are defined in the guidance (MHCLG, 2018) as those where the contractual term for repayment is in excess of 12 months.
- 3.18 At present, the Council does not hold any such long-term investments, nor does it anticipate doing so within the next 12 months.

Capacity and skills

- 3.19 Where the Council exceeds the total funds threshold as detailed in 3.11, it must ensure that members and / or staff have sufficient expertise when deciding on additional investments.
- 3.20 Where the Council chooses to contract outside expertise, such persons should be made aware that the primary purpose of a local authority is to provide statutory services for the local community, and not commercial return.

PART 2: RESERVES

1. LEGAL BASIS

When calculating its budget and setting its precept, a parish council has a statutory obligation to have regard for the levels of reserves it will need in order to meet its future expenditure requirements (*Local Government Finance Act s.50*).

There are no statutory limits on the amount a council can hold. Rather it is the duty of the Responsible Financial Officer (RFO), appointed under Local Government Act 1972 s.151, to advise and make recommendations to the Council on the level of reserves. Whilst there are no limits, it is widely advised that “*a council should hold between 3 and 12 months of expenditure as a general reserve*”.⁵

Where a parish council received funds from the disposal of capital assets, it is generally accepted accounting practice⁶ that such funds should only be used on capital expenditure. Likewise, if the Council is to receive community infrastructure levy (CIL), these funds must also only be used for specified infrastructure development (Planning Act 2008, s.216). The Council may also have a legal obligation, for example under contract law, to hold certain monies (e.g. grant funds) in a ringfenced fund. All monies held in ringfenced funds will be accounted for separately and are not included within general or earmarked reserves.

2. SCOPE

2.1 Purpose of the policy

The purpose of this policy is to set out how the Council will determine and review the levels of reserves it holds.

2.2 What is covered by the policy

This policy covers all monies held by the Council, which will be constituted by the follow types of reserve:

- (a) **General reserve.** An amount of approx. 3-12 months’ worth of expenditure (see above), which has not been set aside (earmarked) for any particular purpose, but rather is intended to be working capital to ensure there are no cash flow issues, and to mitigate the impact of any unforeseen events and emergencies.
- (b) **Earmarked reserves.** Amounts set aside by the Council for specified items of expenditure to meet known or predicted liabilities or projects. The aim of these is to ensure the Council has the funds available to commit to larger-scale projects, without the need to deplete its general reserve. Such projects could include replacement of key assets (e.g. tractors) or major building repair work. Unlike ringfenced funds, it is at the Council’s discretion how it chooses to spend these amounts. However, where the Council has already accrued for the expenditure, such funds will be treated as *ringfenced*.

⁵ National Association of Local Councils (NALC), 2018, *The Good Councillor’s Guide to Finance and Transparency*, available at: <http://www.lalc.co.uk/wp-content/uploads/2012/07/2018-The-Good-Councillors-guide-on-finance-and-transparency-digital.pdf> (login needed)

⁶ HM Government, 2016, *Local Government in England: capital finance*, available at: <http://researchbriefings.files.parliament.uk/documents/SN05797/SN05797.pdf>

(c) **Ringfenced reserves.** Amounts set aside for a specific purpose, where the Council has no discretion as to how they are spent. These with broadly fall into three categories:

- **Income from capital disposals.** Where the Council receives money from the sale of an asset, this money must be set aside and used only for *capital* rather than *revenue* expenditure.
- **Community Infrastructure Levy.** All CIL receipts must only be used for the improvement of infrastructure, as discussed above.
- **Grants, loans, and s106 contributions.** Where the Council receives such funding, there will usually be a contractual obligation that they be used only for the purpose for which they were requested.

3. POLICY STATEMENT

- 3.1 The Council shall continue to budget for an annual surplus of no less than £20,000, in order to rebuild its general reserve. Once the general reserve is considered *healthy*, the Council shall review its policy on accumulating a budgetary surplus.
- 3.2 The Council shall consider its general reserve to be *healthy* when, at its lowest, it is equal to no less than 3 months' worth of expenditure. '*Lowest*' shall be taken as 31st March of each year, i.e. before it has received any of the following year's precept, and '*3 months expenditure*' shall be taken as the primary bank account maximum balance set out in Part 1: 3.11, i.e. £279,000.
- 3.3 The Council recognises that it is likely to incur large expenses for the repair and replacement of its assets, or disruption to services caused by unforeseen events. The majority of these may be funded through grants, routine maintenance budgets, or insurance. However, others will require funds to be earmarked. Therefore, in parallel with building its general reserves, the Council shall put aside no less than £25,000 for major repair / replacement work to Burnham Park Hall's heating and ventilation system and £15,000 for the replacement of major grounds machinery (i.e. tractors and ride-on mowers). These shall be accounted for in the Council's profit and loss statement, and as an accrual on the Council's balance sheet. Accordingly, these will be considered earmarked reserves.
- 3.4 When reviewing this strategy, the Council shall also consider whether any further earmarked reserves should be established.
- 3.5 The level of any funds set aside each year in such earmarked reserves should take account of the total potential liability and the anticipated timescale before which the liability will be due.
- 3.6 Every month the Council shall produce summaries for all earmarked and ringfenced reserves, the balances of which shall match those on the Council's balance sheet.
- 3.7 The Responsible Financial Officer shall be responsible for providing regular reports to the Council on the level of reserves, and bring to the Council's attention any issues that may require a change to this policy or the level of reserves held.

3.8 When finalising the Council's budget and precept for the following financial year, the Council shall consider the adequacy and level of reserves. When making such an assessment, the Council should consider:

- The effect of inflation and interest rates
- The level and timing of any capital, CIL, or s106 receipts
- Any emerging financial risks
- The availability of other funds to cover any shortfalls, e.g. Public Work Loan Board
- The Council's overall financial standing (e.g. level of outstanding debt)
- The Council's track record on budget and financial management
- The Council's capacity to manage in-year budget pressures
- The adequacy of the Council's insurance arrangements

3.10 This policy shall be reviewed annually. In particular, and in accordance with guidance in *The Good Councillor's Guide to Finance and Transparency*, the Council shall review the level of, and continued justification for, its earmarked reserves.