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**Investments & Reserves Policy**

**Version control:**

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**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 Competence[[1]](#footnote-1) (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]](#footnote-2)*

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

1. **SCOPE**

**2.1 Purpose of the policy**

The policy has three underlying objectives determining how its investments should be held, **which are given the following order of importance:**

1. **Security** – protecting from loss the capital sum invested
2. **Liquidity** – ensuring the funds are available for expenditure as needed
3. **Yield** – ensuring the maximum return is achieved

The Council is particularly mindful that the third objective should only be pursued insofar as it is compatible with the first and second goals.

**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. **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 The Prudential Code for Capital Finance in Local Authorities 2021.

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 requirements.

3.9 The Council shall hold an amount of no more than 270 days’ worth of payments in the primary bank accounts and deposit fund with on-demand access.

**Loans**

3.10 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*” (Statutory Guidance on local government investments, 2018)

3.11 The Council shall only consider such loans, should they meet the following criteria:

* 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**

3.12 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**

3.13 Non-financial investments are defined as ‘*non-financial assets that the organisation holds primarily or partially to generate a profit*’. This does 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.

3.14 The council holds one domestic property as a non-financial investment, which is insured against loss and damage.

3.15 The Council anticipates that towards the end of the next 12 months it may generate additional income on a turnover percentage basis from the running of Padel Courts on Council Lands via a lease to an independent company. The Council will not hold an interest in that company.

 **Long-term investments**

3.16 Long term investments are defined in the guidance (MHCLG, 2018) as those where the contractual term for repayment is in excess of 12 months.

3.17 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**

3.18 The Council must ensure that members and / or staff have sufficient expertise when deciding on additional investments.

3.19 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]](#footnote-5)

Where a parish council received funds from the disposal of capital assets, it is generally accepted accounting practice[[6]](#footnote-6) 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.

1. **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:

1. **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.
2. **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.
3. **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. In making decisions as to appropriate CIL expenditure the Council shall have regard to government and local authority guidance, and to the advice of the Proper Officer.
* **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.
1. **POLICY STATEMENT**
	1. The Council shall continue, where possible, 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. The Council may budget a greater amount, either where reserves are generally low, and/or where they are projected to be significantly diminished due to overspends in a given calendar year.
	2. Should the Council decide to budget for a surplus of less than £20,000 when general reserves are not at a healthy level it must pass an explicit resolution to this effect stating the reasons for departing from this policy.
	3. 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 (25% of its annual budget). ‘*Lowest’* shall be taken as 31st March of each year, i.e. before it has received any of the following year’s precept. This is based on guidance that whilst Parish Council’s in general should look to keep 3-12 months’ worth of expenditure in General Reserves, larger councils might keep closer to three months’ worth.
	4. 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 aim to put aside no less than £10,000 for the replacement of major grounds machinery (i.e. tractors and ride-on mowers). These sums may be varied by the Council where considered necessary and expedient in a given year.
	5. The Council shall also make provision via an earmarked reserve for improvements to the George Pitcher Memorial Ground. Where there is a suitable revenue stream, from parking charges or another suitable stream related to the GPMG, a suitable proportion of proceeds shall be agreed to be put into this fund. Should no such stream be identified, or should it raise less than £2,000 per annum for the GPMG Improvement Fund, then funds shall be put aside in the Council budget to ensure that the fund is increased by at least £2,000 per annum.
	6. When reviewing this strategy, and when making the annual budget, the Council shall also consider whether any further earmarked reserves should be established.
	7. 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.
	8. The Responsible Finance Office and Finance Manager shall track and monitor all earmarked and ringfenced reserves on a monthly basis, and ensure that the balances match those on the Council’s balance sheet. This shall also be included in the regular financial reports to council committees.
	9. 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.

1. *Localism Act 2011, c.20, s.1* [↑](#footnote-ref-1)
2. *Local Government Act 2003, c.26, s.1* [↑](#footnote-ref-2)
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> [↑](#footnote-ref-3)
4. (JPAG, 2022), available at: https://www.nalc.gov.uk/jpag [↑](#footnote-ref-4)
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) [↑](#footnote-ref-5)
6. HM Government, 2016, *Local Government in England: capital finance*, available at: <http://researchbriefings.files.parliament.uk/documents/SN05797/SN05797.pdf> [↑](#footnote-ref-6)