GREAT WALTHAM PARISH COUNCIL

Investments and Reserves Policy

Version 1

This policy document should be reviewed and updated as necessary

Version	Review Date	Reviewed By	Summary of Changes
1	December 2022	S. Gilbert	New document.

Great Waltham Parish Council – Investments and Reserves Policy

Introduction

1. This policy sets out the procedures for managing and monitoring the cash flow and banking arrangements of Great Waltham Parish Council ("Council"). It is separate from but sits alongside the Council's Financial Regulations[1].

2. The Council is required to prudently manage its investments, maintain adequate financial reserves to meet the needs of its operations and ensure financial security. The purpose of this policy is to set out how the Council meets these requirements.

3. The Local Government Act 2003, sections 12 and 15, provides the Council with the power to invest:
   - For any purpose relevant to its functions under any enactment, or
   - For the purpose of prudent management of its financial affairs.

4. Section 15(1) of the Act requires a local authority to have regard:
   a. To such guidance as the Secretary of State may issue (Statutory Guidance on Local Government Investments – 3rd edition effective 1st April 2018), and
   b. To such guidance as the Secretary of State may by regulations specify for the purposes of this provision.

5. In order, the Council's investment priorities are:
   - The security of its reserves;
   - The adequate liquidity of its investments;
   - The return on investment. The Council will endeavour to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

6. The borrowing of money purely to invest or lend and make a return is not allowed and the Council will not engage in such activity. The Council retains a duty of care to the community and the prudent investment of funds.

Objectives

7. The Council's priorities are:
   - The security of capital to minimise the risk of losses;
   - The liquidity of investments to meet cash flow needs of the Council;
   - Maximising income within a framework recognising those commitments to security and liquidity.

8. The Council will only invest in institutions of high credit quality, based on information from credit rating agencies. Any investment will be spread over different providers where appropriate to minimise risk.

9. All deposit accounts will be maintained with the bank holding the Council's current account(s) for ease of transfers unless the rate of interest is deemed uncompetitive, in which case the services of other UK banks and building societies will be considered.

[1] See the relevant page of the Council's website: https://e-voice.org.uk/greatwalthamparish/copy-of-parish-directory/policy-files/.

Investments

10. Balances in excess of £75,000 may be placed in fixed term deposit accounts with the Council's main banker or another UK clearing bank, subject to the following conditions:
    - The amount that may be placed on fixed term deposit will not be less than £75,000;
    - The funds will not be required during the following calendar month;
    - The term of the deposit does not exceed three months;
    - The recommendation to place such a deposit and length of deposit will be proposed and seconded as for any other Council motion, but must take place at a full Council meeting and be approved by every member of the Council without exception.

11. The Council may place any other funds on deposit of up to one year's duration, depending on the prevailing interest rates and forecast cash flow requirements, noting that long term investments are defined in the Guidance (see s.4.a. above) as any period greater than twelve months.

12. All investments will be made in sterling.

13. Funds may only be deposited or invested with:
    - Major UK clearing banks or their subsidiaries, and/or
    - Other deposit takers covered by the Financial Services Compensation Scheme (FSCS), taking account of the FSCS limit then in force; and/or
    - UK Government stocks; and/or
    - UK local authority stocks or bonds.

14. The definition of an investment covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, Investment property portfolios. This may therefore include investments that are not managed as part of the Council's normal financial management processes and delegations.

15. This investment strategy has the following objectives in priority order:
    - Security – protecting the capital sum invested from loss;
    - Liquidity – ensuring the funds invested are available for expenditure when needed;
    - Yield – income return on the investment.

16. Specified investments are those offering high security and high liquidity, made in sterling and with a maturity of no more than a year. Such short-term investments made with the UK Government of a Local Authority (as defined) or a Town/Parish Council will automatically be specified investments.

17. The Council, for prudent management of its balances may use:
    - Treasury Deposits with UK clearing banks;
    - Local authorities or other public authorities approved public sector investment funds.

18. The Council in consultation with its Responsible Financial Officer will determine the maximum periods for which funds may prudently be committed so as not to compromise liquidity.

19. Long-term investments are defined in the Guidance (see s.4.a. above) as greater than 36 months. The Council does not currently hold any funds in long-term investments.

Reserves

20. Sections 32 and 43 of the Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, the legislation does not specify the minimum level of reserves that an authority should hold, meaning it is the responsibility of the Responsible Financial Officer to follow current best practice and advise the Council and to ensure that are procedures for their establishment and use.

21. The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2020 edition) advises:

    As with any financial entity, it is essential that authorities have sufficient Reserves (General and Earmarked) to finance both its day to day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.

Types of Reserves

22. These may be categorised as either General or Earmarked.

General Reserves

23. General Reserves are funds which do not have any restrictions to their use. They can be used to smooth the impact of uneven cash flows, offset budget requirements if necessary or can be held in case of unexpected events or emergencies, including unplanned expenditure or non-receipt of income. Setting the level of General Reserves is agreed with the Council's annual budget.

24. JPAG (March 2020 edition) advises that:

    The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserves is that this should be maintained at between three (3) & twelve (12) months Net Revenue Expenditure (NRE). NRE is effectively Precept less any Loan Repayments and/or amounts included in Precept for Capital Projects and transfers to Earmarked Reserves. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months.

25. The primary means of building General Reserves will be through a reallocation of funds (underspend on completed projects) and allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

26. Setting the level of General Reserves is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

27. If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its Earmarked Reserves to provide short term resources.

Earmarked Reserves (EMRs)

28. EMRs must be held for genuine and intended purposes and their level should be subject to annual review and justification. They should be separately identified to prevent query from internal and external auditors.

29. EMRs is money is held for specific items of expenditure to meet known or predicted liabilities or projects. They can be used to 'smooth' the effects of certain expenditure commitments over a period of time, thereby reducing the impact of significant expenditure in any one year.

30. Typically, they are held for the following reasons:

    30.1. Assets Renewal. To enable the planning and financing of an effective programme of equipment replacement and property maintenance/refurbishment. The funds required are built up incrementally over several years when taking into account asset conditions and asset life. They are a mechanism to smooth expenditure without the need to vary budgets.

    30.2. Carry forward of underspend. That is, where expenditure has been committed to a particular project that cannot be spent in the financial year. Reserves can be used as a mechanism to carry forward those resources.

    30.3. Developers' Contributions. To account for proceeds from developers which can only be used for specified purposes.

    30.4. Insurance Reserve. To enable the Council to meet those excess amounts applicable to any insurance claims made under its policies.

    30.5. Projects. To indicate a commitment to a capital project.

    30.6. Other EMRs. Set up from time to time to meet known or predicted liabilities.

Use of Reserves

31. EMRs will be established on a 'needs' basis, in line with anticipated requirements, and must be held for a genuine and intended purpose.

32. Any decision to set up a reserve must be made by the Council.

33. Expenditure from reserves can only be authorised by the Council.

34. Reserves should not be held to fund on-going expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished the following year. However, EMRs that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

35. EMRs should be separately identified and enumerated, and should be subject to annual review and justification.

Current Level of Reserves

36. The level of financial reserves held by the Council will be agreed by the Council during the discussions held regarding the setting of the budget for the next financial year.

37. The level of General Reserves to ultimately be held by the Council is no less than one quarter (and ideally at least one half) of the annual precepted figure, to fully cover three (six) months expenditure.

Policy Review

38. This policy will be reviewed on an annual basis to ensure investment arrangements and levels of reserves remain appropriate and reflect any changes in activity levels/range of services provided.