

BOSTON SPA PARISH COUNCIL

Annual Investment Policy & Reserves Strategy 2018/2019

Introduction

Boston Spa Parish Council acknowledges the importance of prudently investing the temporary surplus funds held on behalf of the community.

In preparing the investment strategy the council is required under Section 15(1) of the Local Government Act 2013 to have regard to such Guidance as the Secretary of State may issue. The current statutory Community and Local Government (CLG) Investments Guidance Note came into force of the 1st April 2010.

The Guidance recommends that a Parish Council produces an Investment Policy which sets out its policy for managing the investments and giving priority to the liquidity and security.

Where a Town or Parish Council expects its investments at any time during a financial year to exceed £10,000 but not £500,000 it should decide on the extent, if any, to which it would be reasonable to have regard to the Guidance in relation to that year.

The Guidance Note makes the distinction between investments that are:

- high security and high liquidity (specified investments); and,
- those with potentially greater risks and lower liquidity (non-specified investments)

A 'specified investment' is one which is made in sterling, is not long term (less than 12 months), not defined as capital expenditure and is placed with a body which has a high credit rating or made with the UK Government, a UK Local Authority or a Parish or Community Council. Any other type of investment is considered 'Non-Specified Investment' to which there can be greater risk and where professional investment advice might be sought.

Investment Objectives

Boston Spa Parish Council's priorities will be on the security of reserves (protecting the capital sum from loss), and then the liquidity of its investments (keeping cash readily available for expenditure when needed). Only once these objectives have been met will the yield (level of return on the investment) be considered. All investments will be made in Sterling.

The Department for Communities and Local Government maintains that borrowing of monies purely to invest, or to lend and make a return, is unlawful and Boston Spa Parish Council will not engage in such activity. If external investment managers are used, they will be contractually required to comply with the policy.

Specified Investments

Specified Investments are, by definition in the Guidance Notes, those offering high security and high liquidity, made in sterling and with a maturity date no longer than a year. Such short-term investments made with the UK Government or a Local Authority or Town/Parish Council will automatically be Specified Investments, as will those with bodies or investment schemes of “high credit quality”.

For the prudent management of its treasury balances, maintaining sufficient levels of security and liquidity, the Council will use:

- deposits with UK banks and UK building societies

Boston Spa Parish Council uses Natwest Bank PLC for its day-to-day banking arrangements and will look to use another UK bank or building society to place funds on deposit. If any deposit account balance exceeds £85,000 (FSCS limit), it will seek to open a similar account with another UK bank or building society.

Non-Specified Investments

These investments have greater potential risk – examples include investment in the money market, permanent interest bearing shares from building societies and corporate stocks and shares.

Given the unpredictability and uncertainties surrounding such investments, the Council will not use this type of investment.

Liquidity of Investments

The Parish Clerk (Responsible Financial Officer) along with the Finance/Internal Control Lead Member will determine the maximum period for which funds may prudently be invested, so as to not compromise liquidity.

Long Term Investments

Long term investments are defined in the Guidance Notes as greater than 12 months and it requires that, should any Council wish to invest for periods greater than 12 months, it must identify procedures for monitoring, assessing and mitigating the risk of loss of invested sums.

The Parish Council does not currently hold any funds in long-term investments. The commuted sum to be received following the transfer of ownership of the land at Church Fields, may require long-term investments to be looked into during the financial year 2018/19, though the current preferred option is to place those funds on deposit with a UK bank or building society.

Reserves

The Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. This policy sets out how the Council will determine and review the level of reserves.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum level of reserves that an authority should hold and it is the responsibility of the RFO and Financial Lead to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Types of Reserves

Reserves can be categorised as general or earmarked. Earmarked reserves can be held for several reasons:

- Renewals – to enable to plan and finance an effective programme of equipment, infrastructure replacement or property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
- Carry forward of underspend – expenditure allocated to projects that cannot be spent in the budget year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to allow the Council to meet the excesses of claims not covered by insurance.
- Other earmarked reserves may be set up from time to time to meet known or predicted liabilities/projects.

General Reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

Earmarked Reserves

Earmarked reserves will be established on a “needs” basis, in line with anticipated requirements. Any decision to set up a reserve must be made by the Council whilst expenditure from reserves can only be authorised by the Council.

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 in the following year. However, earmarked reserves 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.

All Earmarked Reserves are recorded on a central schedule held by the RFO which lists the various Earmarked Reserves and the purpose for which they are held. Reviewing the Council’s Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

General Reserves

The level of General Reserves is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building general reserves will be through an 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.

Setting the level of General Reserves is one of several related decisions in the formulation of 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.

Opportunity cost of holding reserves

In addition to allowing the Council to manage unforeseen financial pressures and plan for known or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. This investment income is fed into the budget strategy.

However, there is an “opportunity cost” of holding funds in reserves, in that these funds cannot then be spent on anything else. Given the opportunity costs of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.

Current level of financial reserves

The level of financial reserves held by the council will be agreed by the Parish Council during the discussions held regarding the setting of the budget for the next financial year. An advised level of general reserves to ultimately be held by the Council however, is half of the annual precepted figure, i.e. to fully cover six months’ expenditure.

End of Year Report

At the end of the financial year, the RFO will report on investment and reserve activity to the council and the investment forecast for the coming financial year will be included in the budget preparation.

This policy will be reviewed annually by the RFO and the Financial/Internal Control Lead Member, and approved by full Council before the commencement of a new financial year. The Parish Council will be able to amend or make variations to the Strategy at any time.