

# P02 - Investment Strategy

## 2021-22

Including Account Management Arrangements

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### 1.0 Introduction

- 1.1 Warfield Parish Council acknowledges the importance of prudently investing the temporarily surplus funds held on behalf of the community.
- 1.2 This strategy has been prepared in accordance with the Guidance on Local Government Investments ('the Guidance'), issued under section 15(1)(a) of the Local Government Act 2003, effective from 1st April 2018.
- 1.3 The Guidance states:
- a) Where a town or parish council expects its investments at any time during a financial year to exceed £100,000, the Guidance should apply in relation to that year.
  - b) Where a town or parish council expects its investments at any time during a financial year to exceed £10,000 but not £100,000, 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.
  - c) Where a town or parish council expects its investments at any time during a financial year not to exceed £10,000, no part of the Guidance need be treated as applying in relation to that year.
- 1.4 Warfield Parish Council expects its investments during the 2021-22 financial year to exceed £100,000 and therefore has agreed to apply the Guidance as set out below.

### 2.0 Definitions

2.1 The following definition of terms apply.

2.1.1 **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 normal treasury management processes or under treasury management delegations.

For the avoidance of doubt, the definition of an investment also covers loans made by a local authority to one of its wholly owned companies or associates, to a joint venture, or to a third party. The term does not include pension funds or trust fund investments, which are subject to separate regulatory regimes and therefore are not covered by this guidance.

2.1.2 A **credit rating agency** is one of the following three companies:

- Standard and Poor's
- Moody's Investors Service Ltd; and
- Fitch Ratings Ltd

2.1.3 A **loan** is a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest. This definition does not include a loan to another local authority, which is classified as a specified investment.

### **3.0 Investment Objectives**

3.1 Investments made by the council can be classified into one of two main categories:

- Investments held for treasury management purposes: and
- Other investments

3.2 In 2021-22 the council investments will only be held for treasury management purposes.

3.3 The council's investment priorities are:

- 1) the security of its reserves.
- 2) the liquidity of its investments

3.4 The council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity being maintained.

3.5 All investments will be made in sterling and, as a minimum, surplus funds will be aggregated in an interest-bearing account.

3.6 The Government maintains that borrowing of monies purely to invest, or to lend and make a return, is unlawful and this council will not engage in such activity.

### **4.0 Security of Investments**

4.1 Financial investments can fall into one of three categories:

- Specified Investments.
- Loans; and
- Other non-specified investments

4.2 *Specified Investments*

4.2.1 An investment is a specified investment if all of the following apply:

- The investment is denominated in sterling and any payments or repayments in the respect of the investment are payable only in sterling.

- The investment is not a long-term investment. This means that the local authority has contractual right to repayment within 12 months, either because that is the expiry term of the investment or through a non-conditional option.
- The making of the investment is not defined as capital expenditure by virtue of Regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [as amended].
- The investment is made with a body or in an investment scheme described as high quality or with one of the following bodies:
  - i. The United Kingdom Government.
  - ii. A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; or
  - iii. A parish council or community council.

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

- UK banks and UK building societies.
- Public Bodies (including the UK Government and local authorities).
- UK FCA regulated qualifying money market funds with a triple A rating.

### 4.3 *Loans*

4.3.1 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.

4.3.2 Such loans will conform with the strategy if:

- Total financial exposure to these type of loans is proportionate.
- The council has used an allowed “expected credit loss” model for loans and receivables as set out in International Financial Reporting Standard (IFRS) 9 Financial Instruments as adopted by proper practices to measure the credit risk of their loan portfolio.
- The council has appropriate credit control arrangements to recover overdue repayments in place; and
- The council has formally agreed the total level of loans by type that it is willing to make and their total loan book is within their self-assessed limit.

4.3.3 No provision to make loans has been made for 2021-22. Any such decision would require the approval of full council.

#### 4.4 *Non-specified investments*

4.4.1 Non-specified investments are usually for longer periods (i.e., more than one year) and with bodies that are not highly credit rated.

4.4.2 No non-specified investments are included in the Investment Strategy for the council.

### **5.0 Liquidity of Investments**

5.1 The Parish Clerk (as Responsible Finance Officer) in consultation with the Finance and General Purposes (F&GP) Committee of Warfield Parish Council (or Full Parish Council) will determine the maximum periods for which funds may prudently be committed so as not to compromise liquidity.

5.2 The council's investments have a maximum liquidity period of 35 days.

### **6.0 Long Term Investments**

6.1 Long term investments shall be defined as greater than one year. The council will use the same criteria for assessing long term investment as identified above for specified investments.

6.2 The council does not hold any long-term investments.

### **7.0 Risk Assessment**

7.1 The Parish Council's reserves are covered by the Financial Services Compensation Scheme up to the deposit limits of the scheme and must therefore be carefully managed to mitigate the risk of losses.

7.2 The council will only invest in institutions of "high credit quality" as set out in section 3.2 of this strategy. Investments will be spread over different providers where appropriate to minimise risk.

7.3 The council will monitor the risk of loss on investments by reference to credit ratings. The council should aim for ratings equivalent to the Fitch rating A (low default risk). The council will also have regard for the general economic and political environment in which institutions operate.

7.4 The investment position will be reviewed monthly by the Responsible Financial Officer and reported to the Finance and General Purposes Committee and full council as part of the regular monthly financial report.

7.5 The council does not employ, in-house or externally, any financial advisors but will rely on information which is publicly available.

7.6 The risk assessment for 2021-22 is shown in appendix A.

### **8.0 Use of Investment Managers**

8.1 If external investment managers are used, they will be contractually required to comply with this strategy.

## **9.0 Investment Approval**

- 9.1 The Finance & General Purposes Committee has the delegated authority to consider and recommend any short-term investments (maximum of twelve months), in accordance with this Investment Strategy, subject to the final approval of the investment provider by the parish council. All resolutions relating to investments will be noted in the minutes of meetings.
- 9.2 Any decision on loan activity may only be approved by the full council and will be noted in the minutes of the meeting.

## **10.0 Investment Reports**

- 10.1 The Responsible Financial Officer will include a report on investment activity in the monthly financial report for each F&GP Committee meeting, As is the practise, this report will be reviewed by full council at their meeting.
- 10.2 The Guidance requires councils to develop quantitative indicators to assess the councils risk exposure as a result of its investment decisions. The Responsible Financial Officer will produce these indicators quarterly based upon the recommendations of the Guidance.

## **11.0 Review and Amendment of Regulations**

- 11.1 The Investment Strategy will be reviewed annually. The Annual Strategy for the coming financial year will be prepared and reviewed by the Finance & General Purposes Committee (if applicable) which will then make a recommendation to the Full Council.
- 11.2 The council reserves the right to make variations to the Strategy at any time, subject to the approval of the Full Council. Any variations will result in an updated strategy being published.

## **12.0 Transparency**

- 12.1 This strategy will be posted on the Parish website and a hard copy will be available from the Parish Clerk.

## **13.0 Account Management Arrangements**

- 13.1 This section sets out the maximum and minimum balances to be held across the council's accounts during 2021-22.
- 13.2 The Parish Clerk will be responsible for maintaining balances within the parameters shown. Balances are reported each month in the financial report.
- 13.3 As large deposits, such as precept and CIL or movements between accounts usually occur at the end of the month, the Parish Clerk may hold a balance greater than the maximum specified for a limited period, until a transfer can be made. Where this occurs, it will be noted in the financial report.

#### 13.4 Account balances

The minimum and maximum investments are based either upon the limits in place on individual accounts, or at levels required to for day-to-day management purposes.

<b>Account name</b>	<b>Minimum balance</b>	<b>Maximum balance</b>
Lloyds Current	£15,000	£50,000
Lloyds Instant Access Deposit	£1*	£100,000
Lloyds 32 Day Deposit	£10,000*	£400,000
CCLA PDSF	£25,000*	£550,000
Nationwide 35 Day Deposit	£25,000*	£550,000

\*minimum investments levels

13.5 The Parish Clerk will look to spread risk across the different financial institutions where accounts are held. In financial year 2021-22 this will be a maximum of £550,000 per banking group.

13.6 If combined balances are expected to exceed £1.65m in the year, as a result of CIL receipts, the Clerk will bring forward proposals to the Finance & General Purposes Committee.

## Appendix A

### Risk Assessment 2021-22

#### Fitch Credit Agency Ratings

Financial Organisation	Rating	As at
Lloyds Banking Group	A+	June 2020
Nationwide	A	June 2020
CCLA PSDF	AAAmf	31 January 2021

#### Financial Services Compensation Scheme (FSCS)

The first £85,000 of investment in each financial institution will be compensated in the event that a bank or building society fails. Where multiple accounts are held with bank that are part of the same banking group they are treated as one bank.

The CCLA Public Sector Deposit Fund is not covered by the FSCS.

#### Risk of failure

The risk of failure of any of the financial institutions used by the Parish Council is low. The UK Government is unlikely to allow a major high street providers to fail as evidenced by the Financial Crisis of 2007-08.

#### Negative returns

The Bank of England have asked financial institutions to prepare for the introduction of negative interest rates should this prove necessary. These details are not being made public at this stage. The parish council should therefore be aware that for a period of time investments may generate no return or in a worse case, lose money as the council pays to 'store' its money.

Negative interest rates may be introduced in the third or fourth quarter of 2021.

The Clerk will keep members advised of any changes and their impact on the council's investments.