Houghton and Wyton

Parish Council

Financial Reserves and Investment Policies

Section 1: Reserves Policy - version 2.0

This policy guides the Parish Council in establishing general and earmarked reserves. It provides for delayed project expenditure to be carried forward and provision to be made for future large expenditure items.

Section 2: Investment Policy - version 1.0

This policy guides the Parish Council in the prudent investment of its reserve funds with the two underlying objectives of security and liquidity.

Section 1: Financial Reserves Policy

Version 2.0 approved in minutes of meeting dated : 4 April 2019

1. Purpose

1.1 Houghton & Wyton Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of reserves. This policy will be reviewed annually or more frequently if required.

1.2 The Local Government Finance Act requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. There is no specified minimum level of reserves that an authority should hold, however as stated in clause 4.1 the aim is always to operate within a band of between 3 – 12 months of the precept. It is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

2. Types of reserves

2.1 Reserves can be categorised as general or earmarked.

2.2 Earmarked reserves can be held for several reasons:

- Capital Replacements – to enable renewals or part of existing assets
- New Capital expenditure – to enable the creation of new assets

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 - some services commit expenditure to projects but cannot spend the budget in the allocated year. Reserves are used as a mechanism to carry forward these resources.

Insurance reserve – to enable 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.

2.3 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.

3. Earmarked reserves

3.1 Earmarked reserves will be established on a 'needs' basis, in line with anticipated requirements.

3.2 Any decision to set up an earmarked reserve must be approved by the Council.

3.3 Expenditure from earmarked reserves can only be authorised by the Council.

3.4 Reserves should not be held to fund ongoing 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.

3.5 All earmarked reserves are recorded on a central schedule held by the Responsible
Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

3.6 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.

4. General Reserves

4.1 The level of general reserves is a matter of judgement. This policy does not attempt to prescribe a blanket level. However, the aim is always to operate above the minimum required and within a band of between 3 – 12 months of the precept. 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.

4.2 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.

4.3 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.

4.4 Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay one month's salaries to staff in general reserves at all times.

5. Opportunity cost of holding reserves

5.1 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.

5.2 However, there is an 'opportunity cost' of holding funds in reserves, in that these funds cannot then be spent on anything else. As an example, if these funds were used to repay debt the opportunity cost would equate to the saving on the payment of interest and the minimum revenue provision, offset by the loss of investment income on the funds. However, using reserves to pay off debt in this way would leave the Council with no funds to manage unexpected risks nor provide a mechanism to fund the planned expenditure for which the reserves were earmarked.

5.3 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.

6. Current level of financial reserves

6.1 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.

Section 2. Financial Investment Policy

Version 1.0 approved in minutes of meeting dated : 5 February 2020

Introduction

This policy should be read in conjunction with the Financial Regulations and the Reserves Policy. It's implementation is covered by the annual investment strategy document.

This Policy complies with the revised requirements set out in the Department of Communities and Local Government Guidance on Local Government Investments and takes into account Section 15(1)(a) of the Local Government Act 2003 and guidance within Governance and Accountability for Local Councils Practitioner's Guide 2018. Relevant extracts are at Appendix A.

Houghton & Wyton Parish Council acknowledges the importance of prudently investing the temporary surplus funds held on behalf of the community as part of its fiduciary duty and therefore has decided to adopt the principles in the guidance.

The Local Government Act 2003 states that a local authority may invest:
- For any purpose relevant to its functions under any enactment.
- For the purpose of prudent management of its financial affairs.

The Council defines its treasury management activities as "the management of the Council's cash flows, its banking and money market transactions, the effective control of the risks associated with those activities, and the pursuit of best value performance consistent with those risks."

Objectives

The following are the objectives for the Investment Policy:

• Security of reserves

• Adequate liquidity of investments to allow the Parish Council to deliver and react to opportunities to fund Community projects.

• Return on the investment will be optimised commensurate with the proper levels of security and liquidity.

• All investments will be made in Sterling

• The Council will not borrow money purely to invest or lend

• The Council will monitor the risk of loss on investments by review of credit ratings. The Council will only invest in institutions with high credit quality based on the information from credit rating agencies.

• Investments will be spread over different providers where appropriate to minimise risk.

Specified investments

Specified investments are those offering high security and high liquidity, made in sterling and with a maturity of no more than a year. For the prudent management of its treasury balances, maintaining sufficient levels of security and liquidity, Houghton & Wyton Parish Council will use:

• Deposits with banks, building societies, local authorities or other public authorities
• Other approved public sector investment funds.

The choice of institution and length of deposit will be at the approval of the Parish Council. The Council will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity. All investments must be covered by the Financial Services Compensation Scheme (FSCS) which covers investors, including Parish Councils, for up to £85,000 per banking licence.

Non-Specified Investment's

The higher potential risk of these investments, such as stocks and shares, are not acceptable to the Parish Council and it shall not use this type of investment.

Liquidity

The Parish Council shall determine the maximum periods for which funds may be invested so as not to compromise liquidity, based on the Council's approved spending plan and in order to be able to respond to requests for funding it is unlikely that it will be appropriate for the majority of funds (50%) to be inaccessible for a period in excess of 125 days.
The Parish Council does not hold any long-term investments (defined as those greater than 2 years).

Investment Strategy

Each year, in conjunction with the annual Budget process, the Parish Council will review the current year's investment strategy and then produce the investment strategy for the following year.

The Parish Council will publish the investment Strategy on the Parish Council website www.houghtonwytonpc.co.uk and hard copies can be obtained from the Clerk on application.

Approved by Parish Council in minutes of meeting on 5 February 2020

Updated on:

Appendix A to Houghton & Wyton Investment Policy

STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

(3rd Edition)
Issued under section 15(1)(a) of the *Local Government Act 2003* and effective for financial years commencing on or after 1 April 2018

Below are extracts relevant to the investment policy and strategies for Houghton & Wyton Parish Council from the subject statutory guidance. Any change in the investment policy should only be made after reference to the complete guidance document.

1. POWER UNDER WHICH THE GUIDANCE IS ISSUED

The following Guidance is issued by the Secretary of State under section 15(1)(a) of the *Local Government Act 2003.* Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

2. Effective date

This guidance applies for financial years commencing on or after 1 April 2018. It supersedes all previous editions of the Statutory Guidance on Local Authority Investments.

3. Application

This guidance applies to parish councils and charter trustees, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year. *Where a parish council or charter trustee expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance.*

4. Strategies

For each financial year, a local authority should prepare at least one Investment Strategy ("the Strategy"). The Strategy should contain the disclosures and reporting requirements specified in this guidance.

5. Approval

The Strategy should be approved by the full council. For authorities without a full Council, the Strategy should be approved at the closest equivalent level. The Secretary of State recommends that the Strategy should be presented for approval prior to the start of the financial year. Where a local authority proposes to make a material change to its Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented. The Strategy should be publicly available on a local authority's website. Where a parish council or charter trustee does not maintain its own website, they should post a public notice detailing how local residents can obtain a copy of the Strategy, free of charge.

Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, or any other publicly available document, the disclosures required to be included in the Strategy can be published in those documents instead of in the Strategy.

6. Security, Liquidity and Yield

A prudent investment policy will have two underlying objectives:
- **Security** – protecting the capital sum invested from loss; and
- **Liquidity** – ensuring the funds invested are available for expenditure when needed.

The generation of **yield** is distinct from these prudential objectives. However, this does not mean that local authorities are recommended to ignore potential revenues. Once proper levels of security and liquidity are determined, it will then be reasonable to consider what yield can be obtained consistent with these priorities.

When entering into treasury management investments, local authorities should consider security, liquidity and yield in that order of importance.

Dated: 28 January 2020