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MELBOURN PARISH COUNCIL

Investment Strategy

Introduction

Melbourn Parish Council appreciates the importance of prudently investing temporary surplus funds on behalf of Melbourn Parish. The objective of our Investment Strategy is to try to control risk and optimise returns from the investments made. Our Investment Strategy complies with relevant Local Government legislation and Guidance *(note 1)*

Definition of an Investment

The Local Government Act 2003 defines an investment widely, covering all a Parish Council's financial assets as well as other non-financial assets which are held mainly or partially to generate a profit e.g. investment property portfolios. It also covers loans made by Parish Councils.

Contribution of MPC's Investments

- Treasury Management Investments – these are made to support effective treasury management activities e.g. cash flow management, banking and investing cash deposits.
- Other investments – MPC holds a property at The Moor, Melbourn, Cambridgeshire, SG8 6ED which is no longer needed for Parish Council services and is leased to a tenant at a commercial rent. The rental income, after deducting maintenance expenses, is used to reduce our precept requirement.

Investment Policy

MPC will operate a prudent investment policy giving priority to three key objectives in the following order of importance:

1. **Security** – protecting the capital sum invested against loss.
2. **Liquidity** – ensuring that funds invested are available for expenditure when needed; and
3 **Yield (return)** – once appropriate levels of security and liquidity have been determined, MPC will strive for the best rate of return consistent with this.

<u>Security</u> – we aim to protect against capital loss as follows:

Financial Investments

- Specified Investments - these are made in sterling, for less than twelve months and are with a 'high quality' body or investment scheme or with the UK Government or another Local Authority. MPC will mainly make this type of investment. We consider UK banks and building societies that are protected by the Financial Services Compensation Scheme and investment schemes rated 'A' or above by a credit rating agency *(note 3)* to be 'high quality'.
- Loans – MPC will not make loans.
- Non-specified investments – these investments are not loans and do not meet the Specified Investment criteria e.g. investments over twelve months, stocks and shares. They are potentially riskier but may offer higher yields. MPC will only make investments over one year if we are satisfied that enough funds remain available for expenditure when needed. We will only make non-specified investments in sterling,

with a ‘high quality’ body or scheme or with the UK Government. MPC will not invest directly in shares as these are considered too risky.

Non-financial investments – the rental property held by MPC has no loans or borrowings secured against it. As such there are no concerns about loss in asset value relative to the capital invested.

Financial Services Compensation Scheme - this scheme protects savings up to a specified limit in the event of failure of a financial services firm. The current limit is £85,000 per authorised institution. MPC will strive to spread investments over different institutions and keep below the FSCS limit where possible. However, we will take into consideration the perceived risk of financial organisation failure compared with the administrative burden of managing numerous accounts.

Risk Assessment – MPC’s aim is to invest via simple financial instruments which do not require expert knowledge or external advisors. Our investment decisions will be based on publicly available information on yield and credit ratings. This information will be reviewed by the Finance & Good Governance Committee at least annually, and more often if there is a marked deterioration in performance, credit rating or market conditions. MPC will act to protect funds as necessary.

<u>Liquidity</u>

We will ensure that funds invested are available for expenditure when needed by carrying out an annual cash flow forecast, before the start of the financial year, to determine the maximum period that funds may prudently be committed. Our General Reserve will be invested in deposits requiring no more than three months’ notice to allow quick access in case of emergency. Other designated reserves may potentially be invested for longer periods if MPC is satisfied that the funds will not be needed before the investment matures.

Capacity and Skills

MPC recognises that our Officers and Cllrs might not have expertise in investment analysis. We aim to use simple financial instruments that do not require expert knowledge. Our annual investment strategy will be recommended by the RFO/Clerk and reviewed by the FGGC prior to being presented to MPC for approval.

If MPC should wish to consider more complex investment types, we will make training available to Officers and Cllrs as appropriate and/or get professional advice. MPC will <u>not</u> make investments unless we have enough understanding to make an informed decision.

Financial Regulations

This Strategy should be read in conjunction with section 8 of MPC’s Financial Regulations.

Review Date

MPC will review its Investment Strategy annually, before the start of the financial year, and more frequently if a material change is planned during the year. Any changes will be approved by MPC.

2020-21 Investment Plan (Sept 2020)

The original Investment Plan for 2020/21 (produced March 2020) was not approved due to the impact of Covid-19 on MPC meetings. Since then the investment climate has changed significantly with interest rates being slashed. Many of the investment options previously proposed have now been withdrawn by their providers. The updated Investment Plan proposal is set out below.

Temporary Surplus Funds Available

At 1st April 2020 MPC had approx.£338k temporary surplus funds available:

Source	Balance at 01/04/20	Maximum investment term	Comments
General Reserve	£126,900	3 months	Easy access required in case of emergency need
Asset Management Reserve	£31,500	£10k: instant access £21,500: 1 yr	Prudent to keep £10k accessible in case of unbudgeted emergency asset repairs/replacements
s106 Reserve (unallocated funds)	£180,000 (further funds should be received in 2020/21)	3 months (review when definite s106 spending plan known)	As funds are allocated to projects it may be necessary to move them to more accessible accounts

- Almost all of MPC's available funds should be kept readily accessible - maximum three month notice period.
- It may be possible to invest part of the AMR and s106 reserve for a longer term.
- The Investment Plan should be reviewed as MPC's plans for spending s106 funds are agreed to ensure that funds are available when required.

Current position – September 2020

MPC had previously invested £83k in a Nationwide 45 day Saver account. The opening of a CCLA Public Sector Deposit account (with £25k), as previously approved, was delayed due to Covid-19 and no fund transfer has yet been made.

Economic Climate

Interest rates are at a historic low in response to the Covid-19 pandemic and are expected to remain very low throughout 2020/21. The possibility of negative interest rates has been raised and, although thought unlikely, this has not been ruled out by the Bank of England.

Investment Options

A review of available investments which meet MPC's requirements shows that most providers have now withdrawn their deposit accounts with less than one year's notice or are offering interest rates of between 0.1% and 0.2%. Accounts available to Parish Councils with the best yields are:

MPC investment proposal for the remainder of 2020-21:

Institution	**Product**	**Max Investment agreed by MPC**	**Notice Period**	**Yield** (at Sep 2020)	**FSCS Yes/No**	**Credit Rating**
Nationwide	45 day Members Saver (existing customer)	£150,000 (£83k already invested)	45 days	0.35%	Y	AA3 (Moodys) (AA2 2019)
CCLA	Public Sector Deposit Fund* (money market fund)	£85,000 (£25k investmen previously agree - in progress)	On demand	0.125%	n/a	AAAmmf (Fitches)

*The Public Sector Deposit Fund is a money market fund specifically designed for the Public Sector. It invests in a diversified portfolio of high quality sterling denominated deposits and instruments. Its primary aim is to maintain the net asset value of the fund at par. The purchase of shares in the PSDF is not the same as investing in a bank deposit account and is not a guaranteed investment. There is a risk that the value per share may fall below face value.

Proposal 2020/21 (October – Mar)

Although return on investments is currently extremely low it is proposed to continue with some investments to make best use of surplus funds and to spread the risk of financial institution failure.

Nationwide 45 day saver – MPC should keep its current investment as it offers the best return currently available. MPC should invest another £67,000, taking the total to £150,000. This would mean that the FSCS limit is breached although the overall exposure to financial institution failure is still spread. Nationwide is AA3 rated by Moodys.

CCLA Public Sector Deposit Fund – MPC should initially invest £25,000 as previously agreed (minimum investment allowed) and review the performance of the PSDF before deciding to invest further. Although the fund yield is currently no better than that offered by many banks or building societies, this is a different type of investment and would serve to diversify MPCs investment portfolio. The fund rating of AAAmmf by Fitches is considered very safe.

After MPC has considered its s106 spending plans, if it has surplus funds available, it should review the market again in case other providers have made deposit accounts available with a better yield.

All investments should be reviewed in Feb/March 2021, prior to the start of the next financial year, or earlier if there is a significant change in interest rates or economic climate.

Adoption Date

Reviewed by Finance and Good Governance Committee on 21st September 2020

Adopted by Melbourn Parish Council on [Date]

Notes:

1. The Government has issued Guidance on Local Government Investments (s16, Local Government Act 2003) which has statutory force and is mandatory where

investments of a Parish Council are or are expected to exceed £100,000 at any point in a financial year.

2. Parish Councils have the power to invest for any purpose relevant to their functions under any enactment, or for the purposes of the prudent management of their financial affairs (s17, Local Government Act 2003)
3. A Credit Rating Agency is one of the following three companies:
   - Standard and Poor's
   - Moody's Investors Service Ltd; and
   - Fitch Ratings Ltd

Document Approval:

(Chair to Melbourn Parish Council)

Date of Parish Council meeting: 28 September 2020

Review Policy: *Every 12 months*