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.

Security – we aim to protect against capital loss as follows:

Financial Investments

- Specified Investments - these are made in sterling, for twelve months or less 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. FSCS is only available if income is below Euros500,000.

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.

Liquidity

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 not 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.

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

2021-22 Investment Plan

Temporary Surplus Funds Available

MPC is forecast to have at least £239,000 temporary surplus funds available during 2021/22:

Source	Forecast Balance at 01/04/21	Maximum investment term	Comments
General Reserve	£140,000-£160,000	3 months	Easy access required in case of emergency need
Asset Management Reserve	£35,800	£10k: instant access £25,800: 1 yr	Prudent to keep £10k accessible in case of unbudgeted emergency asset repairs/replacements
s106 Reserve (unallocated funds only)	£63,000 (note: further funds may be received in 2021/22)	3 months (potentially 1 yr if no further projects anticipated this year)	Balance excludes funds that have already been allocated or are anticipated to be allocated to projects in 2021/22 e.g .playground project.

- Almost all MPC's available funds should be kept readily accessible - maximum three months notice period.
- It should 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

Economic Climate

Interest rates are at a historic low in response to the Covid-19 pandemic and are expected to remain very low throughout 2021/22. There continues to be speculation about the possibility of negative interest rates and, although far from a certainty, the Bank of England has begun a programme to review the potential implications for the UK. Much depends on the speed of economic recovery once the pandemic restrictions have been eased.

Current position – 4th March 2021

MPC has invested £150,000 in a Nationwide 45 day Saver account and £25,000 in a CCLA Public Sector Deposit Fund* (access on demand). Total invested £175,000.

Review of existing investment performance:

Institution	Product	Current Investment	Notice Period	Yield (at 4 Mar 2021)	FSCS Yes/No	Credit Rating

Nationwide	45 day Members Business Saver deposit account	£150,000	45 days	0.35% (0.35 % Oct 2020)	Y	AA3 (Moodys) (AA3 Oct 2020)
CCLA	Public Sector Deposit Fund* (money market fund)	£25,000	On demand	0.0467% (0.125% Oct 2020)	n/a	AAAmmf (Fitches) No change

*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.

Investment Options

A review of available investments, open to Parish Councils, which meet MPC's Investment Strategy requirements shows that most providers have withdrawn their deposit accounts with notice periods of one year or less or are offering interest rates of between 0.01% and 0.5%, depending on notice required. Returns of 0.7% are possible on one year fixed term investments.

Potential Investments currently offering the best yields are:

Institution	**Product**	**Minimum Investment**	**Notice Period**	**Yield** (at Feb 2021) Fixed/Variable	**FSCS Yes/No**	**Credit Rating**
Cambridge Building Society	Council Saver	£1,000	On demand (max 2 per month)	0.1% V	Y	Not found
Hampshire Trust Bank	45 day Business Notice Account	£5,000	45 days	0.5% V	Y	Not found
Hampshire Trust Bank	1 yr business bond	£5,000	Matures 1 yr	0.7% F	Y	Not found
Charity Bank	1 yr ethical fixed rate	£10,000	Matures 1 yr	0.47% F	Y	Not found

Proposal 2021/22

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.

MPC currently has £175,000 invested. The anticipated available fund is around £240,000+ (exact figures will be known at financial year end). The additional funds can be invested during 2021/22.

Nationwide 45 day business saver – MPC should continue to invest as it remains one of the best returns currently available with notice of one year or less. The £150,000 current investment is above the FSCS limit and could be reduced. Nationwide is AA3 rated by Moodys. It was downgraded from AA2 in April 2020 , along with a number of UK banks, reflecting the impact of Covid-19 on the UK economy. AA3 is considered 'high quality.

CCLA Public Sector Deposit Fund – MPC has invested £25,000 (minimum allowed) and had agreed to review the performance of the PSDF before deciding to invest further. The fund yield has been falling although it remains similar to that offered by many bank or building society deposit accounts and above that of similar money market fund schemes. This is a different type of investment to deposit accounts and does serve to diversify MPCs investment portfolio. The fund rating of AAAmmf (Fitches) is considered very safe. CCLA are proposing to restructure the shares within the fund to offer protection against negative yields should these arise (see info attached). MPC could currently achieve a better return elsewhere so further investment is not recommended at this stage.

Additional investments – these should seek a balance of security, liquidity, and yield. Investment in fixed-term bonds will offer protection against potential falling or negative interest rates but funds will not be accessible until the maturity date.

Investment Plan Recommended for 2021/22:

Withdraw £50,000 from Nationwide (balance invested £100,000) to reduced excess over FSCS limit and to allow investment in higher yield accounts.

Invest £85,000 in Hampshire Trust Bank 45 day notice deposit

Invest £30,000 in Charity Bank one year ethical fixed rate – this has been recommended rather than HTB fixed rate bond (which has a higher yield), to keep total at HTB below FSCS limit.

Leave CCLA PSDF investment at £25,000

Total invested = £240,000

Liquidity breakdown of suggested investments:

£25,000 = instant notice

£185,000 = 45 day notice

£30k,000 = one year maturity

All investments should be reviewed if there is a significant change in interest rates, perceived risk of financial institution failure or economic climate.

Reviewed by Finance and Good Governance Committee : 15th March 2021

Document Approval:

(Chair to Melbourn Parish Council)

Date of Parish Council meeting: 22nd March 2021

Review Policy: Every 12 months