

## MELBOURN PARISH COUNCIL

### **POLICY AND PROCEDURE: 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

## 2022-23 Investment Plan

### Temporary Surplus Funds Available

MPC is forecast to have at least £334,000 temporary surplus funds available during 2022/23 (see table):

| Source                                       | Forecast Balance at 01/04/22                              | Maximum investment term  | Comments  |
|--|---|--|---|
| <b>General Reserve</b>                       | £150,000-£170,000   | 3 months   | Easy access required in case of emergency need  |
| <b>Asset Management Reserve</b>              | £72,000   | £10k: instant access<br>£62,000: 3m-1 yr                                 | £10k anticipated for projects in 2022/23 – needs to be accessible   |
| <b>s106 Reserve (unallocated funds only)</b> | £112,000 (note: further funds may be received in 2022/23) | 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 2022/23 e.g. playground, skate park |

- The majority of MPC's available funds should be kept readily accessible - maximum three month 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

Following a period of interest rates being at a historic low, recent inflationary pressures have resulted in three increases to the Bank of England base rate. This was raised to 0.75% in March 2022. Interest rates may increase further in 2022/23 due to continued inflation..

### Current position – 16th Mar 2022

MPC has £240,691 invested in four accounts – see breakdown below.

## Review of existing investment performance:

| Institution  | Product   | Current Investment | Notice Period    | Yield (at 16 Mar 2022) | FSCS Yes/No | Credit Rating             |
|--------------|---|--------------------|------------------|------------------------|-------------|---------------------------|
| CCLA         | Public Sector Deposit Fund* (money market fund) | £25,000            | On demand        | 0.412%                 | n/a         | AAAmf (Fitches) Unchanged |
| Nationwide   | 45 day Members Business Saver deposit account   | £100,691           | 45 days          | 0.35%                  | Y           | AA3 (Moody's) Unchanged   |
| HTB          | 45 day Business Notice                          | £85,000            | 45 days          | 0.5%                   | Y           | -                         |
| Charity Bank | 1 yr ethical fixed rate                         | £30,000            | Matures 26/08/22 | 0.47%                  | Y           | -                         |

\*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 for 2022/23

A review of available investments, open to Parish Councils, which meet MPC's Investment Strategy requirements was undertaken (see Appendix 1 below ). There are more options available than in 2021/22. Higher yields can be achieved on longer term investments although they remain modest.

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 |
|---------------------------|-------------------------|--------------------|--------------------------|------------------------------------|-------------|---------------|
| Charity Bank              | Ethical Easy Access     | £10,000            | On demand (max £125,000) | 0.35% V for bals > £10k            | Y           | -             |
| Charity Bank              | Ethical 40 day notice   | £25,000            | 40 days                  | 0.35% V                            | Y           | -             |
| Cambridge & Counties Bank | 95 day business notice  | £10,000            | 95 days                  | 0.85% V                            | Y           | -             |
| Charity Bank              | 1 yr ethical fixed rate | £10,000            | Matures 1 yr             | 1.25% F                            | Y           | -             |

## Proposal 2022/23

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

MPC currently has £240,691 invested. The estimated available fund for 2022/23 is c£335,000 (exact figures will be known at financial year end).

### **Investment Plan Recommended for 2022/23:**

MPC's existing investment accounts offer relatively good yields compared to the best new offerings. Although Cambridge & Counties Bank is offering 0.85% (95 day notice), the additional return is not currently thought to justify the extra administrative burden of opening and running another bank account, or the longer notice period involved. It is recommended that the extra funds available are divided between the existing investment accounts and to review the situation again in six months' time. Some balances will exceed the FSCS limit.

CCLA PSDF – this investment is currently performing relatively well. MPC should increase their investment to £45,000.

Nationwide 45 day business saver - this remains one of the best returns currently available with under three months' notice. MPC should increase their investment to £115,000.

Hampshire Trust Bank 45 day notice deposit – this offers the best yield currently available with under three months' notice. MPC should increase their investment to £135,000

Charity Bank 1yr ethical fixed rate – MPC is tied into the existing bond until maturity in Aug 2022. Better rates can now be obtained on one-year bonds from the same provider. On maturity MPC should reinvest the funds for another year if the offer is still competitive and increase the investment by £10,000.

Total invested = £335,000

Liquidity breakdown of suggested investments:

£45,000 = instant notice

£250,000 = 45 day notice

£40,000 = one year maturity

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



**Document Approval:**

**(Chair to Melbourn Parish Council)**

**Date of Parish Council meeting: 28<sup>th</sup> March 2022**

*Review Policy: Every 12 months*

## Appendix 1 Bank and Building Society Deposit Accounts Review Mar 2022

Brown Text = best returns

| Provider                   | Investment Type                 | Open to PC's | Access  | Minimum Deposit | Interest Rate<br>V variable<br>F fixed   | FSCS |
|----------------------------|---------------------------------|--------------|---|-----------------|--|------|
| <b>Instant Access</b>      |                                 |              |   |                 |  |      |
| Scottish Widows            | Deposit                         | Y            | Instant   | £500            | 0.1% V                                   | Y    |
| Cambridge Building Society | Council Saver                   | Y            | Instant – max 2 x per mnth. Deposits and withdrawals by cheque only | £1,000          | 0.2% V                                   | Y    |
| Charity Bank               | Ethical Easy Access Account     | Y            | Instant (max w/drawal £125,000)                                     | £10,000         | 0.35% V (if bal >£10,000) otherwise 0.1% | Y    |
| Unity Trust                | Instant Access                  | Y            | Instant   | None            | 0.25% V                                  | Y    |
| <b>Notice Accounts</b>     |                                 |              |   |                 |  |      |
| Charity Bank               | Ethical 40 day notice Business  | Y            | 40 days   | £25,000         | 0.35% V                                  |      |
| Cambridge & Counties Bank  | 95 day business notice          | Y            | 95 days   | £10,000         | 0.85%V                                   | Y    |
| Hampshire Trust Bank       | Business Notice account         | Y            | 95 days   | £5,000          | 0.75% V                                  | Y    |
| Charity Bank               | Ethical 100 day Business Notice | Y            | 100 days  | £25,000         | 0.75% V (on bals > £25k)                 |      |
| Hampshire Trust Bank       | Business Notice account         | Y            | 120 days  | £5,000          | 0.85% V                                  | Y    |

|  |  |   |  |                                      |  |   |
|--|--|---|--|--------------------------------------|--|---|
| Hampshire Trust Bank   | 1 yr business bond   | Y | 1 yr fixed term  | £5,000                               | 1.0% F                                     | Y |
| Charity Bank   | 1 yr ethical fixed rate                                      | Y | 1 yr fixed term  | £10,000                              | 1.25% F                                    | Y |
| CCLA   | Local Authorities Property Fund                              | Y | 3 mths notice to sell shares.<br><b>Investment intended for long-term returns 5 yr +</b> | £25,000 (min subsequent inv £10,000) | Dividend 3.46%<br>Capital 3.03% (Dec 2021) | N |
| <b><u>Others – considered but not currently suitable</u></b> |  |   |  |                                      |  |   |
| Virgin Money   | All savings accounts   | N |  |                                      |  | Y |
| Aldermore Bank   | All savings accounts   | N |  |                                      |  | Y |
| Metro  | Needs to be opened at a branch - Cambridge                   | ? | 35-95day   |                                      | 0.1-0.3% V                                 | Y |
| TSB  | Need TSB current a/c   | ? |  |                                      |  | Y |
| Cynergy  | All business savings accounts withdrawn.<br>Current a/c only |   |  |                                      |  | Y |

|                                |                                 |                                     |  |        |   |   |
|--------------------------------|---------------------------------|-------------------------------------|--|--------|---|---|
| HSBC                           | Business money manager          | ? Need to apply in person at branch | Instant  | None   | 0.03% V   | Y |
| Barclays                       | Need Barclays current a/c       | ?                                   |  |        |   | Y |
| Lloyds                         |                                 | N                                   |  |        |   | Y |
| Natwest                        | Need to open in person          |                                     |  |        |   | Y |
| Co-op                          | All savings accounts            | Need a current a/c with Co-op       | Instant to 95 days                               | None   | 0.03-0.12% V  | Y |
| Starling Bank                  | All accounts                    | N                                   | Do not seem to offer deposit accounts            |        |   |   |
| Santander                      | Business Everyday               | N                                   | Instant  | £1     | 0.01% V   | Y |
| Santander                      | Business Reward                 | N                                   | Instant but interest reduced if make withdrawals | £1     | 0.05% V max – if make no withdrawals, otherwise 0.01% | Y |
| Santander                      | Fixed rate business bond        | N Also existing customers only      | 1 yr fixed term                                  | £5,000 | 0.3% F  | Y |
| Clydesdale Bank (Virgin Money) | Business Access Savings account | N                                   | Instant  | £1     | 0.5%  | Y |
| Clydesdale Bank (Virgin Money) | Business Notice account         | N                                   | 30 – 120 days                                    |        | 0.4%-0.55%  | Y |
| UK Govt Gilts                  | Need a stockbroker account      | Y                                   | 2-30 yr + maturity but can be traded             |        |   |   |