

Aldenham Parish Council

Finance Policy and Investment Strategy

Introduction

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Aldenham Parish Council (APC) acknowledges the importance of prudently investing the temporary surplus funds held on behalf of the community. This policy sets out how APC will manage its cash and investments held by APC which are not required for day to day operational purposes.

Objectives

This policy complies with current guidelines (as at 31st March 2018) set out by the Government and the JPEG Practitioners Guide.

The Council's investment priorities will be centred on the security of reserves whilst also providing sufficient liquidity and profit. All investments will be made in sterling.

The DCLG 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.

APC's investment priorities are

- a) The security of its reserves;
- b) The liquidity of its reserves
- c) To match investments liquidity with the need to fund the five-year plan of APC
- d) Ensure that there are sufficient liquid funds to match day to day expected expenditure

Financial Policies

When reviewing budgets and future planning APC will aim to

- a) Maintain a working bank balance of £10,000 in the current account, supplemented by an overspill account which will have an average of 3 - 6months average spending held as a balance.
- b) The F&GP Committee will then agree at least annually earmarked reserves for future projects, as well as capital reserves which are funds that were generated through the sale of assets and can only be used for capital projects.
- c) There will also be a general reserve (not allocated for specific purposes) in which the aim should be that there are sufficient funds for approximately six months of average expenditure. This will be used to cushion the impact of any unexpected event, or fund works until any insurance funds are received.
- d) Once these have been agreed, and the timescales for specific projects accepted, then funds will be invested to match these requirements and maximise investment return, either through instant access accounts or fixed rate bonds or equivalent up to three years duration.

Investment Strategy

This Strategy complies with the revised requirements set out in the

- Department for Communities and Local Government Statutory Guidance on Local Government Investments (3rd Edition) (Appendix A)

- Guidance within Governance and Accountability for Local Councils Practitioners Guide.
- Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes

The definition of an 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 Aldenham Parish Council (APC) the financial assets include cash balances and funds held with investment managers (stocks and shares). It also includes non-financial assets defined in the Council's accounts as 'investment properties'. The definition also covers loans, whether written or oral, where a local authority temporarily transfers cash to a third party. APC acknowledges the importance of prudently managing the funds it holds on behalf of the community. The requirements set out above provide a basis to create clear treasury management objectives and to structure sound treasury management policies and practices.

The requirements also provide a basis for managing the Council's property investments and loans to third parties. This Council defines its treasury management activities as: "The management of the Council's cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."

This Council will not borrow in order to profit from investment of the sums borrowed.

Types of Investment

Investments made by Local Authorities can be classified as:

- a) Investments held for treasury management purposes (for APC bank balances and share portfolios);
- b) Other investments (and investment properties). Other investments can be financial (loans to third parties) or non-financial (e.g. properties generally held with a view to generating a profit).

For Investments held for treasury management purposes the Council sets out its strategy at 4 below. APC do not anticipate providing loans to third parties or investments in property currently.

Objectives

APC acknowledges that the pursuit of best value management and the use of suitable performance measures are valid and important tools to employ in support of their business and service objectives;

Security of investments is the overriding objective, i.e. protecting the sums invested from loss of value;

Subject to the over-riding security objective above, the Council's objectives for long term investments identified below is that the 'net of costs' target return in the longer term preserves the real value of the fund measured against RPI (or any equivalent replacement).

Investments Held for Treasury Management Purposes

APC recognizes the importance of **security, liquidity and yield, in that order**, in managing its investments held for Treasury Management Purposes. From time to time APC may have a temporary surplus of working capital cash, referred in statute as specified investment. For the prudent management of its treasury balances APC will use deposits with banks, building societies, local authorities or other public authorities with an A1/A+ rating from a credit rating

agency such as Standard and Poor's or Moody's Investors Service (via HertsmereBC). These funds may be invested for periods of 12 months or less.

APC has funds available in the form of investment portfolios for longer term capital developments and to fund Income and Expenditure deficits. These are termed non-specified investments. APC's will consider investment with investment managers to be managed on a discretionary basis which will allow the fund managers to take decisions without prior referral. The investment managers will be encouraged to strive to achieve the investment objectives indicated above.

In achieving these investment objectives the investment managers must work within the following parameters. Percentage limits apply to stocks held directly or indirectly through managed funds:

- a) To manage volatility risk, no more than 60% of the portfolio should be invested in equities;
- b) To manage exchange rate risk, non-sterling denominated assets should not exceed 45% of the portfolio value;
- c) To manage risk and ensure adequate liquidity 95% of investments should be generally realisable within 21 days. Exposure to funds that trade infrequently should be kept to a minimum;
- d) To ensure diversification, a maximum of 10% of the portfolio value should be invested in any one holding. This would include indirect holdings in managed funds and Unit Trusts;
- e) To manage security risk a maximum of 15% of the portfolio value should be held in non-investment grade instruments;
- f) To further manage security risk, the Council does not view derivatives or structured products as suitable asset classes in their own right. An element of derivative use may be appropriate but only when used for broader purposes, for example within a fund that has foreign currency exposure to hedge that risk.

Investment Managers will be required to present monthly valuations and transaction reports, and quarterly reports to include market reviews and forecasts and total return figures. Total return figures should be time weighted and shown against the following indices: RPI, (or any equivalent replacement) and the FTSE All Share Index. Summary figures and reports will be required annually in October/November at a presentation to the Council. Investment Managers must be directly authorised and regulated in the UK by the FCA or any successor body.

Where Investment Managers provide for custody of assets under nominee companies they must utilize custody arrangements that comply fully with the UK FCA's Client Assets (CASS) sourcebook at all times.

Investment Managers must demonstrate that they carry valid Liability Insurance cover for their nominee companies of over £10m per claim.

Review and Amendment of Regulations

For the purposes of transparency and accountability this Strategy will be reviewed annually.

This policy was adopted by Aldenham Parish Council at its meeting of 27th September 2021 .