



**Grappenhall & Thelwall
Parish Council**

Council Office, Bellhouse Lane,
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Investment and Reserves Policy

September 2022

The Parish Council's Vision for its investments is trifold.

To guarantee the security of its own investments for the long term

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**To ensure the segregated funds cover the running costs of the
Grappenhall Heys Estate and continue to grow for perpetuity.**

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**To ensure both portfolios of investments satisfy the requirements
to be ethical, responsible and sustainable.**



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EXECUTIVE SUMMARY

Section

1. **Introduction and Purpose** – the broad identification of the Council's investment goals, the types of the funds under its management and the relevant national regulations and guidance.
2. **Objectives** – the prioritising of the required characteristics (Security, Liquidity & Return) to applied to each category of funds controlled by the Council and what is likely to be needed to achieve the investment goals for each.
3. **Parish Council Reserves** – the legal requirements and constraints applied to funds retained for the purposes of the Council's core business.
4. **Treasury Investments** – a description of the types of investment prescribed to achieve the Investment Priorities (of Security and Liquidity) applicable to the Council's reserves
5. **Other Investments** – an explanation of the origins and characteristics of the Council's non-Treasury investments, Livewire Community Energy and the Grappenhall Heys Estate Fund, establishing requirements for their safe, successful and long-term retention.
6. **Roles & Responsibilities** – a synopsis of the roles of the Responsible Financial Officer, the Chair of the Council and the Full Council itself (or a duly delegated Committee) and the interaction with the Internal Auditor
7. **Freedom of Information and the Transparency Code** – confirmation of the Council's compliance with the applicable national legislation in publishing this Policy.

Appendix 1 – 2018 Statutory Guidance on Local Government Investments

POLICY OWNER: Colette Fellows, Responsible Financial Officer

APPROVED BY: Grappenhall & Thelwall Parish Council on 06/10./2022

REVIEW DATE: This strategy will be reviewed annually by the Parish Council in September



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1. Introduction and Purpose

Grappenhall and Thelwall Parish Council acknowledges the importance of the prudent investment of all funds held on behalf of the local community by the Council.

In accordance with Section 15(1) of the Local Government Act 2003 and the latest Statutory Guidance on Local Government Investments (3rd edition, effective April 1st 2018), the Council will have regard to a) such guidance as the Secretary of State may issue, and b) to such other guidance as the Secretary of State may, by regulations, specify.

The 2018 Guidance makes clear differentiation (Paragraph 20) between what it calls “Treasury Investments” and “Other Investments”. This is important to note as a significant percentage of funds under the Council’s management appears to fall into the latter category.

This Policy has been prepared by the Parish Council to help ensure the long-term resilience of its investments and to sustain them in perpetuity on behalf of its local community. It is also important to record that the Council does not currently use or intend to use borrowed funds to make any financial investments.

2. Objectives

The Council’s investment priorities are, in order of importance, as follows

- Security of capital/investments to minimise the risk of losses.
- Liquidity of investments to meet the cash flow needs of the Council in respect of these assets.
- Maximising the investment opportunities to generate capital and income growth.

The first two of these criteria particularly apply to Treasury Investments, here defined as funds either in General Reserves or Earmarked Reserves.

Typically, these funds will be held in bank deposits, either on demand (e.g. current and short-term savings accounts) or fixed for a defined period (usually up to one year, but with maturities spread over regular intervals to support liquidity). According to the latest Statutory Guidance, this falls well within its definition of “a prudent investment policy”.

In terms of “Other Investments”, the third criterium may take priority, although the other two shall not be ignored. To illustrate why, the significant increase in inflation in the first half of 2022 demonstrated the corrosive effects on cash holdings in bank deposits. Interest income would have needed to be 2 – 3 times greater just to cover the likely increased costs of goods, services and wages to maintain the Grappenhall Estate in that year alone.

To generate anywhere near those higher returns over the long-term requires taking greater risk and this typically means investing in the UK Stock Market and Corporate Bonds. This risk can be mitigated, in part, through diversification across industry sectors and by investing, for example, in high quality (“Blue Chip”) companies with excellent growth prospects. For the purposes of this over-arching Policy, only a high-level perspective on “Other Investments” is provided.



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3. Parish Council Reserves (General and Earmarked)

The Legal Position

The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Finance Act 1992 mandates that precepting authorities in England and Wales have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

There is no specified minimum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of those reserves and to ensure that there are procedures for their establishment and use.

However, the Practitioners' Guide to Proper Practices (March 2019) advises that each authority adopts a Reserves Policy and goes on to give guidance that the minimum level of the General Reserve should be maintained between 3 to 12 months of **Net Revenue Expenditure (NRE)**, which is the precept less loan repayments and transfers to earmarked reserves. In general, the larger the organisation, the lower the General Reserve should be.

Types of Reserve

General Fund Reserve (GFR)

This represents the non-ring-fenced balance of Council funds. The main purpose of the General Fund is to help manage the impact of uneven cash flows and to provide a contingency to cushion the impact of emerging or unforeseen events.

In general, a robust level of reserves should be maintained and take account of operational and financial issues facing the Council. The level of general funds is always a matter of judgment, but this policy prescribes a **target level of 25% of NRE**, with a tolerated range of 20 - 30%. However, the Council must maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment, and these may change from year to year. The use of a cashflow report will help manage this process and keeping the GFR as low as is practicable will help to reduce the impact of inflation on these reserves.

Specific or Earmarked Reserves (EMR).

As the name suggests, these represent amounts which are "earmarked" for specific items of expenditure to meet known or predicted liabilities or projects. Earmarked Reserves are often used to "smooth" the effects of certain expenditure commitments over time, thereby reducing the impact of significant expenditure in any one year, during the ordinary course of the Council's business.



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For the purposes of this Investment Policy, the segregated funds earmarked for the Grappenhall Hayes Estate Fund are not included in the next section ('Treasury Investments') but dealt with separately in Section 5B – "Other Investments".

Earmarked reserves are typically held for five main reasons:

- Projects – to plan and finance a project in the future.
- Renewals – to plan and finance an effective programme of equipment replacement and planned property repair. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary the budget from year to year.
- Carry forward of underspend - some expenditure budgeted for projects in a given financial year may not be spent fully (or at all) in that year. Reserves are used as a mechanism to carry forward these resources.
- Trading accounts – In some instances, surpluses may be retained for future investment.
- Insurance reserve – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.

Other earmarked reserves may be set up from time to time to meet predicted and potential liabilities (such as business interruption and/or key person risk).

Usually, most, if not all EMR represent deferred expenditure or operational risk mitigation, making it more likely that they can be invested for longer periods to help increase interest income as an offset for inflation erosion.

Appendix 2 – Schedule of General Reserves and Earmarked Reserves (to include prevailing NRE ratio)

4. Treasury Investments

Treasury Management is defined as..... *'The management of the Council's investments and 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.'* CIPFA) *Treasury Management in the Public Services: Code of Practice (2011 Edition)*

As stated in Section 2 above, the management of the Council's Treasury Investments will be primarily governed by the two objectives defined in the 2018 Statutory Guidance as

- **Security** – protecting the capital sum invested from loss; and
- **Liquidity** – ensuring the funds invested are available for expenditure when needed.



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The most basic form of security is ensuring that the monies in the Council's current and/or deposit account(s) are protected within the prevailing £85,000 limit of the Financial Services Compensation Scheme. If not, the opening of a second (or even third) current or demand deposit (savings) account will not only broaden the FSCS protection but also provide an alternative, ready payment source if the main account is compromised in any way (for example, because of a cyber-attack).

However, it is often the case that such funds will include earmarked reserves not needed for a while and these may be usefully deposited for longer periods to earn higher interest income, whilst ensuring that the liquidity objective is preserved as well.

In this respect, the use of a cashflow report can act as a safeguard. Month-by-month, the regular and other anticipated outflows from the Parish Council can be recorded. The monthly carried-forward total will demonstrate periods where the Council may be in significant surplus, well beyond its needs at the time, allowing high-quality bank deposits and some fixed-term bank or corporate bonds (ideally covered by the FSCS) to mature in stages to use otherwise idle funds more prudently.

UK Treasury Bills

The ultimate form of security and liquidity is to deposit funds with HM Government but only in the form of short-term "Treasury Bills" (up to one year maturity, to minimise any potential capital loss). The 2007 financial crisis saw several banks collapse and there was what is termed a 'flight to quality', with a rush across the globe to buy high grade government securities as a safe haven.

Given that the FSCS guarantee covers smaller councils (subject to the above-mentioned limit), it seems very unlikely that the Parish Council will ever need to use HMG Treasury Bills as a safe haven, but the nature of financial markets is 'never to say never'.

The inclusion of an investment category for Treasury Bills in the Council's Investment Strategy costs nothing (even though it may never be utilised) but will become vital if, for example, the UK Government is under so much financial stress that it chooses to remove the FSCS Guarantee for town and parish councils. It should be noted that Treasury Bills are highly liquid and are effectively treated as cash-equivalent, although may be subject to modest capital loss if sold early. Nevertheless, Treasury Bills can be a very useful tool to balance the contradictory demands of Liquidity and Yield.

No other types of deposit/investment for Treasury Investment purposes are permitted, except by explicit formal authority of the Full Council and subject to the above-mentioned legislation (and any future updates).

Appendix 3 – Cashflow Forecast (minimum 12 months, updated quarterly)

Appendix 4 – List of Treasury Investments



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5. Other Investments

A. LiveWire Community Energy Investment - £15,000 shareholding

LiveWire Community Energy Limited (LWCE) was established as a Community Benefit Society to enable local people and organisations to invest in renewable energy installations that benefit the local community.

It is a not-for-profit organisation, with any surplus reinvested for the benefit of the community. It has been established with the support of Warrington Borough Council and LiveWire Community Interest Company.

- a) On 26th October 2015, the Parish Council invested a sum of £15,000 (15,000 shares) in LiveWire Community Energy (Financial Conduct Authority Registration No. 7074) towards the funding of the solar panels on the Grappenhall Community Centre building. The shares have the characteristics of preference shares (although there are no ordinary shareholders) in not appreciating in value but paying an annual dividend (however, the advertised rate is only a target, not fixed).
- b) The investment is for 20 years (i.e. 2015 to 2035) with an estimated 4% interest per year, beginning after 1 year. It is intended that it will be held to maturity.
- c) There is no financial penalty for withdrawing the investment prior the end of the 20-year period – but the decision as to whether funds can be withdrawn is at the discretion of the LiveWire Board (although it will not be unreasonably withheld as long as there are sufficient funds available at the time of the request). Three months' notice is required for the withdrawal of funds.

B. Grappenhall Heys Estate Fund (Walled Garden & Village Green combined fund)

Background

In 2005, ownership of the Grappenhall Heys Estate was transferred to the Parish Council from English Partnerships (now known as the Homes and Communities Agency) for its upkeep in perpetuity. This comprised the Grappenhall Heys Walled Garden and, later in the same year, the Grappenhall Heys Village Green, together with pieces of green space within the vicinity, were also transferred to the Parish Council.

Two financial dowries accompanied these transfers (combined into one investment to the value of £1.74m) to allow the Parish Council to maintain and secure their future for the benefit of the public. In line with these aims, it is imperative that these financial assets are invested prudently, with the benefits maximised to ensure the stable future of these physical assets.

Appendix 5 – “Other Investments” Statements (minimum quarterly update)



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Key requirements for the safeguarding of “Other Investments”.

- a) The Parish Council requires any Management Company (currently Arnold Standsby & Co) to be regulated by the Financial Conduct Authority (FCA), and monies kept in client accounts, so they are not registered assets of that company.
- b) Close attention must be paid to investment management and custodian fees, as these have an impact on the overall returns of investments. In addition, excessive activity - in the buying and selling of investments (commonly known as “churning”) - can have a further negative effect on returns.
- c) This Fund has been set up to grow year on year – in a mixture of gilts, stocks and shares that is consistent with the delivery of the Vision Statement. The Fund is also required to produce an annual income to be used solely to finance the management of the Grappenhall Heys Estates.
- d) Appropriate benchmarks shall be used with which to compare the overall performance of the Fund, including a relevant measure of inflation to ensure that income is sufficient to cover the ongoing costs of managing the Estate.
- e) Withdrawals from the capital fund must only be undertaken in an emergency or on an urgent basis, and only with the full authority of the Parish Council. The Fund is set up to grow and to finance the Grappenhall Heys Estate in the long term, so any withdrawals will negatively affect the investment objectives of the Fund.
- f) Withdrawals from the actual ‘Fund’ will be transferred directly to the Parish Council Current Account – see Section 6.
- g) Cash Account (interest/dividend payments) withdrawals will be transferred directly to the Parish Council Current Account or as otherwise directed by the Full Council.

6. Roles & Responsibilities

The roles that will ensure the objectives of this investment strategy are achieved can be found below, together with a brief outline of their key responsibilities.

Responsible Finance Officer (RFO) and Clerk to the Council

- To monitor the quarterly performance of all Parish Council investments, and report their status to Full Council
- To monitor the credit rating of all assets (where applicable).
- To examine and retain monthly statements and financial records from the fund manager(s), notifying the Chair of significant variations.



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- To effect withdrawals from the actual 'fund', following resolution and endorsement by the Parish Council through its delegated powers to the Resource Committee.
- To make withdrawals from the Cash Account (interest/dividend payments) as and when required, subject to the prevailing budgetary and cash flow requirements of the Parish Council.
- To inform the Internal Auditor of all Parish Council investments and to notify any changes to this Strategy
- To arrange or undertake a formal external three-year review of this Investment Strategy

Chair of the Council

- To monitor the quarterly performance of all Parish Council investments in conjunction with the Responsible Financial Officer.
- To determine whether changes to the Investment Strategy are significant enough to be relayed to a Full Council meeting.

Parish Council or Committees with delegated powers

- To monitor the Annual performance of Parish Council investments
- To resolve and endorse all withdrawals from the actual 'fund'.
- To evaluate and approve the Parish Council's Investment Strategy annually.
- To determine appropriate corrective action, when required, to ensure that all investments under the Parish Council's management contribute to its overarching Vision and the Objectives set out in Section 2.

7. Freedom of Information and the Transparency Code

In accordance with the Freedom of Information Act 2000 and the Local Government Transparency Code 2015, this Investment Policy and the related Investment Strategy are disclosable to the public. They will be placed on the Parish Council website and hard copies will be available from the Parish Council Office upon request.