Church Fenton Parish Council Investment Strategy

Introduction

This policy sets out the Investment Strategy (the Strategy) for the Parish Council of Church Fenton. The Parish Council has the power to do anything an individual can do, under the General Power of Competence (GPC) introduced by the Localism Act 2011, provided it is not prohibited by other legislation.

The Parish Council has the power to invest surplus funds, under the Local Government Act 2003. Section 12 of this Act states that a local authority may invest for any purpose relevant to its functions under any enactment and for the purpose of prudent management of its financial affairs. However, Section 15(1) of the Act requires the Parish Council to have regard to guidance issued by the Secretary of State. Prior to setting this Strategy the Council has considered the 3rd edition of the Statutory guidance, effective for financial years commencing on or after 1 April 2018.

The Council can amend or make variations to the Strategy at any time, but it will be formally reviewed annually.

Investment Objectives

The Parish Council manages open spaces, and campaigns for and delivers services and facilities. It aims to improve the quality of life for residents and the local environment. Financially, the Council seeks to ensure it has the finances to achieve these objectives while not placing an onerous financial burden on residents.

The Council's underlying financial objectives, in order of priority are:

i. Security – ensure sufficient security of capital so as to minimise the risk of loss
ii. Liquidity – adequate liquidity to meet the cash flow needs of the Council as they fall due
iii. Yield – achieve a high rate of return, subject to adequate security and liquidity safeguards

The Council recognise that environmental and social factors are not fully recognised by financial markets so seeks to take account of the preferences of Parish residents in this regard when determining the Strategy.

Our Investments

Investments can range from bank and building society accounts to properties or shares in companies. The Statutory guidance groups these different types of investment into specified assets, loans and non-specified assets. There is also specific treasury management processes and delegations that relate to the Council's use of bank accounts but some of the Council's investments fall outside of these.

Deposit Accounts

The Council will use deposit accounts with UK banks and building societies in order to provide appropriate security of its money. The Council invests in short term deposit accounts. It uses different repayment periods to generate interest whilst ensuring it maintains adequate levels of liquidity. All accounts will be repaid within 12 months, making them "specified investment" under the statutory guidance. The overall investment in "specified investments" is not currently expected to exceed £100,000.

The Council reviews investment of in deposit accounts annually, including compliance with stated investment limits. At the last review all deposits were accessible within 3 months and amounts remained within the specified limit.

The choice of institution and length of deposit will be at the approval of the Council although investments in deposit accounts are expected to be for a period of less than 5 years. Credit ratings will be considered prior to investing.

Most of the money held in cash deposits relates to cash which needs to be used for a particular purpose. This includes money received under Section 106 agreements (planning obligations) and Community Infrastructure Levy (CIL) which are accounted for separately, but separate bank accounts are not used for ease of administration.

This money currently includes:

- Sandwath Endowment - a S106 planning obligation for the maintenance of the Sandwath Play Area and adjacent open space.
- Community Shop Bond
- Community Infrastructure Levy (planning obligations) for the development of outdoor / recreational facilities.
- Neighbourhood Plan grant to be used in relation to the Council's Neighbourhood Plan

Interest earnt from deposits is used for general expenditure, reducing the pressure of the Precept.

Property

The Council invests in village infrastructure, including properties, where it believes this has a positive environmental or social benefit to the Parish that is not being recognised or facilitated by the market. These investments have greater potential risk. The Statutory guidance refer to these assets as "non-specified investments".

The Council owns 2 properties (a shop and a Public House) that have a substantial valuation. At the time of the last valuation, these properties owned by the Council were worth £640,000. A fair value assessment of the properties has been made within the past twelve months, and the value of the properties is less than the loan used to purchase and improve the properties. However, both properties have been undergoing redevelopment work, partly funded from the loan. The Council expects the valuations to rise as a result of this work and intends to seek a revised valuation during 2020. Revised market valuations will be obtained periodically, and at least every 5 years. The loan repayments are for capital and interest, reducing the liability over the period of the loan.

While careful consideration of business plans prior to the purchase of the properties allowed the Council to manage several risks, the Council recognises there are a variety of ongoing risks, including but not limited to:

a) Market risk – the value of the Council's assets can fall as well as rise
b) Tenant risk – the risk that the current tenants will default on one or more rental payments or fail financially resulting in the property becoming vacant for a period of time
c) Liquidity risk – the risk that it may take a period of time to sell the assets
d) Political risk – changes to policy, including taxation, could impact the net revenue or net proceeds from the sale of the assets

e) Regulatory risk – changes in regulation e.g. energy efficiency or fire safety
f) Environmental hazard – damage by a one-off event (e.g. flooding or fire)
g) Maintenance failure – risk that failing to maintain results in significant damage to the property
h) Concentration risk – the assets held by the Council are poorly diversified being in the same location and largely reliant upon the same, relatively small community for its revenue
i) Stranded asset – the risk of unanticipated or premature write-downs or devaluations

The Council has sought to manage some of its risks, e.g.

- Maintenance risk - use of full repair and maintenance leases
- Liquidity risk – use of a Bond to address a liquidity concern of one of the properties, impacted by the existence of an overage clause

The Council has prepared a risk register to assist with managing these risks and monitors the position annually. To assist with this the Council: monitors the condition of the properties; periodically engages with tenants to identify heightened risk of tenancy default and vacancy, and monitors regulatory change. The Council does not employ the services of a property adviser at the current time.

The leases provide a direct relationship between loan repayments and rent so that it has a neutral impact on the precept. Rent is payable in advance which means that rent cash flow is positive. In the event rent is not received the Clerk will report immediately to Council to allow consideration of what action needs to be taken.

There is no approval for the Council to purchase additional properties or borrow further at the current time. Prior to any purchase the Council will undertake a detailed review, including consideration of the best borrowing terms and the appropriate duration, and appropriate professional advice being sought. A decision to proceed requires the approval by full Council.

Other Land and Property

The Council owns land and property within the Parish which has insignificant market value. This is not classified as a "non-specified asset" under the statutory guidance. This includes:

- Park, Village Green, open space and play areas
- Cricket Ground – leased to the Cricket Club on a 125 year lease (from 2009) at £1 per year
- Village Hall – includes a covenant which requires management by an independent trust, and prevents sale

Council Competence

Ongoing training to ensure elected members and the Clerk involved in the process have appropriate capacity, skills and information to enable them to make informed decisions.

Prior to the investment in further non-specified assets (e.g. properties) the Council will commission professional advice before any decisions are taken.

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