

## **Harrietsham Parish Council**

### **Investment Policy**

#### **1. Preamble**

The Council now regularly has cash reserves in excess of £100,000 and so is required to develop a suitable policy for investments.

The current position is that the council runs three bank accounts. Two are with Natwest, the first being a current account for day-to-day operation, and the second a Business Reserve interest-bearing account. There is an automatic mechanism to maintain the current account at £2,500 at the end of each day with the remainder transferring in or out of the Business Reserve as appropriate. This allows the interest to be maximised with no regular human intervention. The third account is a Business Savings account with the Nationwide Building Society, (who offer no business current account facilities), which is an interest-bearing account, paid annually.

The council also has two outstanding loans made to the Village Hall Trust. Both were made when the hall was built, around 1990, and both run for a number of years on a flat repayment schedule agreed at the time. Payments for both capital and interest are received on an annual basis.

Finally, a few years ago the council purchased Teers Meadow when it became available. Consideration was given to obtaining an external loan to do so (from the Public Works Loan Board), but in the end the money was borrowed internally from the Woodlands Walk fund, and a repayment schedule agreed by councillors to return the funds to this Restricted Fund over a period of time. There were a number of benefits to this arrangement, being that the Fund had been receiving a very poor rate of interest following the 2008 banking crash, so it was an opportunity to allow it to get a more favourable rate on its “loan”, and yet the council wasn’t having to place itself in debt and pay interest at full commercial rates to an outside body.

The following policies will apply, as appropriate:

#### **2. Cash Reserves**

- a. All cash reserves are to be held in UK-based (not necessarily UK-owned) financial institutions which benefit from the FCA’s protection – currently limited to £85,000.
- b. It is recognised that the balances vary considerably, always peaking at the beginning of the year when the precept is paid. Whilst there will be no limit to the number of accounts that may be maintained, the requirement will be determined by the overall balances at the end of the year – being the time that the council’s underlying financial position is clearest.
- c. No account should hold more than the then-current FCA protection limit, minus £5,000, at the end of the year (so, for 2019, £85,000 - £5,000 = £80,000), although it would be acceptable for an account held with a “big name” UK bank to exceed this level. If it was felt desirable to do so, the RFO may take steps to move money as appropriate, and if necessary, to open another account.
- d. If the decision has been made to spread the risk, then care must be taken to ensure that bank accounts used to hold reserves are independent to the extent that each benefit from the full extent of FCA guarantee – in other words, they do not share a holding company.
- e. All reserve accounts should be interest-bearing, and an annual review should be held to ensure that each continues to pay a reasonably competitive rate.
- f. Year-end General Fund cash reserves shall be considered to be the amount actually recorded, less any amount still owed to any other internal fund. The result should not then exceed double that year’s precept.

### **3. Other investments**

The council is formally highly risk-averse. There is therefore no intention to start investing in other areas, such as stocks and shares. Should cash reserves reach £200,000 (including the Woodlands Walk fund), or there is another sharp drop in banking interest, then this position will be reviewed.

### **4. Loans to third parties**

- a. Loans to third parties will only be made if there is a significant, demonstrable and irrefutable benefit to the local community of Harrietsham, and must be permissible in law.
- b. Any such loan will be made from reserves if possible, or, if not and if permitted in law, from loans obtained from elsewhere.
- c. Any such loan will be subject to a formal, legally-binding agreement which shall include interest rates (based on commercially available rates at the time), repayment schedules for both capital and interest, and default arrangements in the event of a problem.
- d. No loan shall be made to any private individual or company.

### **5. Loans to the Council**

- a. The council may raise a loan for any project that it feels will provide benefit to the local community.
- b. The RFO will ensure that powers exist for such a loan to be taken.
- c. Any such loan will be for a reasonable amount, considering the nature of the project or requirement.
- d. Any such loan will be sought from the Public Works Loan Board in the first instance, this being to establish a benchmark interest rate.
- e. The council will then seek a suitable loan from reputable sources at a lower rate, and the most favourable rate accepted.
- f. The RFO shall ensure that the agreed repayment profile can be met from the council's resources, including, if necessary, an increase to the precept.

### **6. Internal loans**

- a. Before any external loan is sought, the council shall consider whether the requirement can be met by an internal loan from its own resources.
- b. The PWLB shall be approached to obtain an indicative interest rate.
- c. Any such loan shall then be repaid to the source fund over an agreed period, with the appropriate interest rate applied, using a flat repayment profile.
- d. The intention here is to ensure that the source fund gains a better rate of interest than it would otherwise have done, whilst simultaneously avoiding the council "leaking" money to an outside body.

M Cuerden

Responsible Finance Officer

Harrietsham Parish Council

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