



# Kidderminster Town Council

## Reserves & Investment Policy

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## **Background**

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum or maximum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are key protocols for their establishment and use.

### ***The Department for Communities and Local Government The Good Councillor's Guide to finance and transparency 2018***

#### **RESERVES**

Local councils need to hold an amount in reserves to meet unexpected expenditure, otherwise they could run out of money before the end of the financial year.

A council should typically hold between 3 and 12 months expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community.

Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept.

The council may have 'earmarked reserves' for specific projects, where money is allocated for a specific purpose but may not be spent in that financial year. This may include reserves to purchase or renovate a building, develop a sports facility or community centre.

If the amount of reserves at the year-end are above a certain level in relation to the annual precept then the Council must advise the external auditor of why this level of reserves is required.

## 1. Purpose

Kidderminster Town Council is required to maintain adequate financial reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of General Reserves. The Council's General Reserves is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds earmarked for long term projects. Kidderminster Town Council agrees its desired general reserve as part of its annual budget setting process.

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. However, there is no specified minimum or maximum level of reserves that an authority should hold, and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are key protocols for their establishment and use.

## 2. Types of reserves

### *General Reserves*

Reserves can be categorised as general (e.g., held to cushion the impact of uneven cash flows or unexpected events) or earmarked (held for a specific purpose).

### **Earmarked Reserves**

Earmarked reserves are held for five main reasons:

1. **Renewals** – to enable the Council to plan and finance an effective programme of equipment replacement and planned property maintenance. These reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.
2. **Carry forward of underspend** - some services commit expenditure to projects but cannot spend the budget in year. Reserves are used as a mechanism to carry forward these resources.
3. **Trading accounts** – In some instances surpluses are retained for future investment.
4. **Insurance reserve** – to meet the estimate of future claims to enable the Council to meet the excesses not covered by insurance.
5. Other earmarked reserves may be set up from time to time to meet known or **predicted liabilities**.

**General reserves or working balances** are funds which **do not** have any restrictions as to their use. These reserves can be used to smooth the impact of significant pressures, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

## **Earmarked reserves**

The Governance and Accountability Practitioners' Guide (2020) sets out guidance and audit considerations for Town & Parish Councils.

Earmarked reserves will be established on a "needs" basis, in line with planned or anticipated requirements.

As outlined in the regulations, any decision to set up a reserve must be given by the Council.

Expenditure from reserves can only be authorised by the Council.

If reserves are used to meet short term funding gaps, they must be replenished in the following year. However, earmarked reserves that have been used to meet a specific liability would not need to be replenished, having served the purpose for which they were originally established.

All earmarked reserves will be recorded on a schedule held by the Responsible Financial Officer which lists the various earmarked reserves and the purpose for which they are held.

Reviewing the Council's Financial Risk Assessment is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of Reserves.

## **Working balances**

The level of general reserves or working balances is a matter of judgement and so this policy does not attempt to prescribe a blanket level. The primary means of building working balances will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

Setting the level of working balances is one of several related decisions in the formulation of the medium-term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment.

In practice, however, in determining the precise level of reserves about this minimum, the Responsible Financial Officer will consider most if not all of the factors shown in the following table:

<b>Budget assumptions</b>	<b>Financial standing and management</b>
The treatment of inflation and interest rates	The overall financial standing of the authority (e.g. level of borrowing, debt outstanding, council tax collection rates)

The treatment of demand-led pressures

The authority's capacity to manage in-year budget pressures

The treatment of planned efficiency savings

The strength of the financial information and reporting arrangements

The financial risks inherent in any significant new funding partnerships, major contractual arrangements or major capital developments

The authority's virement and end-of-year procedures in relation to budget under/overspends at council and committee level

The availability of other funds to deal with major contingencies and the adequacy of provisions

The adequacy of the authority's insurance arrangements to cover major unforeseen risks

A well-run authority with a prudent approach to setting its budget will each year consider its level of general reserves. These general reserves will also need to be supported by earmarked reserves for specific needs, contingencies and commitments. In assessing the level of the Town Council's reserves, account needs to be taken of the risks facing the Council in terms of any significant unforeseen expenditure requirements. Future transfers of services from Wyre Forest District Council and any capital requirements for the management of the Council's assets and buildings need to be considered.

Further major elements which could impact adversely on future precepts are:-

- Capping of Town Council Precept by HM Government
- Additional transfer of services from Wyre Forest District Council

### **Financial Responsibility**

Under its financial regulations the Town Council as a whole is responsible for the overall management and control of the Town Council's finances.

### **Role of Responsible Financial Officer**

It is the responsibility of the Responsible Financial Officer to advise the Town Council about the level of reserves that it should hold and ensure that it has clear protocols for their establishment and use.

There is no statutory minimum but there are four significant safeguards in place against the Town Council over committing itself financially:-

- (a) The balanced budget requirement.
- (b) Responsible Financial Officer's S114 Powers.
- (c) The External Auditors responsibility to review and report on financial standing.
- (d) The year-end internal audit report from the Town Council's Auditor.

Kidderminster Town Council, on the advice of their Responsible Financial Officer, are required to make their own judgements on the level of reserves, taking into account all relevant local circumstances which can vary. A well-managed authority with a prudent approach to budgeting should operate with reserves in the Town Council's current range given its emerging service responsibilities.

**Finally, the Responsible Financial Officer has a duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.**

## Investment Strategy

### Relevant Guidance

[Guidance on local government investments.pdf \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/guidance/parent-guidance/2018-04-11/guidance-on-local-government-investments)

Statutory Guidance has been issued by the Government on Local Government Investments (3<sup>rd</sup> Edition) issued under section 15 (1) (a) of the Governments Act 2003 and effective for financial years commencing on or after 1<sup>st</sup> April 2018. The key principles of the guidance are transparency and democratic accountability. The guidance is statutory for parish councils, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year.

### **This guidance applies to all local authorities in England.**

- I. This guidance applies to parish councils and charter trustees, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year. Where a parish council or charter trustee expects its total investments to be between £10,000 and £100,000, it is encouraged to adopt the principles in this guidance. KEY PRINCIPLES Transparency and democratic accountability
- II. For each financial year, a local authority should prepare at least one Investment Strategy (“the Strategy”). The Strategy should contain the disclosures and reporting requirements specified in this guidance.
- III. The Strategy should be approved by the full council. The Secretary of State recommends that the Strategy should be presented for approval prior to the start of the financial year.
- IV. Where a local authority proposes to make a material change to its Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented.
- V. The Strategy should be publicly available on a local authority’s website.
- VI. Where a local authority prepares a Capital Strategy in line with the requirements of the Prudential Code, a Treasury Management Strategy in line with the requirements of the Treasury Management Code, or any other publicly available document, the disclosures required to be included in the Strategy can be published in those documents instead of in the Strategy

## **Investment Strategy 2023**

Kidderminster Town Council acknowledges the importance of prudently investing the surplus funds held on behalf of the community.

The Council defines its treasury management activities as:

The management of the Council's cash flows, its banking and money market transactions, the effective control of the risks associated with those activities, and the pursuit of best value performance consistent with those risks

Kidderminster Town Council holds investments for treasury management purposes. The contribution that these investments make to the objectives of Kidderminster Town Council is to support effective treasury management activities.

Kidderminster Town Council will take the opportunity to invest further in the CCLA Public Sector Deposit Fund for short periods, where significant levels of cash are held during the Town Hall transformation project and subject to cash flow requirements.

Yields that are generated from financial investments will be added to:

- Bank Building Society Savings account yield re-invested into the general reserve on an annual basis to contribute towards future capital needs.
- CCLA Local Authorities Property Fund received within the revenue accounts (£100k invested as at 31/01/2023)

This strategy establishes formal objectives, policies and practices and reporting arrangements for the effective management and control of the Council's treasury management activities and the associated risks.

### **Indicators**

The guidance states that where authorities are holding treasury management investments for more than 12 months, they should include quantitative indicators that allow Councillors and the public to assess a local authority's total risk exposure as a result of its investment decisions.

Investment Policy

Investment objectives

The two primary objectives of a prudent investment policy are:

1. Achieving security (protecting the capital sum from loss)
2. Liquidity (keeping the money readily available for expenditure when needed)

Once proper levels of security and liquidity are determined it will then be reasonable to consider a third objective, what level of yield can be obtained consistent with the first two objectives.

## Investment Priorities

Kidderminster Town Council's investment priorities therefore are:

- the security of its reserves, and
- the adequate liquidity of its investments, and
- the return (yield) on investment - the Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

All investments of money under the control of the Council shall be in the name of Kidderminster Town Council.

The Department for Communities and Local Government maintains that the borrowing of money purely to invest or to lend and make a return is unlawful and the Council will not engage in such activity.

Where external investment managers are used they will be contractually required to comply with the Strategy.

## Security

In order to diversify an investment portfolio largely invested in cash, investments will be placed with a range of approved financial institutions to minimise risk.

Financial investments can fall into one of three categories:

1. Specified Investments
2. Loans
3. Other Non-Specified Investments

## Specified Investments

- Specified investments are those offering high security and high liquidity.
- All investments will be made in sterling.
- Specified investments are not long term, the local authority has contractual right to repayment within 12 months.
- The investment is made with a body or in an investment scheme described as high quality or will one of the following bodies:

\*The United Kingdom Government

\*A local authority in England or Wales (as defined in section 23 of the 2003 Act) for a similar body in Scotland or Northern Ireland; or

\* A parish council or community council.



The Council will monitor the risk of loss on investments by review of credit ratings on a quarterly basis. Kidderminster Town Council will assess the risk of loss before entering into, and whilst holding, an investment.

## **Loans**

The guidance states that a local authority may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

There are specific conditions that the local authority must be able to demonstrate in order to undertake this type of investment and the guidance contains a detailed explanation.

Kidderminster Town Council currently has an agreement to draw down a PWLB Loan of £500k to contribute to the Town Hall transformation project. It is anticipated that the funding will be drawn down if and once the project breaks ground.

## **Non- Specified Investments**

Non-Specified Investments are those which are not a loan, nor does it meet the criteria to be treated as a specified investment.

Examples may be long term investments (longer than 12 months) and investment in stocks and shares.

Given the unpredictability and uncertainty surrounding investments in stocks and shares, Kidderminster Town Council will not participate in such investments.

The Council's policy on liquidity states that only short-term investments will be held.

## **Liquidity**

The Chief Executive /RFO and Chairman of Finance & Overview Committee will determine the maximum period for which funds may prudently be invested, so as not to compromise liquidity.

The Town Council's policy will include short-term investments (no longer than 12 months) and ensure liquidity.

## **Return**

No investment shall be held with the council's current bankers. The Town Council shall only invest with banks/building societies which it defines as "High Credit Quality". This being those with a credit rating of A with Moody's Investors Service or BBB with Standard and Poor's or Fitch Ratings Ltd. The Town Council also invests in the CCLA Public Sector Deposit fund subject to it maintaining a credit rating as required above.

## **Reporting**

The Council will report on the return on investments within the annually produced Investment Position Statement as an indicator of investment performance.

## **Publication**

The guidance states that the Council's Investment Strategy should be publicly available on a local authority's website.

## **Annual Reporting on Investments**

At the end of the financial year, the Chief Executive/RFO will provide a report on the performance of the Council's investments and an Investment Position Statement to the Finance Committee at their first meeting of the new financial year.

Within the annually produced Investment Position Statement, the Council will report on:

- Return on investments as an indicator of investment performance
- Debt to net revenue expenditure (gross debt as a percentage of net revenue expenditure, where net revenue expenditure is a proxy for the size and financial strength of a local authority)

## **Review of Investment Policy**

The Investment Policy will be reviewed annually by the Council prior to the start of the financial year.

The Council shall be able to amend or make variations to the Policy at any time following consideration of recommendations from the Chief Executive/RFO.

## **Setting the Investment Strategy**

For each financial year, a local authority should prepare at least one Investment Strategy which needs to contain the disclosures and reporting requirements specified in the guidance.

The Strategy should be approved by the full Council. The Secretary of State recommends that the Strategy should be presented for approval prior to the start of the financial year.

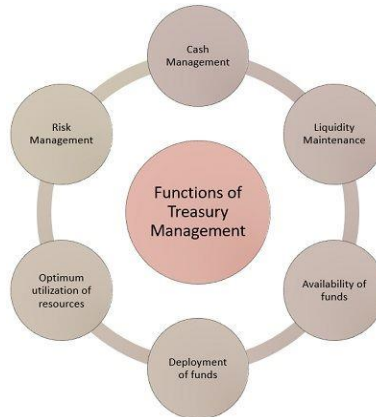
Where a local authority proposes to make a material change to its Investment Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented

## **Treasury Management Advice**

Kidderminster Town Council recognises that neither members or officers are experts in the field of treasury management. As such, the Council should review its level of investment on an annual basis and assess if there is a requirement to obtain independent,

external, expert 'Treasury Management' advice in reviewing the Investment Strategy and the allocations of Specified Investments. Treasury Management advice may potentially be sourced from the principal local authority or a specialist treasury management advisory firms who specialises in local authority and local town and parish councils.

“Definition: Treasury Management can be understood as the **planning, organizing and controlling holding, funds and working capital of the enterprise** in order to make the best possible use of the funds, maintain firm’s liquidity, reduce the overall cost of funds, and mitigate operational and financial risk”.



### Banking Arrangements

The Council will periodically review its banking arrangements by a competitive process which balances returns, High Street presence, accessibility of funds, service level, bank charges and ethical credentials.

The banking arrangements of the Council are to be reviewed regularly by the Finance & Overview Committee, following which recommendations to Council will be made.

Two bank accounts are held with Barclays Bank

Kidderminster Town Council aims to invest with financially ethically minded principles wherever possible.

Chairman of the Council.....

Date.....

**Approved date 23dr February 2023 Minute number: xxxxxx**