Newmarket TOWN COUNCIL

Report to	**Finance & Policy Committee**
Subject	**Investments**
Purpose	**Information/Decision**
Classification	**Unrestricted**
Meeting date	**22nd January 2024**
Item number	**14**
Written By	**Cathy Whitaker CLERK**

Summary: This report gives information regarding Town Council investments and the need to update the Council's Medium-Term Financial Plan and Treasury Management Policy.

1.	Introduction
a.	The Council's funds are in two Unity Trust Accounts – a main Current Account and a confidential account for Staff Salaries. No interest is applied to either account. The two accounts are best suited for on-going Council financial operation; efficient online access with two-councillor approval.
b.	The Council has no investment accounts to date.
c.	There are some statutory regulations around Local Council investment of public money to be considered.
2.	Context
a.	The **attached document from Parkinson Partnership:** Steve Parkinson provides advisory services to 36 county associations, including SALC, on financial matters such as VAT, internal audit, accounting procedures, etc. Although the Parkinson Partnership is unable to provide regulated investment advice, it partners with treasury management advisors **Arlingclose Ltd** to make some general investment advice available to parish and town councils.
3.	Proposal/Options
a.	The Medium-Term Financial Plan and Treasury Management Policy requires bringing up to date.
b.	Research the professional advice given by Arlingclose Ltd regarding the statutory regulations and voluntary options of Local Council investment.
4.	Next Steps/Recommendations
a.	To consider, review and update the Council's Medium-Term Financial Plan and the linked Treasury Management Policy.
b.	To research the professional advice regarding investment opportunities.
c.	Delegate 4a and 4b to the F&P Committee Chair and the Town Clerk to report to the next F&P Committee meeting.

Parish Councils: how should you invest your funds?

[Arlingclose Ltd – www.parkinsonpartnership.uk/investment-advice-for-parish-councils]

With market volatility continuing to fluctuate and short-term interest rates rapidly rising, it may be time to reassess your bank balances and short-term investments for security, liquidity and yield.

A looming recession means it is ever more crucial to ensure security of principal is maintained. One way this can be managed is to diversify funds across a number of counterparties to eliminate any sizeable losses. When investing with banks through either call accounts, notice accounts or fixed term deposits, it is important to identify whether your authority is covered by the Financial Services Compensation Scheme (FSCS).

Following discussions with Arlingclose, the FSCS extended its protections in 2015 to include 'small local authorities', which are described as authorities with an annual budget of less than €500,000 (currently £430,000 and updated annually on 3rd July). This means that authorities considered small are granted the same protections as individuals, and deposits of up to £85,000 per UK bank or building society are fully protected. Authorities covered by the scheme should have enough counterparties to ensure accounts do not exceed this limit.

For larger authorities, there is no FSCS protection and an investment strategy should be formed to help set formal criteria for investing. Not all banks run the same risks and, as investors of public money, you will want to ensure you are making your best effort to maximise security. The strategy should include minimum overall acceptable credit criteria as well as duration and monetary limits based on the type of approved counterparty and its creditworthiness. For councils with investments of over £100,000, an investment strategy prepared in line with government investment guidance is a legal requirement.

Maintaining an adequate level of liquidity is important to ensure there is funds available to draw down should unexpected costs arise. Keeping a proportion of your portfolio liquid can help avoid incurring expensive borrowing from external sources. Money Market Funds (MMFs) are a useful liquidity tool which also offer diversification.

A MMF is a pooled fund which invests in high credit quality, short-term debt instruments and typically offers daily liquidity. MMFs are actively managed by a fund manager and there are rigid guidelines regarding the makeup and transparency of the fund. For example, the fund must have a weighted average maturity of below 60 days and each holding is limited to no more than 5% of the fund. The principal objectives of a MMF are preservation of capital, high liquidity and competitive returns (or yield) commensurate with security and liquidity, aligning them closely with the requirements of the government investment guidance.

In the current high and rising interest rate environment, you also want to ensure you are not bypassing lost income from accounts still paying sub one percent returns. Generally, MMFs can react relatively quickly to rate rises as existing deposits roll off and it invests at higher rates. We have seen this recently with most funds paying close to the current Bank of England base rate.

To discuss parish council investment advice, please contact the Arlingclose team at info@arlingclose.com