

**Committee: Full Council**

**Date: 21 February 2023**

**Title: Investment Policy**

**Purpose of Report:**

Members to review the returns on bank balances and CCLA Public Sector Deposit Fund

**Recommendation:**

Members are asked to note the report.

**Report:**

1. At the June 2022 Full Council Meeting Members resolved to approve the Councils most recent Treasury and Investment Policy as laid out in the Iminster Town Council's Financial Regulations.<sup>1</sup>

**2022-0054-TC Town Council Investment Policy**

*Members **RESOLVED** unanimously to approve the Iminster Town Council Treasury and Investment Policy presented to the Full Council meeting.*

**Proposer** Cllr Shearman **Seconded** Cllr Shepherd

2. This policy has been appended to this report – **Appendix 15A**. In the policy it is made clear that there are a number of key objectives
  - i) To invest prudently to ensure the security of the principal sums.
  - ii) To maintain liquidity in the portfolio to meet the council's spending plans.
  - iii) To mitigate risk.
  - iv) To seek the optimum returns available whilst remaining consistent with the proper levels of security and liquidity.
3. The council's policy on investment is risk-based, i.e., low, medium, or high; it is apparent that council has adopted a low-risk approach for some time and that would be considered a prudent approach.
4. As reported to Members at the January 2023 Full Council meeting, the full Precept will be paid to the Town Council by the end of April 2023. This means that the Council will receive a payment of close to £400,000. It is currently anticipated that along with the amounts set aside for Earmarked Reserves, and the general reserves there will be around £900,000 held in the Council's financial accounts by the end of April 2023.

---

<sup>1</sup> ITC Financial Regulations – adopted 17 May 2022 – section 8.5

5. As part of the budget provision the council has agreed to hold in Reserves the equivalent of 6 months expenditure. With current monthly expenditure equating to approximately £30,000 the council should be placing £180,000 in reserve.
6. Currently there is £75,000 held in the CCLA- PSBR account and we estimate that there will be a further £420,000 at the end of the financial year held in the NatWest Accounts. On the 2 February 2023 the funds held at NatWest amounted to £591,266. This is held in a reserve account that automatically transfers to the main current account allowing for interest to be earned on the bulk of the funds held.
7. As an aside Members may be aware that the local branch of NatWest will be closing in May and this will present some difficulties for both the council and the community, especially those people who are not familiar with on-line banking.
8. Under current legislation as long as the Town Council's income is under £500,000 Euros then protection is provided for the first £85,000 held in a financial institution.<sup>2</sup> This means that in order to protect all of the funds at the end of April 2023 the council would need to open something in the region of 10 completely separate banks.
9. Over the past twelve months there has been a steady increase in the interest rate for funds held in interest bearing accounts. The effect of this can be seen in the following table.

<b>Monthly Interest received</b>		
<b>Bank</b>	<b>Nat west</b>	<b>CCLA-PSDF</b>
Dec-21	£ 4.32	£ 5.72
Jan-22	£ 4.30	£ 10.53
Dec-22	£ 422.93	£ 193.67
Jan-23	£ 428.25	£ 227.61

10. There are many complex factors which can affect indicators for interest-rate decisions, such as inflation, economic growth rate and unemployment. The following gives a flavour of what analysts are predicting for 2023 and 2024:
  - a. In its fiscal forecast published in November 2022, the Office for Budget Responsibility predicted the bank rate would rise to 4.8% in quarter 3, 2023 and reduce to 4.5% in quarter 3, 2024.

---

<sup>2</sup> Customer deposits held by banks, building societies and credit unions (including in Northern Ireland) in UK establishments that are authorised by the Prudent Regulatory Authority (PRA) are protected by the Financial Services Compensation Scheme (FSCS) up to £85,000. This includes, for example, eligible deposits in current accounts, savings accounts, cash ISAs (held with a deposit taker) or savings bonds. The deposit protection limit applies to the total eligible deposits of each person, per PRA-authorized firm. A PRA-authorized firm may own several banking and building society brands. This means that anyone who has deposits in more than one account under a single brand, or multiple accounts under different brands owned by a single firm, is only protected up to a total of £85,000 across all these accounts.

- b. The Bank of England has projected the bank rate could reach 5.2% in the fourth quarter of 2023, before falling to 4.7% in 2024 and 4.4% in 2025.
  - c. Scotiabank forecast the UK's key interest rate to rise to 4.25% in 2023 and decline to 3.25% in 2024
  - d. ING forecast the interest rate will fall to 3.00% in quarter 1, 2024, and reduce to 2.25% in quarter 4, 2024.
11. In his last Internal Audit, Mr Rose noted that with the economic changes that were occurring the council should look at the returns that it is getting on its investments:
- The Council should review the returns it is receiving on its bank balances and consider how it may improve these returns within the framework of its investment policy.*
12. It is incumbent upon the Town Council to look to obtaining "value for Money at all times".<sup>3</sup> As the council is likely to be holding close to £900,000 at the start of the year, it should be able to realise further increased returns on the deposits whilst at the same time maintaining a low risk approach to its finances.
13. As already noted above, in considering any approach, Members' will need to bear in mind the Financial Services Compensation Scheme which limits deposit protection to £85,000.
14. As already noted in this report the council currently holds £75,000 in the CCLA-PSDF account and there is currently no limit on the funds that can be deposited. These funds it should be noted are not protected under the Financial Services Compensation scheme however they do screen the institutions that they place funds with and are regulated by the Financial Conduct Authority. **(Appendix 15B)**
15. In order to consider a viable strategy the Town Clerk, with the RFO, will look at the various banking and finance institutions that will be able to offer secure returns whilst still providing good rates of interest.
16. It is intended that they will look at distributing funds in such a way as to ensure nothing is invested for longer than 12 months and that instant access be maintained for significant amounts of the investments.
17. It would not be unreasonable to look at investing an amount equal to approximately half of the Precept in a 6 month account since in previous years this would not have been available until early October anyway.

---

<sup>3</sup> ITC Financial Regulations – adopted 17 May 2022 – section 10.3

18. Members are being asked to comment upon and note this report in order that a further report can be brought to the March Full Council meeting outlining potential strategies.

**Mark Tredwin  
Town Clerk  
February 2023**