



# **HEADBOURNE WORTHY PARISH COUNCIL INVESTMENT STRATEGY 2024/2025**

**Adopted by Headbourne Worthy PC  
January 2025**

## **1. Strategy Statement**

- 1.1. Headbourne Worthy Parish Council (“the Council”) acknowledges its responsibility to the community in managing the Council’s finances.
- 1.2. The Council has formed an Investment Working Group (IWG) that reports directly to the Council. The investment decisions will be made by the full Council.
- 1.3. Funds held by the Council include:
  - Working capital to meet the day-to-day expenditure needs;
  - Earmarked reserves;
  - General reserves;
  - Community Investment Levy (CIL);
  - Commuted sums in relation to the Kings Barton Development
- 1.4. The Council has acknowledged that it holds funds in addition to working capital used to meet the day-to-day expenses of the Council.
- 1.5. The Council has identified that it has sufficient funds in earmarked reserves to meet additional expenditure in the relation to specific projects.
- 1.6. The Council has identified that it has sufficient funds that are easily accessible in general reserves for emergency purposes.
- 1.7. The Council has £40,534 of CIL funds and acknowledges that these funds can only be spent on infrastructure projects and should be spend within 5 years of receipt. The Council acknowledges that CIL funds, if used for investment purposes, should only be held in short term investments.
- 1.8. The Council has agreed that the commuted sums will not be required to meet planned expenditure within the short to medium term, the Council deems the latter to be a period of 0-5 years, with the short term being a period of up to 12 months.
- 1.9. The Council has acknowledged it has additional funds available for short term and long term investment.
- 1.10. The Council has acknowledged the importance of prudently investing additional funds held by the Council until these are required for expenditure purposes.
- 1.11. The Council is not dependent on profit or income from the investment of additional funds as the Council’s working capital and reserves are considered to be robust.
- 1.12. The Council’s long term investments aims are to achieve future financial security for the Council and to contribute to the funding of future projects that will add value to the community.
- 1.13. The Council acknowledges its exemption from income tax and capital gains tax in respect of income and capital gains generated from investments.
- 1.14. The Investment Working Group has appointed independent experts, Cube Capital, to consult on the investment of additional funds held that are available for investment.
- 1.15. All invested funds will be held in the Council’s name.
- 1.16. The Local Government Act 2003 requires Local Authorities to produce an Investment Strategy each year. This Strategy has been prepared in accordance with the Guidance on Local Government Investments (“the Guidance”) issued under s.15(1), Local Government Act 2003 (“s.15(1)”).
- 1.17. Government Investments (“the Guidance”) issued under s.15(1), Local Government Act

2003 ("s.15(1)").

- The Guidance applies to parish councils providing their total investments exceed, or are expected to exceed, £100,000 at any time during the financial year. Parish councils that expect their total investments to be between £10,000 and £100,000 are encouraged to adopt the principles of the Guidance.

- In accordance with s.15(1), the Council will have regard to the Guidance.

1.8. This Strategy sets out:

- Investment Objectives;
- Categories of Investments;
- Investment Strategy – General;
- Investment Strategy – Specific.

1.9. The Council will have regard to the Council's Reserves Policy 2024 and the Council's Financial Regulations Policy 2024.

## **2. Investment Strategy**

2.1 The Council has adopted investment objectives for its short term (general reserves and CIL) and long term (commuted sums with a small sum of general reserves not required for short term needs) respectively.

2.2 The Council defines the short term as a period of up to 12 months.

2.3 The Council's prudent investment objectives for its short term investments are:

- Security, the Council will only invest in a low-risk investment strategy with high credit ratings;
- Liquidity, for ease of access to investments;
- Yield, funds will be placed in investments with attractive yields within the Council's risk, security and liquidity and parameters.

2.4 The Council defines the long term as a period of more than 5 years.

2.5 The Council's prudent investment objectives for its long term investments are:

- Security, the Council will only invest in a strategy that adheres to no more than a medium risk overall rating.
- Liquidity for ease of access to investments;
- Capital growth within the Council's investment risk, security and liquidity parameters.

## **3. Categories of Investment**

3.1. **Specified Investments** are those offering high security and high liquidity and that meet the following criteria:

- are made in £Sterling;
- are not long term (12 months or less);
- are not defined as capital expenditure;

- are made with the UK Government, a UK local authority, or a parish or community council
  - are placed in investments with high credit ratings (rated by Standard and Poor's, Moody's Investors Service Ltd or Fitch Ratings Ltd)
- 3.2. **Non-specified investments** are any financial investments that are not a loan and do not meet the criteria to be treated as a specific investment. Such investments have a greater risk potential.
- 3.3. The Council's non-specified investments will only be held in approved bonds and equities. The Council's preferred investment asset allocation for the risk management of long term investments is approximately 30% bonds/70% equities. The approval criteria for bond and equities are as below:
- 3.4. Approved non-specified Bonds and Equity investment categories:
- Government Bonds: Defined by high credit quality by setting a minimum credit rating of AA for government bonds, typically issued by the UK government (gilts) or other governments.
  - The procedures for identifying UK Government Bonds are:
    - Credit Quality Standards: Maintain investments in bonds with a minimum AA rating, which ensures a high likelihood of stability and repayment.
    - Maturity Guidelines: Select bonds with differing maturity dates aligned with the Council's long-term goals (5+ years), balancing interest rate risk with stability.
    - Exposure: Hold various bond investments to prevent overconcentration in one maturity range, which can manage exposure to interest rate fluctuations.
  - Blue-Chip Equities are defined as the stocks of a leading companies with solid records, proven management and substantial assets. For blue-chip equities, credit ratings are less relevant. The Council's investments will include at least 90% of the equity exposure to large, well-established companies within major stock indexes (e.g., FTSE 100 S&P500). These companies should have a history of stable earnings, and strong market positions in their sectors. The remaining 10% equity exposure does not need to meet the criteria of blue-chips equity.
  - Procedures for identifying Blue-Chip Equities:
    - Eligibility Criteria: The Council will consider equities of large-cap companies within indices such as the FTSE 100, indicating a stable and well-capitalised market presence. Cube capital will advise on this.
- 3.5. A Council 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. Such loans can be made if certain conditions can be met as per the Guidance. The Council currently has no plans to make any such loans.
- 3.6. Such loans can be made if certain conditions can be met as per the Guidance. The Council currently has no plans to make any such loans.
- 3.7. Non-financial investments are non-financial assets that a council may hold primarily or partially to generate a profit. Where a council holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested. The Council currently has no non-financial assets.

#### **4. Investment Strategy – General**

- 4.1. The Council's Investment Strategy will be reviewed and approved annually by the Investment Working Group and Full Council as part of the budget process.
- 4.1. The Council reserves the right to make variations to the Investment Strategy at any time subject to the approval of Council.
- 4.2. If a material change is required during a given year, a revised Investment Strategy shall be approved by Full Council before the change is implemented.
- 4.3. The Council will ensure it holds sufficient funds in the current account to meet its short-term financial commitments to salary payments and creditors.
- 4.4. The Council's current and instant access savings accounts will be held with banks and building societies which are regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").
- 4.5. No investment shall be held with the Council's current account banker or bankers.
- 4.6. Where investments are made in interest bearing term/notice deposits, these shall be placed with phased end dates to retain liquidity.
- 4.7. Any approved investment and the withdrawal of funds from accounts holding investments shall be authorised as per the Council's Financial Regulations and agreed signatories.
- 4.8. The Clerk shall report annually on the valuation of the investments to the Investment Working Group and Full Council.
- 4.9. The Council's investments will be added to the Asset and Investment Register.
- 4.10. The Council understands that eliminating all sectors identified as unethical will increase the risk exposure of investments to beyond the Council's risk parameters (limited diversification of sectors may well give rise to investment volatility). The Council therefore will exclude the Gambling and Tobacco sectors for ethical reasons.
- 4.11. The Council recognises that neither Councillors nor Officers are experts or operational in the field of investment fund management. The Investment Working Group has recognised that there is a requirement to consult with an independent, external, expert investment manager.
- 4.12. The Council will appoint an investment manager that will select companies that they identify as having at least one of the following:
  - strong growth prospects and/or a consistent dividend payments, and
  - a strong position within a core industry (e.g., consumer goods, financials, healthcare).
  - Use Diversification Guidelines: Allocate equity investments across various sectors to spread risk and minimise exposure to any single sector. Never invest more than 5% in a single equity.
- 4.13. The Council will appoint an investment manager that will monitor and review regular Credit and Quality Checks:
  - Conduct annual or semi-annual reviews of bond credit ratings to ensure they remain at AA or higher.
  - For equities, conducting regular reviews to ensure the equities still represent a good long term investment.
- 4.14. The Council has appointed Cube Capital as investment manager to the Council. The Council

is satisfied that this company adheres to the above guidelines.

- 4.15. Cube Capital will provide the Council with an annual investment review, or on an interim basis if deemed necessary or in the event of a material change.
- 4.16. The Council will not borrow more than, or in advance of, its needs purely to profit from the investment of the extra/early sums borrowed.
- 4.17. The Investment Strategy shall be published annually on the Council's website. Any amendments to the Investment Strategy, following an investment review or change of circumstances within the year, will be published on the Council's website. Hard copies of the Investment Strategy are available from the Clerk on request.

## **5. Investment Strategy – Specific**

- 5.1. The Council's current bank account is held with Unity Trust Bank PLC. Unity Trust is authorised by the PRA and regulated by the FCA. It is listed in the Financial Services Register under number 204570.
- 5.2. The council's working cash is covered by the Financial Services Compensation Scheme ("FSCS")<sup>1</sup> up to £85,000 per bank or other financial institution. Confirmation of the Council's eligibility under the FSCS is made annually to Unity Trust Bank.
- 5.3. The council's earmarked together with some general reserves are held in an instant access savings account with Unity Trust Bank PLC. The interest rate as of November 2024 is 2.75%. The balance of this account is covered by the Financial Services Compensation Scheme ("FSCS")<sup>1</sup> up to £85,000 per bank or other financial institution. Confirmation of the Council's eligibility under the FSCS is made annually to Unity Trust Bank.
- 5.4. The Council has ascertained that £50,000, comprising of CIL and some general reserves can be made available to invest in a low-risk cash fund for short term investment purposes.
- 5.5. Following consultation with the Council's investment manager, the Council intends to imminently invest £50,000 in the Legal and General Cash Trust. This fund meets the criteria for specified investments.
- 5.6. This investment has a low-risk exposure which is in line with the council's risk profile in respect of short-term investments. The fund comprises of very short-term maturities which by nature reduce interest rate fluctuations.
- 5.7. Legal and General has a A+ Fitch credit rating.
- 5.8. The yield rate at November 2024 is 4.9%. The Council is committed to selecting short-term investments with attractive yields.
- 5.9. The Council is not dependent on income from this investment, income generated will therefore be reinvested to add to the capital value.
- 5.10. The Legal & General Cash Trust is benchmarked against IA Short Term Money Market Index. To date the fund has consistently outperformed this benchmark for almost 3 years net of charges with income reinvested.
- 5.11. The annual management fee is 0.15%.
- 5.12. Deposits and withdrawals will be made by bank transfer. A notice period of 1 day is required in respect of withdrawals.
- 5.13. The Council has no loans or fixed investments for 2024/25.
- 5.14. The Council has ascertained that it will imminently have £250,000 available for long term investments with the aim of achieving capital growth. This amount comprises of £248,979 commuted sums and £1,021, for rounding purposes, general reserves not required for short term expenditure.
- 5.15. Following consultation with the Council's investment manager, the Council intends to invest imminently £250,000 in the Cube Capital Total Return Balanced portfolio.

- 5.16. This investment has a medium risk exposure which is in line with the Council's risk profile in respect of long term investments.
- 5.17. The Council understands the value of this investment will fluctuate, however, the risk exposure does remain within parameters of the Council's risk profile for long term investments.
- 5.18. The portfolio invests in a diversified range of high quality blue chip companies and bonds. It has global exposure and is unlevered. The balance of bonds and equities is in line with the Council's investment asset allocation objective of approximately 30% bonds/70% equities.
- 5.19. The Total Return Balanced Fund facilitates the omitting of the Gambling and Tobacco sectors.
- 5.20. Any Income generated from long term investments will be reinvested to add to the capital value.
- 5.21. The Total Return Balanced portfolio holds bond allocation is in UK government with credit rating of an AA Fitch credit rating. The portfolio meets the approved criteria for approved non specified investments as outlined above in paragraph 3.24.
- 5.22. The management fee for the Total Return Balanced Portfolio, including dealing and custody charges is 1.6%.The total charge in year 1 is 2.1% plus a dealing commission charge of 0.1% subject to a minimum charge of £15 for UK securities and £25 for foreign securities. Cube Capital makes no profit from this charge.
- 5.23. The fund is benchmarked against the STEPS Enhance Medium Risk benchmark. The indicated annual return, referring to an asset allocation of 30% bonds/70% equities and the CAGR (compound annual growth rate 6.5%) is 5.9% (real) and 9.1% (nominal i.e. before expenses and inflation).
- 5.24. Deposits and withdrawals will be made by bank transfer. Funds are easily accessible with withdrawals taking 3-5 working days.
- 5.25. The investment once made will be entered in the Annual return (AGAR) as expenditure (box 6) and the cost value will be held as fixed assets investments (box 9).
- 5.26. Any return on the investment that the Council has been made aware of (4.8) will not be reflected in the AGAR until money has been put into the Unity bank accounts.
- 5.27. Once the funds are returned from the investment, including any growth, and placed in the Unity bank accounts, the amounts will be reflected in the AGAR (box 3).