

Kingsley Parish Council

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Treasury Management Options Report

1. Background

This report sets out a comprehensive, practical, and compliant treasury management approach for Kingsley Parish Council. It proposes a blended strategy that keeps public money safe and accessible while generating new, sustainable income - thereby reducing pressure on the precept and making taxpayers' money work harder for the community.

The Council has previously adopted an Investment Policy aligned to the principles of the CIPFA Treasury Management Code (2018/2021), adapted appropriately for parish councils, and Department for Levelling Up, Housing and Communities (DLUHC)* Statutory Guidance on Local Government Investments (2018)¹. For the avoidance of doubt, the Council's investment powers derive from the Trustee Investments Act 1961 and Section 111 of the Local Government Act 1972; the DLUHC Guidance regulates (but does not confer) these powers.

This report recommends the implementation of a staged portfolio using:

1. FSCS-protected term/notice deposits (e.g. via Unity Trust Bank) to ladder maturities and enhance yield; and
2. a daily-liquidity, AAA-rated Public Sector Deposit Fund (PSDF) (e.g. CCLA PSDF) for core cash and general reserves; and
3. Optional targeted, low-cost advisory input where needed (e.g. a scoped piece of work) rather than a full retainer.

It is anticipated this approach will deliver a transparent, ethical, risk-controlled framework that prioritises security first, then liquidity (to keep cash accessible), and lastly yield. While it may appear counterintuitive that yield is given the least priority rating in the matrix, it is of upmost importance when managing public money to consider safety of funds, and the need to access it for both planned and unplanned (emergency) expenditure.

This approach provides clear governance, monitoring and reporting - giving councillors and residents confidence that funds are safe, ethical, and productive.

This is in line with best practice advice:

"When entering into treasury management investments, local authorities should consider security, liquidity and yield in that order of importance." (DLUHC, 2018)

"A prudent investment policy will have two underlying objectives: Security (protecting the capital sum) and Liquidity (ensuring funds are available when needed). Yield may then be considered consistent with these priorities." (DLUHC, 2018)

¹ https://assets.publishing.service.gov.uk/media/5a74512440f0b646ce8d9b0e/Guidance_on_local_government_investments.pdf

*Please note the DLUHC, has now been renamed as the Ministry of Housing, Communities and Local Government.

2. Context and Objectives

It is important for the Council to consider treasury management strategies as there is a cost to not undertaking such activities - namely, that non-interest-bearing current accounts erode value in real terms. So, every £1 in the Council's accounts this year, if unspent, will be worth less in real terms next year due to the cost of inflation, and strategic treasury management can counteract this depreciation.

This delivers a significant community benefit by generating an income to supplement service delivery and projects, reducing the burden on taxpayers.

This strategy protects capital funds, and seeks a commensurate return only after security and liquidity are satisfied.

The Council is also under an obligation to consider the ethics & ESG of each fund, to avoid sectors inconsistent with Council values (eg arms, tobacco, fossil fuels), to ensure we support high standards of governance.

3. Legal and Regulatory Framework

The DLUHC Statutory Guidance on Local Government Investments sets the safety, liquidity, yield (SLY) hierarchy and disclosures, and distinguishes between *treasury* and *non-treasury* investments.

Treasury investments are those made primarily for the management of the Council's cash flows, liquidity, and borrowing needs. They are usually short to medium term and are limited to approved instruments such as bank deposits, certificates of deposit, money market funds, or government securities. The key principle, in line with statutory guidance, is that security and liquidity must take priority over yield. These investments are not entered into for commercial purposes but to ensure that public funds are safeguarded and available when needed.

Non-treasury investments are made outside of normal treasury management activity, typically for policy, service delivery, or commercial purposes. These include loans to local organisations, shareholdings in companies, or the acquisition of land and property with the intention of generating income or achieving regeneration and place-shaping objectives. Such investments carry a higher level of risk and require authorities to demonstrate transparency, proportionality, and active risk management. The guidance emphasises that councils must clearly set out the contribution of these investments to service objectives and ensure robust decision-making and governance around them.

CIPFA Treasury Management in the Public Services provides a Code of Practice (2018, revised 2021)² which outlines good practice for policies, governance, and risk controls. The 2021 revision incorporates ESG considerations.

NALC Model Financial Regulations (2024) codifies RFO duties in relation to Treasury Management, including risk management, internal control, bank mandates, and reporting expectations. This is underpinned by the Council's Financial Regulations.

4. Current Position

² <https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition>

The Council presently holds its transactional cash in a UK-authorised bank current account. The current account provides no interest. The Council's balances fluctuate across the year with precept receipts, monthly overheads and project cycles.

The regularity of this financial management, and predictability, provides scope to segment cash into:

- Operational liquidity (day-to-day, immediate access),
- Buffer liquidity (near-term planned spend), and
- Core cash/reserves (can earn a higher rate subject to SLY).

5. Options Appraisal

There are several options for the Council to consider:

5.1 CCLA Public Sector Deposit Fund (PSDF)

The CCLA (Churches, Charities and Local Authorities) was originally set up to provide investment management specifically for these three sectors, and they remain its core client base today.

They manage pooled investment funds designed for organisations that have a duty of care with public or charitable money. These funds focus on security, liquidity, and ethical considerations alongside financial return.

The CCLA Public Sector Deposit Fund is a UK-domiciled, sterling money market fund designed for the public sector. It seeks to *"maximise current income consistent with the preservation of principal and liquidity."* (CCLA PSDF Factsheet, 2025)

Rated at the highest short-term level (e.g. AAAm / AAmmf by agencies), it has reasonable levels of liquidity, but the highest yield is sought through the longer term investments.

The fund has sector-led advisory oversight and transparent reporting, which is why it is used elsewhere by parish councils:

- Wexham Court Parish Council (2024) approved investing £150,000 into the PSDF as part of a diversified approach.
- Portishead Town Council (2023) considered PSDF to improve returns prudently as rates rose, recommending an initial £100,000 allocation.
- Melbourn Parish Council (2021) invested £25,000 and reviewed fund performance as part of a cautious, staged approach.

It should be noted that this is not FSCS-insured (it is a fund), but the underlying portfolio is high quality and tightly regulated. In other words, capital preservation is the objective and not a guarantee.

Participation in the PSDF is permissible only where the fund continues to qualify as a high-credit-quality pooled investment under the DLUHC Statutory Guidance on Local Government Investments.

5.2 FSCS-Protected Savings - Unity Trust Bank

Founded in 1984, Unity Trust Bank has traditionally served trade unions, charities and not-for-profit organisations as an ethical and social bank. In more recent years it has expanded its remit to include "profit-with-purpose" businesses.

Registered as a public limited company, it is a UK-authorised bank, offering instant access and fixed/notice deposits, authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA).

Eligible deposits are covered by FSCS to £85,000 per institution (limits apply).

Its savings accounts have been used elsewhere by parish councils including by Walton Community Council (2023) which opened a Unity instant access savings account to enhance returns while retaining flexibility.

- Many parish councils maintain their current account with a mainstream provider and place surplus into Unity's term deposits for yield uplift.

5.3 Specialist Advisors - Arlingclose

The Council has an option, if it would like a second opinion, to engage independent advisers to local authorities (including town/parish councils) on investments, cashflow modelling, credit risk and strategy.

For the size of the Council's investment, and scope, one-off assurance (e.g. credit review, policy tune-up, or a cash-flow/ladder design) would be better rather than a full retainer, to preserve net yield. However, it would be likely that any fees for the advice would erode the Council's projected gain, which makes this option somewhat at odds with the reason for investing which primarily is to deliver a return higher than any initial expenditure.

6. Ethical and ESG Policy

It is confirmed that the Council will avoid exposure to sectors inconsistent with its social purpose, including arms, tobacco, gambling, and fossil fuels.

Preference will be given to counterparties and funds with robust ESG policies and stewardship. CCLA operates widely-recognised responsible investment frameworks and exclusions within relevant funds. Unity Trust Bank is an ethical lender focused on social impact in UK communities, mapping outcomes to the UN Sustainable Development Goals.

7. Risk Assessment and Controls

The principal risks of investments include:

1. Counterparty/credit risk (bank or fund exposure).
2. Liquidity risk (cash not accessible when needed).
3. Market/interest-rate risk (yields fall; reinvestment timing).
4. Operational risk (mandates, signatories, cyber/fraud).
5. Reputational/ethical risk (misalignment with Council values).

The Council will mitigate these risks by:

- Adopting the SLY hierarchy in policy and practice; to ensure it only uses approved counterparties of high credit quality; with set limits per institution/fund.
- Maintaining a liquidity buffer via instant access options.
- Work towards implementing a maturity ladder (staggered terms) to reduce reinvestment risk.

- Enforce dual authorisation, updated bank mandates, and segregation of duties; aligning to NALC Financial Regulations.
- Only use providers with credible ESG standards.
- Monitoring reconciliation, with periodic performance reports; and strategy review by Full Council.

8. Liquidity Model and Scenario Illustrations

The Council can think of its money in three “pots”. A conservative, parish-appropriate approach is to ring-fence immediate liquidity and stage the rest in line with other projects that may be in the pipeline.

1. **Everyday pot (instant access - operational):** ready money for bills, projects, or emergencies.
2. **Rainy-day pot (buffer):** still accessible quickly, but earns a bit more interest (daily liquidity).
3. **Savings pot (reserves):** tied up for a short (or long) time to earn higher interest, released in stages. This is known as ladder term deposits (e.g. 30/90/180/365 days) to capture term premia (compensation that investors require for bearing the risk that interest rates may change over the life of the bond).

This approach keeps money safe, earns a fair return, and ensures funds are ready if the Council needs them.

The following illustrations demonstrate the types of returns that can be achieved by employing various approaches. The modelling is for illustrative purposes only and actual returns will depend on market conditions at the time of placement.

Assume £100,000 available over the year after cash-flow testing:

Option A – Balanced Approach

- **£25,000** in Unity Instant Access (Current + Instant Savings) @ 2.5% $\Rightarrow$ ~£625 a year
- **£25,000** in Unity Treasury Reserve (flexible buffer) @ 4.0% $\Rightarrow$ ~£1,000 a year
- **£50,000** in Unity Fixed Term (laddered 30–180 days) @ 4.25% $\Rightarrow$ ~£2,125 a year

Total income: ~£3,750 a year

Option B – Instant-First (more money “ready to go”)

- **£45,000** in Unity Instant Access @ 2.5% $\Rightarrow$ ~£1,125
- **£30,000** in Treasury Reserve @ 4.0% $\Rightarrow$ ~£1,200
- **£25,000** in Fixed Terms @ 4.1% $\Rightarrow$ ~£1,025

Total income: ~£3,350 a year

Option C – Higher Yield (more tied up, but still prudent)

- **£20,000** in Unity Instant Access @ 2.5% ⇒ ~£500
- **£30,000** in Treasury Reserve @ 4.0% ⇒ ~£1,200
- **£50,000** in Fixed Terms @ 4.5% ⇒ ~£2,250

Total income: ~£3,950 a year

Plain-English Summary

- All options keep at least £20k instantly available.
- Based on £100k, the Council can expect £3,000–£4,000 extra a year just by placing money in the right accounts.
- The choice is between:
 - **More flexibility (Option B):** more money “on hand” if a project suddenly comes up.
 - **More income (Option C):** slightly less flexibility, but stronger returns.
 - **Balanced (Option A):** a mix of both.

Based on the above options, it would be recommended to consider the approach in Option B

Option B strikes the right balance for a parish-level council. It ensures that nearly half of the Council’s reserves are available immediately for any upcoming projects, emergencies, or grant-match opportunities, while still generating meaningful income. This approach avoids tying up too much money in long-term deposits, which could delay delivery if funds are needed quickly. Opportunities for future refinements can then be considered as the Council’s treasury management expertise develops.

10. Governance, Policies and Limits

10.1 Policy documents to keep public money protected include:

- Treasury Management Policy
- Annual Investment Strategy (counterparties, instruments, credit criteria, ESG, limits, liquidity minimums, indicators).
- Risk Register

10.2 Roles:

- Council: approves policy/strategy; sets risk appetite, limits, and indicators; receives annual and mid-year reports.

- RFO/Clerk: implements strategy; conducts cash-flow planning; executes placements under approved limits; reports.
- Internal Audit: independent review of controls and compliance.

10.3 Credit quality & counterparty limits:

- Banks/Building Societies: UK-authorised, A/A-1 (or better) short-term where rated; FSCS eligibility checked; £85k per legal entity (or internal cap if lower).
- Money Market Funds: AAmmf/AAAm (highest); daily liquidity; internal cap (e.g., no more than 60% with any single MMF).
- Government/Local Authority deposits: permitted (subject to policy).

10.4 Liquidity Minima:

- Instant access $\geq$ 3 months net cash outflow (or $\geq$ 25% of annual net expenditure). Meaning in an instant access account we will always keep at least 3 months of normal running costs (around a quarter of our annual spending) in accounts we can get at immediately.
- Daily-liquidity (quick access) fund $\geq$ planned 1–3 month spend. Meaning we will keep at least enough for the next 1–3 months of planned projects or spending in a savings account we can withdraw from quickly (usually within a day).
- Reserves will then be allocated to laddered funds in fixed term funds. Meaning earmarked and general reserves for future projects will be placed in short fixed-term deposits (e.g., 30/60/90 days) on a rolling basis so they earn interest but also return to instant access regularly when needed.