ANNUAL INVESTMENT STRATEGY 2023/24

1 With the disposal of Blossom Hill Farm, the Council has at its disposal total reserves of £1,096,360 Given the £100,000 commitment to refurbish the Village Hall this brings our disposable assets to £996,360 plus £100k including the money spent on acquiring the woodland adjacent to Hill Top Yard (valued at cost) representing total asset value of £1,096,360.

2 It is not in the remit of this strategy paper to discuss how this money is to be spent or which Capital investment projects it intends to finance. Its purpose is simply to invest the money as determined by the Council, according to both the CLG Guidance and CIPFA code which requires the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Councils objective when investing money is to strike an appropriate balance between risk and return, minimizing the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3 Unlike the past few years where interest rates have been prohibitively low (almost zero) they are beginning to rise, and consideration should now be given to making longer term deposits for funds that are not required in the short to medium term. This is a difficult decision beyond one year as we never know what is round the corner. (Please see economic forecast below 2022* compared to what has occurred) but with 2-year rates between 3.5 and 4.5% warrants some discussion.

There is also a change in the Financial Services Compensation Scheme (FSC) that previously only offered bank deposit guarantee protection to private persons up to £85,000 has now been extended to small local authorities including Parish Councils. There is a caveat that is not 100% clear to me re definition of Turnover of Euro 500,000 and I am seeking independent clarification from Arlingtonclose the Treasury advisors we consulted with when we first set up our investment policy and await their response. If our cashflow position is not the criteria, then it may well be we can seek to deposit with lesser rated credit intuitions up to the £85,000 limit with the comfort of the FSC gtee scheme. This will not only diversify our current risk but may also offer slightly better returns than we are currently achieving. This includes entities such as Cambridge and Counties Bank (2year bond 4.15 % for e.g.) Unity Trust Bank, Charity Bank to name a few. Ultimately the number of institutions willing to open accounts with the likes of Parish Councils remains extremely challenging and limited but may possibly improve now that the general interest rate environment is more competitive.

This year has been a very challenging environment one but especially a political, economic, and financial perspective. Markets are notoriously difficult to navigate but I do believe the Financial Strategy adopted by HPC has been not only prudent but also appropriate given our role and mandate as a Parish Council. Over the coming months as our maturing deposits expire and further clarity on the FCS scheme confirmed I will come back to the committee for further discussion.

4 UK Economic Outlook

Key projections %	**2022***	**2022**	**2023**	**2024**	**2025**
GDP	4.7	4.6	0.7	1.7	1.6
Per Capita GDP	4.1	4.4	0.4	1.3	1.3
Inflation (CPI)	4.4	9.0	8.0	3.9	2.2
Inflation (RPIX)	5.2	11.0	8.4	4.4	2.8
Unemployment	4.4	3.7	4.1	3.9	3.7
Bank Rate	0.4	3.0	4.5	4.5	4.1
Long Term Rate	1.3	3.5	4.1	3.8	3.6

*Previous forecast

Source: National Institute of Economic and Social Research (niesr)

Orthodoxy Lost and Found

Against a backdrop of escalating inflation and a gradual unwinding of unconventional monetary policy, global interest rates are gradually returning to more familiar levels. Ultimately this is a good thing, as it will support the more productive use of capital. But this process was always going to be tricky as the draining of liquidity would expose a number of financial markets to risks they had not had to manage for half a generation. This observation is as true in the US as it is in many emerging economies. And so the ill-fated and short-lived government of Prime Minster Liz Truss provided both the initial concern that the UK would move decisively into the realm of heterodox policy and the ultimate realisation that it was an example that the rest of the world will not now follow. I argue that we can now put behind us the concern that we will raise the inflation target or pursue an unsustainable set of fiscal policies.

The commitment to an unfunded energy price guarantee and a slug of tax cuts announced by Chancellor Kwarteng at his Mini-Budget on 23 September promised to inject demand into an inflationary economy. We calculated this was something in the region of some 3 per cent of GDP in the first year. This boost to demand served to trigger a rapid upwards revision in the path of Bank rate from a peak in the range of 3-4 per cent to over 6 per cent. Such a large and rapid change in short interest rate expectations, triggered a large fall in gilt prices and other financial asset prices. The fall in gilt prices was amplified by margin calls on collateral offered by pension schemes using liability-driven investment strategies. And ultimately triggered a run in that market with 30-year and index-linked gilts exposed to extraordinarily large price changes. The Bank of England was forced to step in as market maker of last resort from 28 September to 14 October to stabilise the ensuing fire sale and offer an ongoing repo facility, which will remain in place until 11 November. These operations did not re-ignite Quantitative Easing but the timetable for Quantitative Tightening was pushed back somewhat, quite understandably given the market turmoil. The revision in gilt prices and the direct action of the Bank of England does in no way represent, as opposed to much market commentary at the time, fiscal dominance. Rather it simply outlines that the market believed that it was observing a non-cooperative game between the central bank and the Treasury; if the sequence of debts were going to be higher than so would the sequence of interest rates.

With the defenestration of both Chancellor and PM, we have returned to a clear commitment to fiscal probity under Chancellor Hunt and PM Sunak. And one that the Labour Party, which is now somewhat more likely but by no means certain to form the next Government, will not question. The reversal of the greater part of the Mini-Budget measures and the reduction in long term interest rates means that the fiscal hole can be filled with relatively small changes in taxes, for example, by reinstituting the NI increase or redesigning the energy price guarantee. The bigger danger now is that we decide collectively to demonstrate fiscal credibility by adopting an excessively restrictive fiscal policy and limit support for poor households or rein in critically important elements of public investment.

The good news is, at the end of this cycle, the commitment to sound money, and price stability is firmly at the centre of the policy nexus for another generation. It is hard to see either political hue moving away from the aim to stabilise public debt relative to GDP and maintain the imperative for price stability. The problem with that approach is that it will not by itself nurture faster economic growth and prosperity across the country. But that is perhaps a question for another day.

November 2022

4 The Council may invest its surplus funds with any of the counterparties listed below, subject to the cash and time limits shown below:

Counterparty		Cash limit	Time limit
UK Financial Institutions whose lowest published long-term credit rating or equivalent from one of S&P, Moody's, Fitch, **[Credit ratings to be checked weekly and any changes reported to the Full Council)**	AAA	unlimited	1 year
	AA+		1 year
	AA		1 year
	AA-		1 year
	A+		1 year
	A		1 year
	A-		
	BBB+		
The Council's current account bank, Barclays Bank, if it fails to meet the above criteria		unlimited	next day
UK Government (irrespective of credit rating)		unlimited	1 year

Approved by the Henham Parish Council