THE PARISH OF
St LEONARD HYTHE

Finance & Reserves Policy

The Parochial Church Council (PCC) of St Leonard, Hythe

'We aim to be an ever-more welcoming, inclusive, and caring Christian community that reaches out to all, thankful to God who draws us together and gives us life in all its fullness.'

Introduction

Charity Commission guidance sets out the requirement for charities to have a Finance & Reserves policy. This policy has been written with the guidance of the Charity Commission (Leaflet CC14[1]) in mind. All PCC members should understand the return targets (and time horizon), liquidity needs and risk appetite of the PCC's investment strategy.

The PCC has delegated finance matters to the Finance Working Group ("FWG"); one of the FWG's responsibilities is to determine, implement and review the investment strategy for the PCC, and to ensure that its deposits and investments are appropriately managed. However, ultimate approval of the Finance & Reserves policy lies with the PCC.

Investment Objectives

The PCC's assets are invested to produce the best long-term financial return within an acceptable level of risk. The investment objective is to achieve growth in both capital and income through a diversified portfolio. This objective reflects the aim to maintain or grow the real capital value of the investment assets, whilst generating investment income to support the objectives of the PCC.

The benchmark is a total return (net of fees) of 4% p.a. in excess of inflation (as measured by CPI), measured over a rolling 5 year period. This benchmark can be revised from time to time.

Risk

Risks relating to the PCC's investments include capital risk, market risk, sector risk, currency risk, environmental, social or governance ("ESG") risk, regulatory risk, and reputational risk. Risk management and mitigation will be factored into the investment strategy.

Attitude to risk:

The PCC recognises that every investment carries risk and will manage these risks to ensure that they are commensurate with the PCC's objectives and the financial resources available.

The PCC acknowledges that the capital value of its financial assets will vary over time; the PCC is able to tolerate this volatility as long as the PCC is able to derive an adequate level of investment income.

[1] https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14/charities-and-investment-matters-a-guide-for-trustees

Overall, the PCC seeks to achieve a balanced return from a broadly diversified portfolio of assets, with a moderate risk profile.

Assets:

The investment portfolio can be invested widely and should be diversified by asset class and security. The consideration of concentration risk should extend to all assets held, including residential and commercial property for which the PCC is the financial beneficiary.

Permitted asset types are: cash, bonds, loans, equities, property, commodities, collective investment schemes and any other asset that is deemed suitable by the FWG.

Direct investment in instruments known as "derivatives" is not permitted unless for hedging purposes.

The FWG has responsibility for formulating and recommending investment strategy for PCC approval. To the extent investment management is outsourced to discretionary fund managers, asset allocation decisions can be taken by these appointed third-party managers.

There is no limit on investment in individual assets. However, investments in assets that represent more than 5% of the investment portfolio should be monitored regularly and managed as appropriate.

The FWG is responsible for identifying and monitoring suitable investment managers and investment vehicles.

Currency:

The base currency of the investment portfolios is Sterling (GBP).

Credit / counterparty:

Cash balances should be deposited with institutions with a minimum rating of A- (or equivalent) or invested in a diversified money market fund. The bank or building society should be authorised by the FCA or PRA or the relevant regulator in any other country.

Bond exposure will be limited to Investment Grade issues (rating of BBB- or equivalent and above). However, bond exposure to Non-Investment Grade issues is permitted if undertaken by an investment manager through a pooled investment vehicle.

Conflicts of interest:

Any potential conflicts should be declared and appropriately managed.

<u>Liquidity Requirements</u>

The PCC aims to balance the needs of current and future objectives. As such, it aims to generate sufficient cash flow from investments to supplement adequately other income in order to meet ongoing commitments, whilst ensuring capital growth is in line with inflation over the long-term.

Please see Reserves Policy below in relation to minimum liquid reserves requirements.

<u>Time Horizon</u>

The PCC can adopt a long-term investment time horizon.

Responsible Investing

The PCC considers how investments might be conflict with the Church of England's objectives, values and beliefs.

ESG factors should be considered in the investment strategy and, where investment management is delegated to third-party managers, the selected investment managers should ensure ESG factors are integrated into their investment process.

In making any investment, the FWG will refer to the guidance set out in Church of England's Ethical Investment policy. Ethical investment restrictions apply to direct holdings in companies involved in indiscriminate weaponry, conventional weaponry, pornography, tobacco, cannabis for recreational purposes, gambling, non-military firearms, high-interest rate lending, human embryonic cloning, extraction of thermal coal and production of oil from oil sands and oil and gas exploration, production and refining, subject to revenue thresholds.

Management, Reporting & Monitoring

The FWG can approve the appointment of FCA regulated investment managers to manage investment assets, on a discretionary basis, in line with this investment policy. Investment managers provide custody of those assets.

The investment managers are required to produce a valuation and performance report quarterly.

The FWG should, at least annually, review the investment portfolio and discuss returns, risk, asset allocation and fees. Performance, net of costs, will be monitored against agreed benchmarks and the overall investment objective. This will include (but is not limited to) looking at performance and volatility as measured by the ARC Steady Growth Charity Index (for portfolios demonstrating volatility characteristics of between 60-80% of UK equities) and measuring total return against CPI plus 4% (annualised).

A formal review of the investment managers will be undertaken at least every 3 years.

As required, the FWG will report to the PCC with a review of the asset allocation strategy, performance, risk profile and consistency with the long-term investment objective.

Reserves Policy

Definition of reserves

Reserves in this context are defined as being part of the PCC's unrestricted funds which are freely available to spend on any of the PCC's activities.

Reserves are calculated to exclude commitments that will be funded from general funds which are known but which have not been provided for as a liability in the accounts.

Purpose of reserves

The PCC recognises the need to maintain a level of (free) reserves which provides financial stability, meets the requirements of working capital and allows the organisation to properly manage its resources and cash flow whilst also providing a buffer against fluctuations in future income levels and future unexpected events.

In determining the Reserves Policy, the PCC considers a number of factors, including the level of risk associated with its main income and expenditure streams, the adequacy of the controls in place to manage those risks, future spending plans and the nature of other funds held by, or potentially available to, the PCC. These considerations are taken against the general legal duty to apply income to the charitable objects of the PCC within a reasonable period of receiving it.

Target level of reserves

The PCC aims to retain free reserves to cover six months' average total operating costs (including Parish Share).

The PCC will seek to rebuild free reserves over the next 2 to 5 years.

Review of Reserves Policy

The Reserves Policy should be reviewed annually.

Approval & Review

This Finance & Reserves policy was prepared by the FWG to provide a framework for the management of the PCC's cash and investment portfolio. It will be reviewed annually, and approved annually by the PCC, to ensure it is fit for purpose.

Signed: ________________________________

Date: ________________________________