



MELTON PARISH COUNCIL

MPC(23)85.06

BANK ACCOUNTS AND INVESTMENTS

Investment of cash amounts that exceed the FSCS Scheme

Full Council, in June, tasked FERM to look at ways to mitigate the risks identified in the internal audit report in relation to cash sums held in excess of the Financial Services Compensation Scheme (FSCS - £85k per bank). Not only does MPC have about £100k that is not sheltered by the FSCS scheme, the cash is not earning much interest. The situation requires remedial action.

In short, MPC is looking for an investment facility that offers security, easy access and earnings in that order.

SALC has suggested that an alternative option to an ordinary bank account is the “Public Sector Deposit Fund” offered by CCLA.

CCLA (Churches, Charities & Local Authorities) is a mutually owned firm of investment managers, owned by LAMIT (Local Authorities Mutual Investment Trust), the Church of England (Central Board of Finance) Investment Fund and the Charities (COIF) Investment Fund.

The Public Sector Deposit Fund was launched in May 2011. It came about after the Local Government Association (LGA) invited CCLA to develop the Fund in collaboration with the sector, as a result of the Icelandic banking crisis.

The fund is not covered by the FSCS, but it has a *AAAmf* credit rating by Fitch (highest possible rating). This rating reflects the Fund’s extremely strong capacity to achieve the investment objectives of preserving principal and providing shareholder liquidity through limiting credit, market and liquidity risk. The main drivers of the *AAAmf* rating are the high credit quality of the portfolio, the limited range of invested security types and the Fund’s highly conservative investment guidelines, as well as Fitch's assessment of the competencies of CCLA.

The Fund is managed with the priorities of security, liquidity and yield.

The Fund boasts strong governance with an Advisory Board made up of representatives of the LGA, CIPFA and treasury specialists from the sector, including representatives of the LB of Waltham Forest and the GLA.

The Fund is managed on a very conservative basis (beyond the requirements of *AAAmmf* rating), as a short-term money market fund under the UK Money Markets Regulation (MMFR). There is no exposure to the stock market, derivatives, other funds, asset backed securities - nothing exotic. The investment objective of the Fund is to maximise the current income consistent with the preservation of principal and liquidity by investing in a diversified portfolio of high-quality sterling denominated deposits and instruments.

Shares held in the Fund are income shares. This means income arising from the Fund's investments will be paid out to share-holders as a dividend on a monthly basis.

MPC's Internal Auditor has advised that we seek formal advice from the FSCS of their position on this and any mitigating actions available from CCLA, and identify the issue on the Risk Register.

This point is answered by the Fund's prospectus, which makes clear it is not covered by the FSCS. The Fund is not like a bank deposit – it is an investment and the usual warning for investments apply, in that yield is not guaranteed and the value of investments can go down as well as up. The risk of loss is borne by the investor.

The Fund's prospectus points to its governance framework and very conservative investment strategy (described above) as the foundation for its mitigation of risk and delivery of its primary objective, security. This is backed by the Fitch's independent assessment of the strength of the Fund, giving it the highest rating possible.

The Fund is currently valued at over £1.7bn. It has 600+ clients (including 22 County/unitary Councils, 400+ Parish, Town and Community Councils and 100+ District/Borough Councils, Police, Fire plus the LGA, NALC, 6 County Associations, SLCC, NILGA, 3 Port Authorities and 2 crematoriums).

The minimum deposit is £25k. Unlimited withdrawals can be made without charge. Access is same-day. There is a 0.08% management charge but it is taken from the gross income. Current yield is 4.8537%, net of fees. MPC may have up to £75k to invest in the Fund.

The proposition is that MPC opens an account with the CCLA Public Sector Deposit Fund:

- Firstly, because it would be a useful investment vehicle to have in any event. The council could hold as much or as little in the account as it wanted (subject to meeting the minimum deposit amount) and it could always open another conventional bank account if there was a wish to increase the FSCS cover

- Secondly, it would spread MPC's financial risk over a different sector of the money market. The Fund has its own unique risk mitigation framework, through a combination of strong governance and conservative investment strategy and its top priority is security.
- Thirdly, the fund should deliver a decent return on the investment - an important consideration given the amount of cash we have to invest, while also offering same-day access.

The FERM Working Group has reviewed this proposal and **recommends** that Council approves the opening of an account with CCLA's Public Sector Deposit Fund.

Recommendation:

Members are asked to decide if they wish to open an account with CCLA's Public Sector Deposit Fund, taking into account the recommendation from FERM.

Pip Alder
Clerk and RFO, Melton Parish Council

July 2023