Melton Parish Council – Cash management

Introduction

Melton Parish Council (MPC) is required to manage its cash reserves to the benefit of the Parish while minimising risk and providing value for money.

Cash is generated within MPC via the Precept and income from Community Infrastructure Levy (CIL), grants and hire of facilities, including the Pavilion.

As presented to the July 2023 meeting of Full Council, MPC currently has cash reserves held in four accounts across Lloyds and Suffolk Building Society. At any one time only £85k per institution is covered by the Financials Services Compensation Scheme (FSCS).

As at the 30th November 2023, MPC currently has investments of £110k with the Suffolk Building Society and £165k with Lloyds. Therefore the current amount of money not covered by an FSCA guarantee with these two banks is £105k. Additionally, it is only earning minimal interest. Given the recent improvement in interest rates, it could be said that MPC is not acting prudently in terms of its cash management strategy.

These risks have been identified by MPC's Internal Auditor two years running and the Council has agreed to identify actions to reduce the risk of loss and the lack of securing an appropriate return on investment.

Discussion

MPC's cash management is underpinned by the principles of immediate access and low risk to financial loss. Recent difficulties have been experienced by MPC in the management of its bank accounts with financial institutions. Therefore, ideally, the account/s selected need to be easy to use and administer in support of the Council's efforts to reduce administrative demands on the Clerk.

SALC was approached for advice about the most popular and secure vehicles for cash management and investments for Parish Councils. They suggested that an alternative option to an ordinary bank account is the "Public Sector Deposit Fund" offered by CCLA. Details of this option are in Paper MPC(23)85.06 which was presented at the Full Council meeting in July 2023.

Church, Charities and Local Authorities Investments (CCLA) – Public Sector Deposit Fund

The CCLA was established in 1958 and expanded to include local authorities in 1961. It currently manages £13.9 bn in assets for Churches, Charities and local authorities. Around £2.5bn relates directly to local authorities of all types including County and Unitary authorities. It is an ethical and responsible investment company ensuring investments meet the highest standards of governance. Investments are selected based on being financially sound and are ethical in terms of performance associated with Climate Change, Mental Health, Modern Slavery and promoting healthier financial markets.

The Public Sector Deposit Fund is described as a short-term, cash management solution designed for local authorities. Suitable for short term investments where you are seeking a high level of capital security and a competitive rate of interest.

It is regulated by the Financial Conduct Authority and has a Triple A Fitch Rating. The fund is covered by the Financial Services Compensation Scheme so should it fail completely up to £85k of the fund at that point would be covered*. However, because the investments are subject to the vagaries of the financial markets, investments can go down as well as up.

Because of the robustness of this fund's performance and its sound trading record, circa 800+ Councils have made investments in this fund over many years. Many Councils operate with one business bank account choosing to have all its reserves invested in the CCLA to simplify administration. It should be noted that with so many other councils investing in the CCLA, we could not be seen as taking an unreasonable risk. The fund only invests a maximum of 10% in any one institution and all institutions must have a minimum rating of A- to mitigate risk.

The current return on investment being paid is 5.25% (as at 6th Dec 2023) with immediate withdrawal available. Set up is on-line. Interest will be reported monthly and can either be reinvested in the fund or it can be paid to a separate bank account (like Premium Bond wins).

Other Options

Other options are available such as fixed term bonds or deposit accounts with United Trust Bank, or alternatively Paragon or Yorkshire Building Society. Both Paragon and Yorkshire Building Society are offering a fixed term investment of 1 year with a return of 5.4% but it is not clear whether these accounts are available to MPC given MPC would be classified as a business account rather than a personal account. The United Trust Bank is offering 5.15% on a 1 year bond. The issue with these accounts is that there would be no immediate access. The FSCS protection of £85k is available on a per bank basis. The sum protected does not increase with the number of accounts held in a particular bank. It is also worth noting that the protection will not increase to another bank if that bank is part of the same banking group.

MPC's Investment Strategy

The Budget Working Group discussed the pros and cons of opening additional bank accounts and the CCLA, and the scoring is shown in Appendix A. Because the council requires immediate access to its reserves, additional bank accounts with fixed periods are not suitable. Opening another account that does have immediate access will offer much lower returns on the investment as well as incurring additional risks associated with managing the account and potentially monthly costs for an additional current account.

Therefore, the only recommendation being put to the Council by the Budget Working Group is as follows:

Keep a maximum of £85k in total across the two Suffolk Building Society accounts. This will remain static for the majority of the time. The rent deposit account currently attracts 2.85% interest and the deposit account 3.3%. These rates are subject to change as the Bank Rate changes. A maximum of £85k in total would also be held across the two Lloyds accounts.

Any funds in excess of £170k held with Lloyds and the Suffolk Building Society will be invested in the CCLA. On an ongoing basis – at least monthly or more frequently as required – the Clerk will transfer money from the CCLA into the Lloyds accounts when funds in Lloyds drop below £60k to return it to the £85k level and any excess over the £170k will be transferred to CCLA. This will be reported to Full Council/FERM.

Recommendations

Councillors are asked to decide if they wish to

a) Invest any excess funds over £170k into the CCLA as per the investment strategy above.

   Or

b) Keep the current status quo with low rates of return and accept the risk of losing all funds in excess of £170k.

Appendix A

The options available to MPC to efficiently manage cash reserves moving forwards are:

1. **Do nothing**. Leaves all funds over £170k exposed to the current risk identified by the Internal Auditor. The Council will be spending a significant amount of money on the Beresford Drive play park this year which will reduce the funds that aren't covered by the FSCS but not in its entirety.
2. **Identify and open one additional business banking account.**

   Pros:
   - This would Increase the sum guaranteed by the FSCS by a further £85k
   - Gives a better interest rate;

   Cons:
   - Access to the funds is limited to either a long notice period or on maturity;
   - MPC will still remain exposed to financial loss;
   - Investments are time limited, at the moment, normally to one year, meaning the Council would need to agree to re-invest in another scheme each year;
   - This would increase the administrative workload for the office;
   - Greater administrative burden increases the risk of error;
   - Does not fully address the concerns raised by the Internal Auditor.

3. **Identify and open two additional business banking accounts**

   Pros:
   - This would Increase the sum guaranteed by the FSCS by a further £170k giving us security on all funds, unless we receive considerable additional CIL payments;
   - Gives a better interest rate;
   - Addresses the concerns raised by the Internal Auditor (but could raise others like risk administration burden and risk of error).

Cons:

- Investments are time limited, at the moment, normally to one year, meaning the Council would need to agree to re-invest in two other schemes each year;
- This would significantly increase the administrative workload for the office;
- Access to the funds is limited to either a long notice period or on maturity;
- Greater administrative burden increases the risk of error.

4. Open an account with CCLA. Transfer 'surplus' funds over £170k. Figure tbc

Pros

- Immediate access possible;
- Results in a significant increase in returns achieved;
- Improve financial loss risk over the current position (although it needs to be borne in mind investments can go down as well as up);
- Built for Local Authorities so simpler to administer by the Clerk;
- Long term investment. No need to move investments each year;
- Is In line with the recommendations from SALC ;
- * FSCS guarantee in place if CCLA go bust (but spot value may have gone down at point of liquidation)
  The fund is not a bank account and is not covered by the Financial Services Compensation Scheme's (FSCS) deposit protection. The fund is recognised as a money-market fund under the MMFR. Therefore, under the rules of the FSCS it is an investment and is covered under the 'Investments' section of the FSCS. The maximum amount that can be claimed under the FSCS is £85,000.

Cons:

- investments can go down as well as up;
- MPC will still remain exposed to financial loss.

5. A combination of Options 2 and 4 ; Open an additional bank account and make a deposit in the CCLA.

Pros:

- This would Increase the sum guaranteed by the FSCS by a further £170k giving us security on all funds;
- Gives a better interest rate;
- Addresses the concerns raised by the Internal Auditor (but could raise others like risk administration burden and risk of error).

Cons:

- Investments in CCLA can go down as well as up;
- Investments on the bank account would be time limited, normally to one year, meaning the Council would need to agree to re-invest in another scheme each year;
- This would significantly increase the administrative workload for the office;
- Access to the funds is limited in terms of the bank account to either a long notice period or on maturity;
- Greater administrative burden increases the risk of error.

At the July Full Council meeting it was resolved by a vote that some money should be invested in the CCLA and another bank account should be opened but that it would be revisited by Full Council to review the options after researching bank account availability.

It should be noted that the amount not covered by the FSCS is constantly fluctuating and although as at the 30th November £110k was not covered, this is likely to drop to nearer £50k by the end of the financial year and possibly none due to spend on the Beresford Drive Play Area. In April the figure not covered will rise again on receipt of the first instalment of the Precept.

Risk Appetite

MPC's risk appetite could be expressed as being conservative or low. MPC recognises that the money held on account belongs to the taxpayer, and as a result, it would seek to hold any funds in a low risk, stable way. However, it also recognises that holding multiple bank accounts that need regular, reinvestment decisions in a small, non-financial organisation brings about its own risks in terms of complexity, management and the risk of administrative error. Therefore, a simple solution that allows immediate access is required.

Risk assessment

	Option 1 Do nothing	**Option 2 1 x bank**	**Option 3 2 x banks**	**Option 4 CCLA only**	**Option 5 1 x bank and CCLA**
Scoring	**Y=0 N=2 Not 100% of funds held guaranteed by FSCS (only £85k per institution) = 1**				
Immediate access	Y	N	N	Y	1 (50/50)
FSCS Guarantee in place (85K)	N	1 (not 100%)	Y	1 (not 100%)	Y
Low Risk	N	1 (not 100%)	Y	1 (not 100%)	Y
Positive return on investment	N	Y	Y	Y	Y
Stable	Y	Y	Y	Y	Y
All money could be lost or the Investment could go down in a financial crash scenario like 2008 (considered low risk)	1	1	0	1	1
Simple to Manage and administrate	Y	Y	N	Y	N
Risk Score	7	5	4	3	4

Based on the risk assessment above and given the extensive use by circa 800 other local authorities in the fund along with the recommendation received from SALC, MPC considers that, on balance, option 4 gives the lowest financial and administrative risks and provides the best option for investments going forward.