

REPORT

Meeting date: 4th July 2023

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Subject: Report on Short Term Investment Funds

1. Background

This report provides alternative short term one year investment options for the Council's funds. The purpose is for the Council to invest prudently in order to maximise income from cash balances with the minimum exposure to risk whilst also complying with its Treasury and Investment Policy and ensuring the security of the principal sums.

The Council's existing instant access business deposit account with The Co-operative Bank attracts a variable interest rate of 1.34% gross/AER which is calculated daily and paid twice a year.

After many years of low interest rates, the Bank of England's Interest Rate was raised to 5% on 22nd June 2023 and other banks and building societies have been raising interest rates for their short term business investment bonds steadily in recent months to fall in line with the higher rate.

2. Legal Implications

The Local Government Act 2003 Sections 12 and 15 provides the Power to Invest:

- i. for any purpose relevant to its functions under any enactment, or
- ii. for the purpose of prudent management of its financial affairs.

3. Funds Available for Investment

The amount of General Reserves available at the start of the 2023/24 financial year was £51k. This includes the £10,800 VAT reclaim now repaid. A further £5,361 in reclaimed VAT is yet to be received.

The Council's General Reserves policy states that the general reserves to be held by the Council '*is set at equal to between three and five months of predicted expenditure*'. Three months of operational expenditure is calculated to be approximately £30k, therefore the funds available for investment are £21k.

4. Investment Options and Risk

Following some research, the conclusion reached is that one year business bonds provide the best return for the minimum risk. A number of banks and buildings societies offer them but many of them are not open to local authorities, parish and town councils and/or require a business to be an existing customer.

The table below sets out three possible funds which were selected on the basis that they are already used by other parishes for short term 1 and 2 year investments. In 2015, the Bank of England extended the protections of the

Financial Services Compensation Scheme to include small local authorities. These are described as an authority with an annual budget of less than €500,000 (approximately £431,000 on current exchange rates). This means that the short term investments of Tisbury Parish Council as a local authority are granted the same protections as individuals, whereby deposits of up to £85,000 per UK bank or building society are fully protected.

| Fund | Type | Interest rate | 1 Year Interest on £21k | FSCS Cover |
|---------------------------|--------------------------------|---|-------------------------|------------|
| Redwood Bank | 1 year business bond | 4.10% (on 30/06/23) paid at year end Minimum sum £10k https://redwoodbank.co.uk/savings/1-year-business-savings-bond/ | £861.00 | Yes |
| Cambridge & Counties Bank | 1 year business & charity bond | 4.75%% (on 30/06/23) paid at year end Minimum sum £10k https://ccbanc.co.uk/business/savings/1-year-fixed-rate-business-bond/ | £997.50 | Yes |
| Hampshire Trust Bank | 1 year business bond | 4.70% (on 30/06/23) paid at year end Minimum sum £5k https://www.htb.co.uk/business/savings/sme-savings-accounts/fixed-rate-sme-savings-accounts/ | £987.00 | Yes |

5. Summary

Councillors have two options to consider on the ways to invest the available £21k. As the financial year progresses, more funds may become available for additional investment in another 1 year bond:

1. Invest the whole sum in the highest earning Cambridge and Counties Bank.
2. Spread the risk by investing £10.5k in the Cambridge and Counties Bank and £10.5k in Hampshire Trust Bank.

Bev Cornish
30th June 2023