

**Otley Town Council**

**Policy & Resources Committee**

**Date: Monday 21<sup>st</sup> March 2016**

**Subject: Local Authorities Deposit Fund**

**Report By: Executive Officer**

**1.0 Purpose of Report**

1.1 The purpose of this report is to provide Member's with information on the Public Sector Deposit Fund (PSDF) with a view to considering the future use of the fund for investment of the Council's surplus balances and reserves.

**2.0 Background**

2.1 The Public Sector Deposit Fund is an investment fund set up by the public sector for the public sector and is intended to enable a pooling of public sector resources in a money market fund set up in line with the principles and values of the public sector. The funds are deposited on the basis of security, liquidity and yield, a requirement of the Department for Communities and Local Government guidance on local government investments.

2.2 The Fund was set up by the CCLA (Churches, Charities and Local Authorities) which is a mutually owned firm of investment managers, part owned by LAMIT – the Local Authorities Mutual Investment Trust who have historically provided deposit funds to the charitable sector.

2.3 The Local Government Association (LGA) appointed CCLA to develop the Public Sector Deposit Fund in collaboration with the sector following the Icelandic banking crisis in 2008, and the Fund was launched in May 2011.

2.4 The Fund is a UK domiciled, FSA regulated, AAA rated money market fund. The Fund has strong governance arrangements with an Advisory Board chaired by the former Director of Finance of the LGA and with additional representation from the LGA, the Chief Executive of the Chartered Institute of Public Sector Accountancy (CIPFA), as well as HM Government Treasury.

2.5 The Fund is managed on a very risk averse, conservative basis, beyond the requirements of the AAA rating, only using plain cash products with well rated banks, with no exposure to the stock market, derivatives and asset backed securities. The Fund now has over 40,000 clients and manages around £4.5 billion of cash and investments including a large number of local authorities including many town and parish councils.

- 2.6 There is a minimum investment requirement of £25,000 and there is instant access for withdrawals. Arrangement and management fees are incorporated within the interest rate offered by the Fund. The management fee is currently 0.08%.
- 2.7 At the time of writing a rate of 0.4384% was available on the Fund which compares favourably with the current rates of between 0.1% to 0.5% (for long term investment with no instant access) with the Yorkshire Bank. Interest is paid on a monthly basis.
- 2.8 A major benefit of the PSDF is that investments are made over a number of different products and banks which spreads the risk so that, should a bank fail, only the proportion of the investment held with that organisation would be at risk and not the whole investment. This is not the case at the present time, as all of the Council's balances and reserves are currently placed with one organisation – Yorkshire Bank.

### **3.0 Current Proposal**

- 3.1 It is proposed that the precept for the financial year 2016/2017 be deposited into the PSDF and that monies are drawn down on a monthly basis to cover the operating costs of the Council.

### **4.0 Legal and Financial Implications**

- 4.1 The use of the PSDF would help to reduce the risk associated with the current investment of the Council's balances and reserves with one institution.

### **5.0 Sustainability**

- 5.1 The report is compliant with Aalborg.

### **6.0 Recommendations**

- 6.1 Members are recommended to consider the use of the Public Sector Deposit Fund as a future method of investment for the Council's surplus balances and reserves.