



Briefing Note - Reserves

Date 16 September 2024
Prepared by Town Clerk

1. BACKGROUND – 3 SEPTEMBER 2024

- 1.1. Parish councils play a crucial role in managing local community resources and ensuring the well-being of their residents.
- 1.2. Effective financial management is essential for these councils, and one of the key aspects is the management and investment of reserves.

2. LEGAL BASIS

- 2.1. Parish councils are encouraged to maintain reserves as part of sound financial management practices.

Local Government Act 1972

- 2.2. The general framework for the financial management of local councils is provided through the act.

Practitioners' Guide (JPAG):

- 2.3. The Joint Panel on Accountability and Governance (JPAG) issues a guide that suggests parish councils should hold general reserves equivalent to 3-12 months of planned expenditure.

3. CURRENT POSITION

- 3.1. Sandown Town Council currently banks exclusively with Lloyds Bank with a treasurers account for daily banking (treasurers accounts), two instant access savings accounts and a longer term saving with a Notice Account (32 days).
- 3.2. The interest rates are as follows:

Commercial Instant Access Saving Accounts	1%
32 Days' Notice Account	2.30%
- 3.3. These rates have been lowered over the last financial year and are significantly lower than the council has previously enjoyed.

4. UNDERSTANDING RESERVES

- 4.1. Reserves are funds set aside by councils to cover unforeseen costs, future projects, or specific earmarked items.
- 4.2. Maintaining a healthy level of reserves ensures that the council can respond effectively to emergencies or unexpected financial challenges, such as unexpected charges or emergency repairs.
- 4.3. Local councils are required to declare and justify the reserves held as part of the annual audit process.

5. INVESTING RESERVES

- 5.1. Investing reserves can provide an income stream, enhancing the council's financial stability and councils can achieve higher returns compared to keeping funds in low-interest accounts.
- 5.2. Earmarked reserves can be strategically invested to ensure that funds are available when needed for specific projects, enhancing the council's ability to plan and execute initiatives effectively
- 5.3. This income can be used to support ongoing operations and reduce the reliance on precepts (local taxes) from residents
- 5.4. Reporting on investment performance and reserve levels can provide clear insights into the council's financial health and future planning.

6. FINANCIAL SERVICES COMPENSATION SCHEME

- 6.1. The Financial Services Compensation Scheme, whereby deposits of up to £85,000 per UK bank or building society are fully protected, includes small local authorities which is defined as an authority with an annual budget of less than €500,000 (approximately £431,000 on current exchange rates).
- 6.2. The Council's annual budget is in excess of this threshold and as such is not protected by the scheme.
- 6.3. It would therefore be prudent to spread the Council's risk by moving a portion of the Council's Reserves to a different bank.

7. CCLA (CHURCHES, CHARITIES AND LOCAL AUTHORITIES)

- 7.1. CCLA (Churches, Charities and Local Authorities) is a UK-based investment management company that specializes in investment solutions for charities, churches, and local authorities, established in 1958, CCLA manages a range of funds designed to meet the specific needs of these organisations
- 7.2. They offer the Public Sector Diversified Fund (PSDF) is a Qualifying Money Market Fund which is classed as a low volatility net asset value short term money market fund. The fund is managed with the priorities of security, liquidity and yield.
- 7.3. The Fund-size is a £1.5bn+ fund with a yield 4.7129%¹ net of fees which are 0.8% of yield (5.5%)
- 7.4. Unlike savings accounts, there is an inherent risk to investment funds which do not guarantee capital and the value of which can go up or down. Further information on the fund and risks is detailed in Appendix A.
- 7.5. The fund is not covered by the FSCS, but it has a AAmmf credit rating by Fitch (highest possible rating), and invests only in -A and above rated organisations².
- 7.6. The notice period to withdraw invested monies is 1 working day.

8. BUILDING SOCIETIES

- 8.1. Building Societies offer a better rate of interest on instant access savings.
- 8.2. Only the largest building societies are credit rated, of these only Nationwide offers a business savings account.
- 8.3. However, not applications are currently being taken due to demand.
- 8.4. The Hinkley and Rugby Building Society offers savings accounts for Local Councils. It is not credit rated due to its size but was established over 150 years ago.

9. RECOMMENDATION

- 9.1. THAT Sandown Town Council apply to the CCLA to invest 50% of their monies in the PSDF and keep a watching brief on the funds performance and CCLA's credit rating.
- 9.2. THAT the Council move its instant access savings to Hinkley and Rugby Building Society to obtain a higher rate of interest but withdraw the monies if their rates cease to be competitive or they lose stability.
- 9.3. THAT some or all of these monies be moved to a Nation Wide account when they re-open applications and it retains a rating over -A.

¹ 9 January 2025

² [Fitch Affirms Three CCLA Funds](#)

Key Investor Information

This document provides you with key investor information about this fund. It is not marketing material. The information is required by law to help you understand the nature and the risks of investing in this fund. You are advised to read it so you can make an informed decision about whether to invest.

The Public Sector Deposit Fund

A sub-fund of CCLA Public Sector Investment Fund. Income Class 4 (ISIN: GB00B3LDFH01)

This fund is managed by CCLA Investment Management Limited (the ACD).

Objectives and Investment Policy

The fund aims to maximise current income consistent with the preservation of principal and liquidity by investing in a diversified portfolio of high-quality sterling denominated deposits and instruments. The primary objective is to maintain the net asset value (NAV) per share of the fund at par (net of earnings).

The fund only invests in sterling denominated investments and deposits. The principal investments comprise certificates of deposit, call accounts and term deposits with banks and building societies. The fund may also invest in other securities such as commercial paper, floating rate notes and bonds which may be issued or guaranteed as to principal or interest by sovereign governments and their agencies, supranational entities, corporations and financial institutions. All investments at the time of purchase will be considered by the ACD to be of high quality, meaning that the ACD has performed its own documented assessment of the credit quality of money market instruments taking into account ratings awarded by a credit rating agency registered and supervised by the Financial Conduct Authority (FCA) or European Securities and Markets Authority.

The fund is a low volatility net asset value short-term money market fund under the UK Money Market Funds Regulation (UK MMFR). The weighted average maturity of the fund's investments will not exceed 60 days and the initial or remaining maturity of each investment will not exceed 397 days at the time of purchase. The weighted average life of the fund's investments will not exceed 120 days.

The fund is actively managed which means the ACD, as investment manager, uses their discretion to pick investments seeking to achieve the fund's investment objective.

This product does not have a UK sustainable investment label. Sustainable investment labels help investors find products that have a specific sustainability goal. The fund does not use a sustainable investment label because it does not have a sustainability goal. However, the fund is managed in line with CCLA's sustainability approach for cash funds available on our website, www.ccla.co.uk/about-us/policies-and-reports/policies/our-sustainability-approach-cash-funds. This includes targeted engagement with counterparties on issues including - but not limited to - climate change and human rights. When significant concerns about their governance, or wider social and/or environmental impact are identified, counterparties' eligibility for use by the fund is suspended.

Additional Information:

You can buy or sell shares daily (on each business day of the fund).

Income shares are available for investment. Income shares distribute available income monthly.

Risk and Reward Profile



The risk and reward rating is based on historical data and may not be a reliable indicator of future risks or rewards. The risk category shown is not guaranteed and may shift over time. The lowest category does not mean 'risk free'.

A low-risk fund is not a risk-free investment. The fund targets investments with low volatility and aims to maintain a constant net asset value. This means the risk of losing your money is small, but the chance of making gains is also limited.

Shareholders and potential shareholders should note that, in certain circumstances, the fund will not accept redemptions or subscriptions at a constant NAV per share.

The ACD applies a liquidity management process for ensuring compliance with weekly liquidity thresholds applicable to the fund under the UK MMFR. Measures and various tools are at the ACD's disposal for maintaining compliance with the prescribed limits and include the imposition of liquidity fees on redemptions, redemption gates and temporary suspension of redemptions.

The value of the fund's shares is not guaranteed and buying shares is not the same as making a deposit with a bank or other deposit taking body. Please see the additional information section below.

The risk and reward rating does not cover the following additional risks:

- Investment is at your own risk. The fund has no capital guarantees and the value of your investment may go up or down. Any loss of principal is to be borne by the investor.
- The fund aims to maintain a stable NAV per share, however there is no guarantee that a stable NAV per share will be maintained.
- The fund does not rely on external support for guaranteeing the liquidity of the fund or stabilising the NAV per share.
- The value of the fund may be affected by movements in interest rates (which may include interest rates turning negative) and the creditworthiness of the issuers of the debt instruments the fund invests in.
- **Credit risk** - The fund is exposed to the issuers of the securities it invests in. If these financial institutions experience financial difficulty, they may be unable to pay back some or all of the interest, original investment or other payments that they owe. If this happens, the value of the fund may fall.
- **Counterparty risk** - The fund could lose money if an entity with which it does business becomes unwilling or is unable to meet its obligations to the fund.
- **Operational risk** - Operational processes, including those related to the safekeeping of assets, may fail. Risks arising from errors in processing transactions, preparing valuations, accounting and financial reporting, among other things, may also affect the value of your investments.

Please refer to the prospectus for full details about the risks associated with this fund.

Charges for this Fund

The charges you pay are used to pay the costs of running the fund, including the costs of marketing and distributing it. These charges reduce the potential growth of your investment.

The **ongoing charges** figure is based on the annual management charge. The annual management charge is currently 0.08% (having been reduced from 0.10% until further notice) and is inclusive of all other ongoing charges. This figure may vary from year to year. It excludes portfolio transaction costs.

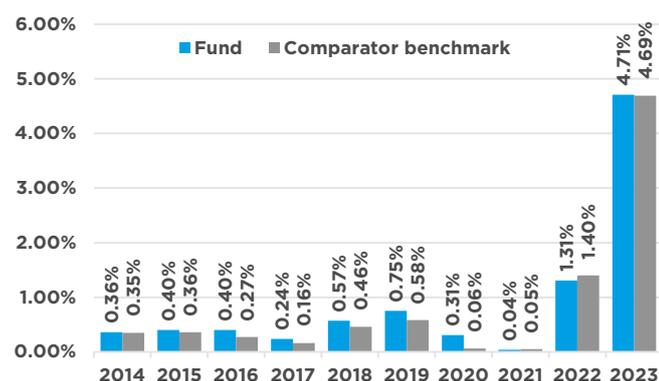
Although unlikely (reflecting the liquid nature of qualifying investments to be held), a dilution levy, which will change the prices for buying or selling shares in the fund with the aim of mitigating the effects of dealing and other charges the fund incurs, may be made on a purchase or sale of shares in the fund.

For more information about charges, please see the section titled "Charges and Expenses" of the fund's prospectus.

One-off charges taken before or after you invest	
Entry charge	0.00%
Exit charge	0.00%
Charges taken from the fund over a year	
Ongoing charges (currently)	0.08%
Charges taken from the fund under specific conditions	
Performance fee	None

The one-off charges are indicative charges that might be taken out of your money before it is invested and before the proceeds of your investment are paid out.

Past Performance



The fund launched on 25 May 2011. This share class started to issue shares on the 25 May 2011.

Past performance is not a reliable indicator of future results. The performance shown is net of charges and has been calculated in pounds sterling.

Comparator benchmark: Sterling Overnight Index Average (SONIA). Prior to 1 January 2021, the comparator benchmark was 7 Day Sterling London Interbank Bid Rate (LIBID).

Practical Information

Depository

HSBC Bank plc, 8 Canada Square, London E14 5HQ.

Documents and share prices

Copies of the prospectus and the latest annual/half yearly report and accounts (which are available in English only), along with the latest published share prices can be obtained free of charge at www.ccla.co.uk or alternatively call our client services team on **0800 022 3505**. The shares are not listed on any stock exchange.

Share classes

More share classes are available for the fund. For further details refer to the fund's prospectus.

This document is prepared for income class 4. Income class 4 is also representative of income class 3, therefore a separate key investor information has not been prepared for income class 3. Income class 3 is available for investment.

Segregated liability

CCLA Public Sector Investment Fund is an umbrella fund with segregated liability between sub-funds. It does not currently offer any other sub-funds in addition to the fund.

Switching

Shares in one sub-fund or share class may be exchanged for shares in another sub-fund or share class subject to meeting conditions set out in the prospectus (currently, however, as the fund is the only sub-fund available for investment there is no facility to switch between sub-funds).

Tax

UK tax legislation may have an impact on your tax position. For further details you should consult your professional tax adviser.

Remuneration

The up-to-date remuneration policy including a description of how remuneration and benefits are calculated, the identity of persons responsible for awarding the remuneration and benefits and the composition of CCLA's remuneration committee, may be obtained free of charge by contacting the client services team or visiting www.ccla.co.uk.

Additional information

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 UK 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. For further information about the FSCS please refer to www.fscs.org.uk or phone 0800 678 1100.

The fund is a sub-fund of CCLA Public Sector Investment Fund, an umbrella open-ended investment company. The prospectus and annual/half yearly report and accounts contain information about the sub-fund in CCLA Public Sector Investment Fund.

CCLA Investment Management Limited may be held liable solely on the basis of any statement contained in this document that is misleading, inaccurate or inconsistent with the relevant parts of the prospectus.

Please refer to the glossary on our website for explanations of terms used in this communication. If you would like the information in an alternative format or have any queries, please call us on 0800 022 3505 or email us at clientservices@ccla.co.uk.

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This fund is authorised in the UK and regulated by the Financial Conduct Authority.

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This key investor information is accurate as at 2 December 2024.