Agenda item 24.24 j

Subject: Financial Services Compensation Scheme

1. Background:

1.1 The bank deposit guarantee limit is the amount of money that is guaranteed for savers in UK banks and building societies should the institution become insolvent. The Financial Services Compensation Scheme (FSCS) guaranteed amount is currently £85,000 per person, per authorised bank or building society.

1.2 Since 2015, Local councils' investments and deposits are now to be protected under the Financial Services Compensation Scheme where previously it had not been.

1.3 The Prudential Regulation Authority (PRA) of the Bank of England announced a change in policy to extend the protection afforded under the Scheme to "Small Local Authorities" (SMAs). These Authorities are defined as Local Authorities with "an annual budget of up to 500,000 Euros".

2. Position of Stanwick Parish Council:

2.1 The Parish Council operates at a financial level that would be beneath the regulatory threshold and therefore the Parish Council should be eligible for compensation.

2.2 The Parish Council holds accounts with two banks that are licenced independently of each other and therefore has up to £85,000.00 scheme protection with each institution.

3. Risk consideration:

3.1 The £85,000 compensation limit applies to an aggregate balance e.g. £50,000 in a current account and £40,000 in a deposit account gives an aggregate balance of £90,000. A maximum of £85,000 would be received in compensation, resulting in a £5000.00 loss of non-recoverable funds.

3.2 Compensation is paid out automatically and does not need applying for.

3.3 The compensation scheme becomes effective when a bank completely fails, where the government does not 'bail out' the bank and where the bank is not 'bought out' in a rescue package by another institution.

4. Risk mitigation options:

4.1 Continue to banking arrangements with two banks to spread the risk.

4.2 Actively manage bank balance to keep the balance close to the compensation threshold. Note: in April, the Council receives the precept into one account that inflates the cash holdings in that one bank.

4.3 Consider spreading risk further by additional banking arrangements. The pros and cons of this approach should be carefully weighed against likelihood of complete bank failure.

4.3.1 Pros

- Spread of risk by spreading balances

4.3.2 Cons

- Management of multiple bank accounts with multiple mandates & signatories
- Accounts used as cash repositories and not for day to day transactions can be 'forgotten', become dormant and closed by the bank

4.4 Consideration could be given to investment. But maintaining an adequate level of liquidity is important to ensure there are funds available to draw down should unexpected costs arise.

5. Action required by Council

5.1 Consider risk presented and determine any action to be taken.