

# **AGENDA 7, Enc vi) TREASURY MANAGEMENT: INVESTMENT OF COUNCIL FUNDS IN THE CCLA PUBLIC SECTOR DEPOSIT FUND, ADOPTION OF AN INVESTMENT STRATEGY, AND AMENDMENT TO FINANCIAL REGULATIONS**

## **1. Purpose of report**

To seek the Finance and General Services Committee's recommendation to Full Council that the Council: (a) adopts the attached Investment Strategy and Treasury Management Policy 2026/27; (b) recommends to open an account with The Public Sector Deposit Fund (PSDF), managed by CCLA Investment Management Limited, with an initial investment of £625,000; and (c) agrees to amend Financial Regulation 6.9(iv) to enable the efficient operation of the arrangement by way of transferring funds between the Council's accounts.

## **2. Background**

The Council holds all of its funds in a single current account with Unity Trust Bank, and has so since establishment; this pays minimal interest. Treasury management and sensible investment has been an objective for the RFO in recent years. A set of recommendations have now been prepared for the Council's consideration and approval.

The balance at the end of May 2026 was £747,979. The Council's reserves comprise a General Reserve (Contingency) of £188,494 and Earmarked Reserves of £183,072, of which approximately £140,000 is programmed to be spent on capital projects during 2026/27.

The Council's budget of £1,007,621 is funded through the precept, received in two instalments (April and September; the September instalment will be £503,810). This income profile means substantial balances are held for extended periods. Holding these funds in a non-interest-bearing account represents both a lost income opportunity and a concentration of the Council's entire cash holding with a single banking counterparty.

The Council is not eligible for FSCS deposit protection. FSCS deposit protection for local authorities is restricted to 'small local authorities' with an annual budget of up to €500,000 (approximately £356,000); the Council's budget of £1,007,621 is almost three times this threshold. The Council's bank balance is therefore, in substance, an unsecured exposure to one institution.

## **3. The Public Sector Deposit Fund**

The PSDF was developed by CCLA at the invitation of the Local Government Association following the Icelandic banking crisis, and launched in 2011. Its key features are:

- a Qualifying Money Market Fund (LVNAV, short-term) under the UK Money Market Funds Regulation, managed with the priorities of security, liquidity and yield;
- rated AAmmf<sup>1</sup> by Fitch Ratings – the highest available money market fund rating;
- invests only in plain, sterling denominated cash instruments (call accounts, term deposits, certificates of deposit) with a diversified list of well-rated counterparties; no exposure to equities, derivatives or asset-backed securities;
- assets held by an independent depository (HSBC Bank plc), fully segregated from CCLA's own assets;

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<sup>1</sup> **AAmmf** is a credit rating assigned to money market funds (MMFs) by Fitch Ratings. It indicates that the fund has an extremely strong capacity to preserve principal and provide shareholder liquidity while maintaining very low exposure to interest rate, credit, and spread risks.

- same-day access, with an 11:30am instruction cut-off, and a minimum initial investment of £25,000;
- used by over 1,000 public bodies including 500+ parish, town and community councils, the LGA, NALC and the SLCC;
- current yield 3.6992% net of fees (as at 3 July 2026).

The fund is not covered by FSCS deposit protection and is not guaranteed; the risk of loss is borne by the investor. The RFO's assessment, set out in Section 7 of the attached Strategy, is that a AAmmf-rated diversified fund designed for the public sector represents lower credit risk than the status quo of concentrating the equivalent balance with a single bank, while providing equivalent same-day liquidity.

#### 4. Indicative cash flow 2026/27

The table below sets out an indicative cash flow for the remainder of 2026/27, based on average monthly revenue expenditure of approximately £84,000 (1/12 of revenue spending) and the programmed £140,000 of expenditure from Earmarked Reserves. Actual figures will vary with the timing of invoices, VAT reclaims and other income; the purpose of the model is to demonstrate that the proposed investment leaves the Council with ample liquidity at all times, noting also that the PSDF itself provides same-day access.

Period	Inflows (£)	Outflows (£)	Indicative total cash (£)
<b>Opening (end May 2026)</b>	–	–	<b>747,979</b>
June – August	–	(252,000)	495,979
September (precept instalment)	503,810	(84,000)	915,789
October – December (incl. £70k capital)	–	(322,000)	593,789
<b>January – March (incl. £70k capital)</b>	–	<b>(322,000)</b>	<b>271,789</b>

The indicative closing position of approximately £272,000 is consistent with the Council carrying forward its General Reserve (£188,494) and the residual Earmarked Reserves, before accounting for other income, VAT reclaims and interest earned. At no point does total cash fall below the value of the Council's reserves.

#### 5. Recommended opening investment and operating arrangements

It is recommended that the Council opens the PSDF account with an initial investment of **£625,000**, leaving an operational float of approximately £120,000 (around six weeks' average expenditure) in the Unity Trust current account. Thereafter:

- the RFO will review the current account at least fortnightly, drawing down from the PSDF to restore the float or transferring surpluses to the PSDF as appropriate;
- on receipt of the September precept instalment, the surplus over the following month's requirements will be transferred to the PSDF (indicatively in the region of £400,000);

- expenditure funded from Earmarked Reserves will be drawn down from the fund as invoices fall due, which the fund’s same-day access accommodates without restriction;
- all transfers will be dual authorised in accordance with Financial Regulations 6 and 7 and reported to each meeting of this Committee.

Payroll is administered by Northumberland County Council and settled by invoice, so the Council retains control over the timing of its largest regular payment, further reducing cashflow/liquidity risk.

## 6. Amendment to Financial Regulations

Financial Regulation 6.9(iv) currently delegates to the EO/RFO authority for “Fund transfers within the council’s banking arrangements up to the sum of £10,000”. This limit would make the proposed arrangement unworkable, requiring committee authorisation for routine movements between the Council’s own accounts. It is proposed that Full Council resolves to substitute the following wording:

*“6.9(iv) Fund transfers between accounts and investments held in the name of the council (including the council’s current account and The Public Sector Deposit Fund) without monetary limit, provided that all such transfers are made in accordance with the council’s Investment Strategy and Treasury Management Policy, are subject to the authorisation controls in Regulations 6 and 7, and that a list of all such transfers shall be submitted to the next appropriate meeting of the Finance and General Services Committee. Fund transfers to any account or investment not held in the name of the council remain subject to the limits elsewhere in these regulations.”*

This preserves all existing fraud controls: transfers can only pass between accounts in the Council’s own name, dual authorisation continues to apply, and full transparency to the Committee is retained. The delegated payment limits in 6.9(i)–(iii) are unaffected.

## 7. Financial implications

At the current net yield of 3.6992%, and based on the operating pattern above, the average PSDF balance across 2026/27 is estimated at £550,000–£650,000, generating interest in the order of £20,000–£24,000 per annum, distributed monthly. This compares with negligible interest under current arrangements. Yield will vary with market interest rates and is not guaranteed. The Annual Management Charge (0.21% on balances under £1 million) is already reflected in the net yield quoted. There are no entry or exit charges. Interest earned will be credited to general funds and taken into account at budget setting, unless the Council resolves otherwise.

## 8. Risk assessment

Risk	Mitigation
Loss of capital – the PSDF is not FSCS deposit protected or guaranteed	AAAmmf Fitch rating; diversified high-quality sterling instruments only; independent depository (HSBC) with full segregation from CCLA; conservative management beyond rating requirements. Assessed as lower risk than the current single-bank concentration, which is itself unlikely to attract FSCS protection.
Liquidity – funds unavailable when needed	Same-day access with 11:30am cut-off; £120,000 operational float retained; payroll timing within the Council’s control; fortnightly balance reviews by the RFO.

Fraud/error in transfers	Transfers restricted to accounts in the Council's own name; dual authorisation under Financial Regulations 6 and 7; all transfers reported to this Committee.
Rating downgrade or fund suspension	Strategy requires the RFO to report to this Committee at the earliest opportunity with recommendations, including withdrawal.
Interest rate risk – yield falls	Yield is variable; no reliance is placed on investment income in the 2026/27 budget. Position reviewed at each budget-setting cycle.

## 9. Recommendations

The Finance and General Services Committee is asked to RECOMMEND to Full Council that:

- **1.** the Investment Strategy and Treasury Management Policy 2026/27, as attached, be adopted;
- **2.** an account be opened with The Public Sector Deposit Fund (CCLA Investment Management Limited) in the name of Ashington Town Council, with an initial investment of £625,000;
- **3.** Financial Regulation 6.9(iv) be amended as set out in Section 6 of this report;
- **4.** the Executive Officer/RFO be authorised to complete the account opening documentation and to operate the arrangement in accordance with the adopted Strategy, reporting to each meeting of the Finance and General Services Committee; and
- **5.** the use of fixed-term deposits be considered by way of a further report to this Committee once the arrangement is established.