

### Investment options available to Faversham Town Council

At its last meeting the Policy and Resources Committee discussed spreading the Council's investments to reduce risk. The Financial Services Compensation Scheme protects investments up to £85,000 per customer per bank or building society.

The Council currently has investments with the Natwest Group, Lloyds Banking Group plc and Nationwide Building Society, so alternative options have been researched below. The interest rates being offered were correct as of 6<sup>th</sup> July 2022.

#### Bank and Building Society Business Saving Accounts

Bank	Account	Access	Minimum Balance	Management	Interest Rate
Barclays	Business Premium	Instant	£0	Online, branch, phone	0.10 (up to £1m)
Barclays	Treasury Deposit	Fixed Term	£100,000	Online, phone	Dependent on amount invested
Co-op Bank	Instant Access	Instant	£1	Online, phone	0.12
Co-op Bank	35 Day Notice	35 days' notice	£0	Phone	0.28
Co-op Bank	95 Day Notice	95 days' notice	£0	Phone	0.34
HSBC	Business Money Manager Monthly Interest	Instant/30 Days/60 Days	£0	Online, branch, phone	0.03 (if 30 Day Access rate is 0.04 on £100,000) (if 60 Day Access rate is 0.05 on £100,000)
HSBC	Business Money Manager Quarterly Interest	Instant/30 Days/60 Days	£0	Online, branch, phone	0.02 0.04 (30 days' notice) 0.05 (60 days' notice)
Santander	Business Everyday Saver	Instant	£0	Online, branch, phone	0.10
Santander	Business Reward Saver	Interest lowered if withdrawals made	£1	Online, branch, phone	0.20 (lowered to 0.10 if withdrawals made)
Santander	Fixed Rate Business Bond	Fixed Term	£5000	Phone, post	0.30

## **Government Bonds (Gilts)**

Government bonds are known as Gilts in the UK and are an investment vehicle that provides a fixed rate of return until their expiry. Gilts are a loan from the bondholder to the government. The issuing government pays a fixed interest rate to the investor until the bond reaches its maturity date. When the maturity date is reached, the government pays the bondholder the face value of the bond.

Government bonds pay a steady income from the gilt's coupon rate (the fixed payment of interest) to the investor. They also provide insight into the market sentiment for the issuing country, as interest rates, inflation rates and currency strength all impact bond prices.

The two common types of Gilts available in the UK are:

Conventional Gilts – The most common form of Government Bond is available, a standard Gilt issued by the UK Government pays a fixed interest rate every six months until the bond reaches its maturity date. At this point the Gilt holder receives both the interest and the original capital invested.

Index-Linked Gilts – Index-linked Gilts differ from Conventional Gilts by having a variable interest rate based on the UK's primary rate of inflation, the Retail Price Index (RPI). This type of Gilt is aimed to shelter investments from the effects of inflation.

## **Risks associated with Gilts**

Gilts are considered to be a low to medium risk. As interest rates influence the price of a bond, rising interest rates can cause the bond market to fall in value. Careful consideration needs to be given to the duration of a bond and interest rate projections when looking to purchase or trade in bonds.

Similarly, when inflation rises, it can cause interest rates to increase therefore lowering the bond's value.

Like any market, liquidity can affect the ability to trade bonds effectively. Government bonds are less likely to carry liquidity risks when compared to other types of bonds. However, if liquidity risks are present, sellers may be forced to accept a lower-than-expected price, causing the market's value to fall.

## **Recommendations**

1. Interest rates on instant access accounts are at the present time, still very low. If the amount to be invested is not required for instant access, then the 95 Day Notice Account offered by Co-op Bank, or the Santander Fixed Rate Business Bond would offer the higher interest return from the options available from the banks.
2. Gilts are a further investment option but do have associated risk. With inflation currently rising it would be important to seek financial advice before looking at this option.