

## **Policy and Resources Committee 1<sup>st</sup> September 2025**

### **Report: FSCS Eligibility and Investment Risk Management**

#### **1. Introduction**

This report sets out the eligibility of Faversham Town Council (FTC) for protection under the **Financial Services Compensation Scheme (FSCS)**, in light of the Council's annual budget, and provides recommendations for managing financial risk in accordance with best practice.

#### **2. FSCS Overview**

The **Financial Services Compensation Scheme (FSCS)** is the UK's statutory "safety net" protecting individuals, small businesses, and some public bodies in the event of a bank, building society, or credit union failure.

- FSCS deposit protection is normally £85,000 per depositor, per institution.
- Public authorities (including town and parish councils) are excluded, except where they are classed as a small local authority.
- A "small local authority" is defined by the FCA Handbook COMP 4 as one with an annual budget not exceeding €500,000 (approx. £430,000–£450,000 depending on exchange rates).

#### **3. Faversham Town Council's Position**

- FTC's annual precept is £755,000, plus additional income.
- This exceeds the €500,000 threshold.
- Therefore, FTC is not eligible to be treated as a small local authority.
- As such, FTC does not qualify for FSCS protection.

#### **Implication:**

If FTC's deposits were held with a bank or building society that subsequently failed, the Council would not benefit from FSCS protection and could face a total loss of those funds.

#### **4. Risk Management Considerations**

##### **4.1 Risks Identified**

- **Counterparty risk:** Loss of funds if a bank or financial institution collapses.
- **Concentration risk:** Holding large sums with a single institution.
- **Liquidity risk:** Funds tied up in investments that are not easily accessible when needed.

## 4.2 Mitigation Strategies

In light of the above, FTC should adopt the following measures:

### 1. Diversification of Deposits

- Spread funds across multiple institutions to reduce exposure to any single failure.

### 2. Low-Risk Investment Options

- Consider UK Government-backed instruments such as gilts or Treasury bills.
- Explore Public Sector Deposit Funds (PSDFs), which are specifically designed for councils and managed under CIPFA Treasury Management guidance.

### 3. Due Diligence on Banking Partners

- Review credit ratings and financial stability of institutions before placing deposits.
- Favour UK high street banks with strong regulatory oversight.

### 4. Investment Policy Review

- Explicitly acknowledge in FTC's **Investment Policy & Strategy** that FSCS protection does not apply.
- Incorporate risk management principles aligned with the CIPFA Treasury Management Code.

### 5. Regular Monitoring

- Report on investments quarterly to the Policy & Resources Committee.
- Adjust strategy in response to changes in interest rates, bank stability, or Council cash flow needs.

## 5. Conclusion and Recommendations

Faversham Town Council is not eligible for FSCS protection due to its budget size. This means council funds are not safeguarded under the statutory compensation scheme.

To protect public money, the Council should:

1. Amend its Investment Policy to state explicitly that FSCS does not apply.
2. Diversify deposits across multiple institutions.
3. Explore government-backed and PSDF investment options to minimise risk.

4. Undertake regular monitoring and reporting in line with CIPFA best practice.

By adopting these measures, FTC can ensure that its financial management is robust, transparent, and aligned with its duty to safeguard public funds.

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Town Clerk

23<sup>rd</sup> August 2025