Investing Your Reserves

A Short Guide for PCCs

This guide provides a simple guide to questions PCCs should consider when reviewing their reserves, and how and where these are invested. All PCCs have some reserves whether it's the cash in the bank, deposits, investments or even owned property.

This guide does NOT make any specific recommendations to PCCs as to where and how their reserves should be invested. Rather it seeks to raise awareness of the options open to PCC members as trustees, and to give some examples to illustrate the differences between the various options. Nor does this guide help PCCs to identify the appropriate level of reserves there is another guide available to do this : www.parishresources.org.uk/reserves

The first questions PCC members need to ask are: To what proportion of our reserves do we need quick access? and Where is the best place to put this?

Short term cash and deposits

Many of the current accounts operated by charities and churches no longer pay interest on balances. This is usually a trade off by the bank to compensate for making lower charges on the account. PCCs should consider reviewing the competitiveness of their current account with regard to efficiency, interest and charges from time to time.

A slightly higher rate of interest can be gained from deposit accounts, but with the current low level of Bank of England base rates, many of these accounts are currently paying 0.2% or 0.3%. However, the funds can be instantly accessed. Most banks offer these accounts as does the banking arm of the Charities Aid Foundation, CAFBank.

For many churches, the CBF Church of England (formerly CBF) Deposit Fund, operated by CCLA (www.ccla.co.uk), has been a good way of gaining increased interest whilst maintaining immediate access to funds and keeping risks low. At July 2018, this fund has just over £630 million invested in it, sourced from across the whole of the Church of England. You can download a factsheet with the current interest rate (0.4% at July 2018). This underlines the importance of monitoring interest rates, and suggests that money invested on deposit is that which is likely to be required in the short term or at very short notice.

Notice or fixed-term deposits

One way to increase the rate of interest is for trustees to give up some 'liquidity' or speed of access to their money, by putting some of their cash reserves into a notice or fixed term account.

There are a number of providers of notice accounts, including Building Societies and Kingdom Bank. CAFBank, (www.cafonline.org) through Birmingham Midshires (the 'Deposit Taker'), offer a 90 day notice account for deposits of over £500.

A fixed duration account is another alternative. CAF Bank offer a 1 year account for deposits of £1,000 of more, and most other high street banks and building societies may offer similar products.

The return on fixed term accounts is known in advance, either in absolute terms, or relative to the Bank of England base rate. Whilst the interest rate on the notice account may change, trustees will know this in advance.

The key question for PCCs in considering notice accounts and fixed-term deposits, is whether PCCs feel that the extra interest they will earn is sufficient to compensate them for the restrictions in accessing their funds in an emergency (usually loss of interest.) The interest rate should also be considered in relation to the rate of inflation – is the money maintaining its value in real terms?

Current and deposit accounts are usually covered under the Financial Services Compensation Scheme (FSCS), which guarantees deposits up to £85,000 with any provider that runs into difficulties. You should check who is the 'Deposit Taker' providing the account since the £85,000 covered under the scheme is a maximum amount for any individual deposit taker, irrespective of how many different accounts were held.

Charity Commission guidance is that PCCs would be covered under the scheme unless their balance sheet assets were in excess of £3.26 million. The CCLA deposit fund is not covered under the FSCS as it is a pooled fund, but the deposits are spread across a wide range of accounts to manage risk, allowing it to have a very secure AAA credit rating.

Longer Term Investments

A third alternative is to consider putting money into longer term investments. These do not provide the same day to day stability of value as cash deposits but they can provide an income flow that is higher, more stable and in some cases, give growth in the capital invested. There is a wide range of long term funds available from a range of alternative providers, each with different characteristics and so each suited to different needs.

PCCs are not restricted in which funds they can select, but those wishing to invest ethically might wish to consider the CCLA range of funds (www.ccla.co.uk) or Edentree funds from Ecclesiastical (www.ecclesiastical.com/edentree). Guidance from the Church of England's Ethical Investment Advisory Group can be found at www.churchofengland.org/about-us/structure/eiag.aspx

It is important for a PCC to be clear what they need their longer term investments to achieve, whether that is a higher income, income growth for the future or a rise over time in capital values. This process might involve seeking advice or guidance to help their deliberations. PCCs should note that CCLA provides a free service that is available without obligation to all PCCs.

Version 6 July 2018