

Item No.	Classification: Open	Date: 20.11.23	Meeting Name: Finance Subcommittee
Report title:		Maximize Interest earned from Money held in Bank	

1.0 Recommendation:

- 1.1 To allow JMB management to investigate then open business savings accounts to earn bank interest.
- 1.2 To establish 'treasury' responsibility in the finance team that regularly reviews cash flow and major works plans, to maximise cash held in interest bearing accounts whilst ensuring emergency reserves are always available, there is sufficient cash for normal operating expenditure, there is a reasonable buffer, and planned major works can be funded.

2.0 Background

- 2.1 The JMB currently receives no bank interest on money held in the three JMB bank accounts: Current, Rent and Homeowner accounts held with Lloyds Bank
- 2.2 From June 2022, Bank of England base rates rose above 1% for the first time since 2008, and they currently stand at 5.25%. Business banking has slowly started to offer better rates for savings.
- 2.3 The JMB needs to make money in the bank work harder to earn interest to counter the effect of inflation on cash held and/or to provide an income stream for the JMB.
- 2.4 The JMB Treasurer and the new Chief Executive Officer have both supported, investigated and asked for this work to be prioritised.
- 2.5 As with individuals, the limit for protection for companies by the Financial Services Compensation Scheme is £85,000 if the bank fails. This limit is for all accounts held within a banking group, not each bank account. For this reason, the JMB banks with one of the big four UK banks that is regarded as 'too big to fail.'
- 2.6 Balance is needed. Banking arrangements should be simple and visible to enough individuals to minimise risk. It is not good practice for only one or two people to understand where the money is across multiple accounts in multiple banks.
- 2.7 The JMB will not gamble with money held from tenant rent or homeowner service charge payments. The JMB cannot invest money or buy stocks and shares. These options put the capital at risk, not just the interest. This limits potential returns but also minimises the risk of loss of capital.
- 2.8 According to the JMB management agreement with Southwark Council (Chapter 5 Financial Management, Clause 7 Restriction on Investments) "The TMO shall not, without the prior written consent of the Council, invest surplus cash balances in any form of investment other than a secure short term deposit account. Any money so invested shall be capable of being withdrawn by the TMO giving not more than 3 months' notice of withdrawal.

- 2.9 The CEO and finance team had a meeting with the new relationship manager at Lloyds bank to understand the options available with the current JMB bank. Products from the other big four UK banks were also reviewed.
- 2.10 The JMB will need to cash-flow forecast for the duration of the longest deposit to ensure that there is sufficient working capital available for expected and emergency use.
- 2.11 The JMB must have emergency reserves available at all times and cannot dip into these unless in a housing management emergency. In 2023/24 the emergency reserve totals £881,345.
- 2.12 In addition, the JMB needs to hold cash reserves to cover normal operations. The rule of thumb is that companies should hold between 3 and 6 months of normal operating expenditure in reserves. This can be held in cash or short-term deposits of up to three months.
- 2.13 Finally, the JMB must have available sufficient funds for planned major works. Savings can be held to mature just before they are required for planned major works.

3.0 Options Considered

- 3.1 **Request interest is paid on current bank accounts:** The JMB has asked the bank to start paying interest on our three bank accounts. This has not yet been agreed and we have not seen the interest rate yet but understand it will not be high. However, this option means money we need to hold for emergency reserves, cash buffer for normal operations and a buffer will attract some interest.
- 3.2 **Set up savings with current bank:** The JMB could continue to hold all money with Lloyds banking group. They currently offer deposit accounts where you agree to lock away money for a set period, and this attracts a fixed interest rate. Currently Lloyds are offering 2.0% for a deposit for 3 months, 3.5% for a deposit for 6 months, 3.6% for a deposit of 12 months. They also offer a more competitive 5.08% for a deposit for 15 months. Any money deposited will not be available to the JMB until the end of the term.
- 3.3 **Set up savings with one of the other big 4 banks:** The JMB could explore moving money to a savings account with one of the other big banks. NatWest is currently offering instant access savings at 1.45-1.9%, 35-day notice accounts at 3.25% or 95-day notice accounts at 4.25%. Notice accounts have a variable interest rate, which normally follow bank of England base rate moves, but the bank can decide to change at a different rate at its own discretion. You cannot use savings accounts for day-to-day banking. HSBC savings rates are just below 2%. Barclays do not publish business savings rates online.
- 3.4 There is no limit to the number of deposit accounts the JMB opens, so they could be set up so an account matures every two or three months.
- 3.5 **Do nothing:** money held in bank accounts will continue to devalue as inflation eats into the amount that can be bought with each £1. The JMB will not receive interest, so there will be no 'income' coming in as interest to be assigned to strategic priorities.

4.0 Proposal

4.1 The JMB will

- a) Explore whether keeping to the management agreement 3 months' notice rules enables the JMB to attract decent interest rates with either Lloyds or another big four UK bank.
- b) Understand the rules set by other big four banks about taking savings from a customer who does not hold a current account with them.
- c) Move a first significant tranche of money into a savings account as quickly as practical, ensuring this will not impact predicted cash flow requirements for the duration of the notice period / length of the deposit account.
- d) Establish and prioritise a treasury responsibility within the finance team to regularly update cash flow, continuously review major works predicted spend patterns and have the authority to keep money in higher interest earning accounts or move to the current account as required.

5.0 Financial Impact

5.1 Earning interest will help reduce the impact of inflation and earn new cash to fund strategic priorities.

5.2 Interest earned is subject to 20% corporation tax:

Sum deposited	Interest rate	Account	Gross interest	Net after tax
£1 million	1%	Example	£10,000	£8,000
£1 million	2%	Lloyds 3 month deposit	£20,000	£16,000
£1 million	4.25%	NatWest 95 day notice	£42,500	£34,000
£1 million	5.08%	Lloyds 15 month deposit	£50,800	£40,640
£3 million	4.25%	NatWest 95 day notice	£127,500	£102,000

6.0 Human Resources Impact

6.1 Need to prioritise the treasury function in finance to ensure money is only held in restricted savings accounts if it is not needed for planned work. Need to ensure there is capacity to undertake this treasury responsibility.

AUDIT TRAIL

Report Author	Berni McEwan, Finance Manager
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