

Financial Services Compensation Scheme

Introduction

Hitherto, Local Authorities' investments and deposits have been excluded from the protection offered to other depositors under the Financial Services Compensation Scheme – see Finance Briefing F07-14 issued on 22nd May 2014 – by specific exclusion under The Compensation Rules (COMP) established by the FCA.

Policy Change

In a Policy Statement (PS9/15) issued in May 2015, the Prudential Regulation Authority (PRA) of the Bank of England announced a change in policy to extend the protection afforded under the Scheme to “Small Local Authorities” (SLAs). Such Authorities are defined as Local Authorities with “an annual budget of up to 500,000 **Euros**”. The regulations do not specify whether the term “Budget” refers to Income or Expenditure, but the only prudent course is to assume that BOTH Income and Expenditure need to be under the 500,000 **Euros** threshold in order to qualify for protection. Reference in the rules refers to the Exchange Rate at 3rd July, but the detailed application of this is not clear.

Under the scheme changes, SLAs are protected in the same way as other protected investors i.e. for deposits/investments up to £85,000 (reduced to £75,000 from 1st January 2016) with any UK bank, building society and credit union as well as with overseas firms PRA deposit-taking permission and UK branches of European Economic Area (EEA) credit institutions. Although the on-line rule book has not yet been updated, it is a reasonable assumption that COMP Rule 4.2.2 (which cites Local Authorities as being ineligible) will incorporate a caveat to the exclusion excepting SLAs.

This is obviously a very welcome move by the PRA to protect many (but not all) Local Authorities investment balances. It is a requirement of the Regulations that deposit-takers “mark” eligible deposits (as qualifying for protection) by 3rd July 2015. It is probable, therefore, that banks etc will ask members for confirmation of their status as SLAs. This will probably take the form of requests for confirmation that their budget is under 500,000 **Euros**. It is vital that any such requests received by members are responded to promptly in order that eligible balances are brought within the scheme's protection.

This Briefing Note supersedes, but does not replace, F07-14, which is now only applicable to councils not qualifying as Smaller Local Authorities

This briefing was issued by Derek Kemp, NALC's Audit and Accounts Advisor

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