



Briefing Note: Special Account Interest Rate and the Impact of the Recent Reduction

Richard Cropper, 26th June 2009

Given the reduction in the Special Account interest rate to 0.5% from 1st July 2009, the impact on Protected Beneficiaries is ever worsening.

Whilst the Lord Chancellor remains silent with regard the appropriateness of the discount rate at 2.5%, the following is an extract from Hansard for 30th April 2009:

JUSTICE Court Funds Office

Mr. Bellingham: To ask the Secretary of State for Justice how much is held in cash deposits on behalf of Court of Protection clients by the Court Funds Office. [271507]

Bridget Prentice: The Court Funds Office holds approximately £3 billion of funds on behalf of clients of the Court of Protection (correct as of 1 April 2009).

Mr. Bellingham: To ask the Secretary of State for Justice how much interest the Court Funds Office paid at the (a) standard and (b) special interest rate in the last year for which information is available. [271508]

Bridget Prentice: The Court Funds Office (CFO) holds approximately £4.6 billion of funds on the basic and special accounts. Interest is paid to CFO accounts bi-annually to accounts earning the special rate of interest in May and November and to accounts earning the basic rate of interest in March and September.

Until 1 February 2009, interest was paid at a rate of 6 per cent. on the special account and 4 per cent. on the basic account. On 1 February 2009, interest rates changed to 3 per cent. and 2 per cent. respectively.

For the last full year in which accounts are available (2007-08) the amount of interest paid to CFO special and basic account clients was £260,033,000.

Mr. Bellingham: To ask the Secretary of State for Justice what the average size is of a Court of Protection client's deposit with the Court Funds Office. [271509]

Bridget Prentice: The Court Funds Office holds approximately £3 billion of funds on behalf of approximately 18,000 Court of Protection clients, which equates to an average of £169,000 per account.



Mr. Bellingham: To ask the Secretary of State for Justice what assessment he has made of the effect on clients of the reduction in the special interest rate paid by the Court Funds Office. [271510]

Bridget Prentice: As part of the administration of funds in court the Lord Chancellor regularly reviews the interest rates paid on client accounts. In reviewing and setting the rate paid, the Lord Chancellor takes into account a number of factors including the amount of interest received on funds against the amount of interest paid to clients, the changing level and mix of funds held by CFO and administration costs.

Income generated on the client funds is influenced by the Bank of England rate. In light of recent movements in the Bank of England rate it has been necessary to reduce the level of interest paid on the special and basic accounts. Interest rates were reduced on 1 February from 6 per cent. to 3 per cent. on the special account and from 4 per cent. to 2 per cent. on the basic account. It has become necessary to reduce CFO's rates further and from 1 June the special account rate will be 1.5 per cent. and the basic account 1 per cent.

There are currently around 119,000 deposits in the special account: 101,000 held on behalf of young people with damages awards and 18,000 belonging to Court of Protection clients. The financial impact of the recent reduction in the special account rate on children and Court of Protection clients varies, as the latter tend to hold larger sums of money in the special account.

CFO rates compare favourably to most rates offered on instant-access accounts by banks and building societies. For example, for a deposit of £25,000 placed in a bank or building society savings account, the average rate of interest offered by some 464 different types of account is 0.71 per cent. gross AER (information taken from the FSA's comparative tables (www.fsa.gov.uk/tables) as at 17 April 2009 Financial Services Authority.)

It is important to stress that the purpose of the CFO and its special account is not to compensate or make financial provision for a client's situation—that is the role of the court or the welfare system as appropriate. The role of the special account is to provide a safe place for client's funds and to provide a reasonable rate of return. All special account clients continue to benefit from safeguards offered by this account.

The majority of deputies representing Court of Protection clients should have the ability to withdraw funds from the CFO and place them elsewhere if they believe this is in the best interests of the person they represent. Litigation friends representing children have the ability to apply to court for permission to remove funds.

The Lord Chancellor will be keeping the rates under review and should he consider it appropriate, further changes to the special account rate may be necessary in light of the recent and future Bank of England rate changes.

The CFO will continue to monitor the impact this has on clients.



Clearly, the impact of the recent further reduction to 0.5% per annum means that Special Account no longer compares favourably with other commercial providers, assuming that there are enough of them to hold just £50,000.00 each (in order to maximise protection).

At 0.5% per annum gross, even NS&I rates are more attractive and such accounts benefit from the same level of guarantee.

Consequently, it may well be time to consider the alternatives.

However, whether it is economic to withdraw all of the funds from Special Account will depend on whether the Court of Protection will increase the Deputy's security bond.

The cost of the additional premium, together with the application costs and additional Deputyship implementation costs, could be greater than the net interest rate differential.

I understand that a case was recently heard in the High Court with regard to the need for a security bond where the Deputy is a professional and we await the Judgment with interest.

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