

**Treasury Management Strategy – Counterparty Limits**

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|---------------------------------------|--|
| <b>Final Decision-Maker</b>           | Council  |
| <b>Lead Head of Service</b>           | Mark Green, Director of Finance and Business Improvement |
| <b>Lead Officer and Report Author</b> | Mark Green, Director of Finance and Business Improvement |
| <b>Classification</b>                 | Public   |
| <b>Wards affected</b>                 | All  |

**Executive Summary**

The purpose of this report is to address a breach of counterparty limits and recommend adoption of new limits as set out in the proposed 2021/22 Treasury Management Strategy.

**Purpose of Report**

Decision

**This report makes the following recommendations to this Committee:**

That Council be recommended to adopt the Treasury Management counterparty limits as set out in Appendix 1 in advance of the previously envisaged adoption date of 1 April 2021.

**Timetable**

| <b>Meeting</b>                 | <b>Date</b>     |
|--------------------------------|-----------------|
| Policy and Resources Committee | 20 January 2021 |
| Council                        | 28 January 2021 |

# Treasury Management Strategy – Counterparty Limits

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

| <b>Issue</b>                          | <b>Implications</b>  | <b>Sign-off</b>            |
|---------------------------------------|--|----------------------------|
| <b>Impact on Corporate Priorities</b> | None   | Section 151 Officer        |
| <b>Cross Cutting Objectives</b>       | None   | Section 151 Officer        |
| <b>Risk Management</b>                | Whilst the financial risks associated with this proposal are considered to be low, we are required by law to operate within the Policy Framework which can only be amended by Council.   | Section 151 Officer        |
| <b>Financial</b>                      | Contained within the body of the report – the Treasury management Strategy Counterparty limits are recommended to be amended.  | Section 151 Officer        |
| <b>Staffing</b>                       | None   | Section 151 Officer        |
| <b>Legal</b>                          | <p>The Council's policy framework includes the Treasury Management Strategy which can only be approved by Council, (Local Authorities (Committee System) (England) Regulations 2012).</p> <p>Exceeding the counterparty limits was unavoidable and there is a risk that the limits may be exceeded again prior to Council meeting on 24 February 2021. In order to mitigate this and bring the Council in line with its policy framework it is therefore a requirement that authority is sought from Council as soon as possible to change the Treasury Management Strategy to bring the issue back in line with the policy framework and prevent future breaches.</p> | Senior Lawyer (Governance) |
| <b>Privacy and Data Protection</b>    | None   | Section 151 Officer        |
| <b>Equalities</b>                     | None   | Section 151 Officer        |

|                           |      |                     |
|---------------------------|------|---------------------|
| <b>Public Health</b>      | None | Section 151 Officer |
| <b>Crime and Disorder</b> | None | Section 151 Officer |
| <b>Procurement</b>        | None | Section 151 Officer |

## **2. INTRODUCTION AND BACKGROUND**

- 2.1 Attached at Appendix 1 are extracts from the Treasury Management report that went to Audit, Governance and Standards Committee on 18 January 2021.
- 2.2 As part of that report, an increase was proposed to some of the counterparty limits within our current Treasury Management Strategy. The rationale behind this was that over the past financial year the Council's cash balances have, at certain intervals, been significantly higher than anticipated prior to the onset of the Covid 19 pandemic and associated government interventions. The key reasons for this are the up-front payments received for section 31 grants (to compensate for reductions in business rates income payable by ratepayers) and Covid 19 Business Grants which, although only held by the Council for a short time before being paid out to businesses, are significant in terms of value. The proposed changes in counterparty limits are modest and do not significantly increase the Council's risk.
- 2.3 If agreed by AGS committee and full Council on 24<sup>th</sup> February, the increased limits would have come into effect from 1<sup>st</sup> April 2021. However, as reported to AGS Committee on 18<sup>th</sup> January, in advance of the proposed increases in counterparty limits, the Council unavoidably breached some of the limits within the existing strategy. This matter therefore needs to be resolved as soon as possible and an extraordinary Council has been called for this purpose on 28 January 2021.
- 2.4 The breach arises from receipt of the latest tranche of Covid-19 business grants funding, for which £12.4m was received from the government on Friday 15<sup>th</sup> January. This will shortly be paid over to businesses, but in the meantime the surplus cash has been allocated to counterparties in accordance with the limits proposed within the new strategy, and with reference to existing principles on managing credit and counterparty risk. All investments are held with highly rated institutions and money market funds, with the majority of cash being held in instant access accounts. Details are set out within the table below:

| Accounts                                  | Total Invested | Limit       | Breach      |
|---|----------------|-------------|-------------|
| Lloyds Bank Plc - Call Account            | £5,000,000     | £3,000,000  | £2,000,000  |
| Santander UK Plc - 35 Day Notice Account  | £5,000,000     | £3,000,000  | £2,000,000  |
| Handelsbanken AB - Instant Access Account | £5,000,000     | £3,000,000  | £2,000,000  |
| Goldman Sachs MMF                         | £8,720,000     | £8,000,000  | £720,000    |
| Standard Life MMF                         | £10,000,000    | £8,000,000  | £2,000,000  |
| Federated MMF                             | £10,000,000    | £8,000,000  | £2,000,000  |
| Totals                                    | £43,720,000    | £33,000,000 | £10,720,000 |

- 2.5 Officers were made aware on 14<sup>th</sup> January that payment of this funding would arrive in the Council's bank account on 15<sup>th</sup> January. As local authorities around the country will have received similar allocations, the scope for short term lending to other councils was extremely limited. Alternative options were to either retain the cash in our current account with Lloyds, or to allocate it to lower rated counterparties. These options were rejected to avoid the over concentration of risk in one area or compromising on the security of our cash deposits.
- 2.6 Cash balances have subsequently reduced at the beginning of week commencing 18<sup>th</sup> January after payments relating to Covid-19 business grants (£3.7m), housing benefit (£2.1m) and the Kent Business Rates Pool (£5.8m) leave the Council's bank account on Monday and Tuesday. However, whilst balances held with the above counterparties have therefore returned to within the current limits on Tuesday 19<sup>th</sup> January, the balance with Santander is subject to 35 days notice and will therefore not return within limits until 22 February.
- 2.7 There is also the possibility that limits may be breached again between 15<sup>th</sup> and 22<sup>nd</sup> February, following receipt of housing benefit subsidy and further section 31 grant payments.

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### 3. AVAILABLE OPTIONS

- 3.1 The recommendation is made in order to bring the Council in line with its Policy Framework and prevent a future breach of counter party limits.
- 3.2 The only alternative option would be to recommend alternative Counter Party Limits than those proposed to Audit Governance and Standards, but that is not recommend as it goes beyond what is necessary and increases financial risks.
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#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 The preferred option is for Policy and Resources to recommend to Council to amend the counterparty limits in the Treasury Management Strategy in accordance with Appendix 1 as this will mean that the funds are not exceeding the counterparty limits and the Council is operating within its policy framework.
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#### **5. RISK**

- 5.1 The financial risks associated with this proposal are considered to be low. The ultimate decision on this matter concerns the Council's Policy Framework which can only be amended by Council.
- 5.2 See Appendix 1 for details of the specific changes in limits and details of measures taken to ensure that counterparties are creditworthy.
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#### **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 The Treasury Management issue went to Audit Governance and Standards Committee on 18 January 2021.
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#### **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 The matter will be referred to the Extraordinary meeting of Council on 28 January 2021.
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#### **8. REPORT APPENDICES**

Appendix 1: Treasury Management, Investment and Capital Strategies  
2021/22

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#### **9. BACKGROUND PAPERS**

None