REPORT TO:	**FINANCE AND MANAGEMENT COMMITTEE**	**AGENDA ITEM:12**
DATE OF MEETING:	**10 FEBRUARY 2022**	**CATEGORY: DELEGATED**
REPORT FROM:	**STRATEGIC DIRECTOR (CORPORATE RESOURCES)**	**OPEN**
MEMBERS' CONTACT POINT:	**VICKI SUMMERFIELD** victoria.summerfield@southderbyshire.gov.uk	**DOC:** s/finance/committee/21-22/Feb
SUBJECT:	**TREASURY MANAGEMENT COUNTERPARTY LIMITS UPDATE**	**REF**
WARD (S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM08**

1.0 Recommendation

1.1 That the updated Counterparty List for investments and bank deposits as detailed in **Appendix 1** is approved.

2.0 Purpose of the Report

2.1 To request an increase to the approved Counterparty limits for the Council's investments and deposits to ensure no breach of the limits occurs.

3.0 Detail

3.1 The Council is required to manage its treasury activities under the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code).

3.2 Alongside this, a set of investment limits detailing the financial institutions that the Council can work with must be approved by the Committee.

3.3 It is requested that an increase of £5m is approved for investments with the Government's Debt Management Office (DMO) and that work can be undertaken to review options regarding opening an additional Money Market Fund for investments of up to £2m.

3.4 Due to the high levels of cash receipts that the Council is currently seeing from Government grants in relation to the pandemic plus capital grants and Section 106, timing of expenditure is not in line with the significant levels of cash income.

3.5 The Council was very close to breaching the current approved Counterparty limits in January 2022 therefore an increase is essential to prevent further concerns.

3.6 The Council utilises a Treasury Adviser to provide updates on the financial markets and guide on the most secure financial institutions to invest surplus cash with.

3.7 Appendix 1 has been updated to increase the DMO limit to £25m and the Money Market limit to £16m.

4.0 Financial Implications

4.1 As detailed in the report

5.0 Corporate Implications

5.1 None directly

6.0 Community Implications

6.1 None directly

7.0 Background Papers

7.1 Treasury Management in the Public Services Code of Practice
(CIPFA Publication - December 2017)

APPENDIX 1

COUNTERPARTY LIST 2021/22
(as at January 2022)

Treasury investment counterparties and limits

Sector	**Counterparty Limit**	**Time Limit**	**Sector Limit**
The UK Government	£25m	364 days	n/a
Local authorities & other government entities	£5m	364 days	Unlimited
Banks (unsecured)*****	£3m	35 days	Unlimited
Building societies (unsecured)*****	£2m	35 days	£5%m
Money Market Funds*****	£2m	60 days	£16m
Strategic Pooled Funds	£4m	n/a	£4m
Other Investments*	£1m	35 days	Unlimited

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. The Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £3m. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.