Report to the Council

Committee: **Audit & Governance** **Date: 29 October 2020**

Subject: **Review of Treasury Management Investment Limits.**

Chairman: **Councillor I Hadley**

Recommending:

(1) That the following amended Treasury Management Investment Limits be approved:

> **(a) Single Institution (excluding the UK Government) to be increased to £4million (previous limit was £3million); and**
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> **(b) Money Market Funds to be increased to £10million per fund, with a maximum of 3 Funds to be invested in at any one time unless Officers have called an emergency virtual meeting with three members of the Audit & Governance Committee – preferably including the Chairman - to discuss the situation (previous limit was £10million in total for all Funds invested in).**

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1. At its meeting held on 28 September 2020, the Audit & Governance Committee considered the Treasury Management Outturn report for 2019/20. This report considered the compliance with the Council's adopted Treasury Management and Prudential Indicators and reported that full compliance had been achieved on most of the Indicators. However, the cash requirements of the Council's recently expanded commercial activities had resulted in some technical breaches, especially on Investment Limits.

<u>Investment Limits</u>

2. The £3million limit on investing in any single organisation (except for the UK Government) was breached during the year, with the Council holding larger amounts of cash with NatWest, the Council's main bankers. This was primarily driven by commercial investment activity, which was approved by Cabinet during 2019/20 (and subsequent to the adoption of the Treasury Management Strategy for the year). The peak cash holding was £26million in mid-December 2019; this was a temporary position (lasting 6 days) as the Council gathered the funds in readiness for a balancing payment of £18.645million in respect of the purchase of Centric Parade, High Road, Loughton.

3. The increasing scale of commercial activity generally, including the Qualis initiative, means that the current Investment Limits are proving operationally very difficult (and technically impossible during the early stages of the pandemic as the Council received large sums from the Government at very short notice). A review of the Limits has therefore been undertaken and a solution (that balances risk with operational need) has been developed. The starting point is the level of available Balance Sheet reserves in the event of a default. The Council had £27.341million in reserves on its (draft) Balance Sheet as at 31st March 2020 to cover unexpected credit losses in an emergency.

4. Based on discussions with Arlingclose, the Council's Treasury Management consultants, a reasonable level of risk to carry in a single institution would be 15% (based on current market conditions) of the Council's reserves. A revised Investment Limit for a single institution is therefore suggested at £4million (rounded down for prudence as 15% x £27.341million = £4.1million).

Money Market Funds

5. In addition, it is the view of Arlingclose that the Council's current Investment Limit of £10million in total for Money Market Funds (MMF) is now – in the circumstances – excessively prudent, with a £10million limit more usually associated with a single MMF; these are not considered risky investments (and usually carry very high credit ratings), provided investments are spread across a range of MMFs. It was therefore proposed that the MMF Investment Limit be amended to £10 million for a single MMF.

6. However, the Committee was concerned about the risk this could pose to the Council if there was not a maximum on the number of MMFs that could be invested in at any one time. Therefore, the Committee agreed to limit the number of MMFs that could be invested in to three at any one time, and if Officers wished to invest Council funds in more than three MMFs at the same time then they would have to call an emergency virtual meeting with at least three members of the Audit & Governance Committee – preferably including the Chairman – to discuss the situation.

7. We recommend as set out at the commencement of this report.