Briefing on RDC Approach to Inter Authority Lending

For **information**	X
For **decision**	X
For **discussion**	X

Purpose

To advise Members of the Council's proposed approach to inter-authority lending, as set out in the draft 2018/19 Capital and Treasury Management Strategy.

Proposal / recommendations

To note the contents of this briefing, including the potential options available to RDC to be discussed at the Review Committee meeting on 6th February, and decide whether to recommend any changes to the draft strategy before it is taken to Full Council for approval.

Background

The draft 2018/19 Capital and Treasury Management Strategy is appended to this note and will be discussed at the Review Committee meeting on 6th February before it is taken to Full Council on 13th February for approval.

The draft strategy currently recommends that the list of counterparties that Rochford District Council (RDC) will lend to remains unchanged from the 2017/18 list. This includes the ability to lend up to £3m to other Local Authorities for periods of up to one year.

At the Review Committee meeting of 5th December a question was raised regarding the security of Treasury Management investments made in other Local Authorities. A follow up response was sent to all Members of that Committee on 8th December as follows:

The 2017/18 RDC Treasury Management Strategy sets out the criteria for the counterparties the Council will lend to. This states that the Council will only invest with institutions within countries that have a sovereign credit rating of AA+ or above (with the exception granted by Full Council of the UK which has an AA rating) and in items which fall under the following headings:

- *Term and Call Deposits with banks and building societies*
- *Term deposits, call deposits and bonds with other UK Local Authorities*
- *Certificates of deposit with banks and building societies*

- *Deposit Facility*
- *Money Market funds (both Standard and Enhanced)*
- *Debt Management Agency Deposit Facility (Government Managed)*
- *Treasury Bills*

Under the criteria of the current strategy the Council could therefore choose to invest with other UK Local Authorities, although to date it has not done so.

While there is no specific guarantee from Central Government to underwrite Local Authority lending in the Local Government Act 2003, no Local Authority has become insolvent to date and it seems very unlikely that Central Government would allow an individual Local Authority to default against its creditors. It is therefore judged that lending to another UK Local Authority is unlikely to be riskier than investing in a bank or building society that falls under a similar national sovereign credit rating. The risk is further mitigated by the limits on lending to other Local Authorities set out in the Council's 2017/18 Strategy, which states that a maximum of £3m may be lent for a maximum duration of 1 year.

It was officers' view, in consultation with the Portfolio Holder for Finance, that the option to lend to other Local Authorities should therefore remain in the 2018/19 draft strategy (pending further discussion at Review Committee) as the security of these investments is not deemed to have changed materially since 2017/18 and it allows the potential for increased diversification of risk across the Councils investment portfolio as well as a greater flexibility of investment options and potentially greater returns on investment.

Since December officers have undertaken further due diligence by speaking with its Treasury Management Advisors, and peer authorities to establish what checks and controls other authorities undertake before agreeing inter-authority lending, and the key points arising from this are summarised below.

- RDCs Treasury Management Advisors, Link Asset Services (LAS), continue to include UK Local Authorities on their recommended lending list, however, they are not given a credit score.
- Most Local Authorities are not individually credit rated, therefore LAS form their view on the security of local authority investments across the local government sector as a whole.
- Some Local Authorities have registered for individual credit ratings; this is mainly where they have chosen to issue bonds on the market e.g. Cornwall County Council and Lancashire County Council.

- Most Local Authorities do allow inter-authority lending to other councils, subject to controls to limit exposure to investment risks e.g. through caps on the amounts and length of time that these can be invested. For example ECC includes other local authorities within their counterparty ‘pool’ and determines the total amounts that can be invested with regard to their size i.e. upper or lower tier. Castlepoint allows up to 33% of total investments (or £5m if lower) to be invested with other Local Authorities for up to a year, and deems the security of these to be high. Similarly Maldon allows investment with other Local Authorities and states that there is an insignificant risk of insolvency on these investments.

- Some authorities do undertake further checks on the individual Local Authority before agreeing to invest, e.g. by reviewing their balance sheet position to assess their financial health; however there is not one approach to the checks that should be undertaken.

- Any further checks to be undertaken before investing have to be proportionate, as officers need to act quickly when making investment decisions - typically these have to be undertaken within an hour or so of receiving an offer from a broker.

Potential Options for Consideration by Review Committee:

1. Recommend the TM Strategy as it currently stands to Full Council for approval.

2. Recommend that the lending list in the 2018/19 Strategy stays as it currently stands, but expand the TMP 4 Section of its TM Practices section, to set out the additional checks that will be undertaken before lending to other Local Authorities (note further work may need to be undertaken to establish what these checks should be; however if this option is agreed RDC would not invest in other Local Authorities until such time at this was agreed by Review Committee).

3. Revise the amount and/or duration that can be lent to other Local Authorities.

4. Add further detail on limits e.g. separate limits for lending to upper and lower tier authorities.

5. Remove the option to lend to other Local Authorities completely from the lending list for 2018/19*.

   *It should be noted that if option 5 is agreed, this will potentially increase other TM risks to the Council i.e. by limiting the lending list further this will decrease the diversity of potential investment opportunities and increase the likelihood that the council’s monies are invested predominately in one sector e.g. banking.

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Appendix 1 – Draft 2018/19 Capital and Treasury Management Strategy **Item 8 Report: Capital & Treasury Management Strategy 2018/19: Review Committee – 06/02/2018**