Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **27 September 2013**

TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2013/2014

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

1.1 To report on the Treasury Management (TM) performance for the second quarter of 2013/2014.

2. Description of Decision

2.1 The Committee is requested to note the Treasury Management performance during Quarter 2 of 2013/2014.

2.2 To note amendments to the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

3. Introduction

3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2013/2014, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council on 6th March 2013.

4. Review of Treasury Management Performance for 2013/14 – Quarter 2

4.1 The Council's Treasury Management function continues to look at ways of maximising financial savings and increase investment return to the revenue budget. One option to make savings is through debt rescheduling, however no rescheduling has been possible in 2013/2014 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently 3.51%, and as such the Council continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises.

4.2 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators. The statutory limit under section 3(1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £398.602m for 2013/2014 and the Council is well within this limit. More details of all of the TM Prudential Indicators are set out in section A2 of Appendix A for information.

4.3 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.

4.4 As at 31st August 2013, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.01% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.36%. Performance is very positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.

4.5 The rate of return on investments has fallen markedly in recent months as UK-based financial institutions access funding from alternative sources such as the Government's Funding for Lending Scheme to increase their capital/cash reserves in line with recent regulatory requirements. The result is that investment rates have reduced considerably since April 2013 and continue to follow a downward trend. Even special tranche investment rates (which offer better than market average returns) have reflected this downward trend. Forward guidance announced in the Quarterly Inflation report (August 2013) by the Bank of England also shows that they do not expect to increase the Bank Base Rate until late 2016 at the earliest and the implication from this is that returns on investments will be significantly lower than those achieved in recent years until interest rates begin to increase.

4.6 More detailed Treasury Management information is included in Appendix A for Members' information.

4.7 The regular updating of the Council's authorised lending list takes into account all recent financial institution mergers and changes in institutions' credit ratings. The Approved Lending List as shown in Appendix C has been updated to reflect this.

4.8 In accordance with Treasury Management Best Practice, a risk analysis of the Treasury Management functions has been carried out and included at Appendix D for information which sets out how the Council manages the risks associated with the Treasury Management function.

5. Recommendation

5.1 Members are requested to note the Treasury Management (TM) performance for the second quarter of 2013/2014.

5.2 Members are requested to note amendments to the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

Appendix A

Detailed Treasury Management Performance – Quarter 2 2013/14

A1 Borrowing Strategy and Performance – 2013/14

A1.1 The Borrowing Strategy for 2013/2014 was reported to Cabinet on 13th February 2013 and approved by full Council on 6th March 2013.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2013, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until December 2014 before steadily rising to 1.75% by March 2016 and that PWLB borrowing rates would increase during 2013/2014 across all periods.

However the Bank of England announced forward guidance on their future plans in their Quarterly Inflation report (August 2013). The main item of guidance is that any increase in the current 0.5% Base Rate, in place since March 2009, would only be considered once the jobless rate has fallen to 7% or below and an increase is therefore unlikely before the end of December 2016. Compared to the current unemployment rate of 7.8%, this would require the creation of around 750,000 jobs and it is estimated that this could take up to three years to achieve. This policy will be reconsidered if Consumer Price Index (CPI) inflation is judged likely to be at or above 2.5% over an 18 month to two year horizon. If inflation looks like it could get out of control in the medium term, or if the Bank's Financial Policy Committee judges that this stance poses a significant threat to financial stability then it would consider reviewing the Base Rate in these circumstances.

It is predicted that inflation will continue to fall. CPI inflation reduced from 2.9% in June to 2.8% in July and the Bank of England forecast that they will meet their 2% inflation target within two years. Recent data has provided encouraging signs for the economy with growth forecasts increasing for 2013 (from 1.2% to 1.4%) and for 2014 (from 1.7% to 2.5%). However, this cautious optimism comes after what has been the weakest recovery on record after a recession and the economy is still a long way off a strong and sustained revival. Problems persist within the Eurozone, the UK's largest trading partner, where political unease over the scale and pace of austerity measures have resurfaced and could pose a risk to an export led recovery. In particular the high level of unemployment in some EU counties such as Spain, which has unemployment levels of 27%, which may pose a threat to a democratically elected government that tries to implement further austerity measures demanded by other EU countries. In addition the price of oil is vulnerable to geopolitical events which is especially the case with the present unrest in parts of the Middle East.

During 2013/2014 there has been a sharp rise in UK gilt yields which has led to an increase in PWLB rates as investors have switched from bonds into equities, with share markets now standing at or near new highs. Potential upside risks for further increases remain, especially for longer term PWLB rates, as follows:

- UK inflation remains significantly higher than in the wider EU and US.
- A reversal of Quantitative Easing, either by allowing gilts to mature without being replaced or sale of gilts currently held.
- A reversal in Sterling's safe haven status following financial improvements in the Eurozone.
- Further increase in investor confidence causing continued flow of funds out of bonds and into equities.
- A further UK credit rating downgrade.

However, bond yields do remain extremely unpredictable and there are still exceptional levels of volatility which are highly correlated to the sovereign debt crisis and to political developments in the Eurozone and US. This uncertainty is expected to continue into the medium term.

As a consequence of the Bank of England forward guidance, improvements to UK and World economies and expectations of further recovery to come, many forecasters, including the Council's treasury advisor Sector Treasury Services have reviewed their economic forecasts. The latest forecasts have moved the date the Bank Base Rate is expected to rise from Q1 2015 to Q4 2016 and also now show increases to forecast PWLB borrowing rates. The following table shows the average PWLB rates for Quarters 1 and 2.

2013/2014	**Qtr 1* (Apr - June) %**	**Qtr 2* (July - Aug) %**
7 days notice	0.31	0.31
1 year	1.02*	1.04*
5 year	1.75*	2.17*
10 year	2.81*	3.38*
25 year	3.95*	4.29*
50 year	4.09*	4.35*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

A1.2 The strategy for 2013/2014 is to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 4.50% for long-term borrowing was set for 2013/2014. Due to high levels of volatility in the financial markets, no new borrowing has been undertaken in the current financial year up to 31st August 2013, but this position will be kept under review.

A1.3 The Borrowing Strategy for 2013/2014 made provision for debt rescheduling but also stated that because of the proactive approach taken by the Council in recent years, and because of the very low underlying rate of the Council's long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.

Interest rates have not been sufficiently favourable for rescheduling in 2013/2014 and are not expected to rise to a level that would make rescheduling a viable option until the medium term. The Treasury Management team will continue to monitor market conditions and secure early redemption if appropriate opportunities arise. Any rescheduling undertaken will be reported to Cabinet in line with the current Treasury Management reporting procedures.

The Council successfully applied to access PWLB loans at a discount of 0.20%. This certainty rate is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and eligibility lasts until 31st October 2013. The Council has reapplied to access the PWLB certainty rate for the following 12 months to 31st October 2014.

A1.4 The Council's treasury portfolio position at 31st August 2013 is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	137.9		
	Market	39.5		
	Other	1.7	179.1	3.95
Variable Rate Funding	Temporary / Other	28.4	28.4	0.79
Total Borrowing			**207.5**	**3.51**

A2 Treasury Management Prudential Indicators – 2013/2014

A2.1 All external borrowing and investments undertaken in 2013/2014 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other TM Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2013/2014 as follows:

	£m
Borrowing	366.139
Other Long-Term Liabilities	32.463
Total	**398.602**

The Operational Boundary for External Debt was set as shown below:-

	£m
Borrowing	322.863
Other Long-Term Liabilities	32.463
Total	**355.326**

The maximum external debt in respect of borrowing in 2013/14 (to 31st August 2013) was £213.106 million (which includes borrowing in respect of other organisations such as Tyne and Wear Fire and Rescue Authority but excludes other long-term liabilities such as PFI and Finance leases which already include borrowing instruments) and is well within the borrowing limits set by both of these indicators.

A2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators		**2013/2014 (to 31/08/13)**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	235,000	74,086
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	50,000	-36,006
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	15.99%
	12 months and within 24 months	60%	4.86%
	24 months and within 5 years	80%	2.66%
	5 years plus	100%	78.74%
	A lower limit of 0% for all periods		
P13	**Upper limit for total principal sums invested for over 364 days**	75,000	0

A3 Investment Strategy – 2013/2014

A3.1 The Investment Strategy for 2013/2014 was approved by Council on 6th March 2013. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

(A) The **security** of capital
(B) The **liquidity** of its investments and then;
(C) The Council aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity

A3.2 As at 31st August 2013, the funds managed by the Council's in-house team amounted to £226.645 million and all investments complied with the Annual Investment Strategy. This includes monies invested on behalf of the North Eastern Local Enterprise Partnership for whom Sunderland City Council is the accountable body. The table below shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

	2013/2014 Actual to 31/08/13 %	**2013/2014 Benchmark to 31/08/13 %**
Return on investments	1.01	0.36

A3.3 Investments placed in 2013/2014 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix B, that is used to identify organisations on the Approved Lending List.

A3.4 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the Council's advantage.

A3.5 Investment rates available in the market have continued at historically low levels and are forecast to remain at low levels until 2016/2017 at the earliest.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions for shorter term periods.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk because the government holds shares in these organisations (i.e. Lloyds TSB and RBS) which have an AA+ rating applied to them or in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings. Members should also note the inclusion of Deutsche Managed Sterling Fund in the list of approved Money Market Funds. It is recommended that this money market fund is added to the Council's approved lending list to increase available investment options. Deutsche Bank is one of the worlds leading investment organisations and the Deutsche Managed Sterling Fund operated by Deutsche Asset Management (UK) Limited holds the highest available AAA credit rating. The Approved Lending List is shown in Appendix C and has been updated with notified changes to credit ratings.

Lending List Criteria **Appendix B**

Counterparty Criteria
The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

Fitch / S&P's Long Term Rating	Fitch Short Term Rating	S&P's Short Term Rating	Moody's Long Term Rating	Moody's Short Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	A1+	Aaa	P-1	110	2 Years
AA+	F1+	A1+	Aa1	P-1	90	2 Years
AA	F1+	A1+	Aa2	P-1	40	364 days
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	20	364 days
A+	F1	A-1	A1	P-1	10	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	10	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	5	6 months
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					90	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is £80m with a maximum of £40m in any one fund.					80	Liquid Deposits
Local Authority controlled companies (# duration limited to 20 years in accordance with Capital Regulations)					20	# 20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA+ will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

Where any banks / building societies are part of the UK Government's Credit Guarantee scheme (marked with * in the Approved Lending List), these counterparties will have an AA rating applied to them thus giving them a credit limit of £40 million for a maximum period of 364 days

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above, these new limits are as follows:

Country Limit

It is proposed that only countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £40 million which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	**Limit £m**
UK	350
Non UK	40

Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	**Limit £m**
Central Government	350
Local Government	350
UK Banks	350
UK Building Societies	150
Money Market Funds	80
Foreign Banks	40

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, then total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the government's guarantee scheme is still in place;
- the UK continues to have a sovereign credit rating of AA+; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List **Appendix C**

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	Max Deposit Period
UK	AA+				Aa1			AAA		350	2 years
Lloyds Banking Group (see Note 1)										**Group Limit 90**	
Lloyds Banking Group plc	A	F1	bbb	1	A3	-	-	A-	A-2	90	2 years
Lloyds TSB Bank Plc	A	F1	bbb	1	A2	P-1	C-	A	A-1	90	2 years
Bank of Scotland Plc	A	F1	-	1	A2	P-1	D+	A	A-1	90	2 years
Royal Bank of Scotland Group (See Note 1)										**Group Limit 90**	
Royal Bank of Scotland Group plc	A	F1	bbb	1	Baa1	P-2	-	A-	A-2	90	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	A3	P-2	D+	A	A-1	90	2 years
National Westminster Bank Plc	A	F1	-	1	A3	P-2	D+	A	A-1	90	2 years
Ulster Bank Ltd	A-	F1	ccc	1	Baa2	P-2	D-	BBB+	A-2	90	2 years
Santander Group *										**Group Limit 40**	
Santander UK plc	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
Cater Allen	-	-	-	-	-	-	-	-	-	40	364 days
Barclays Bank plc *	A	F1	a	1	A2	P-1	C-	A	A-1	40	364 days
HSBC Bank plc *	AA-	F1+	a+	1	Aa3	P-1	C	AA-	A-1+	40	364 days

Appendix C

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	Max Deposit Period
Nationwide BS *	A+	F1	a+	1	A2	P-1	C	**A**	A-1	40	364 days
Standard Chartered Bank *	AA-	F1+	aa-	1	A1	P-1	B-	AA-	A-1+	40	364 days
Clydesdale Bank / Yorkshire Bank **/***	A	F1	bbb+	1	**Baa2**	**P-2**	**D+**	BBB+	A-2	0	
Co-Operative Bank Plc	BB-	B	bb-	5	Caa1	NP	E	-	-	0	
Virgin Money ***	BBB	F3	bbb	5	-	-	-	BBB+	A-2	0	
Top Building Societies (by asset value)											
Nationwide BS (see above)											
Yorkshire BS ***	BBB+	F2	bbb+	5	Baa2	P-2	C-	**-**	**-**	0	
Coventry BS	A	F1	a	5	A3	P-2	C	-	-	5	6 Months
Skipton BS ***	BBB-	F3	bbb-	5	Ba1	NP	D+	-	-	0	
Leeds BS	A-	F2	a-	5	A3	P-2	C	-	-	5	6 Months
West Bromwich BS ***	-	-	-	-	B2	NP	E+	-	-	0	
Principality BS ***	BBB+	F2	bbb+	5	Ba1	NP	D+	-	-	0	
Newcastle BS ***	BB+	B	bb+	5	-	-	-	-	-	0	
Nottingham BS ***	-	-	-	-	Baa2	P-2	C-	-	-	0	
Foreign Banks have a combined total limit of £40m											
Australia	AAA	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Commonwealth Bank of Australia	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	20	364 Days

Appendix C

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term	Limit £m	Max Deposit Period
Canada	AAA				Aaa			AAA		40	364 Days
Bank of Nova Scotia	AA-	F1+	aa-	1	Aa2	P-1	B-	A+	A-1	10	364 Days
Royal Bank of Canada	AA	F1+	aa	1	Aa3	P-1	C+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	aa-	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Money Market Funds										80	Liquid
Prime Rate Stirling Liquidity	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Insight Liquidity Fund	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Ignis Sterling Liquidity	AAA	-	-	-	-	-	-	AAA	-	40	Liquid
Deutsche Managed Sterling Fund	-	-	-	-	**AAA**	**-**	**-**	**AAA**	**-**	**40**	**Liquid**

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AA+ rating applied to them thus giving them a credit limit of £90m.

* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme
The counterparties in this section will have an AA rating applied to them thus giving them a credit limit of £40 million

** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

*** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the FSA is classed as a UK bank for the purposes of the Approved Lending List.

Appendix D

Risk Management Review of Treasury Management

Set out below are the risks the Council face as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

	Risk	Controls
1.	**Strategic Risk** The Council's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Council's budget and could ultimately lead to a reduction in resources for front line services.	This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Council in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Executive Director of Commercial & Corporate Services view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the Council's treasury advisor (currently Sector). The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Council may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled.
2.	**Interest Rate Risk** The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Council's finances and budget for the year.	The Council manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy. The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Executive Director of Commercial & Corporate Services own view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy . A pro-active approach is taken by the Council's Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as

	Risk	Controls
		appropriate.
3.	**Exchange Rate Risk** As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling.	All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk. This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Council's bankers on the day of the transaction.
4.	**Inflation Risk** There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government.	Economic data such as pay, commodities, housing and other prices are monitored by the Council's treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Council's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance. Regular meetings are held with treasury advisors to provide updates on economic data to monitor any changes in inflation rates that may influence interest rates so that the Treasury Management Strategy can be revised and updated as necessary and any remedial action taken.
5.	**Counterparty Risk** The Economic Downturn and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities.	The prime objective of the Council's treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited. The Council also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Council's Treasury Management Policy and Strategy Statement. The Executive Director of Commercial & Corporate Services has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to Cabinet at the next available opportunity.

	Risk	Controls
		The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet Credit Default Swap prices, professional advice and other appropriate sources to formulate its own view to keep the approved lending list up to date and fully informed, using the latest available information.
6.	**Capital Financing and Refinancing Risk** There is a risk that opportunities for rescheduling of the Council's debt portfolio are constrained.	The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB) and has the flexibility to temporarily use internal funds as required. PWLB funding could come under pressure in future years because of Government targets to reduce the level of public debt which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted. However, the Government has not indicated that this is an option that they are currently considering.
7.	**Statutory and Regulatory Risk** There is a risk that regulations covering Treasury Management will change and the Council fails to respond to those changes.	The Council ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the latest CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Code of Practice and this is reported to and agreed by Council.
8.	**Treasury Management Arrangements Risk** There is a risk that the Council does not carry out its Treasury Management function effectively and thereby the Council could suffer financial loss as a result.	This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has a well established Treasury Management team that operates under the Executive Director of Commercial & Corporate Services and is staffed appropriately with a good mix of both well experienced and qualified staff.

Risk	Controls
	Professional advice is regularly accessed to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.