TYNE & WEAR FIRE AND RECUE AUTHORITY **Item 6**

GOVERNANCE COMMITTEE MEETING: 27TH SEPTEMBER 2010

SUBJECT: TREASURY MANAGEMENT – HALF YEARLY REVIEW OF PERFORMANCE 2010/2011

REPORT OF THE FINANCE OFFICER

1. Purpose of Report

1.1 To report on the borrowing and investment strategy and performance for 2010/2011 to date which incorporates the first and second quarterly Treasury Management reviews.

2. Description of Decision

2.1 The Committee is requested to note the Treasury Management performance for 2010/2011 to date.

3. Introduction

3.1 Sunderland City Council Performs the treasury management function on behalf of the Authority.

3.1 The report sets out the borrowing and investment performance to date for the financial year 2010/2011, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Authority. This information is based on the data for Sunderland City Council, which incorporates the investment and borrowing figures for the Authority.

4. Review of the Prudential Indicators and Treasury Management Strategy for 2010/2011 – Quarter 1.

4.1 The Prudential Indicators for 2010/2011 were approved by the Authority on the 22nd February 2010 and are regularly reviewed to ensure that:

- the Authority remains within it's Authorised Borrowing Limit for External Debt;
- treasury management decisions are taken in accordance with the Treasury Management Code of Practice and existing Authority Treasury Management Policy and Strategy Statement;
- the capital expenditure control framework operated locally is consistent with, and supportive of, local strategic planning, local asset management planning, and proper option appraisal.

4.2 Internal monitoring procedures track performance daily against the various prudential indicators agreed by the Authority. At this stage, the Authority is operating within its Authorised Borrowing Limit, which is a statutory limit determined under Section 3 (1) of the Local Government Act 2003 and there are no areas for concern or any issues which require any review of the indicators as originally approved.

Borrowing Strategy for 2010/2011

4.3 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2010 at the time the Treasury Management Policy and Strategy was drafted was that the Bank Base Rate was expected to increase over the next three financial years from its current level of 0.50% to 1.50% by March 2011, and to 4.50% by March 2013. It was anticipated that PWLB borrowing rates would steadily increase throughout 2010/2011 across all periods with the 5 year PWLB rate forecast to be 3.6% by March 2011, and the 25 year and 50 year to be around the 5.0% level.

The change of government, who indicated that they intended to adopt a more aggressive programme of deficit reduction, and recent events within the Eurozone, in particular the sovereign debt crisis impacting on Greece, Portugal and Spain, is likely to depress growth and cause a compensating reduction in the speed of monetary policy implementation. Consequently, forecasters were predicting that base rates would remain low for a longer period, increasing to 0.75% by March 2011, and to 3.75% by March 2013. Similarly PWLB borrowing rates will remain lower than forecast in February 2010 with the 5 years PWLB forecast to be 3.15% by March 2011, and the 25 year and 50 year to be around the 4.80% mark.

4.4 Sunderland City Council's strategy on behalf of the Authority for 2010/2011 is to adopt a pragmatic approach and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 4.50% for long-term borrowing was set for 2010/2011.

4.5 Sunderland City Council on behalf of the Authority constantly monitors market conditions and secured the following loans in the first quarter when rates were favourable:

a) a £0.500 million PWLB loan over 15 years at 3.65% on behalf of Beamish Museum, who are to fully repay this over the term of the loan arrangement.
b) replacement debt of £15 million, taken out on 21st May 2010 and made up of, £10 million over 4 years at a interest rate of 1.99% and £5 million over 50 years at an interest rate of 4.29%. These loans were taken out as market rates fell to their lowest point for some considerable period of time. All debt was within the target rate of 4.5%.

4.6 Included in the borrowing strategy was provision for debt rescheduling. At this stage, no debt rescheduling had been undertaken in 2010/2011 as rates had not been considered sufficiently favourable to do so.

4.7 The borrowing strategy for the remainder of 2010/2011 is to continue to monitor interest rates and to take further advantage of any debt rescheduling opportunities that may arise.

Investment Strategy for 2010/2011

4.8 The primary aim of the Investment Strategy is the security of Authority funds, then having regard to liquidity or availability of cash to meet Authority liabilities and finally to secure a reasonable rate of return on its investments.

4.9 As at 21st May 2010, the funds managed by the Sunderland City Council's Treasury Management team has achieved a rate of return on its investments of 1.43% compared with the benchmark rate (i.e. the 7 day rate) of 0.40%. Performance is significantly above the benchmark rate, whilst the treasury management function continues to adhere to the prudent policy agreed by the Authority.

4.10 The investment policy is currently being monitored to ensure it has flexibility to take full advantage of changes in market conditions. The following amendments were consequently made to the existing Investment Strategy:

- the following UK registered institutions were added as counterparties to the Council's Lending List : Sumitomo Mitsui Banking Corporation Europe Ltd (Japan) and HFC Bank (subsidiary of HSBC);
- a number of highly rated foreign institutions based in Australia and Canada, both subject to high country (sovereign) credit ratings, were added as counterparties to the Council's Lending List as set out in Appendix B;
- the addition of the possible use of AAA MR1+ rated Money Market Funds to increase the flexibility for the placing of funds was agreed.

4.11 In view of the economic climate at that time and the situation with the financial markets, the Finance Officer, in consultation with Sunderland City Council's Cabinet Portfolio Holder for Resources, was given delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate. This delegation was approved on the basis that any necessary changes would be reported to Committee retrospectively, in accordance with normal Treasury Management reporting procedures.

On 17th May 2010 the Finance Officer, after consultation with the Sunderland City Council's Cabinet Portfolio Holder for Resources, agreed to increase the maximum investment limit for institutions with long term credit ratings of AAA from £40 million to £50 million, and for institutions with long term credit ratings of AA from £30 million to £40 million.

The above changes were reported to and agreed by the City Council's Audit and Governance Committee in June 2010.

4.12 The revised investment criteria are set out in Appendix A and the amended Lending List is set out in Appendix B for information and endorsement. These appendices include the changes set out in paragraphs 4.10 and 4.11 above.

5. Review of the Prudential Indicators and Treasury Management Strategy for 2010/2011 – Quarter 2

Borrowing Performance - 2010/2011 – Quarter 2

5.1 The Bank of England Inflation Report in August downgraded growth forecasts for 2011 from 3.4% to 2.8% and for 2012 from 3.5% to 3.2%. These forecasts are widely seen by forecasters as being optimistic given that the UK economy is facing a government fiscal squeeze, the likely resultant increase in unemployment, reductions in consumer and business confidence which are showing a downward trend and weak recovery among the major countries that the UK exports to. This all adds up to a picture of slow recovery in the UK although, whilst still possible, a future double dip recession is still thought to be unlikely at the current time.

Recent statistics show that the US economy appears to have returned to a trend of ongoing increases in unemployment. The overall view on the US economy is now one of a slower and weaker economic recovery.

Consequently, for the above reasons, forecasters are now predicting that base rates in the UK will remain low for a longer period, remaining at 0.5% for the rest of this financial year before slowly increasing to 1.25% by March 2012 and to 3.00% by March 2013.

Similarly PWLB borrowing rates are expected to remain lower than forecast in February 2010 with the 5 year PWLB rate forecast to be 2.20% by March 2011, 3.00% in March 2012 and 4.10% by March 2013. Lower increases than previously estimated are also forecast for both the 25 year PWLB and 50 year PWLB rates (4.30% in March 2011, 4.70% in March 2012 and 5.00% in March 2013).

The table below shows the average borrowing rates for Q1 and Q2 in 2010/2011.

2010/2011	Qtr 1 (Apr - June) %	Qtr 2 (up to 31/08/2010) %
7 days notice	0.40	0.30
1 year	0.75	0.71
5 year	2.60	2.19
10 year	3.89	3.45
25 year	4.48	4.26

50 year	4.48	4.25

5.2 The strategy for 2010/2011 was to adopt a pragmatic approach and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 4.50% for long-term borrowing was set for 2010/2011.

5.3 The Borrowing Strategy for 2010/2011 made provision for debt rescheduling but also stated that because of the proactive approach taken by the Authority in recent years, and because of the very low underlying rate of the Authority's long term debt it would be difficult to refinance long term loans at interest rates lower than those already in place.

At this stage, no debt rescheduling has been undertaken during 2010/2011 as rates have not been considered sufficiently favourable for rescheduling.

The strategy for the remainder of 2010/2011 is to continue to monitor market conditions and secure early debt redemption as and when appropriate opportunities arise. Any rescheduling undertaken will be reported to this Committee in due course in line with the current Treasury Management reporting procedures.

Sunderland City Council's Treasury Management Team having monitored and reviewed market conditions and having discussed the options with its advisors took out the following loans, totaling £30.5 million, in the current financial year to date at favourable rates across a range of periods:

Long Term Borrowing 2010/2011							
Date	**Lender**	**Amount £m**	**Period (Years)**	**Rate %**	**Benchmark Rate %**	**Margin %**	**Loan Type**
11/05/10	PWLB	0.50	15	3.65	4.50	0.85	EIP *
25/05/10	PWLB	10.00	4	1.99	4.50	2.51	Maturity
25/05/10	PWLB	5.00	50	4.29	4.50	0.21	Maturity
27/07/10	PWLB	5.00	11	3.75	4.50	1.25	Maturity
27/07/10	PWLB	5.00	12	3.87	4.50	1.13	Maturity
01/09/10	PWLB	5.00	50	3.96	4.50	0.54	Maturity
		30.50		**3.31**			
* This loan was taken on behalf of Beamish Museum and is an Equal Instalment of Principal (EIP) loan							

The total sums borrowed of £30.5m were in respect of the following:

	£m
Replacement of debt rescheduling carried out in January 2010	24.00
Replacement of 11.75% Stock (balance)	2.50
Loan in respect of other bodies	0.50
Approved Prudential Borrowing (City Council)	3.50
Total	**30.50**

All borrowing was undertaken within the Authority's target rate of 4.50%.

Sunderland City Councils treasury portfolio, which includes the Authority's position at 1st September 2010, is set out below:

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	138.0		
	Market	29.5		
	Other	0.3	167.8	3.84
Variable Rate Funding	PWLB	0.0		
	Market	10.0		
	Temporary/ Other	30.7	40.7	1.13
Total Borrowing			**208.5**	**3.31**

6 Treasury Management Prudential Indicators – 2010/2011

6.1 All external borrowing and investments undertaken in 2010/2011 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 report on the Council's performance for all of the other TM Prudential Indicators.

6.2 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 Authority for 2010/2011 as follows:

	£m
Borrowing	26.987
Other Long Term Liabilities	26.062
Total	**53.049**

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

	£m
Borrowing	21.987
Other Long Term Liabilities	26.062
Total	**48.049**

The maximum external debt in respect of borrowing in 2010/2011 (to 1st September 2010) was £17.593 million and is well within the borrowing limits set by both of these indicators.

6.3 The table below shows that all other Treasury Management prudential indicators set by Sunderland City Council have been complied with.

Prudential Indicators		2010/2011 (to 01/09/2010) Limit £'000	Actual £'000
P10	Upper limit for fixed interest rate exposure Net principal re fixed rate borrowing / investments	90,000	32,366
P11	Upper limit for variable rate exposure Net principal re variable rate borrowing / investments	50,000	7,794
P13	Upper limit for total principal sums invested for over 364 days	100,000	35,000

6.4 Sunderland City Council, incorporating the Authority is currently within the limits set for all of its TM Prudential Indicators.

7. Investment Strategy – 2010/2011

7.1 The Investment Strategy for 2010/2011 was approved by the Authority on 22nd February 2010. The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

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

7.2 As at 31st August 2010 the funds managed by the Council's in-house team, which includes amounts managed on behalf of the Authority, amounted to £215.988 million and all investments complied with the Annual Investment Strategy. The table below shows the return received on these investments as compared with the benchmark rate (i.e. the 7 day rate).

	2010/2011 Actual to 31/08/2010 %	2010/2011 Benchmark to 31/08/2010 %
Return on investments (to 31st August 2010)	1.45	0.36

7.3 Investments placed in 2010/2011 have been made in accordance with the approved investment strategy and comply with the counterparty criteria used to identify organisations on the Approved Lending List.

7.4 As investment levels have increased temporarily in the current financial year, it is proposed to increase the country limit for the UK by £50 million to £300 million. It is also necessary to increase the Sector Limits for Central Government, Local Government, and the Banks by £50 million to £300 million. These increases have been incorporated into the Lending List Criteria shown in Appendix A.

7.5 In view of the present economic climate and the current situation with the financial markets the Finance Officer, in consultation with Sunderland City Council's Cabinet Portfolio Holder for Resources (Cllr David Allan), was given delegated authority to vary the Lending List Criteria and the Lending List itself should circumstances dictate, on the basis that changes be reported to the Governance Committee retrospectively, in accordance with agreed Treasury Management reporting procedures. There have been no delegated decisions taken in the second quarter which affect the Lending List Criteria or the Approved Lending List.

7.6 The regular updating of the Authority's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings. The Counterparty Criteria is shown in Appendix A and the Approved Lending List is shown in Appendix B, which includes changes from recent mergers in the Building Society sector.

7.7 In accordance with the revised Treasury Management best practice a risk analysis of the Treasury Management functions has been carried out and included in Appendix C for information which sets out how Sunderland City Council manages the risks associated with the Treasury Management function on behalf of the Authority.

Background Papers
Sector CityWatch (Monthly) and weekly credit rating list
Sector / Capital Economics / UBS Economic forecasts
Local Government Act 2003
CIPFA Treasury Management Code of Practice 2009
Financial Times

Appendix A

Counterparty Criteria

The Criteria 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 advisors.

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	50	2 Years
AA+	F1+	A1+	Aa1	P-1	50	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	364 Days
Money Market Funds Maximum amount to be invested in Money Market Funds is £50 million with a maximum of £10 million in any one fund.					50	2 Years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AAA will be applied to that institution to determine the amount that can be placed with that institution.

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:

Appendix A (continued)

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 limit of £40 million for all countries except for the UK provided they meet the above criteria. A separate limit of £300 million 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	300
Non UK	40

Sector Limit

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

Sector	Limit £m
Central Government	300
Local Government	300
UK Banks	300
UK Building Societies	150
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 AAA; and
- that market intelligence and professional advice is taken into account.

Current group limits are set out in Appendix B

Approved Lending List — *Appendix B*

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
UK	AAA	F1+			Aaa			AAA		300	364 days
Lloyds Banking Group (see Note 1)										**Group Limit 50**	
Lloyds Banking Group plc	AA-	F1+	C	1	A1	-	-	A	A-1	50	364 days
Lloyds TSB Bank Plc	AA-	F1+	C	1	Aa3	P-1	C-	A+	A-1	50	364 days
Bank of Scotland Plc	AA-	F1+	C	1	Aa3	P-1	D+	A+	A-1	50	364 days
Royal Bank of Scotland Group (See Note 1)										**Group Limit 50**	
Royal Bank of Scotland Group plc	AA-	F1+	C	1	A1	-	-	A	A-1	50	364 days
The Royal Bank of Scotland Plc	AA-	F1+	C/D	1	Aa3	P-1	C-	A+	A-1	50	364 days
National Westminster Bank Plc	AA-	F1+	-	1	Aa3	P-1	C-	A+	A-1	50	364 days
Ulster Bank Ltd	A+	F1+	E	1	A2	P-1	D-	A	A-1	50	364 days
Santander Group *										**Group Limit 40**	
Santander UK plc	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-1+	40	364 days
Abbey National Treasury Services plc	AA-	F1+	-	-	Aa3	P-1	-	-	-	40	364 days
Barclays Bank plc *	AA-	F1+	B	1	Aa3	P-1	C	AA-	A-1+	40	364 days
HSBC Bank plc *	AA	F1+	B	1	Aa2	P-1	C+	AA	A-1+	40	364 days

Appendix B (continued)

	Fitch			Moody's				Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
Nationwide BS *	AA-	F1+	B	1	Aa3	P-1	C-	A+	A-1	40	364 days
Standard Chartered Bank *	A+	F1	B	1	A2	P-1	C+	A+	A-1	40	364 days
Clydesdale Bank / Yorkshire Bank **	AA-	F1+	C	1	A1	P-1	C-	A+	A-1	10	364 days
Co-Operative Bank Plc	A-	F2	B/C	3	A2	P-1	D+	-	-	5	6 months
Northern Rock ***	BBB+	F2	C	2	-	-	-	A-	A-2	0	
Top 10 Building Societies (by asset value)											
Nationwide BS (see above)											
Yorkshire BS	A-	F2	B/C	3	Baa1	P-2	D+	A-	A-2	0	
Coventry BS	A	F1	B	3	A3	P-2	C-	-	-	5	6 Months
Skipton BS	A-	F2	B/C	3	Baa1	P-2	D+	-	-	0	
Leeds BS	A	F1	B/C	3	A2	P-1	C+	-	-	10	364 Days
West Bromwich BS ***	BBB-	F3	C/D	3	Baa3	P-3	E+	-	-	0	
Principality BS ***	BBB+	F2	C	3	Baa2	P-2	D-	-	-	0	
Newcastle BS ***	BBB-	F3	C/D	3	Baa2	P-2	D-	-	-	0	
Norwich and Peterborough BS ***	BBB+	F2	C	3	Baa2	P-2	D	-	-	0	
Nottingham BS	-	-	-	-	A3	P-2	C-	-	-	5	6 Months
Foreign Banks have a combined total limit of £40m											
Australia	AA+	-	-	-	Aaa	-	-	AAA		40	364 Days
National Australia Bank	AA	F1+	B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Australia and New Zealand Banking Group Ltd	AA-	F1+	B	1	Aa1	P-1	B	AA	A-1+	20	364 Days

Appendix B (continued)

	Fitch				Moody's			Standard & Poor's			
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength	L Term	S Term	Limit £m	Max Deposit Period
Commonwealth Bank of Australia	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Westpac Banking Corporation	AA	F1+	A/B	1	Aa1	P-1	B	AA	A-1+	40	364 Days
Canada	**AAA**				**Aaa**			**AAA**		40	364 Days
Bank of Nova Scotia	AA-	F1+	B	1	Aa1	P-1	B	AA-	A-1+	20	364 Days
Royal Bank of Canada	AA	F1+	A/B	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Toronto Dominion Bank	AA-	F1+	B	1	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Money Market Funds										50	2 Years
Prime Rate Stirling Liquidity	AAA MMF							AAAm		10	2 Years
Insight Liquidity Fund					AAA MR1+			AAAm		10	2 Years
Ignis Sterling Liquidity	AAA MMF							AAAm		10	2 Years

Notes

Note 1 **Nationalised / Part Nationalised**
The counterparties in this section will have the UK Government's AAA rating applied to them thus giving them a revised credit limit of £50 million for a maximum period of 364 days

* Banks / Building Societies which are part of the UK Government's Credit Guarantee scheme
The counterparties in this section will have a AA rating applied to them thus giving them a revised credit limit of £40 million for a maximum period of 364 days

** 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 C

Risk Management Review of Treasury Management

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

	Risk	Controls
1.	**Strategic Risk** The Authority'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 Authority'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 Authority 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 Finance Officers' view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the treasury advisor (currently Sector). The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Authority 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 Authority's finances and budget for the year.	The Authority 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 Finance Officers' own view of the financial markets, specialist expert advice, other information from the internet, the Financial Times, other domestic and international economic data, published guidance and Government fiscal policy .

A pro-active approach is taken by the 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 appropriate.

3. **Exchange Rate Risk**
As a result of the nature of the Authority's business, the Authority 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 Authority'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 treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Authority'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 Credit Crunch 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 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 Authority also only uses instruments set out in its investment policy and places

		limits upon the level of investment with the Counterparties approved within the Authority's Treasury Management Policy and Strategy Statement. The Finance Officer 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 the relevant Committee at the next available opportunity. The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, the Financial Times, 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 Authority's debt portfolio are constrained.	The risk is currently mitigated as the Authority has access to the funds of the Public Works Loan Board (PWLB). PWLB funding could come under pressure in future years because of the large and increasing amount of public debt incurred by the Government which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted.
7.	**Statutory and Regulatory Risk** There is a risk that regulations covering Treasury Management will change and the Authority fails to respond to those changes.	The Authority 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 CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully

comply with the Revised Code of Practice and this is reported to and agreed by the Authority.

As a response to the credit crunch and the banking sector crisis, CIPFA put forward proposals to amend the Treasury Management Code of Practice to strengthen the arrangements adopted by local government in response to the Audit Commission's 'Risk and Return Report – recommendations published on 26th March 2009 culminating an amended Treasury Management Code of Practice in the public sector in December 2009

The Authority responded positively and proactively to all such changes and fully complies with the new Code of Practice.

8. Treasury Management Arrangements Risk

There is a risk that the Authority does not carry out its Treasury Management function effectively and thereby the Authority could suffer financial loss as a result.

This is unlikely to happen because the Treasury Management function is required to ensure the Authority can comply with all legislative and regulatory requirements. As such the Authority has access to a well established Treasury Management team that operates under the Finance Officer and is staffed appropriately with a good mix of both well experienced and qualified staff.

Training and professional advice is regularly carried out 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.