Sunderland City Council

Item No. 6

AUDIT AND GOVERNANCE COMMITTEE **28 September 2012**

TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2012/2013

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 2012/2013.

2. Description of Decision

2.1 The Committee is requested to note the positive progress in implementing the Treasury Management Strategy and performance for Quarter 2 of 2012/2013.

2.2 To endorse the record of decision made under delegated powers set out in Appendix B, amendments to the Lending List Criteria in Appendix C and Approved Lending List at Appendix D.

3. Introduction

3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2012/2013, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Review of Treasury Management Performance for 2012/13 – 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 undertaken in 2012/13 as rates have not been considered sufficiently favourable. It should be noted the Council's interest rate on borrowing is very low, currently averaging 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 Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its TM Prudential Indicators.

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 31 August 2012, the funds managed by the Council's Treasury Management team has achieved a rate of return on its investments of 1.95% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.43%. Performance is very positive and is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.

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

4.6 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. The Approved Lending List as shown in Appendix D has been updated to reflect this and the delegated decision set out in Appendix B.

4.7 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 E for information which sets out how the Council manages the risks associated with the Treasury Management function.

Appendix A

Detailed Treasury Management Performance – Quarter 2 2012/13

A1 Borrowing Strategy and Performance – 2012/13

A1.1 The Borrowing Strategy for 2012/13 was reported to Cabinet on 15th February 2012 and approved by full Council on 7th March 2012.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2012, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until June 2013 before steadily rising to 1.25% by March 2014 and that PWLB borrowing rates would steadily increase throughout 2012/2013 across all periods.

The UK economy is in recession with dwindling GDP figures and a widening public finance deficit. It is likely that this cycle of depressed economic activity will continue, evidenced by a sharp cut in the Bank of England's forecast for medium-term growth due to worries that the financial crisis may be more long-lasting than first thought. Economists are divided on the direction of the Bank Base Rate, with the Council's advisors projecting the rate remaining at 0.5% before increasing in the first quarter of 2014. Others forecast a cut in the rate to 0.25% in the December 2012 quarter. PWLB rates and bond yields remain extremely unpredictable and there are exceptional levels of volatility which are highly correlated to the sovereign debt crisis and to political developments in the Eurozone. This uncertainty is also expected to continue into the medium term.

The following table shows the average PWLB rates for Quarter 1 and 2.

2012/2013	**Qtr 1 (Apr - June) %**	**Qtr 2 (July – Sept) %**
7 days notice	0.35	0.34
1 year	1.26	1.09
5 year	1.96	1.66
10 year	3.01	2.66
25 year	4.18	3.91
50 year	4.27	4.11

A1.2 The strategy for 2012/2013 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 2012/2013. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing has been undertaken in the current financial year up to 31st August 2012.

A1.3 The Borrowing Strategy for 2012/2013 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.

Rates have not been sufficiently favourable for rescheduling in 2012/2013 and 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 government announced in the March 2012 budget that they would introduce a 0.20% discount on PWLB loans under the prudential borrowing regime for those authorities that provided 'improved information and transparency on their locally determined long-term borrowing and associated capital spending plans.' This will come into effect on 1st November 2012 for those authorities who apply and are eligible for the lower rate. The eligibility will last from 01/11/12 to 31/10/13 when authorities must reapply to access to the PWLB certainty rate for the following 12 months.

The Council have applied to access loans at the lower PWLB certainty rate and are awaiting further details of the operation of the scheme to be released in October 2012.

A1.4 The Council's treasury portfolio position at 31st August 2012 is set out below:

		Principal (£m)	**Total (£m)**	**Average Rate (%)**
Borrowing				
Fixed Rate Funding	PWLB	142.9		
	Market	24.5		
	Other	0.3	167.7	3.92
Variable Rate Funding	Market	15.0		
	Temporary / Other	29.8	44.8	1.99
Total Borrowing			**212.5**	**3.51**

A2 Treasury Management Prudential Indicators – 2012/2013

A2.1 All external borrowing and investments undertaken in 2012/2013 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 2012/2013 as follows:

	£m
Borrowing	342.396
Other Long-Term Liabilities	34.928
Total	**377.324**

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

	£m
Borrowing	304.083
Other Long Term Liabilities	34.928
Total	**339.011**

The maximum external debt in respect of borrowing in 2012/13 (to 31August 2012) was £217.581 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		**2012/2013 (to 31/08/12)**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	130,000	17,774
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	60,000	13,902
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	16.02%
	12 months and within 24 months	60%	2.37%
	24 months and within 5 years	80%	4.80%
	5 years plus	100%	78.80%
	A lower limit of 0% for all periods		
P13	**Upper limit for total principal sums invested for over 364 days**	75,000	20,000

A3 Investment Strategy – 2012/2013

A3.1 The Investment Strategy for 2012/2013 was approved by Council on 7th March 2012. 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 2012, the funds managed by the Council's in-house team amounted to £267.808 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.

	2012/2013 Actual to 31/08/12 %	**2012/2013 Benchmark to 31/08/12 %**
Return on investments (to 31st August 2012)	1.95	0.43

A3.3 Investments placed in 2012/2013 have been made in accordance with the approved investment strategy and comply with the Counterparty Criteria in place, shown in Appendix C, 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 In light of continued volatility in financial markets and to accommodate investments made by the Council on behalf of the North Eastern Local Enterprise Partnership a delegated decision was made on 3rd July 2012 to amend the Lending List Criteria. Increasing the amounts approved to be invested within the UK, with AAA institutions and with Money Market Funds which are also AAA rated. This will help reduce counterparty risk by enabling the Council to increase its investments with those institutions in which the UK Government holds a financial stake (i.e. Lloyds TSB and Royal Bank of Scotland) and would be very unlikely to be allowed to fail should the financial situation substantially deteriorate and it will also will help spread risk by increasing investments with Money Market Funds. The delegated decision is set out at Appendix B and reflected in amendments to the Counterparty Criteria set out in Appendix C and Approved Lending List at Appendix D.

A3.6 Investment rates available in the market have continued at historically low levels.

A3.7 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisors (which we are in agreement with) is to continue to restrict investments with all financial institutions for shorter term periods.

A3.8 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) or in respect of Money Market Funds which are also AAA rated.

A3.9 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. The Approved Lending List is shown in Appendix D and has been updated with the proposed changes outlined above.

Appendix B

RECORD OF DECISION MADE UNDER DELEGATED POWERS	
Department:	Directorate of Commercial and Corporate Services - Financial Resources
Officer making Decision:	Executive Director of Commercial and Corporate Services
Date of decision:	03/07/2012

Nature of decision made:

The variations set out below are recommended to be made to the Council's Lending List Criteria which is permitted in accordance with the Council's Treasury Manageemnt Strategy Statement for 2012/2013 which was approved on 7th March 2012 where it provides that "delegated authority continues for the Executive Director of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder for resources now the Cabinet Secretary, to vary the Lending List Criteria and the Lending List should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively". The changes are:

- to increase the country limit for investments within the United Kingdom from £300m to £350m

- to increase the limit that can be invested with particular sectors which include:
  Central Government from £300m to £350m
  Local Government from £300m to £350m
  UK Banks from £300m to £350m
  Money Market Funds from £50m to £80m

- to increase the maximum deposit that can be placed with individual institutions as set out below:
  Institutions that are AAA rated from £70m to £90m; and
  Money Market Funds from £50m to £80m with the amount invested in any one fund increasing from £30m to £40m.

Reason for decision:

Sunderland City Council acts as the accountable body for the North Eastern Local Enterprise Partnership and makes treasury management decisions and investments on behalf of that body.

The Council currently holds all of the government funds allocated to the North Eastern LEP who have in addition made a bid to government for substantial additional funding of around £45m. The funds held by the Council on behalf of the NELEP means that the Council could potentially exceed its limits on funds invested as set out in the approved Treasury Management Strategy Statement for 2012/2013 approved on 7th March 2012. The monies held on behalf of other organisations does not usually have any significant impact on the placing of funds however the level of funds held on behalf of the NELEP currently means that it is reducing the flexibility of the Council to place funds to gain optimum returns on the Council's investments.

In light of this position and taking into account the continued volatility in financial markets it is recommended that the Lending List Criteria is amended to increase amounts approved to be invested within the UK, with AAA institutions and with Money Market Funds which are also AAA rated. This will help reduce counterparty risk by enabling the Council to increase its investments with those institutions in which the UK Government holds a financial stake (i.e. Lloyds TSB and RBS) and would be very unlikely to be allowed to fail should the financial situation substantially deteriorate and will also help spread risk by increasing investments with Money Market Funds.

Members/Officers consulted (attach their views as appropriate)	Cllr Speding
File/background papers used:	Treasury Management Strategy Statement and Lending List Criteria
Is this a confidential matter as referred to in paragraph 7 of the Guidance?	No
Paragraph of Delegation Scheme relied upon:	Council approved on 7th March 2012 that "delegated authority continues for the Executive Deirector of Commercial and Corporate Services, in consultation with the Cabinet Portfolio holder for resources (Cabinet Secretary), to vary the Lending List Criteria and the Lending List should circumstances dictate, on the basis that changes be reported to Cabinet retrospectively".

Signature:... **Date: 3rd July 2012**

Counter Signature:.. **Date: 3rd July 2012**

Lending List Criteria **Appendix C**

<u>Counterparty Criteria</u>

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 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	<u>Maximum Deposit £m</u>	<u>Maximum Duration</u>
AAA	F1+	A1+	Aaa	P-1	**90 (from 70)**	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	2 years
UK Government (including debt management office, gilts and treasury bills)					**90 (from 70)**	2 years
Money Market Funds Maximum amount to be invested in Money Market Funds is **£80m (from £50m) with a maximum of £40m (from £30m)** in any one fund.					**80 (from 50)**	Liquid Deposits

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 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 (from £300m)** 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 (from 300)**
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 (from 300)**
Local Government	**350 (from 300)**
UK Banks	**350 (from 300)**
UK Building Societies	150
Money Market Funds	**80 (from 50)**
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.

Proposed group limits are set out in Appendix C.

Approved Lending List **Appendix D**

	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	AAA	F1+			Aaa			AAA		**350 (from 300)**	2 years
Lloyds Banking Group (see Note 1)										**Group Limit 90 (from 70)**	
Lloyds Banking Group plc	A	F1	bbb	1	**A3**	-	-	A-	A-2	90 (from 70)	2 years
Lloyds TSB Bank Plc	A	F1	bbb	1	**A2**	P-1	C-	A	A-1	90 (from 70)	2 years
Bank of Scotland Plc	A	F1	-	1	**A2**	P-1	D+	A	A-1	90 (from 70)	2 years
Royal Bank of Scotland Group (See Note 1)										**Group Limit 90 (from 70)**	
Royal Bank of Scotland Group plc	A	F1	bbb	1	**Baa1**	P-2	-	A-	A-2	90 (from 70)	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	**A3**	**P-2**	**D+**	A	A-1	90 (from 70)	2 years
National Westminster Bank Plc	A	F1	-	1	**A3**	**P-2**	**D+**	A	A-1	90 (from 70)	2 years
Ulster Bank Ltd	A-	F1	ccc	1	**Baa2**	P-2	D-	BBB+	A-2	90 (from 70)	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+	aa-	1	**Aa3**	P-1	**C**	AA-	A-1+	40	364 days

Appendix D

	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	A2	P-1	C-	BBB+	A-2	0	
Co-Operative Bank Plc	**BBB+**	F2	**bbb+**	3	A3	P-2	C-	-	-	**0 (from 5)**	
Northern Rock ***	**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-	A-	A-2	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+	40	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+	40	364 Days
Westpac Banking Corporation	AA-	F1+	aa-	1	Aa2	P-1	B-	AA-	A-1+	40	364 Days

Appendix D

	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	Aa1	P-1	B	AA-	A-1+	20	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	Aaa	P-1	B+	AA-	A-1+	20	364 Days
Money Market Funds										**80 (from 50)**	Liquid
Prime Rate Stirling Liquidity	AAA							AAA		**40 (from 30)**	Liquid
Insight Liquidity Fund					AAA			AAA		**40 (from 30)**	Liquid
Ignis Sterling Liquidity	AAA							AAA		**40 (from 30)**	Liquid

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 credit limit of **£90m (from £70m)**.

* 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 E

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 Director of Financial Resources' 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 Director of Financial Resources' 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 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 appropriate.

	Risk	Controls
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 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 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 Director of Financial Resources 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. The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, the Financial Times, Credit Default Swap prices, professional

	Risk	Controls
		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 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 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 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 (including the recent proposals) 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 Director of Financial Resources 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.