TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item 10**

MEETING: 21st NOVEMBER 2011

SUBJECT: TREASURY MANAGEMENT – HALF YEARLY REVIEW OF PERFORMANCE 2011/2012

REPORT OF THE FINANCE OFFICER

1. Purpose of Report

1.1 To report on the borrowing and investment strategy and performance for 2011/2012 to date which incorporates the first and second quarterly Treasury Management reviews.

2. Description of Decision

2.1 Members are requested to:

- Note the Treasury Management performance for 2011/2012 to date;
- Approve an increase to the Operational Boundary from £41.363m to £43.363m to reflect an IFRS (2010/11) accounting adjustment.

3. Introduction

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

3.2 The report sets out the borrowing and investment performance in the current year, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by the Authority.

4. Review of Treasury Management Performance for 2011/2012 – Quarter 1.

4.1 **Summary**

- The performance of the treasury management function continues to contribute financial savings to the Authority's revenue budget by reducing borrowing costs by taking advantage of debt rescheduling opportunities as appropriate. At this stage, no debt rescheduling has been undertaken in 2011/2012 as rates have not been considered sufficiently favourable, but it should be recognised that interest on borrowing is very low and continues to benefit from past debt rescheduling exercises;
- Treasury Management Prudential Indicators are regularly reviewed. As the Operational Boundary Limit was exceeded due to an International Financial Reporting Standards (IFRS) accounting adjustment in 2010/11, the Operational Borrowing Limit has been reviewed. The Operational Boundary Limit is therefore recommended to be revised

and increased by £2.0m to reflect this adjustment but recognising that no change is required to the Authorised Borrowing Limit ;
- An increased rate of return achieved on investments held by the Authority is expected to generate additional interest of £30,000 during 2011/2012.

More detailed information is included in Appendix 1 for members' information.

5. Review of the Treasury Management Performance for 2011/2012 – Quarter 2

5.1 **Summary**
- Treasury Management Prudential Indicators are regularly reviewed. As the Operational Boundary Limit was exceeded due to an International Financial Reporting Standards (IFRS) accounting adjustment, the Authorised Borrowing Limit has been reviewed and is to be amended.
- The amendment to the Operational Boundary, to be approved by members, will help clarify the position for future monitoring purposes during the remainder of 2011/2012.
- An increased rate of return achieved on investments has generated an additional £30,000 interest on balances in this quarter.

More detailed information is included in Appendix 2 for members' information.

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
The Guardian

Appendix 1

Treasury Management Performance Quarter 1 - 2011/2012

1 **Treasury Management Prudential Indicators 2011/2012**

1.1 The Treasury Management Prudential Indicators for 2011/2012 were approved by the Authority on the 28th February 2011 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.

1.2 Internal monitoring procedures track performance daily against the various treasury management prudential indicators agreed by the Authority and there are no areas for concern. There is a minor issue to address in respect of increasing the Operational Boundary due to the impact of accounting for IFRS in the 2010/11 Statement of Accounts. This is explained in more detail below.

1.3 All external borrowing and investments undertaken in 2011/2012 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 Treasury Management Prudential Indicators.

1.4 The statutory limit under section 3(1) of the Local Government Act 2003 (which is known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2011/2012 as £46.363m.

The Operational Boundary for External Debt was set as follows:

	Original £m	**Revised £m**
Borrowing	20.622	20.622
Other Long Term Liabilities	20.741	22.741
Total	**41.363**	**43.363**

The maximum external debt in respect of borrowing in 2011/2012 (to 1st September 2011) was £42.785 million and is well within the statutory authorised borrowing limit. Due to IFRS adjustments made at the end of 2010/2011 the Operational Boundary has been exceeded. The fact the Operational Boundary was exceeded because of an adjustment for PFI schemes under IFRS accounting changes is an appropriate explanation of the limit being exceeded. A review of the Operational Boundary was carried out to ensure this level is still appropriate and as a result this limit is to be changed for 2011/2012.

The Operational Boundary is therefore to be increased by £2.0m to £43.363m, subject to member's approval, and will continue to be carefully monitored during 2011/12.

Borrowing Strategy for 2011/2012

1.5 The Borrowing Strategy was based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2011, at the time the Treasury Management Policy and Strategy was drafted, was the Bank Base Rate was expected to increase over the next three financial years from its current level of 0.50% to 0.75% by December 2011, and increasing to 3.25% by March 2014. It was anticipated that PWLB borrowing rates would steadily increase throughout 2011/2012 across all periods with the 5 year PWLB forecast to around 3.5% by March 2012, and the 25 year and 50 year PWLB rates to be roughly at the 5.3% mark.

The first quarter of 2011/2012 saw:

- Demand for goods on the high street deteriorate;
- Mixed signals on the strength of the labour market recovery;
- Public sector borrowing higher than expected;
- The short-term outlook for CPI inflation deteriorate further;
- The Monetary Policy Committee has moved away from raising interest rates;
- UK equities stayed broadly flat over the quarter and gilt yields fell;
- Economic growth slow in the both US and euro-zone, with increasing concern over levels of debt in the euro-zone.

The economic recovery has as a result been struggling to regain momentum after small growth between October 2010 and March 2011. The minimal upgrading of economic growth in the first half of 2011 which has only had a marginal effect on the economy for the UK means that there is still considerable uncertainty as to how the UK economy will evolve in the coming months.

1.6 The borrowing strategy for 2011/2012 therefore continues to follow a pragmatic approach and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 5.50% for long-term borrowing was set for 2011/2012.

1.7 Market conditions are constantly monitored and no new borrowing has been undertaken in the current financial year.

1.8 Included in the borrowing strategy is provision for debt rescheduling. At this stage, no debt rescheduling had been undertaken in 2011/2012 as rates have not been considered sufficiently favourable to do so.

1.9 The borrowing strategy for the remainder of 2011/2012 is to continue to monitor interest rates and to take further advantage of any debt rescheduling opportunities that may arise.

Investment Strategy for 2011/2012

1.10 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.

1.11 As at 31st August 2011, the funds managed by the Sunderland City Council's Treasury Management team has achieved a rate of return on its investments of 0.80% compared with the benchmark rate (i.e. the 7 day rate) of 0.36%. Performance is well above the benchmark rate, whilst the treasury management function continues to adhere to the prudent policy agreed by the Authority.

1.12 The investment policy is currently being monitored to ensure it has flexibility to take full advantage of changes in market conditions which are very variable due to the uncertainties in the money markets.

1.13 In view of this uncertainty, the Finance Officer, in consultation with Sunderland City Council's Cabinet Portfolio Holder for Resources, has 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.

No changes however have been made to the Lending List Criteria and Lending List itself in the current financial year.

1.14 The investment criteria are set out in Appendix 3 and the Lending List is set out in Appendix 4 for information.

Appendix 2

Treasury Management Performance Quarter 2 - 2011/2012

1 **Borrowing Performance - 2011/2012 – Quarter 2**

1.1 Both the Bank of England Inflation Report in August and the government have cut growth forecasts for the UK citing the weaker global economy, in particular the eurozone debt crisis. The report downgraded growth forecasts for 2011 from 1.8% to 1.5% and for 2012 from 2.5% to 2.0%. The expectation for growth is to pick up very slowly with the Bank's primary concern to restore the health of the economy rather than tackle the high levels of inflation in the short term. Bank base rates are not anticipated to rise until December 2012 at the earliest now and are then expected to rise slowly to 2.5% by June 2014.

A much slower economic recovery is the most likely outcome in the UK and US, for the next three to four years. The recovery is likely to be more protracted than previous business cycle recoveries as there is added impact of the financial crisis which has caused significant lack of credit which is still stifling growth.

The Bank of England forecasts that CPI inflation will fall to 1.8%, due to one off factors that will drop out of the index within 12 months. This view underpins the expectation that inflation will be back to near target within a two to three year time frame.

Similarly PWLB borrowing rates are expected to remain lower than forecast in February 2011 with the 5 year PWLB forecast to be 2.90% by March 2012, 3.40% in March 2013 and 4.10% by March 2014. Lower increases are also forecast for the both the 25 year PWLB and 50 year PWLB rates i.e. 5.10% in March 2012, 5.20% in March 2013 and 5.50% in March 2014.

The table below shows the average borrowing rates for Q1 and Q2 in 2011/2012.

2011/2012	**Qtr 1 (Apr - June) %**	**Qtr 2 (up to 31/08/2010) %**
7 days notice	0.40	0.40
1 year	1.69	1.52
5 year	3.29	2.86
10 year	4.51	4.09
25 year	5.22	4.99
50 year	5.16	4.98

1.2 The strategy for 2011/2012 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 5.50% for long-term borrowing was set for 2011/2012. 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.

1.3 The Borrowing Strategy for 2011/2012 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 2011/2012 as rates are not considered sufficiently favourable for rescheduling.

The strategy for the remainder of 2011/2012 is to continue to closely monitor market conditions and secure early debt redemption if appropriate opportunities arise. Any rescheduling undertaken will be reported to this Committee in due course in line with the current Treasury Management reporting procedures.

2. Investment Strategy – 2011/2012

2.1 The Investment Strategy for 2011/2012 was approved by the Authority on 28th February 2011. 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.

2.2 As at 31st August 2011 the funds held by the Authority, amounted to £27.514 million and are invested in compliance 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). The increased return on investment is expected to generate an additional £120,000 income from interest on balances for 2011/2012.

	2011/2012 Actual to 31/08/2011 %	**2011/2012 Benchmark to 31/08/2011 %**
Return on investments (to 31st August 2011)	0.80	0.36

2.3 Investments placed in 2011/2012 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.

2.4 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.

2.5 In accordance with 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 treasury management risks are managed on behalf of the Authority.

Appendix 3

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 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 £30 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 the Council can place with that institution.

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:

Appendix 3 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 total limit of £40 million which can be invested in other countries 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 the Council can place investments. These limits are set out below:

Sector	Limit £m
Central Government	300
Local Government	300
UK Banks	300
UK Building Societies	150

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 Annex 4

Approved Lending List

Appendix 4

	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	Aa3	-	-	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/D	1	A1	P-1	-	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
Cater Allen	AA-	F1+	B	1	Aa3	P-1	C-	AA	A-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 4 (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 *	AA-	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	5	Baa1	P-2	D+	A-	A-2	0	
Coventry BS	A	F1	B	5	A3	P-2	C-	-	-	5	6 Months
Skipton BS	A-	F2	B/C	5	Baa1	P-2	D+	-	-	0	
Leeds BS	A	F1	B/C	5	A2	P-1	C+	-	-	10	364 Days
West Bromwich BS ***	BBB -	F3	C/D	5	Baa3	P-3	E+	-	-	0	
Principality BS ***	BBB +	F2	C	5	Baa2	P-2	D-	-	-	0	
Newcastle BS ***	BBB -	F3	C/D	5	Baa2	P-2	D-	-	-	0	
Norwich and Peterborough BS ***	BBB +	F2	C	5	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 4 (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	Aa1	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		30	2 Years
Insight Liquidity Fund					AAA MR1			AAAm		30	2 Years
Ignis Sterling Liquidity	AAA MMF							AAAm		30	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 5

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) and has flexibility to temporarily use internal funds, if 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 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.

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.