

**GOVERNANCE COMMITTEE MEETING: 24<sup>TH</sup> SEPTEMBER 2012**

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**SUBJECT: TREASURY MANAGEMENT – HALF YEARLY REVIEW OF PERFORMANCE 2012/2013****REPORT OF THE FINANCE OFFICER**

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**1. Purpose of Report**

- 1.1 To report on the Treasury Management (TM) performance for 2012/2013.

**2. Description of Decision**

- 2.1 The Committee is requested to note the positive progress in implementing the Treasury Management Strategy in 2012/2013.

**3. Introduction**

- 3.1 Sunderland City Council performs the treasury management function on behalf of the Authority.
- 3.2 This report sets out the Treasury Management performance to date for the financial year 2012/2013, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by the 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 Treasury Management Performance for 2012/2013**

- 4.1 The Authority'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 2012/2013 as rates have not been considered sufficiently favourable. It should be noted the Authority's interest rate on borrowing is very low, currently averaging 3.51%, and as such the Authority 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 Authority 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 Authority.
- 4.4 The Authority has benefited from additional investment income in the first half of the year of £51,000 in cash terms based on a higher rate of return in 2012/2013 of 0.80% compared to the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.43%.

Performance is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Authority.

- 4.5 More detailed Treasury Management information is included in Appendix A for information.
- 4.6 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 Approved Lending List as shown in Appendix C has been updated to reflect this.
- 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 D 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

The Prudential Code for Capital Finance

Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)

The Financial Times

Other financial websites

**Detailed Treasury Management Performance – Quarter 2 2012/13**

**A1 Borrowing Strategy and Performance – 2012/13**

A1.1 The Borrowing Strategy for 2012/13 was approved by the Authority on 26<sup>th</sup> 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 Authority’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.

<b>2012/2013</b>	<b>Qtr 1 (Apr - June) %</b>	<b>Qtr 2 (July – Sept) %</b>
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 Authority. 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 31<sup>st</sup> 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 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.

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 the Authority 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 1<sup>st</sup> 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.

Sunderland City Council have applied to access loans at the lower PWLB certainty rate which the Authority could, if necessary, take advantage of. Further details of the operation of the scheme will be released in October 2012

A1.4 Sunderland City Council’s treasury portfolio, which includes the Authority’s position at 31st August 2012, is set out below:

		<b>Principal (£m)</b>	<b>Total (£m)</b>	<b>Average Rate (%)</b>
<b>Borrowing</b>				
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
<b>Total Borrowing</b>			<b>212.5</b>	<b>3.51</b>

**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 Authority’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 Authority for 2012/2013 as follows:

	<b>£m</b>
Borrowing	30.525
Other Long-Term Liabilities	<u>25.115</u>
<b>Total</b>	<b><u>55.640</u></b>

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

	<b>£m</b>
Borrowing	25.525
Other Long Term Liabilities	<u>25.115</u>
<b>Total</b>	<b><u>50.640</u></b>

The maximum external debt in respect of borrowing in 2012/13 (to 31 August 2012) was £16.217 million (which 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 set by Sunderland City Council have been complied with:

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

### A3 Investment Strategy – 2012/2013

A3.1 The Investment Strategy for 2012/2013 was approved by the Authority on 26<sup>th</sup> March 2012. 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

A3.2 As at 31<sup>st</sup> August 2012, funds managed by Sunderland City Council's in-house team on behalf of the Authority amounted to £27.514 million and all investments complied with the approved Annual Investment Strategy. The following table shows the return received on these investments compared with the benchmark 7 Day LIBID (London Interbank Bid) rate, which the Authority uses to assess its performance.

	<b>2012/2013 Return %</b>	<b>2012/2013 Benchmark %</b>
Return on investments (to 31 <sup>st</sup> August 2012)	0.80	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 B, which 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 Authority's advantage.
- A3.5 In light of continued volatility in financial markets and to provide flexibility for investment options to the Authority a delegated decision was made on 3<sup>rd</sup> 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 Authority 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 reflected in amendments to the Counterparty Criteria set out in Appendix B and Approved Lending List at Appendix C.
- 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 Authority'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 C and has been updated with the proposed changes outlined above

**Lending List Criteria**

**Appendix B**

**Counterparty Criteria**

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

<b>Fitch / S&amp;P’s Long Term Rating</b>	<b>Fitch Short Term Rating</b>	<b>S&amp;P’s Short Term Rating</b>	<b>Moody’s Long Term Rating</b>	<b>Moody’s Short Term Rating</b>	<b><u>Maximum Deposit</u> £m</b>	<b><u>Maximum Duration</u></b>
AAA	F1+	A1+	Aaa	P-1	<b>90 (from 70)</b>	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
<b>Local Authorities</b> (limit for each local authority)					30	2 years
<b>UK Government</b> (including debt management office, gilts and treasury bills)					<b>90 (from 70)</b>	2 years
<b>Money Market Funds</b> Maximum amount to be invested in Money Market Funds is <b>£80m (from £50m) with a maximum of £40m (from £30m)</b> in any one fund.					<b>80 (from 50)</b>	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:

**Appendix B (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 **£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.

<b>Country</b>	<b>Limit £m</b>
UK	<b>350 (from 300)</b>
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:

<b>Sector</b>	<b>Limit £m</b>
Central Government	<b>350 (from 300)</b>
Local Government	<b>350 (from 300)</b>
UK Banks	<b>350 (from 300)</b>
UK Building Societies	150
Money Market Funds	<b>80 (from 50)</b>
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 C**

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term		
<b>UK</b>	AAA	F1+			Aaa			AAA		<b>350 (from 300)</b>	2 years
<b>Lloyds Banking Group</b> (see Note 1)										<b>Group Limit 90 (from 70)</b>	
Lloyds Banking Group plc	A	F1	bbb	1	<b>A3</b>	-	-	A-	A-2	90 (from 70)	2 years
Lloyds TSB Bank Plc	A	F1	bbb	1	<b>A2</b>	P-1	C-	A	A-1	90 (from 70)	2 years
Bank of Scotland Plc	A	F1	-	1	<b>A2</b>	P-1	D+	A	A-1	90 (from 70)	2 years
<b>Royal Bank of Scotland Group</b> (See Note 1)										<b>Group Limit 90 (from 70)</b>	
Royal Bank of Scotland Group plc	A	F1	bbb	1	<b>Baa1</b>	P-2	-	A-	A-2	90 (from 70)	2 years
The Royal Bank of Scotland Plc	A	F1	bbb	1	<b>A3</b>	P-2	D+	A	A-1	90 (from 70)	2 years
National Westminster Bank Plc	A	F1	-	1	<b>A3</b>	P-2	D+	A	A-1	90 (from 70)	2 years
Ulster Bank Ltd	A-	F1	ccc	1	<b>Baa2</b>	P-2	D-	BBB+	A-2	90 (from 70)	2 years
<b>Santander Group *</b>										<b>Group Limit 40</b>	
Santander UK plc	<b>A</b>	F1	<b>a</b>	1	A2	P-1	C-	A	A-1	40	364 days
Cater Allen	-	-	-	-	-	-	-	-	-	40	364 days
Barclays Bank plc *	A	F1	a	1	<b>A2</b>	P-1	C-	A+	A-1	40	364 days
HSBC Bank plc *	AA	F1+	aa-	1	<b>Aa3</b>	P-1	C	AA-	A-1+	40	364 days

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term		
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	<b>BBB+</b>	F2	<b>bbb+</b>	3	A3	P-2	C-	-	-	<b>0 (from 5)</b>	
Northern Rock ***	<b>BBB</b>	F3	bbb	5	-	-	-	BBB+	A-2	0	
<b>Top Building Societies (by asset value)</b>											
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 ***	-	-	-	-	<b>B2</b>	<b>NP</b>	<b>E+</b>	-	-	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	
<b>Foreign Banks have a combined total limit of £40m</b>											
<b>Australia</b>	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

	Fitch				Moody's			Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	Individual	Support	L Term	S Term	Fin Strength Rating	L Term	S Term		
<b>Canada</b>	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	<b>Aa3</b>	P-1	<b>C+</b>	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										<b>80 (from 50)</b>	Liquid
Prime Rate Stirling Liquidity	AAA							AAA		<b>40 (from 30)</b>	Liquid
Insight Liquidity Fund					AAA			AAA		<b>40 (from 30)</b>	Liquid
Ignis Sterling Liquidity	AAA							AAA		<b>40 (from 30)</b>	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.

**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:

<b>Risk</b>	<b>Controls</b>
<p><b>1. Strategic Risk</b>                      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.</p>	<p>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).</p> <p>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.</p>
<p><b>2. Interest Rate Risk</b>                      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.</p>	<p>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.</p> <p>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 .</p>

**Risk**

**Controls**

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

**Risk**

**Controls**

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

**Risk**

**Controls**

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 26<sup>th</sup> 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.

