

AUDIT AND GOVERNANCE COMMITTEE

4 November 2022

TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2022/2023

Report of the Assistant Director of Finance

1. Purpose of Report

- 1.1 To report on the Treasury Management performance to date for the second quarter of 2022/2023.

2. Description of Decision (Recommendations)

- 2.1 The Committee is requested to:
- Note the Treasury Management performance during Quarter 2 of 2022/2023 (Appendix A).
 - Note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management 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 2022/2023, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2022/2023 – Quarter 2

- 4.1 The Council's Treasury Management function continues to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates have gradually risen since the start of the financial year but continue to be extremely volatile. In line with discussions with the Council's treasury advisors, the Council has taken out £50 million of new borrowing during August to support the financing requirements of the Council's Capital Programme at an interest rate of 2.79% for a 48 year term. These rates were considered opportune at the time and will benefit the revenue budget over the longer term when compared with the current equivalent long term rate of 4.27%.
- 4.2 No refinancing of debt has been carried out in 2022/2023 during the period as interest rates have not been considered sufficiently favourable. The Council's average interest rate on borrowing is low, currently 2.52%, and, as such, the Council already benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Based on advice from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.

- 4.3 Treasury Management Prudential Indicators are regularly reviewed, and the Council is within the limits set for all of its Treasury Management Prudential Indicators. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £1,082.658m for 2022/2023. The Council's maximum external debt during the financial year to 30th September 2022 was £618.704m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in Section 2 of Appendix A for information.
- 4.4 The Council's 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.
- 4.5 As at 30th September 2022, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.88% compared with the benchmark SONIA (Sterling Overnight Index Average) rate of 1.22%. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.
- 4.6 More detailed Treasury Management information is included in Appendix A for Members' information.
- 4.7 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

5. Recommendation

- 5.1 Members are requested to note the Treasury Management performance for the second quarter of 2022/2023.
- 5.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

Appendix A

Detailed Treasury Management Performance – Quarter 2 2022/2023

1 Borrowing Strategy and Performance – 2022/2023

- 1.1 The Borrowing Strategy for 2022/2023 was reported to Cabinet on 8th February 2022 and approved by full Council on 2nd March 2022.
- 1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view at the time of drafting the Treasury Management Policy and Strategy was that the 0.25% Bank of England (BoE) Base Rate would rise in 0.25% increments in June 2022, March 2023, March 2024 and March 2025 by which time it would stand at 1.25% within the forecast timeframe. PWLB borrowing rates were expected to rise, albeit gently, during 2022/2023 across all periods but could be subject to levels of volatility.
- 1.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise the Base Rate for a seventh consecutive meeting on 22nd September 2022, taking it to 2.25%, the highest level since December 2008. This reflects their commitment to combat inflationary pressures, even at the risk hampering growth, to ensure headline CPI inflation drops back to its 2% target over a three-year timeframe.
- 1.4 Year on year CPI inflation eased from 10.1% in July to 9.9% in August but increased back to 10.1% in September. Domestic price pressures show little sign of abating in the short term and inflation has not yet peaked, although the energy price guarantee scheme will mitigate some of the inflationary pressure in the coming months.
- 1.5 Following increases in the BoE Base Rate, investment rates of return have increased significantly compared to previous years with returns in excess of 5% now available. However long term borrowing rates are also currently high, and above our benchmark borrowing rate, therefore investment balances will be temporarily used where necessary pending borrowing rates reducing.
- 1.6 Link Asset Services, the Council's treasury advisors, reviewed their interest rate forecasts in September 2022 in light of continued volatility in the financial markets and now expect the Base Rate to rise faster and further than previously forecast. They forecast the BoE Base Rate will rise to 3.25% in November 2022, 4.00% in December 2022 and peak at 5.00% in March 2023, before gradually falling to 2.50% by the end of the forecast timeframe in September 2025. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets. The current turbulence in economic markets linked to government policy announcements is unprecedented, meaning forecasts are changing on a regular basis.
- 1.7 The following table shows the average PWLB rates for Quarter 1 and 2 compared to the SONIA Overnight Rate used to benchmark investment returns.

2022/2023	Qtr 1* (Apr - Jun) %	Qtr 2* (Jul - Sep) %
SONIA Overnight Rate	0.89	1.55
PWLB 1 year	2.32*	3.27*
PWLB 5 years	2.58*	3.25*
PWLB 10 years	2.84*	3.41*
PWLB 25 years	3.08*	3.79*
PWLB 50 years	2.81*	3.52*
PWLB Current 50 years		4.27%

*rates take account of the 0.20% discount to PWLB rates available to eligible authorities (including the Council).

- 4.3 In line with discussions with the Council's treasury advisors, the Council has taken out £50 million of new borrowing to meet its capital financing requirement. These rates were considered opportune and will benefit the revenue budget over the longer term when compared with the current equivalent long term rate of 4.27%. The Treasury Management team continues to closely monitor PWLB rates in line with future capital programme financing requirements. The new borrowing is summarised in the following table.

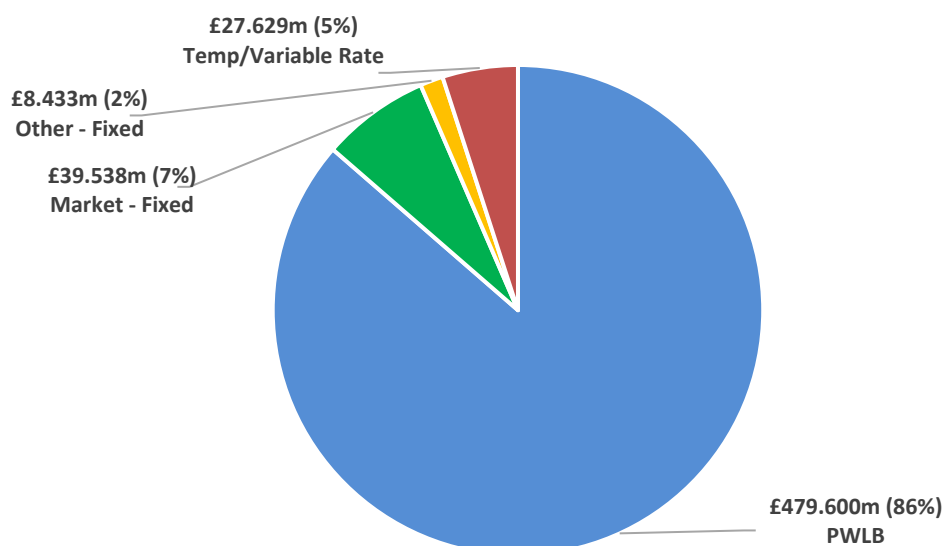
Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
48 years	02/08/2022	09/08/2022	09/08/2070	2.79*	50.0

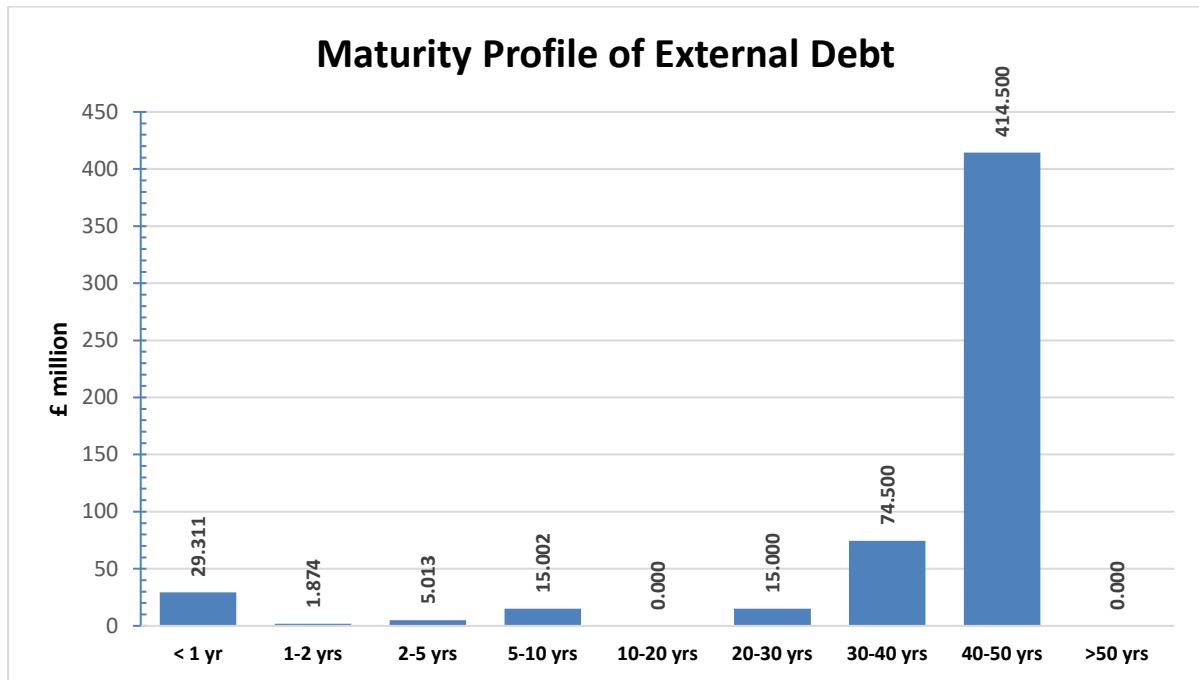
*rate takes account of the 0.20% discount to PWLB rates available to the Council.

- 1.8 High levels of volatility in the financial markets previous caused by Covid have been added to in 2022/2023 by the on-going conflict between Russia and Ukraine and uncertainty over how the West will respond through additional sanctions or even military intervention. This was exacerbated by the government's huge fiscal loosening plans announced by the Chancellor in September. The lack of independent scrutiny of the various projections, by the Office for Budget Responsibility (OBR), and the increase in borrowing to fund the significant cost of the proposals unsettled the markets and forced the BoE to step in to buy long-term gilts to restore financial stability. On 17th October, the newly appointed Chancellor, Jeremy Hunt, announced a significant number of amendments to the Government's fiscal plan in an attempt to stabilise the financial markets effectively reversing the majority of the measures announced on 23rd September. A further announcement on tax and spending plans is to be made by the Chancellor on 31st October 2022.
- 1.9 There is expected to be a gradual upward movement in PWLB rates to the end of 2022, after which rates are anticipated to gradually fall through to March 2025. Link Asset Services predict PWLB rates standing at 4.90%, 4.70%, 4.90% and 4.60% for 5, 10, 25 and 50-year durations respectively by 31st March 2023 before falling to around 3.3% for all durations by March 2025. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period.

- 1.10 The strategy for 2022/2023 is to adopt a pragmatic and flexible 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 3.00% for long-term borrowing was set for 2022/2023 in light of the views prevalent at the time the Treasury Management policy was set in March 2022.
- 1.11 The Council's treasury portfolio position at 30th September is set out below:

Borrowing Summary at: 30 September 2022			
	<u>Principal</u>	<u>Interest</u>	<u>Ave rate</u>
<u>Fixed</u>			%
PWLB	479,600,000	11,777,205	2.46
Market – Fixed	39,538,123	1,741,445	4.40
Other – Fixed	8,432,690	306	0.00
	<u>527,570,813</u>	<u>13,518,956</u>	<u>2.56</u>
<u>Variable</u>			
Temporary/Other – Variable	<u>27,628,762</u>	<u>471,119</u>	<u>1.71</u>
	<u>27,629,762</u>	<u>471,119</u>	<u>1.71</u>
TOTAL:	555,199,575	13,990,075	2.52





2 Prudential Indicators – 2022/2023

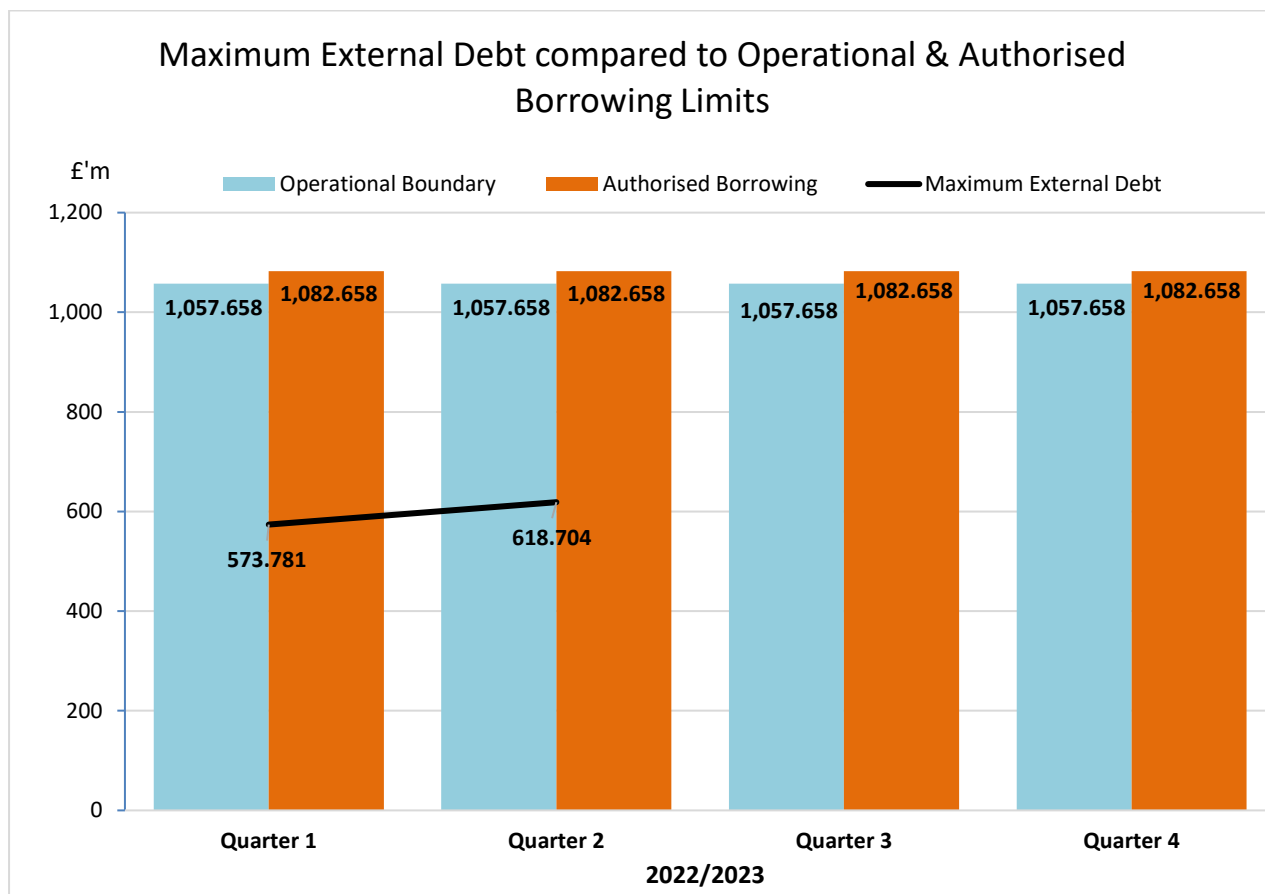
- 2.1 All external borrowing and investments undertaken in 2022/2023 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all of the other Treasury Management Prudential Indicators.
- 2.2 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 2022/2023 as follows:

	£m
Borrowing	939.926
Other Long-Term Liabilities	142.732
Total	<u>1,082.658</u>

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

	£m
Borrowing	914.926
Other Long-Term Liabilities	142.732
Total	<u>1,057.658</u>

The Council's maximum external debt in respect of 2022/2023 (to 30th September 2022) was £618.704m and is within the limits set by both these key indicators.



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

Prudential Indicators		2022/2023 (at 30/09/22)	
		Limit	Actual
P9	Maturity Pattern	Upper Limit	
	Under 12 months	50%	6.74%
	12 months and within 24 months	60%	0.37%
	24 months and within 5 years	80%	0.99%
	5 years plus	100%	93.48%
(A lower limit of 0% for all periods)			
P10	Upper limit for total principal sums invested for over 365 days	75m	0

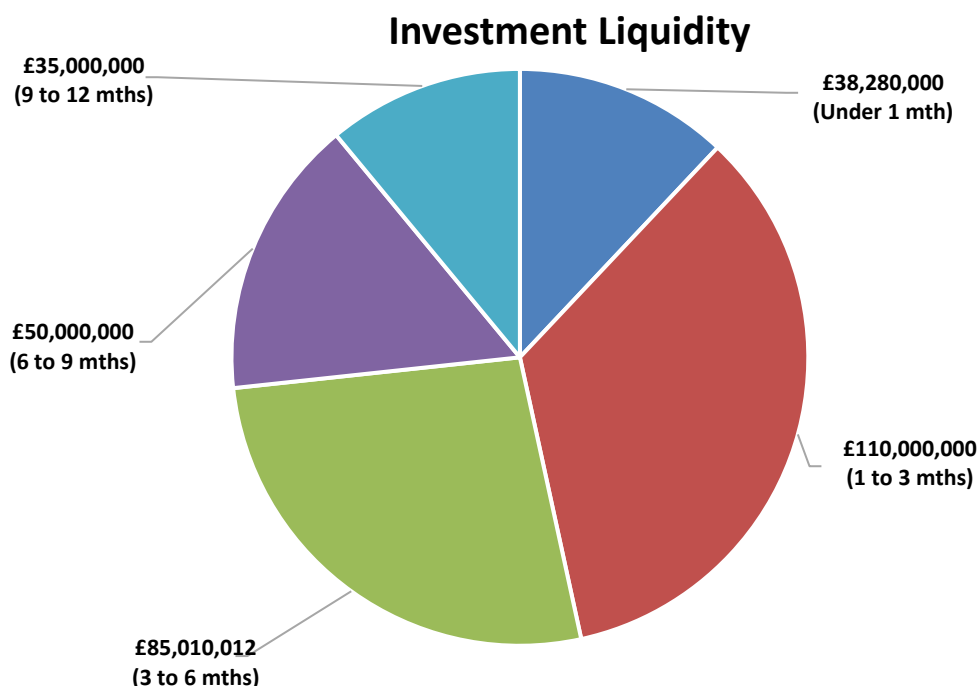
3 Investment Strategy – 2022/2023

3.1 The Investment Strategy for 2022/2023 was approved by Council on 2nd March 2022. 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.

- 3.2 As at 30th September 2022, the funds managed by the Council's in-house team amounted to £318.290 million and all investments complied with the Annual Investment Strategy.

Investment Summary at: 30 September 2022					
Borrower	Duration	Amount of Loan	Rate (%)	Start Date	Maturity Date
Call Accounts:					
NatWest SIBA	Overnight	1,500,000	0.300		Call
Prime MMF	Overnight	36,780,000	2.080		Call
Aberdeen Liquidity Fund	Overnight	0	2.138		Call
Lloyds Banking Group Ltd	95d Notice	10,012	0.700		95 Day Notice
Sub-total:		38,290,012			
Fixed Term Deposits:					
Yorkshire Building Society	273 days	15,000,000	1.230	07-Feb-22	07-Nov-22
SMBC	92 days	25,000,000	2.140	09-Aug-22	09-Nov-22
Standard Chartered Bank	183 days	30,000,000	1.820	07-Jun-22	07-Dec-22
Goldman Sachs	183 days	10,000,000	1.890	07-Jun-22	07-Dec-22
Goldman Sachs	364 days	30,000,000	0.770	10-Dec-21	09-Dec-22
Yorkshire Building Society	186 days	20,000,000	2.080	07-Jul-22	09-Jan-23
Standard Chartered Bank	122 days	5,000,000	3.700	27-Sep-22	27-Jan-23
Goldman Sachs Int Bank	358 days	10,000,000	1.505	08-Feb-22	01-Feb-23
Goldman Sachs Int Bank	364 days	20,000,000	1.525	08-Feb-22	07-Feb-23
Yorkshire Building Society	184 days	15,000,000	2.410	09-Aug-22	09-Feb-23
Santander UK Plc	184 days	15,000,000	2.900	24-Aug-22	24-Feb-23
Standard Chartered Bank	273 days	20,000,000	2.470	07-Jul-22	06-Apr-23
Santander UK Plc	273 days	30,000,000	3.310	24-Aug-22	24-May-23
Close Brothers	365 days	5,000,000	2.800	13-Jul-22	13-Jul-23
Standard Chartered Bank	303 days	10,000,000	5.180	27-Sep-22	27-Jul-23
Santander UK Plc	365 days	20,000,000	4.100	15-Sep-22	15-Sep-23
Sub-total:		280,000,000			
TOTAL:		318,290,012			



- 3.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Council uses to assess its performance.

	2022/2023 Actual to 30/09/22 %	2022/2023 Benchmark to 30/09/22 %
Return on investments	1.88	1.22

- 3.4 Investments placed in 2022/2023 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.
- 3.5 Investment rates available in the market have started to rise following a series of Base Rate increases announced by the Bank of England's Monetary Policy Committee (MPC). In the 9 months since the MPC voted to raise the Base Rate by 0.15% to 0.25% at its meeting on 16th December 2021, there have been six subsequent rises. The Base Rate currently stands at 2.25% with further increases expected.

Effective Date	BoE Base Rate %
19 Mar 2021	0.10
16 Dec 2021	0.25
3 Feb 2022	0.50
17 Mar 2022	0.75
5 May 2022	1.00
16 Jun 2022	1.25
4 Aug 2022	1.75
22 Sep 2022	2.25

- 3.6 Whilst investment rates have improved recently, the Council continues to follow a risk averse strategy when placing funds, prioritising security of capital whilst seeking to achieve the optimum return commensurate with risk. The Council continues to follow

advice from our treasury advisors by placing funds in shorter dated liquid investments than previously.

- 3.7 Advice also confirms that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.
- 3.8 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes are reflected on the Approved Lending List shown in Appendix C.

Counterparty Criteria

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

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

Fitch Long-Term Rating	Fitch Short-Term Rating	Moody's Long-Term Rating	Moody's Short-Term Rating	S&P's Long-Term Rating	S&P's Short-Term Rating	Maximum Deposit £m	Maximum Duration
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV) * Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years
Strategic Partners						Maximum deposit and duration of investments with strategic partners will be based on detailed business case and will be approved by Members prior to any investment taking place	

* CNAV=Constant Net Asset Value, LVNAV=Low Volatility Net Asset Value and VNAV=Variable Net Asset Value

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

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 non-UK 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 £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £300m will be applied to the United Kingdom and is based on the fact that the Government has previously undertaken and is willing to take action to protect the UK banking system.

Country	Limit £m
UK	300
Non-UK	50

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
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the 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 UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

Approved Lending List

Appendix C

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A1	P-1	A	A-2	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	A3	P-2	A-	A-2	50	365 days
Co-Operative Bank Plc **	B+	B	Ba2	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	A	F1	A1	P-1	A	A-1	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1			50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS **			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							250	Liquid
Prime Rate Stirling Liquidity	AAA		AAA		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA				AAA		50	Liquid
Deutsche Managed Sterling Fund			Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
Australia	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Canada	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
Singapore	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
Credit Suisse AG	BBB+	F2	A2	P-1	A	A-1	0	
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

Strategic Partners

Cabinet, at its October 2020 meeting, endorsed an unsecured investment with Education Partnership North East (EPNE), based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan. As at the 30th September 2022 there have been no funds drawdown by EPNE.

Notes

Note 1 Nationalised / Part Nationalised

The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

/* 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 Prudential Regulation Authority (PRA) 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 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
<p>1. Strategic Risk</p> <p>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.</p>	<p>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 alongside monitoring and reviewing the Council's approved capital programme and its financing requirements. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Treasury Management team's view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the Council's treasury advisor (currently Link Asset Services).</p> <p>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.</p>
<p>2. Interest Rate Risk</p> <p>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.</p>	<p>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.</p> <p>The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Treasury Management team's view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy.</p> <p>A proactive 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.</p>

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 Executive Director of Corporate Services has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to Cabinet at the next available opportunity.

The Treasury Management team continually monitor information regarding counterparties using credit ratings, news articles, the internet, Credit Default Swap prices, professional advice and other

Risk

Controls

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 which is reported to and agreed by Council.

8. Treasury Management Arrangements Risk

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

This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has a well-established Treasury Management team that operates under the Executive Director of Corporate Services and is staffed appropriately with a good mix of both 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.

