TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item 8**

GOVERNANCE COMMITTEE MEETING: 28th AUGUST 2020

SUBJECT: TREASURY MANAGEMENT – FIRST QUARTERLY REVIEW 2020/2021

REPORT OF THE FINANCE DIRECTOR

1. Purpose of Report

1.1 To report on the Treasury Management performance for the first quarter of 2020/2021.

2. Introduction

2.1 Sunderland City Council, as lead authority, performs the treasury management function on behalf of the Authority.

2.2 This report sets out the Treasury Management performance to date for the first quarter of the financial year 2020/2021, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Authority on 13th March 2020. This information is based on the data for Sunderland City Council, which incorporates the investment and borrowing figures for the Authority.

3. Summary of Treasury Management Performance for 2020/2021 – Quarter 1

3.1 The Authority's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates have continued to be volatile, primarily in response to the economic impact of Covid-19 and they also reflect continued uncertainty over the outcome of Brexit negotiations. No new borrowing has been taken out to date during 2020/2021 but Sunderland City Council continue to monitor the position closely.

3.2 One option to make savings is through debt re-scheduling, however no rescheduling has been undertaken in 2020/2021 as rates have not been considered sufficiently favourable. It should be noted the Authority's interest rate on borrowing is very low, currently 2.90%, and as such the Authority continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises. Based on advice from the Authority's treasury management advisor, performance continues to see the Authority's average borrowing rate compare favourably to other authorities.

3.3 Treasury Management Prudential Indicators are regularly reviewed and the Authority is within the limits set for all its Treasury Management Prudential Indicators for 2020/2021.

3.4 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.

3.5 The Authority has benefited from investment income in the first quarter of over £49,500 in cash terms based on a higher rate of return in 2020/2021 of 0.72% compared to the benchmark 7-Day LIBID (London Interbank Bid) rate of -0.04% (set at 0.125% less than the corresponding 7-Day LIBOR rate, which due to the fall in gilts means the benchmark rate has become negative). Performance remains above the benchmark rate, whilst still adhering to the prudent policy agreed by the Authority.

3.6 Investment rates available in the market remain significantly below those achieved in previous years. Interest rates are continuously monitored so that the Authority can take advantage of any increase in rates when they do occur, but these opportunities are limited.

3.7 More detailed Treasury Management information is included in Appendix A for information.

3.8 The regular updating of the Authority's Authorised Lending List is required to take into account all recent financial institution mergers and changes in institutions' and Sovereign credit ratings. The Lending List Criteria and Approved Lending List as shown in Appendices B and C respectively have been updated to reflect this.

3.9 In accordance with 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.

4. Recommendation

4.1 The Committee is requested to note the Treasury Management performance for the first quarter of 2020/2021.

4.2 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 1 2020/2021

A1 Borrowing Strategy and Performance – 2020/2021

A1.1 The Borrowing Strategy for 2020/2021 was approved by the Authority on 13th March 2020.

A1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view when the Treasury Management Policy and Strategy was drafted, prior to the global Covid-19 pandemic, was that the 0.75% Bank of England (BoE) Base Rate would remain until March 2021 when it would rise by 0.25% to 1.00%, followed by a further 0.25% increase in June 2022. PWLB borrowing rates were expected to rise, albeit gently, during 2020/2021 across all periods but could be subject to exceptional levels of volatility due to continued uncertainty over the outcome of Brexit negotiations and geopolitical developments throughout the world.

A1.3 GDP data revealed the UK economy contracted by 20.4% in April compared to the previous month as a result of the UK going into lockdown. Whilst the Government's furlough scheme had partially mitigated the financial impact of the Covid-19 pandemic on those individuals covered by the scheme, the number of people in employment still fell by 730,000 between March and July. The full impact on UK employment is unlikely to be known until after the furlough scheme ends in October.

A1.4 The annualised Consumer Prices Index (CPI) inflation rate fell from 1.5% in March to 0.8% in April and fell further to 0.5% in May 2020, the lowest rate since June 2016 and was largely attributable to the effects of the pandemic. The latest available CPI was 0.6% in July which is well below the BoE's 2% target and is predicted to remain at low levels in the coming months.

A1.5 As expected, the BoE's June Monetary Policy Committee (MPC) meeting voted to leave the Base Rate unchanged at 0.10%, a record low. The Quantitative Easing bond buying programme was expanded by a further £100bn to £745bn. MPC Members were optimistic the fall in GDP during Q2 would be less severe than anticipated but still forecast that recovery would be slow and the economy and labour market will take time to recover. The BoE indicated further support would be forthcoming when, or if required.

A1.6 Investment rates are likely to remain at very low levels throughout 2020/2021. With short-term investment rates forecast to be materially below long-term borrowing rates, it is likely that some investment balances will temporarily be used to fund long-term borrowing requirements. Such funding is wholly dependent upon market conditions and will be reassessed if the appropriate conditions arise.

A1.7 Link Asset Services, the Authority's treasury advisors, have reviewed their interest rate forecasts in light of continued volatility in the financial markets caused by the Covid-19 pandemic. They do not anticipate any change in the current BoE Base Rate of 0.10% within their forecast timeframe up to March 2023. These forecasts, and

MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets.

A1.8 The following table shows the average PWLB rates for Quarter 1.

2020/2021	**Qtr 1* (Apr - Jun) %**
7 days notice	-0.04
1 year	1.84*
5 year	1.85*
10 year	2.07*
25 year	2.50*
50 year	2.26*

*rates take account of the 0.2% discount to PWLB rates available to eligible authorities that came into effect on 1st November 2012.

A1.9 High levels of volatility in the financial markets have continued into 2020/2021. Uncertainty around the scale and speed of recovery from the impact of Covid-19 on world economies, the outcome of Brexit negotiations and growing tensions between China and the USA have led to gilt yields decreasing as investors moved from riskier assets such as shares and into bonds.

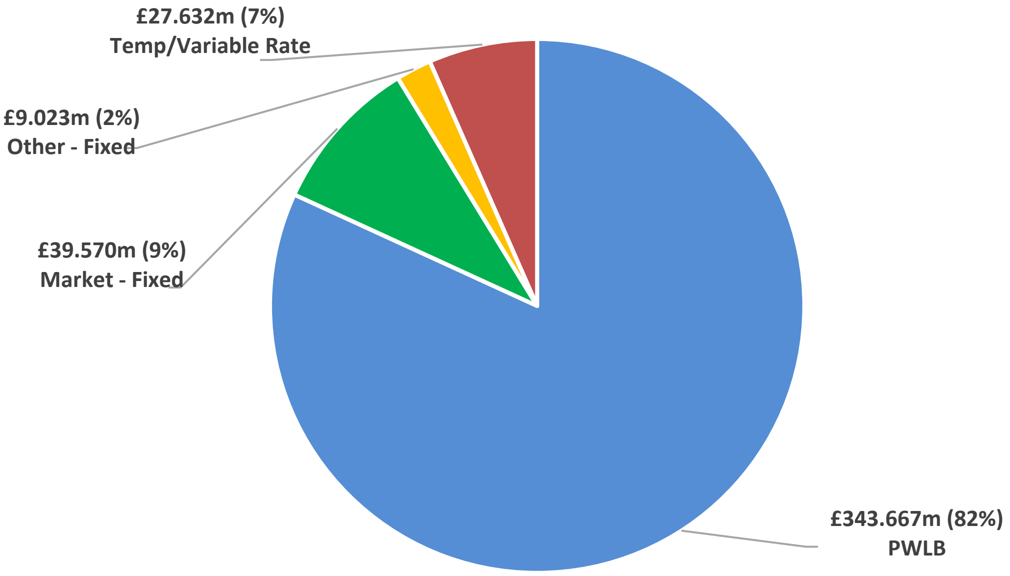
A1.10 Link Asset Services predict a gradual rise in PWLB rates reaching 2.00%, 2.20%, 2.60% and 2.40% for 5, 10, 25 and 50-year durations respectively by 31st March 2021 with further increases of 0.10% by March 2023. With so many external influences weighing on the UK economy, interest rate forecasting remains 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. In addition, PWLB rates are subject to ad hoc decisions by the UK Government to change the margin over gilt yields charged in PWLB rates. Such changes could be up or down and it is not clear that if gilt yields were to rise back up again by over 1% within the next year or so, whether the Government would remove the extra 1% cost of borrowing margin implemented in October 2019.

A1.11 The strategy for 2020/2021 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 Authority. A benchmark financing rate of 4.25% for long-term borrowing was set for 2020/2021 in light of the views prevalent at the time the Treasury Management policy was set in March 2020.

A1.12 Due to high levels of volatility in the financial markets, with borrowing rates forecast to remain low over the short-term, no new borrowing has been undertaken in the current financial year to 30th June 2020. The Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future capital programme requirements.

A1.13 The Council's treasury portfolio position at 30th June 2020 is set out below (which includes the total debt of the fire service of £11.6m):

Borrowing Summary at:	30 June 2020	
	Principal	**Ave rate %**
Fixed		
PWLB	343,666,667	2.97
Market - Fixed	39,570,383	4.41
Other - Fixed	9,023,436	0.01
	392,260,486	3.05
Variable		
Temporary/Other - Variable	27,632,355	0.72
	27,632,355	0.72
TOTAL:	**419,892,841**	**2.90**



A2 Treasury Management Prudential Indicators – 2020/2021

A2.1 All external borrowing and investments undertaken in 2020/2021 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 Treasury Management 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 2020/2021 as follows:

	£m
Borrowing	32.183
Other Long-Term Liabilities	17.067
Total	**49.250**

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

	£m
Borrowing	27.183
Other Long-Term Liabilities	17.067
Total	**44.250**

A2.3 Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

A2.4 The Authority's maximum external debt in respect of 2020/2021 (to 30th June 2020) was £37.543 million and is well within the limits set by both of these indicators.

A2.5 The table below shows that all other Treasury Management Prudential Indicators set by Sunderland City Council (which includes the Authority's data) have been complied with:

Prudential Indicators		**2020/2021 (to 30th June 2020)**	
		Limit £'000	**Actual £'000**
P9	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	7.94%
	12 months and within 24 months	60%	1.79%
	24 months and within 5 years	80%	2.38%
	5 years plus	100%	87.97%
	A lower limit of 0% for all periods		
P10	**Upper limit for total principal sums invested for over 365 days**	75,000	0

A3 Investment Strategy – 2020/2021

A3.1 The Investment Strategy for 2020/2021 was approved by the Authority on 16th March 2020. 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 30th June 2020, 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.

A3.3 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.

	2020/2021 Return %	**2020/2021 Benchmark %**
Return on investments (to 30th June 2020)	0.72	-0.04*

* the 7-Day LIBID rate is set at 0.125% less than the corresponding 7-Day LIBOR rate, which due to the fall in gilts means the benchmark rate has become negative.

A3.4 Investments placed in 2020/2021 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.

A3.5 Investment rates available in the market remain at lower compared to previous years and reflect the fall in the BoE Base Rate from 0.75% to 0.25% on 11th March 2020 and then to a historic low of 0.10% on 19th March 2020.

A3.6 Due to the volatility in the financial markets resulting from Covid-19 the Authority has followed advice from our Treasury Management advisers and has operated a more risk averse strategy by placing funds in shorter dated liquid investments than previously.

A3.7 Advice also continues 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.

A3.8 The regular updating of the 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 with all changes indicated in bold where these have changed since the last Treasury Management report.

A3.9 In accordance with Treasury Management Best Practice, a risk analysis of the Treasury Management functions has been carried out and included at Appendix D for information. This sets out how Sunderland City Council manages the risks associated with the Treasury Management function on behalf of the Authority.

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 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 / 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	120	2 Years
AA+	F1+	A1+	Aa1	P-1	100	2 Years
AA	F1+	A1+	Aa2	P-1	80	2 Years
AA-	F1+ / F1	A1+ / A-1	Aa3	P-1	75	2 Years
A+	F1	A-1	A1	P-1	70	365 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	365 days
A-	F1 / F2	A-2	A3	P-1 / P-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 £120m with a maximum of £50m in any one fund.					120	Liquid Deposits
Local Authority controlled companies					40	20 years

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 done 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	120
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, 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 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-**	-	Aa2	-	AA	-	350	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	2 years
Lloyds Bank Corporate Markets plc (NRFB)	**A+**	F1	A1	P-1	A	A-1	65	2 years
Bank of Scotland Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	2 years
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	Baa2	P-2	A-	A-2	75	2 years
Santander UK plc	A+	F1	Aa3	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	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	**B-**	B	B3	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A+	A-1	**65**	365 days
HSBC Bank plc (NRFB)	**AA-**	F1+	Aa3	P-1	**A+**	**A-1**	70	365 days
HSBC UK Bank plc (RFB)	**AA-**	F1+	**Aa3**	**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	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1	-	-	50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	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
Nottingham BS **	-	-	**Baa2**	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS **	A-	F1	Baa1	P-2	-	-	0	
West Bromwich BS **	-	-	Ba3	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	365 days
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA		AAA		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		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+	Aa2	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+	Aa1	P-1	AA-	A-1+	50	2 years
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	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa3	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank N.V	-	-	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	A	F1	A1	P-1	A+	A-1	50	365 days
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

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.

Appendix D

Risk Management Review of Treasury Management

Set out below are the risks the Authority 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 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 view of the Lead Authority's Finance Section on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the treasury advisor (currently Link Asset Services). 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 Lead Authority Finance Section'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. A pro-active approach is taken by the Treasury Management team, which closely monitors interest

Risk	Controls
	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 Economic Downturn 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 Lead Authority Finance Officer has delegated authority to amend both the Lending Criteria and the

	Risk	Controls
		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, 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 Council has access to the funds of the Public Works Loan Board (PWLB). PWLB funding could come under pressure in future years because of Government targets to reduce the level of public debt which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted. However, the Government has not indicated that this is an option that they are currently considering.
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 latest 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	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

Risk	Controls
and thereby the Authority could suffer financial loss as a result.	access to a well established Treasury Management team that operates under the Lead Authority Finance Officer and is staffed appropriately with a good mix of both experienced and qualified staff. Professional advice is regularly accessed 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.

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