TYNE & WEAR FIRE AND RESCUE AUTHORITY **Item No 7**

GOVERNANCE COMMITTEE MEETING: 26th SEPTEMBER 2016

SUBJECT: TREASURY MANAGEMENT – HALF YEARLY REVIEW OF PERFORMANCE 2016/2017

REPORT OF THE FINANCE OFFICER

1. Purpose of Report

1.1 To report on the Treasury Management (TM) performance to date for the second quarter of 2016/2017.

2. Description of Decision

2.1 The Committee is requested to note the positive progress in implementing the Treasury Management Strategy in 2016/2017.

2.2 The Committee is also 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.

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 2016/2017, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by 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 2016/2017

4.1 The Authority's Treasury Management function continues to look at ways to maximise financial savings and increase investment return to the revenue budget. PWLB rates fluctuated throughout 2015/2016 and continue to be volatile. Forecasts are that the impact of the Brexit vote and low levels of world economic growth will mean that PWLB rates will remain low into the medium term. As PWLB rates were at historically low levels, in line with discussions with the Authorities economic adviser, Sunderland Council decided to take advantage of these low rates and borrow £20m to help maintain the Authority's long-term borrowing interest rate at its comparatively low levels and benefit the revenue budget over the longer term.

4.2 One option to make savings is through debt re-scheduling, however no rescheduling has been undertaken in 2016/2017 as rates have not been considered sufficiently favourable. It should be noted the Authority's interest rate on borrowing is very low, currently 3.34%, and as such the Authority continues to benefit from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises. Temporary planned use of Internal Funds helps to make this an even lower cost in reality. Performance continues to see the Authority's rate of borrowing in the lowest quartile as compared to other authorities.

4.3 Treasury Management Prudential Indicators are regularly reviewed and the Authority is within the limits set for all of its TM Prudential Indicators.

4.4 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.

4.5 The Authority has benefited from additional investment income in the first half of the year of almost £12,400 in cash terms based on a higher rate of return in 2016/2017 of 0.41% compared to the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.32%. Performance remains above the benchmark rate, whilst still adhering to the prudent policy agreed by the Authority.

4.6 Following the Brexit vote the credit agencies Fitch and Standard & Poor downgraded the United Kingdom credit rating from AA+ to AA and from AAA to AA. The reduced rating reflects the uncertainties arising from the vote to leave the EU. Whilst the lower rating is not desirable it is felt that the strength of the UK Government is such that the Authority can rely on continued UK Government support to the banking system. This position will be subject to close monitoring.

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

4.8 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 have been updated to reflect this.

4.9 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 the Council manages the risks associated with the Treasury Management function on behalf of the Authority.

5. Recommendation

5.1 The Committee is requested to note the Treasury Management (TM) performance during the year to the second quarter of 2016/2017.

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 2016/17

A1 Borrowing Strategy and Performance – 2016/17

A1.1 The Borrowing Strategy for 2016/2017 was approved by the Authority on 21st March 2016.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2016, when the Treasury Management Policy and Strategy was drafted, was that the Bank Base Rate would remain at 0.50% until the fourth quarter of 2016 before gradually rising to 1.75% by December 2018. PWLB borrowing rates were also expected to increase during 2016/2017 across all periods.

Following the Referendum on 23rd June 2016 and the vote to leave the EU, the Bank of England (BoE) cut the Bank Rate for the first time since March 2009 to an all-time low of 0.25%. It also expanded its Quantitative Easing programme by £60bn to £435bn and unveiled two new schemes; one to buy £10bn of high grade corporate bonds and the "Term Funding Scheme" potentially worth up to £100bn offering access to cheap long term funding for those banks that increase their lending activity despite the cut in the base rate. Financial analysts speculate that a further cut to near zero is likely. The timing of any rate increase will depend on the strength and pace at which the UK economy recovers post-Brexit with tentative forecasts from the Authority's economic advisors, Capita Asset Services, of the second quarter of 2018 for a return to 0.25% and not reaching the pre-Referendum level of 0.50% until the second quarter of 2019.

Events following the outcome of the EU referendum has seen significant changes to the leadership of the government. The Office for Budget Responsibility (OBR) is currently assessing the potential impact of Brexit on the national economy. It is at this stage unclear what actions the government will take, although the New Chancellor has indicated a willingness to scale back the timing and pace of deficit elimination plans to do whatever is needed to promote growth. Clarity of the position and how the current Deficit Reduction Plan will be affected is expected to be announced in the Autumn Statement around the end of November.

The uncertainty caused by the Brexit vote and indications of reduced levels of investment, along with other factors such as reduced growth forecasts in Asia has led the BoE to review its growth and inflation forecasts for the UK. The August 2016 Inflation Report left growth forecasts unchanged at 2% for 2016 as the economy expanded faster in the first half of 2016 than had been expected in May. However the forecast for 2017 has been revised down significantly to 0.8% from a previous estimate of 2.3% and the forecast for growth in 2018 has been cut to 1.8%.

The BoE revised up its inflation forecasts sharply, in light of the devaluation of sterling because of Brexit. The BoE predicts CPI inflation will increase from its June 2016 level of 0.5% to 2.0% in 2017 and 2.4% in 2018 and 2019. This exceeds the 2.0% target level for inflation. To allay fears that this could spark a tightening of monetary policy the report noted that the costs of bringing inflation back to the 2.0% target in the immediate future would exceed the benefit.

The BoE said it expected the economy to suffer weak growth throughout 2016 and the rest of next year. The minutes stated that the outlook for growth in the short to medium term has weakened markedly, and most Monetary Policy Committee members expect further action later in the year if the economy performed as poorly as forecast. The economic picture is currently very volatile but most forecasters do not anticipate a base rate increase until 2019.

Forecasts for PWLB interest rate levels have fallen across all durations with benchmark rates of 1.00%, 1.50%, 2.30% and 2.10% for 5, 10, 25 and 50 year durations. Exceptional levels of volatility in PWLB rates and bond yields are expected to continue during 2016. The volatility is highly correlated to geo-political and sovereign debt crisis developments and the likelihood that increases in the US interest rate will occur more quickly and more strongly than the UK Bank Rate.

The following table shows the average PWLB rates for Quarters 1 and 2 to date.

2016/2017	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul - Aug) %**
7 days notice	0.36	0.25
1 year	1.11*	0.90*
5 year	1.59*	1.09*
10 year	2.25*	1.60*
25 year	3.05*	2.36*
50 year	2.83*	2.11*

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

A1.2 The strategy for 2016/2017 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 4.00% for long-term borrowing was set for 2016/2017 in light of the views prevalent at the time the Treasury Management policy was set in March 2016. Recent volatility in the financial markets has seen considerable movement of funds into gilts with a resulting fall in both gilt yields and PWLB rates which the Authority has taken advantage of. The overall longer term expectation is for gilt yields and PWLB rates to rise, albeit gently. In line with discussions with the Authority's economic adviser, Sunderland City Council took advantage of the low borrowing rate troughs that have occurred at each stage during the year, which will benefit the Authority's revenue budget over the longer term. Sunderland City Council has taken out £20 million of new borrowing during the financial year as these rates were considered opportune at each point in time. The new borrowing is summarised in the following table:

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
47½ years	15/06/2016	17/06/2016	17/06/2063	2.55	10.0
46½ years	01/07/2016	05/07/2016	05/01/2063	2.15	10.0

Since taking out this new borrowing rates have fluctuated, falling to a low of 1.85% for 46½ year duration before recovering to higher rates than the post Brexit borrowing was taken out. The position remains volatile at the moment and the Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future requirements.

A1.3 The Borrowing Strategy for 2016/2017 made provision for debt rescheduling but due to 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 2016/2017 so far 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.

Sunderland City Council successfully applied to access PWLB loans at a discount of 0.20%. This 'certainty rate' is available for those authorities that provide "improved information and transparency on their locally determined long-term borrowing and associated capital spending plans". The discount came into effect on 1st November 2012 and the Council has been successful in extending its access to the PWLB certainty rate until at least 31st October 2016.

A1.4 Sunderland City Council's treasury portfolio at 31st August 2016 is set out below :

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	197.8		
	Market	39.6		
	Other	0.2	237.6	3.68
Variable Rate Funding	Temporary / Other		27.6	0.41
Total Borrowing			**265.2**	**3.34**

A2 Treasury Management Prudential Indicators – 2016/2017

A2.1 All external borrowing and investments undertaken in 2016/2017 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 2016/2017 as follows:

	£m
Borrowing	35.360
Other Long-Term Liabilities	20.723
Total	**56.083**

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

	£m
Borrowing	30.360
Other Long-Term Liabilities	20.723
Total	**51.083**

The maximum external debt in respect of 2016/2017 (to 31st August 2016) was £35.294 million and is well within the 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		**2016/2017 (to 31/08/16)**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	255,000	92,565
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	48,000	-9,830
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	11.32%
	12 months and within 24 months	60%	1.65%
	24 months and within 5 years	80%	5.77%
	5 years plus	100%	82.68%
	A lower limit of 0% for all periods		
P13	**Upper limit for total principal sums invested for over 364 days**	75,000	0

A3 Investment Strategy – 2016/2017

A3.1 The Investment Strategy for 2016/2017 was approved by the Authority on 21st March 2016. 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 31st August 2016, 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.

	2016/2017 Return %	**2016/2017 Benchmark %**
Return on investments (to 31st August 2016)	0.41	0.32

A3.3 Investments placed in 2016/2017 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 Investment rates available in the market have continued at historically low levels and are likely to reduce further following the reduction to the Bank of England Base Rate.

A3.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments with all financial institutions for shorter term periods.

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. Lloyds and RBS) which have the UK Government AA rating applied to them, or in respect of Money Market Funds which are AAA rated.

A3.8 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. The Approved Lending List is shown in Appendix C and has been updated with notified changes to credit ratings.

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	364 days
A	F1 / F2	A-1 / A-2	A2	P-1 / P-2	65	364 days
A-	F1 / F2	A-2	A3	P-1 / P-2	50	364 days
Local Authorities (limit for each local authority)					30	2 years
UK Government (including debt management office, gilts and treasury bills)					350	2 years
Money Market Funds 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 (# duration limited to 20 years in accordance with Capital Regulations)					20	# 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 £100m which can be invested in other countries provided they meet the above criteria. A separate limit of £350m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

Country	**Limit £m**
UK	350
Non-UK	100

Sector Limit
The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

Sector	**Limit £m**
Central Government	350
Local Government	350
UK Banks	350
Money Market Funds	120
UK Building Societies	100
Foreign Banks	100

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**	-	Aa1	-	AA	-	350	2 years
Lloyds Banking Group (see Note 1)							**Group Limit 80**	
Lloyds Bank Plc	A+	F1	A1	P-1	A	A-1	80	2 years
Bank of Scotland Plc	A+	F1	A1	P-1	A	A-1	80	2 years
Royal Bank of Scotland Group (See Note 1)							Group Limit 80	
Royal Bank of Scotland Group plc	BBB+	F2	Ba1	NP	BBB-	A-3	80	2 years
The Royal Bank of Scotland Plc	BBB+	F2	A3	P-2	BBB+	A-2	80	2 years
National Westminster Bank Plc	BBB+	F2	A3	P-2	BBB+	A-2	80	2 years
Ulster Bank Ltd	BBB+	F2	A3	P-2	BBB	A-2	80	2 years
Santander Group							**Group Limit 65**	
Santander UK plc	A	F1	Aa3	P-1	A	A-1	65	364 days
Barclays Bank plc	A	F1	A2	P-1	A-	A-2	50	364 days
Clydesdale Bank *	BBB+	F2	Baa2	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	B	B	Caa2	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A	A-1	65	364 days
HSBC Bank plc	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Nationwide BS	A	F1	**Aa3**	P-1	A	A-1	65	364 days
Standard Chartered Bank	A+	F1	Aa3	P-1	A	A-1	65	364 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	A2	P-1	-	-	50	364 days
Newcastle BS **	-	-	-	-	-	-	0	
Nottingham BS **	-	-	Baa1	P-2	-	-	0	
Principality BS **	BBB+	F2	Baa3	P-3	-	-	0	

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Skipton BS **	A-	F1	Baa2	P-2	-	-	0	
West Bromwich BS **	-	-	B1	NP	-	-	0	
Yorkshire BS **	A-	F1	A3	P-2	-	-	50	364 days
Money Market Funds							120	Liquid
Prime Rate Stirling Liquidity	AAA				AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Standard Life Investments Liquidity Fund	AAA		-		AAA		50	Liquid
Deutsche Managed Sterling Fund	AAA		Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £100m								
Australia	AAA		Aaa		AAA		100	2 years
Australia and New Zealand Banking Group Ltd	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa2	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	Aa3	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Finland	AA+		Aa1		AA+		100	2 years
Nordea Bank Finland plc	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
OP Corporate Bank	-	-	Aa3	P-1	AA-	A-1+	75	2 years
Germany	AAA		Aaa		AAA		100	2 years
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	100	2 years
NRW Bank	AAA	F1+	Aa1	P-1	AA-	A-1+	75	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
Netherlands	AAA		Aaa		AAA		100	2 years
Bank Nederlandse Gemeenten	AA+	F1+	Aaa	P-1	AAA	A-1+	100	2 years
Cooperatieve Centrale Raiffeisen Boerenleenbank BA (Rabobank Nederland)	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Nederlandse Waterschapsbank N.V	-	-	Aaa	P-1	AAA	A-1+	100	2 years
Singapore	AAA		Aaa		AAA		100	2 years
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	75	2 years
Sweden	AAA		Aaa		AAA		100	2 years
Nordea Bank AB	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	75	2 years
USA	AAA		Aaa		AA+		100	2 years
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years
JPMorgan Chase Bank NA	AA-	F1+	Aa2	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA	F1+	Aa1	P-1	AA-	A-1+	75	2 years

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 £80m.

* 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 Council face as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

Risk	Controls
1. Strategic Risk The Authority's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Authority's budget and could ultimately lead to a reduction in resources for front line services.	This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Authority in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Finance Officers' view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the treasury advisor (currently Capita 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 Finance Officers' own 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 rates on a daily basis and takes necessary actions to

	Risk	Controls
		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 Finance Officer has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial

Risk	Controls
	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 Finance Officer and is staffed appropriately with a good mix of both well 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.