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

GOVERNANCE COMMITTEE MEETING: 24th SEPTEMBER 2018

SUBJECT: TREASURY MANAGEMENT – HALF YEARLY REVIEW OF PERFORMANCE 2018/2019

REPORT OF THE STRATEGIC FINANCE MANAGER

1. Purpose of Report

1.1 To report on the Treasury Management (TM) performance to date for the second quarter of 2018/2019.

2. Introduction

2.1 Sunderland City Council performs the treasury management function on behalf of the Authority.

2.2 This report sets out the Treasury Management performance to date for the financial year 2018/2019, 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.

3. Review of Treasury Management Performance for 2018/2019

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. PWLB rates fluctuated throughout 2017/2018 and continue to be volatile, in part linked to uncertainty over the outcome of Brexit negotiations. Consequently no new borrowing has been taken out to date during 2018/2019 but the position continues to be monitored closely.

3.2 One option to make savings is through debt re-scheduling, however no rescheduling has been undertaken in 2018/2019 as rates have not been considered sufficiently favourable. It should be noted the Authority's interest rate on borrowing is very low, currently 3.20%, 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.

3.3 Treasury Management Prudential Indicators are regularly reviewed and the Authority is within the limits set for all of its TM Prudential Indicators for 2018/2019.

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 additional investment income in the first half of the year of almost £18,000 in cash terms based on a higher rate of return in 2018/2019 of 0.54% compared to the benchmark 7 Day LIBID (London Interbank Bid) rate of 0.41%. 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 lower than those achieved in previous years, although there has been some upward movement since the Bank of England Monetary Policy Committee announced the 0.25% increases in the base rate to 0.50% on 2nd November 2017 and then to 0.75% on 2nd August 2018. 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. Reason for Decision

4.1 To note the Treasury Management (TM) performance during the year to the second quarter of 2018/2019 in accordance with agreed protocols within the CIPFA Code of Practice on Treasury Management.

5. Recommendations

5.1 The Committee is requested to note the Treasury Management (TM) performance during the year to the second quarter of 2018/2019.

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 2018/19

A1 Borrowing Strategy and Performance – 2018/19

A1.1 The Borrowing Strategy for 2018/2019 was approved by the Authority on 19th March 2018.

The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view in February 2018, when the Treasury Management Policy and Strategy was drafted, was that following the first increase in the Bank of England (BoE) Base Rate since July 2007 from 0.25% to 0.50% there would be further increases of 0.25% by the end of 2018, 2019 and late summer 2020. PWLB borrowing rates were expected to rise, albeit gently, during 2018/2019 across all periods but could be subject to exceptional levels of volatility due to uncertainty over the outcome of Brexit negotiations and geopolitical developments throughout the world.

At its meeting ending on 1 August 2018, the BoE Monetary Policy Committee (MPC) voted unanimously to increase Bank Rate by 0.25 percentage points from 0.5% to 0.75%. Data suggesting that the dip in output in the first quarter of the year was temporary, with momentum recovering in the second quarter. The labour market has continued to tighten and unit labour cost growth has firmed. The MPC felt that, were the economy to continue to develop broadly in line with its Inflation Report projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to the 2% target however they stressed that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

The Bank of England (BoE) also revised its growth forecasts for the UK economy in the August 2018 Inflation Report, with latest predictions on growth now up to 1.5% (from 1.4%) in 2018 and up to 1.8% (from 1.7%) in 2019. CPI inflation increased to 2.5% in July 2018 (from 2.4% in June 2018) with the BoE projecting that inflation will reduce gradually to 2.2% in 2018 before reaching the target rate of 2.0% in 2021.

Accordingly, Link Asset Services, the Authority's treasury advisors, do not think that the MPC will increase Bank Rate ahead of the deadline in March 2019 for Brexit. They predict that the MPC is more likely to wait until August 2019, before the next increase, to be followed by further increases in May and November 2020 to reach 1.5%.

With Brexit negotiations taking place, and potential for geopolitical events outside the control of the UK government, economic and interest rate forecasting remains very difficult as there are many influences weighing on the UK economy. Forecasts are predicated on an assumption that sufficient progress is made, in respect of negotiations, to produce an agreement for Brexit that benefits both the EU and the UK. The economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal

Link Asset Services predict a gradual rise in PWLB rates reaching 2.10%, 2.50%, 3.00% and 2.80% for 5, 10, 25 and 50 year durations by 31st March 2019. High levels of volatility in PWLB rates and bond yields are expected to continue during 2018 and 2019 particularly due to the continued uncertainty over the outcome of the Brexit negotiations.

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

2018/2019	**Qtr 1* (Apr - Jun) %**	**Qtr 2* (Jul – 5th Sept) %**
7 days notice	0.36	0.47
1 year	1.44*	1.45*
5 year	1.86*	1.79*
10 year	2.29*	2.19*
25 year	2.66*	2.58*
50 year	2.40*	2.37*

*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 2018/2019 continues to be 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 3.50% for long-term borrowing was set for 2018/2019 in light of the views prevalent at the time the Treasury Management policy was set in March 2018. Due to high levels of volatility in the financial markets, with borrowing rates still forecast to remain low over the short term, no new borrowing has been undertaken in the current financial year to 31st August 2018, but this will be kept under review.

A1.3 The Borrowing Strategy for 2018/2019 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 2018/2019 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 2018.

A1.4 Sunderland City Council's total treasury portfolio at 31st August 2018 is set out below :

		Principal (£m)	Total (£m)	Average Rate (%)
Borrowing				
Fixed Rate Funding	PWLB	238.7		
	Market	39.6		
	Other	7.1	285.4	3.47
Variable Rate Funding	Temporary / Other		27.6	0.54
Total Borrowing			**313.0**	**3.21**

A2 Treasury Management Prudential Indicators – 2018/2019

A2.1 All external borrowing and investments undertaken in 2018/2019 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 2018/2019 as follows:

	£m
Borrowing	28.124
Other Long-Term Liabilities	19.089
Total	**47.213**

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

	£m
Borrowing	23.124
Other Long-Term Liabilities	19.089
Total	**42.213**

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).

The Authority's maximum external debt in respect of 2018/2019 (to 31st August 2018) was £41.618 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 (which includes the Authority's data) have been complied with:

Prudential Indicators		**2018/2019 (to 31/08/18)**	
		Limit £'000	**Actual £'000**
P10	**Upper limit for fixed interest rate exposure**		
	Net principal re fixed rate borrowing / investments	350,000	250,087
P11	**Upper limit for variable rate exposure**		
	Net principal re variable rate borrowing / investments	58,000	-23,730
P12	**Maturity Pattern**	Upper Limit	
	Under 12 months	50%	10.63%
	12 months and within 24 months	60%	2.09%
	24 months and within 5 years	80%	5.89%
	5 years plus	100%	82.96%
	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 – 2018/2019

A3.1 The Investment Strategy for 2018/2019 was approved by the Authority on 19th March 2018. 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 2018, 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.

	2018/2019 Return %	**2018/2019 Benchmark %**
Return on investments (to 31st August 2018)	0.54	0.41

A3.3 Investments placed in 2018/2019 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 are still at low levels but there has been a small improvement recently reflecting the increase in the Bank of England Base Rate to 0.75% announced on 1st August 2018.

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 this 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	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:

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 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	2 years
Lloyds Banking Group							**Group Limit 70**	
Lloyds Bank Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	**70**	364 days
Lloyds Bank Corporate Markets plc (NRFB)	**A**	**F1**	**A1**	**P-1**	**A**	**A-1**	**70**	**364 days**
Bank of Scotland Plc (RFB)	A+	F1	Aa3	P-1	A+	A-1	70	364 days
Royal Bank of Scotland Group (See Note 1)							**Group Limit 80**	
Royal Bank of Scotland Group plc	BBB+	F2	**Baa2**	**P-2**	BBB-	A-3	80	2 years
The Royal Bank of Scotland Plc (RFB)	A-	F2	A1	P-1	A-	A-2	80	2 years
National Westminster Bank Plc (RFB)	A-	F2	A1	P-1	A-	A-2	80	2 years
NatWest Markets plc (NRFB)	**BBB+**	**F2**	**Baa2**	**P-2**	**BBB+**	**A-2**	**80**	**2 years**
Santander UK plc	A	F1	Aa3	P-1	A	A-1	65	364 days
Barclays Bank plc (NRFB)	**A**	**F1**	**A1**	**P-1**	**A**	**A-1**	65	364 days
Barclays Bank plc (RFB)	A	F1	A1	P-1	A	A-1	65	364 days
Clydesdale Bank *	BBB+	F2	Baa1	P-2	BBB+	A-2	0	
Co-Operative Bank Plc	**B**	B	**Caa1**	NP	-	-	0	
Goldman Sachs International Bank	A	F1	A1	P-1	A+	A-1	65	364 days
HSBC Bank plc (NRFB)	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
HSBC UK Bank plc (RFB)	**AA-**	**F1+**	**-**	**-**	**AA-**	**A-1+**	75	2 years
Nationwide BS	A	F1	Aa3	P-1	A	A-1	65	364 days
Standard Chartered Bank	A+	F1	A1	P-1	A	A-1	65	364 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A	F1	A2	P-1	-	-	65	364 days
Leeds BS	A-	F1	A3	P-2	-	-	50	364 days
Nottingham BS **	-	-	Baa1	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	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+	Aa3	P-1	AA-	A-1+	75	2 years
Commonwealth Bank of Australia	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
National Australia Bank	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Westpac Banking Corporation	AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 years
Canada	AAA		Aaa		AAA		100	2 years
Bank of Nova Scotia	AA-	F1+	**Aa2**	P-1	A+	A-1	70	364 days
Royal Bank of Canada	AA	F1+	**Aa2**	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
OP Corporate Bank plc	-	-	Aa3	P-1	AA-	A-1+	75	2 years
Germany	AAA		Aaa		AAA		100	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
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
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+	Aa3	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
JP Morgan Chase Bank NA	AA	F1+	Aa2	P-1	A+	A-1	70	364 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	70	364 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 £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 view of the Lead Authority's Finance Officer 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 Officer's 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

	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	This is unlikely to happen because the Treasury Management function is required to ensure the Authority can comply with all legislative and

Risk	Controls
Management function effectively and thereby the Authority could suffer financial loss as a result.	regulatory requirements. As such the Authority has 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 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.