Sunderland City Council

**Item No. 7**

**AUDIT AND GOVERNANCE COMMITTEE** **16 OCTOBER 2020**

**TREASURY MANAGEMENT – SECOND QUARTERLY REVIEW 2020/2021**

**Report of the Executive Director of Corporate Services**

## 1. Purpose of Report

1.1 To report on the Treasury Management performance to date for the second quarter of 2020/2021.

## 2. Description of Decision (Recommendations)

2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 2 of 2020/2021.

- Note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

## 3. Introduction

3.1 This report sets out the Treasury Management performance to date for the second quarter of the financial year 2020/2021, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

## 4. Treasury Management Response to Covid-19

4.1 As previously reported to the committee the response to Covid-19 commenced in mid-March and this has continued during 2020/2021. As well as the significant impact on financial markets and economic forecasting, the crisis required a pro-active approach to Treasury Management to support the Council's response to the pandemic. This has included:

- In order to support the payment of Business Rate payer grants cash balances were held at higher levels to facilitate daily grant payments so ensuring funds were released to Businesses as promptly as possible.

- Cash flow has been stringently monitored to ensure the position remains positive given the uncertainties around income collection and also the significant additional costs being incurred in response to the pandemic.

- Investments made have been made predominately short term to ensure both liquidity and also security of funds given the increased economic uncertainty.

4.2 The response, coupled with the economic circumstances, is impacting on the investment returns generated during the year.

## 5. Summary of Treasury Management Performance for 2020/2021 – Quarter 2

5.1 The Council'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 the position continues to be monitored closely.

5.2 No rescheduling of debt has been possible in 2020/2021 as rates have not been considered sufficiently favourable. The Council's interest rate on borrowing is very low, currently 2.90%, and, as such, the Council already benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Based on advice from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.

5.3 Treasury Management Prudential Indicators are regularly reviewed and the Council is within the limits set for all of its Treasury Management Prudential Indicators. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £842.243m for 2020/2021. The Council's maximum external debt during the financial year to 30$^{th}$ September 2020 was £492.313m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in section A2 of Appendix A for information.

5.4 The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council.

5.5 As at 30$^{th}$ September 2020, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 0.55% compared with the benchmark 7 Day LIBID (London Interbank Bid) rate of -0.06% (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 is significantly above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market.

5.6 More detailed Treasury Management information is included in Appendix A for Members' information.

5.7 The regular updating of the Council's authorised lending list is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

## 6. Recommendation

6.1 Members are requested to note the Treasury Management performance for the second quarter of 2020/2021.

6.2 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 2020/2021

### 1 Borrowing Strategy and Performance – 2020/2021

1.1 The Borrowing Strategy for 2020/2021 was reported to Cabinet on 11th February 2020 and approved by full Council on 4th March 2020.

1.2 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.

1.3 GDP data revealed the UK economy contracted by 20.4% during the second quarter compared to the previous (pre-Covid) quarter and down 21.7% on the same quarter last year as the UK emerged from lockdown to a new normal. Whilst the Government's furlough scheme had partially mitigated the financial impact of the Covid-19 pandemic on those individuals covered by the scheme it ends on 31st October. The new Job Support Scheme announced by the Chancellor is much less favourable to businesses already struggling in the aftermath of the pandemic and speculation is that unemployment levels could rise.

1.4 The annualised CPI inflation rate fell from 1.0% in July to 0.2% in August, largely attributable to the effects of the pandemic and Government support measures reducing VAT in the hospitality sector. This is well below the BoE's 2% target and inflation is expected to remain at low levels in the coming quarters.

1.5 As expected, the BoE's September Monetary Policy Committee (MPC) meeting voted to leave the Base Rate unchanged at 0.10%, a record low. The Quantitative Easing bond buying programme remains at £745bn but market economists generally expect this to rise. MPC Members were optimistic of an uplift in growth in the near term but warned this had little impact on the longer-term outlook. Rising Covid-19 infection rates, Brexit and the end of the furlough scheme (despite the more limited extension) are uncertainties that could dampen growth. The BoE Governor has sought to downplay recent reports of negative rates as speculation continues on circumstances where they could be applied as he feels other tools are available that would be more effective in stimulating the economy in the short-term such as increased bond buying.

1.6 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.

1.7 Link Asset Services, the Authority's treasury advisors, reviewed their interest rate forecasts in August 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.

1.8 The following table shows the average PWLB rates for Quarter 1 and 2.

| **2020/2021** | **Qtr 1* (Apr - June) %** | **Qtr 2* (July – 27th Sept) %** |
|---|---|---|
| 7 days' notice | -0.04 | -0.06 |
| 1 year | 1.84* | 1.76* |
| 5 years | 1.85* | 1.74* |
| 10 years | 2.07* | 2.02* |
| 25 years | 2.50* | 2.57* |
| 50 years | 2.26* | 2.39* |

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

1.9 High levels of volatility in the financial markets have continued during 2020/2021. Uncertainty around the global rise in Covid-19 infection rates and the impact on world economies, the outcome of Brexit negotiations and continued tensions between China and the USA have led to gilt yields decreasing as investors moved from riskier assets such as shares and into bonds. Investor cash flow uncertainties and the need to maintain liquidity in these unprecedented times has depressed short-term rates available to very low levels.

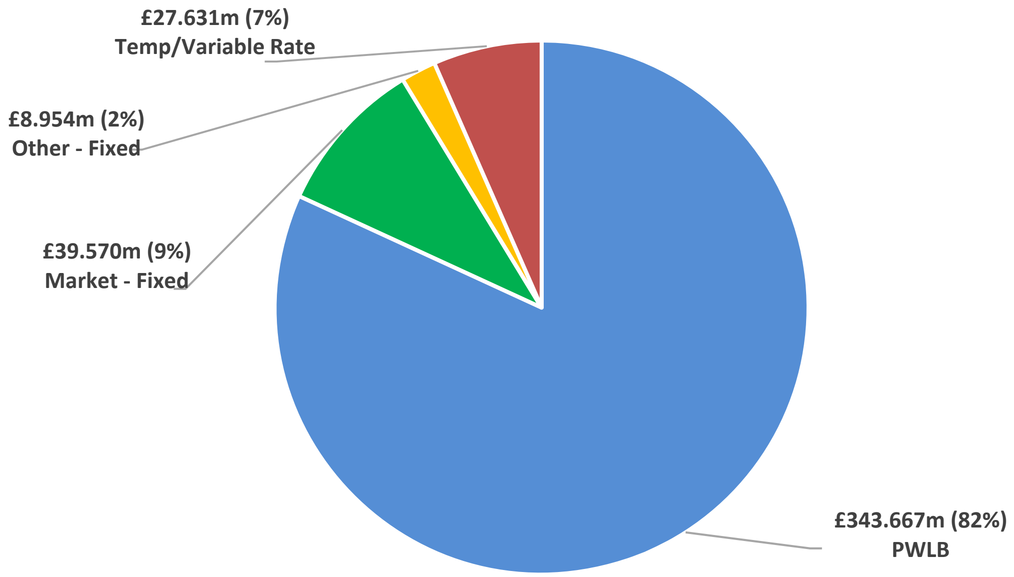
1.10 Link Asset Services predict a gradual rise in PWLB rates reaching 2.00%, 2.10%, 2.50% and 2.30% for 5, 10, 25 and 50-year durations respectively by 31st March 2021 with further increases of 0.10% to 0.20% by March 2023. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period. 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. The Treasury consultation on reviewing PWLB margins and lending ended on 31st July and it is expected the Certainty Rate will be revised downwards but the timing of the announcement and its implementation remain unclear.

1.11 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 Council. 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.

1.12 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 September 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.

1.13 The Council's treasury portfolio position at 30th September 2020 is set out below:

| **Borrowing Summary at:** | **30 September 2020** | | |
|---|---|---|---|
| | **Principal** | **Interest** | **Ave rate %** |
| **Fixed** | | | |
| PWLB | 343,666,667 | 10,222,738 | 2.97 |
| Market – Fixed | 39,570,383 | 1,743,146 | 4.41 |
| Other – Fixed | 8,954,092 | 1,532 | 0.02 |
| | 392,191,142 | 11,967,416 | 3.05 |
| **Variable** | | | |
| Temporary/Other – Variable | 27,630,855 | 198,098 | 0.72 |
| | 27,630,855 | 198,098 | 0.72 |
| **TOTAL:** | **419,821,997** | **12,165,513** | **2.90** |




## 2 Prudential Indicators – 2020/2021

2.1 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 Council's performance for all of the other Treasury Management Prudential Indicators.

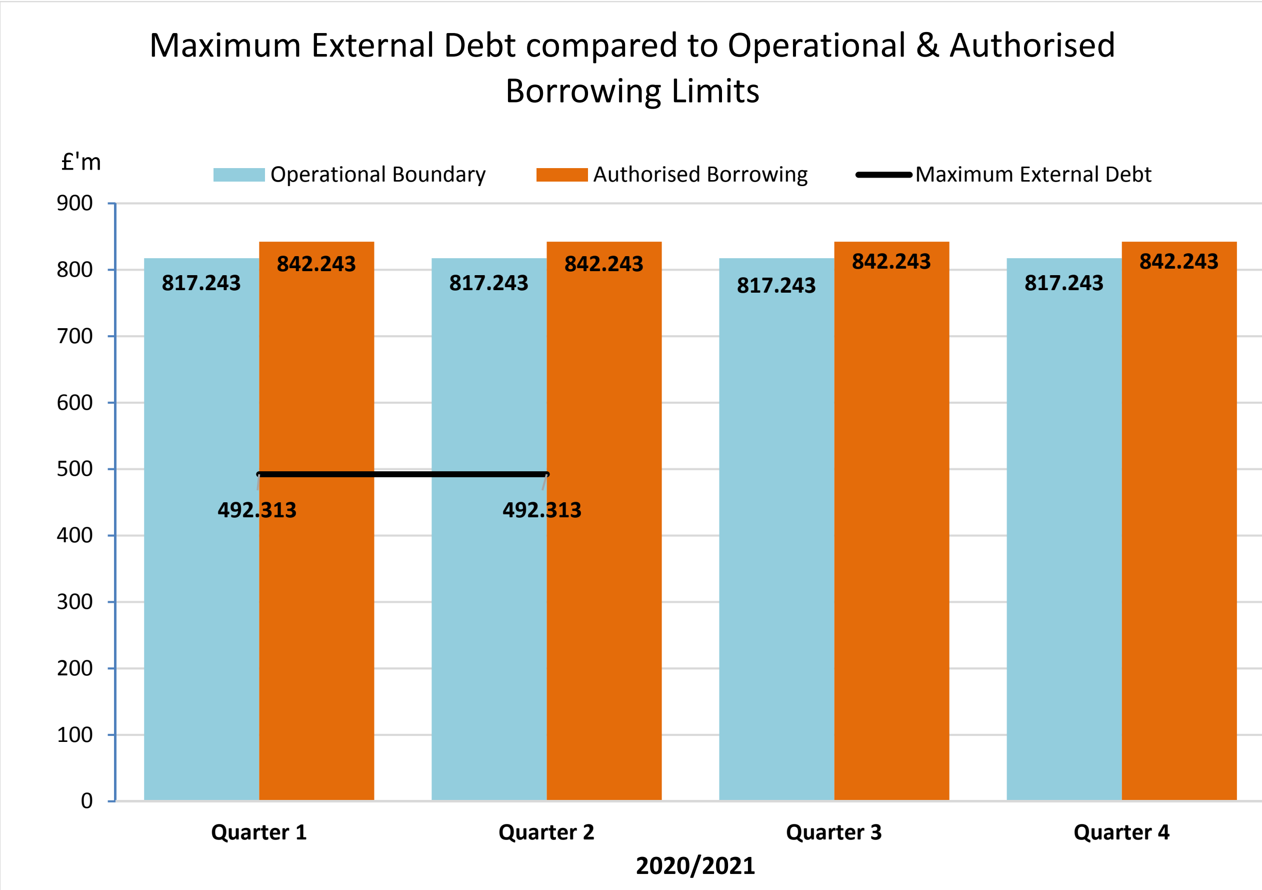
2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2020/2021 as follows:

| | **£m** |
|---|---|
| Borrowing | 767.185 |
| Other Long-Term Liabilities | 75.058 |
| **Total** | **842.243** |

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

| | £m |
|---|---|
| Borrowing | 742.185 |
| Other Long-Term Liabilities | 75.058 |
| **Total** | **817.243** |

The Council's maximum external debt in respect of 2020/2021 (to 30th September 2020) was £492.313m and is within the limits set by both these key indicators.




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

| **Prudential Indicators** | | **2020/2021 (to 30/09/20)** | |
|---|---|---|---|
| | | **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 |

## 3 Investment Strategy – 2020/2021

3.1 The Investment Strategy for 2020/2021 was approved by Council on 4th March 2020. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

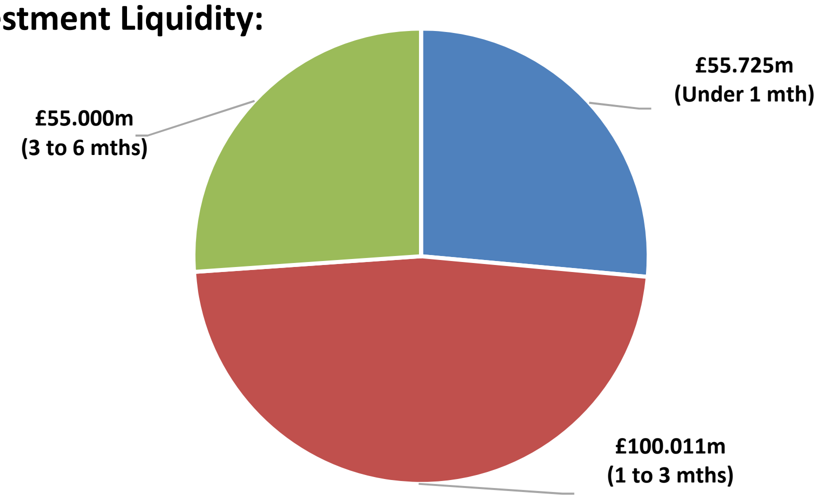
(A) The **security** of capital;
(B) The **liquidity** of its investments and then;
(C) The Council aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

3.2 As at 30th September, the funds managed by the Council's in-house team amounted to £210.736 million and all investments complied with the Annual Investment Strategy.

**Investment Summary at: 30 September 2020**

| Borrower | Duration | Amount of Loan | Rate (%) | Start Date | Maturity Date |
|---|---|---|---|---|---|
| **Call Accounts:** | | | | | |
| Natwest SIBA | Overnight | 2,000,000 | 0.01 | | Call |
| Prime MMF | Overnight | 11,170,000 | 0.06 | | Call |
| Aberdeen Liquidity Fund | Overnight | 42,555,000 | 0.09 | | Call |
| Lloyds Banking Group Ltd | 95d Notice | 50,011,097 | 0.30 | | 95 Day Notice |
| **Sub-total:** | | **105,736,097** | | | |
| **Fixed Term Deposits:** | | | | | |
| Santander UK Plc | 365 days | 25,000,000 | 1.10 | 08-Nov-19 | 06-Nov-20 |
| Barclays Bank Plc | 185 days | 25,000,000 | 0.67 | 22-May-20 | 23-Nov-20 |
| Santander UK Plc | 365 days | 15,000,000 | 1.11 | 29-Jan-20 | 29-Jan-21 |
| Lloyds Banking Group Ltd | 365 days | 15,000,000 | 1.11 | 29-Jan-20 | 29-Jan-21 |
| Santander UK Plc | 185 days | 25,000,000 | 0.40 | 29-Sep-20 | 29-Mar-21 |
| **Sub-total:** | | **105,000,000** | | | |
| **TOTAL:** | | **210,736,097** | | | |

**Investment Liquidity:**



3.3 The table below shows the return received on these investments compared with the benchmark 7-Day LIBID (London Interbank Bid) rate, which the Council uses to assess its performance.

| | **2020/2021 Actual to 30/09/20 %** | **2020/2021 Benchmark to 30/09/20 %** |
|---|---|---|
| Return on investments | 0.55 | -0.06* |

*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.

3.4 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.

3.5 Investment rates available in the market remain lower than those achieved in 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.

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

3.7 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.

3.8 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes are reflected on the Approved Lending List shown in Appendix C.

**<u>Counterparty Criteria</u>**

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:

**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 | - | 300 | |
| **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 | **70** | 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 |
| Nottingham BS ** | - | - | Baa2 | P-2 | - | - | 0 | |
| Principality BS ** | BBB+ | F2 | Baa2 | P-2 | - | - | 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 | 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 | |
| Bank Nederlandse Gemeenten | AAA | F1+ | Aaa | P-1 | AAA | A-1+ | 50 | 2 years |
| Cooperatieve Centrale Raiffeisen | **A+** | **F1** | Aa3 | P-1 | A+ | A-1 | 50 | 365 days |

| | Fitch | | Moody's | | Standard & Poor's | | | |
|---|---|---|---|---|---|---|---|---|
| | L Term | S Term | L Term | S Term | L Term | S Term | Limit £m | Max Deposit Period |
| Boerenleenbank BA (Rabobank Nederland) | | | | | | | | |
| 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 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**<br>The Council's strategic objectives could be put at risk if borrowing costs escalated, or investment income was reduced, or there was a combination of the two. This could result in a negative impact on the Council's budget and could ultimately lead to a reduction in resources for front line services. | This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Council in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the Treasury Management team's view on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the Council's treasury advisor (currently Link Asset Services).<br><br>The strategy also sets the Authorised Borrowing Limit (setting the maximum amount that the Council may borrow) and various prudential indicators to ensure the Treasury Management function is monitored and properly managed and controlled. |
| **2.** | **Interest Rate Risk**<br>The risk of fluctuations in interest rates affects both borrowing costs and investment income and could adversely impact on the Council's finances and budget for the year. | The Council manages its exposure to fluctuations in interest rates with a view to minimising its borrowing costs and securing the best rate of return on its investments, having regard to the security of capital, in accordance with its approved Treasury Management Strategy.<br><br>The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Treasury Management team's view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy.<br><br>A proactive approach is taken by the Council's Treasury Management team, which closely monitors interest rates on a daily basis and takes necessary actions to help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate. |

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| **3.** | **Exchange Rate Risk**<br>As a result of the nature of the Council's business, the Council may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. | All borrowings and investments are made in sterling and are therefore not subject to exchange rate risk.<br><br>This risk is minimal as all other foreign exchange transactions are automatically converted into GBP sterling by the Council's bankers on the day of the transaction. |
| **4.** | **Inflation Risk**<br>There is a risk that the rate of inflation will impact on interest rates as a direct result of the intervention of the Bank of England to control inflation through the use of interest rates, where inflation rates have exceeded or are projected to exceed the target rates agreed between the Bank of England and Government. | Economic data such as pay, commodities, housing and other prices are monitored by the Council's treasury advisors. These are considered as part of an overall view on the influences on inflation rates, which in turn inform the Council's view on interest rate forecasts when drafting annual budgets and reviewing treasury management performance.<br><br>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**<br>The Credit Crunch and problems encountered by some authorities with Icelandic Banks has demonstrated that there is a risk of losing funds/investments deposited with counterparties when carrying out its investment strategy activities. | The prime objective of the Council's treasury management activity in this area is the security of the capital sums it invests. Accordingly, counterparty lists and limits reflect a prudent view of the financial strength of the institutions where funds are deposited.<br><br>The Council also only uses instruments set out in its investment policy and places limits upon the level of investment with the Counterparties approved within the Council's Treasury Management Policy and Strategy Statement.<br><br>The Executive Director of Corporate Services has delegated authority to amend both the Lending Criteria and the Approved Lending List in response to changes in the financial markets should the need arise and these changes are reported to Cabinet at the next available opportunity.<br><br>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 |

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| | | the approved lending list up to date and fully informed, using the latest available information. |
| 6. | **Capital Financing and Refinancing Risk**<br>There is a risk that opportunities for rescheduling of the Council's debt portfolio are constrained. | The risk is currently mitigated as the Council has access to the funds of the Public Works Loan Board (PWLB) and has the flexibility to temporarily use internal funds as required.<br><br>PWLB funding could come under pressure in future years because of the large and increasing amount of public debt incurred by the Government which could see a return to the operation of the PWLB quota system as operated in previous years where Government funding was restricted. |
| 7. | **Statutory and Regulatory Risk**<br>There is a risk that regulations covering Treasury Management will change and the Council fails to respond to those changes. | The Council ensures full compliance with the current legislative requirements under the Local Government Act 2003 and the Prudential Code, which also requires full compliance with the CIPFA Treasury Management Code of Practice. All Treasury Management Prudential Indicators are monitored daily and all Treasury Management practices fully comply with the Code of Practice and this is reported to and agreed by Council. |
| 8. | **Treasury Management Arrangements Risk**<br>There is a risk that the Council does not carry out its Treasury Management function effectively and thereby the Council could suffer financial loss as a result. | This is unlikely to happen because the Treasury Management function is required to ensure the Council can comply with all legislative and regulatory requirements. As such the Council has a well-established Treasury Management team that operates under the Executive Director of Corporate Services and is staffed appropriately with a good mix of both experienced and qualified staff.<br><br>Training and professional advice is regularly carried out to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance. |