

**MEETING: GOVERNANCE COMMITTEE 31<sup>ST</sup> OCTOBER 2022**

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**TREASURY MANAGEMENT – HALF YEARLY REVIEW 2022/2023**

**REPORT OF THE FINANCE DIRECTOR**

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**1. Purpose of Report**

- 1.1 To report on the Treasury Management performance for the half year of 2022/2023.

**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 for the half year of the financial year 2022/2023, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Authority. This information is based on the data for the Lead Authority (Sunderland City Council), which also incorporates the investment and borrowing figures for this Authority.

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

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

- 3.3 Treasury Management Prudential Indicators are regularly reviewed and the Authority is within the limits set for all its Treasury Management Prudential Indicators for 2022/2023. 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 £52.816m for 2022/2023. The Authority's maximum external debt during the financial year to 30<sup>th</sup> September 2022 was £33.235m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in Section 2 of Appendix A for information.
- 3.4 The Authority'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 Authority.
- 3.5 The Authority has benefitted from the fact that its investment income has been matched to the benchmark rate of 1.22% instead of the average Money Market Fund (MMF) return. Whilst used in previous years, the MMF rate has been adversely impacted by market volatility linked to Covid and now the continuing conflict in Ukraine. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section A3 of this report in respect of the Authority's Investment Strategy and Performance.
- 3.6 More detailed Treasury Management information is included in Appendix A for information.
- 3.7 The regular updating of the Authority'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.

#### **4. Recommendation**

- 4.1 The Committee is requested to note the Treasury Management performance during for the half year of 2022/2023.
- 4.2 Members are requested to note the Lending List Criteria at Appendix B, the Approved Lending List at Appendix C and the Risk Management Review of Treasury Management at Appendix D.

**Detailed Treasury Management Performance – Half Year 2022/2023****A1 Borrowing Strategy and Performance – 2022/2023**

- A1.1 The Borrowing Strategy for 2022/2023 was approved by the Authority on 14<sup>th</sup> March 2022.
- A1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view at the time of drafting the Treasury Management Policy and Strategy was that the 0.25% Bank of England (BoE) Base Rate would rise in 0.25% increments in June 2022, March 2023, March 2024 and March 2025 by which time it would stand at 1.25% within the forecast timeframe. PWLB borrowing rates were expected to rise, albeit gently, during 2022/2023 across all periods but could be subject to levels of volatility.
- A1.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise the Base Rate for a seventh consecutive meeting on 22<sup>nd</sup> September 2022, taking it to 2.25%, the highest level since December 2008. This reflects their commitment to combat inflationary pressures, even at the risk hampering growth, to ensure headline CPI inflation drops back to its 2% target over a three-year timeframe.
- A1.4 Year on year CPI inflation eased from 10.1% in July to 9.9% in August, but domestic price pressures show little sign of abating in the short term and inflation has not yet peaked. Utility price inflation is expected to add 0.7% to CPI in October when the Ofgem unit price cap takes effect and will be reflected when the official figure is released on 18<sup>th</sup> October 2022.
- A1.5 Following increases in the BoE Base Rate, investment rates of return have increased significantly compared to previous years with returns in excess of 5% now available. However long-term borrowing rates are also currently high, and above our benchmark borrowing rate, therefore investment balances will be temporarily used where necessary pending borrowing rates reducing.
- A1.6 Link Asset Services, the Authority's treasury advisors, reviewed their interest rate forecasts in September 2022 in light of continued volatility in the financial markets and now expect the Base Rate to rise faster and further than previously forecast. They forecast the BoE Base Rate will rise to 3.25% in November 2022, 4.00% in December 2022 and peak at 5.00% in March 2023, before gradually falling to 2.50% by the end of the forecast timeframe in September 2025. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets. The current turbulence in economic markets linked to government policy announcements is unprecedented, meaning forecasts are changing on a regular basis.

A1.7 The following table shows the average PWLB rates for Quarter 1 and 2 compared to the SONIA Overnight Rate used to benchmark investment returns.

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

\*rates take account of the 0.2% discount to PWLB rates available to eligible authorities.

A1.8 In line with discussions with the Authority's Treasury Management adviser, Sunderland City Council has taken out £50 million of new borrowing to meet its capital financing requirement. The rate was considered opportune but PWLB rates continue to be monitored closely in line with future capital programme requirements. The new borrowing is summarised in the following table:

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

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

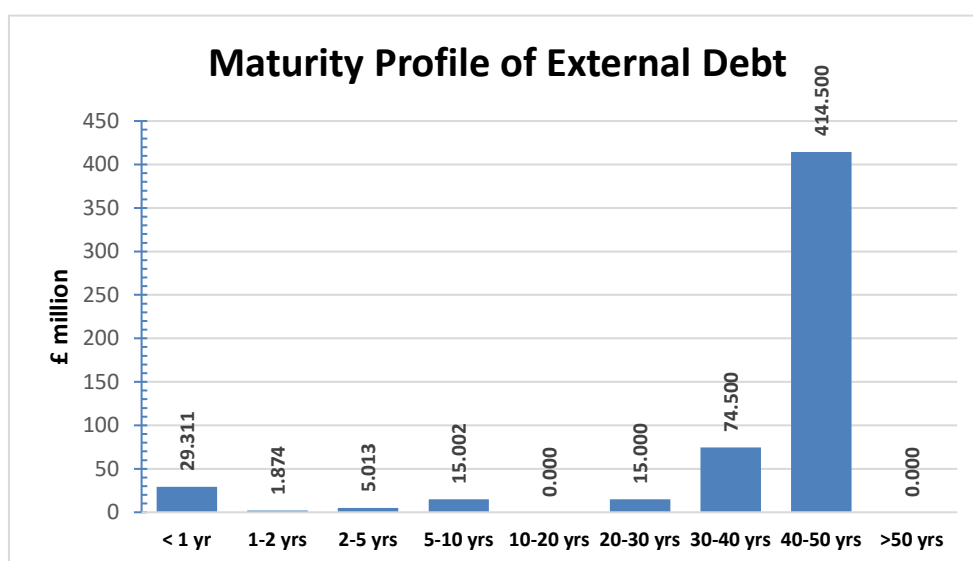
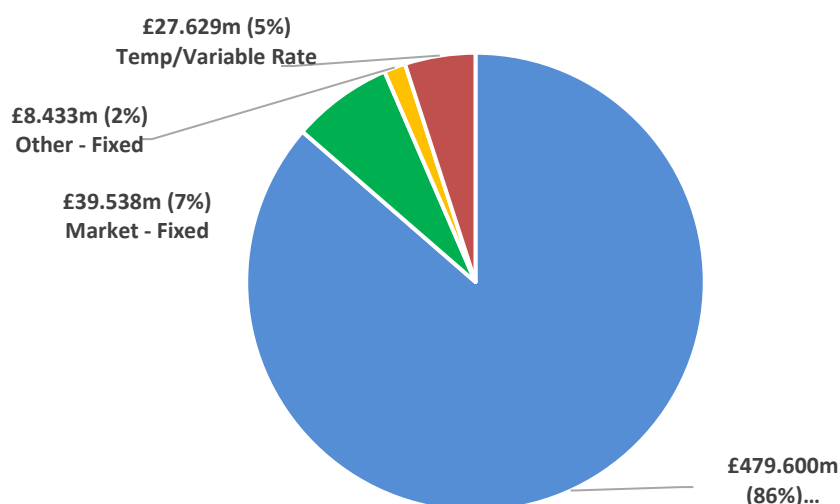
A1.9 High levels of volatility in the financial markets previously caused by Covid have been added to in 2022/2023 by the on-going conflict between Russia and Ukraine and uncertainty over how the West will respond through additional sanctions or other interventions. This has been exacerbated by the government's huge fiscal loosening plans announced by the Chancellor in September. The lack of independent scrutiny of the various projections, ideally by the Office for Budget Responsibility (OBR), and the increase in borrowing to fund the significant cost of the proposals unsettled the markets and forced the BoE to step in to buy long-term gilts to restore financial stability.

A1.10 There is expected to be a gradual upward movement in PWLB rates to the end of 2022, after which rates are anticipated to gradually fall. Link Asset Services predict PWLB rates standing at 4.90%, 4.70%, 4.90% and 4.60% for 5, 10, 25 and 50-year durations respectively by 31<sup>st</sup> March 2023 before falling to around 3.30% for all durations by March 2025. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period.

A1.11 The strategy for 2022/2023 is to adopt a pragmatic and flexible approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 3.00% for long-term borrowing was set for 2022/2023 in light of the views prevalent at the time the Treasury Management policy was set in March 2022.

A1.12 The Council's treasury portfolio position at 30<sup>th</sup> September 2022 is set out below (which includes Fire Service debt totalling £10.346m):

| <b>Borrowing Summary at: 30 September 2022</b> |                    |                 |
|--|--------------------|-----------------|
|  | <u>Principal</u>   | <u>Ave rate</u> |
| <b><u>Fixed</u></b>                            |                    | <b>%</b>        |
| PWLB   | 479,600,000        | 2.46            |
| Market - Fixed                                 | 39,538,123         | 4.40            |
| Other - Fixed                                  | 8,432,690          | 0.00            |
|  | <u>527,570,813</u> | <u>2.56</u>     |
| <b><u>Variable</u></b>                         |                    |                 |
| Temporary/Other - Variable                     | 27,628,762         | 1.71            |
|  | <u>27,629,762</u>  | <u>1.71</u>     |
| <b>TOTAL:</b>                                  | <b>555,199,575</b> | <b>2.52</b>     |



## A2 Treasury Management Prudential Indicators – 2022/2023

A2.1 All external borrowing and investments undertaken in 2022/2023 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities

must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Treasury Management Prudential Indicators.

- A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2022/2023 as follows:

|                             | £m            |
|-----------------------------|---------------|
| Borrowing                   | 38.359        |
| Other Long-Term Liabilities | 14.457        |
| <b>Total</b>                | <b>52.816</b> |

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

|                             | £m            |
|-----------------------------|---------------|
| Borrowing                   | 33,359        |
| Other Long-Term Liabilities | 14.457        |
| <b>Total</b>                | <b>47.816</b> |

- A2.3 Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).
- A2.4 The Authority's maximum external debt in respect of 2022/2023 (to 30<sup>th</sup> September 2022) was £33.235 million and is within the limits set by both of these indicators.
- A2.5 The table below shows that all other Treasury Management Prudential Indicators set by Sunderland City Council (which includes the Authority's data) have been complied with:

| Prudential Indicators  | 2022/2023<br>(max at 30 <sup>th</sup> Sept 2022) |        |
|--|--|--------|
|  | Limit  | Actual |
| <b>P9 Maturity Pattern</b>   | Upper Limit                                      |        |
| Under 12 months  | 50%  | 6.74%  |
| 12 months and within 24 months   | 60%  | 0.37%  |
| 24 months and within 5 years   | 80%  | 0.99%  |
| 5 years plus   | 100%   | 93.48% |
| A lower limit of 0% for all periods  |  |        |
| <b>P10 Upper limit for total principal sums invested for over 365 days</b> | £75m   | 0      |

### A3 Investment Strategy – 2022/2023

- A3.1 The Investment Strategy for 2022/2023 was approved by the Authority on 14<sup>th</sup> March 2022. 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:

- The **security** of capital;
- 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 30<sup>th</sup> September 2022, funds managed by Sunderland City Council's in-house team on behalf of the Authority amounted to £27.514 million and all investments complied with the approved Annual Investment Strategy.

A3.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Authority uses to assess its performance.

|                       | <b>2022/2023<br/>Actual to 30/09/22<br/>%</b> | <b>2022/2023<br/>Benchmark to 30/09/22<br/>%</b> |
|-----------------------|---|--|
| Return on investments | 1.22  | 1.22*  |

A3.4 Investments placed in 2022/2023 have been made in accordance with the approved Investment Strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.5 Investment rates available in the market have started to rise following a series of Base Rate increases announced by the Bank of England's Monetary Policy Committee (MPC). In the 9 months since the MPC voted to raise the Base Rate by 0.15% to 0.25% at its meeting on 16<sup>th</sup> December 2021, there have been six subsequent rises. The Base Rate currently stands at 2.25% with further increases expected.

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

A3.6 Whilst investment rates have improved recently, the Authority continues to follow a risk averse strategy when placing funds, prioritising security of capital whilst seeking to achieve the optimum return commensurate with risk. The Authority continues to follow advice from our Treasury Management advisors by placing funds in shorter dated liquid investments than previously.

A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.

A3.8 The regular updating of the Authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes since the last Treasury Management report are indicated in bold on the Approved Lending List is shown in Appendix C.





## 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.

| <b>Fitch Long-Term Rating</b>  | <b>Fitch Short-Term Rating</b> | <b>Moody's Long-Term Rating</b> | <b>Moody's Short-Term Rating</b> | <b>S&amp;P's Long-Term Rating</b> | <b>S&amp;P's Short-Term Rating</b> | <b><u>Maximum Deposit</u><br/><u>£m</u></b> | <b><u>Maximum Duration</u></b> |
|--|--------------------------------|---------------------------------|----------------------------------|-----------------------------------|------------------------------------|---|--------------------------------|
| AAA  | F1+                            | Aaa                             | P-1                              | AAA                               | A-1+                               | 120   | 2 Years                        |
| AA+  | F1+                            | Aa1                             | P-1                              | AA+                               | A-1+                               | 100   | 2 Years                        |
| AA   | F1+                            | Aa2                             | P-1                              | AA                                | A-1+                               | 80  | 2 Years                        |
| AA-  | F1+                            | Aa3                             | P-1                              | AA-                               | A-1+                               | 75  | 2 Years                        |
| A+   | F1+                            | A1                              | P-1                              | A+                                | A-1                                | 70  | 365 days                       |
| A+   | F1                             | A1                              | P-1                              | A+                                | A-1                                | 70  | 365 days                       |
| A  | F1                             | A2                              | P-1                              | A                                 | A-1                                | 65  | 365 days                       |
| A-   | F1                             | A3                              | P-1                              | A-                                | A-1                                | 50  | 365 days                       |
| A-   | F2                             | A3                              | P-2                              | A-                                | A-2                                | 50  | 365 days                       |
| <b>Local Authorities</b> (limit for each local authority)  |                                |                                 |                                  |                                   |                                    | 30  | 2 years                        |
| <b>UK Government</b> (including debt management office, gilts and treasury bills)  |                                |                                 |                                  |                                   |                                    | 300   | 2 years                        |
| <b>Money Market Funds (CNAV, LVNAV and VNAV)</b><br>Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund. |                                |                                 |                                  |                                   |                                    | 250   | Liquid Deposits                |
| <b>Local Authority controlled companies</b>  |                                |                                 |                                  |                                   |                                    | 40  | 20 years                       |

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

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above; these new limits are as follows:

## Appendix B (continued)

### Country Limit

It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £300m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

| Country | Limit<br>£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<br>£m |
|-----------------------|-------------|
| Central Government    | 300         |
| Local Government      | 300         |
| UK Banks              | 300         |
| Money Market Funds    | 250         |
| UK Building Societies | 100         |
| Foreign Banks         | 50          |

### Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.

## Approved Lending List

## Appendix C

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

|   | Fitch  |        | Moody's    |        | Standard & Poor's |        |             |                          |
|---|--------|--------|------------|--------|-------------------|--------|-------------|--------------------------|
|   | L Term | S Term | L Term     | S Term | L Term            | S Term | Limit<br>£m | Max<br>Deposit<br>Period |
| Nationwide BS (see above)                         |        |        |            |        |                   |        |             |                          |
| Coventry BS                                       | A-     | F1     | <b>A2</b>  | P-1    |                   |        | 50          | 365 days                 |
| Leeds BS  | A-     | F1     | A3         | P-2    | -                 | -      | 50          | 365 days                 |
| Principality BS **                                | BBB+   | F2     | Baa2       | P-2    | -                 | -      | 0           |                          |
| Skipton BS  | A-     | F1     | A2         | P-1    | -                 | -      | 50          | 365 days                 |
| West Bromwich BS **                               |        |        | Ba3        | NP     | -                 | -      | 0           |                          |
| Yorkshire BS                                      | A-     | F1     | A3         | P-2    | -                 | -      | 50          | 365 days                 |
| <b>Money Market Funds</b>                         |        |        |            |        |                   |        | 250         | Liquid                   |
| Prime Rate Stirling Liquidity                     | AAA    |        | AAA        |        | AAA               |        | 50          | Liquid                   |
| Insight Liquidity Fund                            | AAA    |        | -          |        | AAA               |        | 50          | Liquid                   |
| Aberdeen Liquidity Fund (Lux)                     | AAA    |        |            |        | AAA               |        | 50          | Liquid                   |
| Deutsche Managed Sterling Fund                    |        |        | Aaa        |        | AAA               |        | 50          | Liquid                   |
| Foreign Banks have a combined total limit of £50m |        |        |            |        |                   |        |             |                          |
| <b>Australia</b>                                  | 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                 |
| <b>Canada</b>                                     | 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+    | <b>Aa1</b> | P-1    | AA-               | A-1+   | 50          | 2 years                  |
| Toronto Dominion Bank                             | AA-    | F1+    | Aa1        | P-1    | AA-               | A-1+   | 50          | 2 years                  |
| <b>Denmark</b>                                    | AAA    |        | Aaa        |        | AAA               |        | 50          |                          |
| Danske A/S  | A      | F1     | A2         | P-1    | A+                | A-1    | 50          | 365 days                 |
| <b>Finland</b>                                    | AA+    |        | Aa1        |        | AA+               |        | 50          |                          |
| OP Corporate Bank plc                             | WD     | WD     | Aa3        | P-1    | AA-               | A-1+   | 50          | 2 years                  |
| <b>Germany</b>                                    | AAA    |        | Aaa        |        | AAA               |        | 50          |                          |
| DZ Bank AG (Deutsche Zentral-Genossenschaftsbank) | AA-    | F1+    | Aa2        | P-1    | A+                | A-1    | 50          | 365 days                 |
| Landwirtschaftliche Rentenbank                    | AAA    | F1+    | Aaa        | P-1    | AAA               | A-1+   | 50          | 2 years                  |

|   | Fitch       |           | Moody's   |        | Standard & Poor's |        |             |                          |
|---|-------------|-----------|-----------|--------|-------------------|--------|-------------|--------------------------|
|   | L Term      | S Term    | L Term    | S Term | L Term            | S Term | Limit<br>£m | Max<br>Deposit<br>Period |
| NRW Bank                                | AAA         | F1+       | Aa1       | P-1    | AA                | A-1+   | 50          | 2 years                  |
| <b>Netherlands</b>                      | AAA         |           | Aaa       |        | AAA               |        | 50          |                          |
| Bank Nederlandse Gemeenten              | AAA         | F1+       | Aaa       | P-1    | AAA               | A-1+   | 50          | 2 years                  |
| Cooperatieve Rabobank U.A.              | A+          | F1        | Aa2       | P-1    | A+                | A-1    | 50          | 365 days                 |
| Nederlandse Waterschapsbank NV          |             |           | Aaa       | P-1    | AAA               | A-1+   | 50          | 2 years                  |
| <b>Singapore</b>                        | 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                  |
| <b>Sweden</b>                           | AAA         |           | Aaa       |        | AAA               |        | 50          |                          |
| Svenska Handelsbanken AB                | AA          | F1+       | Aa2       | P-1    | AA-               | A-1+   | 50          | 2 years                  |
| <b>Switzerland</b>                      | AAA         |           | Aaa       |        | AAA               |        | 50          |                          |
| Credit Suisse AG                        | <b>BBB+</b> | <b>F2</b> | <b>A2</b> | P-1    | <b>A</b>          | A-1    | <b>0</b>    |                          |
| UBS AG                                  | AA-         | F1+       | Aa2       | P-1    | A+                | A-1    | 50          | 365 days                 |
| <b>USA</b>                              | 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                 |

**Note 1 Nationalised / Part Nationalised**

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

**\*/\*\*** The Clydesdale Bank (under the UK section) is owned by National Australia Bank

**\*\*** These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.



### Risk Management Review of Treasury Management

Set out below are the risks the Authority faces as a result of carrying out their Treasury Management functions and the controls that are in place to mitigate those risks:

| Risk  | Controls  |
|---|---|
| <p><b>1. Strategic Risk</b></p> <p>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.</p> | <p>This risk is mitigated by the adoption of a Treasury Management Strategy approved by the Authority in March each year for the next financial year, in accordance with the CIPFA Code of Practice on Treasury Management. The Treasury Management Strategy sets out a borrowing strategy and investment strategy for the year ahead. The strategy is based on the view of the Lead Authority's Finance Section on the outlook for interest rates, supplemented by the views of leading market forecasters provided by the treasury advisor (currently Link Asset Services).</p> <p>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.</p>  |
| <p><b>2. Interest Rate Risk</b></p> <p>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.</p>  | <p>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.</p> <p>The risk is mitigated due to the prudent view taken on interest rates adopted in the budget after taking into account the Lead Authority Finance Section's view of the financial markets, specialist expert advice, other information from the internet, other domestic and international economic data, published guidance and Government fiscal policy.</p> <p>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 help mitigate the impact of interest rate changes over the short, medium and longer term as appropriate.</p> |

## **Risk**

### **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.

### **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.

### **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.

## **Controls**

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.

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.

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 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



## **Risk**

## **Controls**

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 and thereby the Authority could suffer financial loss as a result.

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 access to a well-established Treasury Management team that operates under the Lead Authority Finance Officer and is staffed appropriately with a good mix of both experienced and qualified staff.

Professional advice is regularly accessed to ensure the team is up to date and that they can inform senior management and Members of all developments and provide the necessary expert advice and guidance in this specialist area of finance.

