ITEM No …6………..

REPORT TO: **POLICY & RESOURCES COMMITTEE - 25 JUNE 2018**

REPORT ON: **ANNUAL TREASURY MANAGEMENT ACTIVITY 2017/2018**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **167-2018**

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April 2017 to 31 March 2018.

2 RECOMMENDATION

The Committee is asked to note the information contained herein and agree the limits in Appendix 1.

3 FINANCIAL IMPLICATIONS

The financial implications of the Council's Treasury Management activities in 2017/2018 were that a saving of £2.2m was made for normal treasury activities against the 2017/2018 budget provision for capital financing costs in HRA and General Services. This was due to the proactive use of short-term borrowing in line with the Treasury Management Strategy and prudential indicators, a debt re-scheduling exercise undertaken in September 2017, and also from expenditure re-profiling in capital plans. Additional loan repayments of £3.2m were also made within the financial year following the sale of DERL, which are offset against General Fund from the receipt of sale.

4 BACKGROUND

At its meeting on 13 March 2017 the Policy and Resources Committee approved the Council's Treasury Policy Statement setting out the policies which govern all borrowing and lending transactions carried out by the Council (Article VII of the minute of meeting of the Policy and Resources Committee of 13 March 2017, Report 82-2017 refers), and the Treasury Management Strategy 2017/18 (Article VIII of the minute of meeting of the Policy and Resources Committee of 13 March 2017, Report 83-2017 refers).

The Treasury Policy Statement requires that the Policy and Resources Committee will receive and consider the Treasury Management strategy in advance of each new financial year and subsequently an annual monitoring report on the activities in that year.

This monitoring report covers the Treasury Management activity over the financial year 2017/2018.

5 DEBT POSITION

The Council's long-term debt position at the beginning and end of the financial year was as follows:-

		1 April 2017 Principal £m	1 April 2017 Average Rate %	31 March 2018 Principal £m	31 March 2018 Average Rate %
Fixed Rate Funding	PWLB	388.9	4.9	408.5	4.5
	Market	10.0	4.1	25.0	4.3
Variable Rate Funding	PWLB	0.0		0.0	
	Market	30.0	4.5	15.0	4.6
		428.9	4.9	448.5	4.5

6 THE TREASURY MANAGEMENT STRATEGY FOR 2017/2018

The Expectation for Interest Rates - The interest rate views incorporated within the Fund's treasury strategy statement were based upon officers' views along with advice from our treasury advisers supported by a selection of City forecasts. The view on base rates at time of strategy publication (in

March 2017) was that rates would not rise from 0.25% until June 2019. It is important to note that The Bank of England base rate was increased to 0.5% in November 2017.

At its meeting on 13 March 2017, the Policy and Resources Committee approved the Council's Treasury Management Strategy 2017/18 (Article VIII of the minute of meeting of the Policy and Resources Committee of 13 March 2017, Report 83-2017 refers), which indicated that the Council's borrowing requirement for capital expenditure would be approximately £69m.

7 ACTUAL BORROWING AND LENDING FOR 2017/2018

7.1 Interest Rates

On the 2nd November 2017, the Bank of England announced an increase in the Bank of England Base Rate from 0.25% to 0.50% and this remained unchanged at 31 March 2018.

Long-term PWLB rates (45-50 years) started at 2.56% but moved between 2.45% and 2.86% throughout the year. These rates do not include the reduction of 0.20% certainty rate and 0.40% project rate funding that Dundee City Council is eligible for.

7.2 Borrowing

The Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as a temporary measure. This strategy was prudent as investment returns were low and counterparty risk was still an issue that needed to be considered.

7.2.1 Long-Term

Long-term borrowing of £45m was undertaken during the year with repayment of existing loans totalling £11.5m. The net borrowing was low due to more use of short term borrowing and slippage within both capital programmes. The new borrowing was drawn down in the financial year as follows -

Date	Amount (£)	Rate %	Term (Years)	Maturity Date
30/05/2017	5,000,000	2.29	50.00	15/05/2067
31/08/2017	10,000,000	2.30	49.00	15/07/2066
31/08/2017	10,000,000	2.30	50.00	15/07/2067
23/02/2018	5,000,000	2.50	50.00	15/02/2068
05/03/2018	5,000,000	2.41	46.50	31/03/2064
05/03/2018	5,000,000	2.40	47.50	31/03/2065
27/03/2018	5,000,000	2.28	47.00	15/02/2065
	45,000,000			

These loans had an average interest rate of 2.34% and an average term of 48.8 years.

7.2.2 Short-Term

In order to indicate the level of short-term borrowing, shown below are the lowest and highest daily amounts outstanding each month, together with the short-term borrowing position at the end of every month and the range of interest rates at which borrowings were made:-

Month	Lowest Amount Outstanding £m	Highest Amount Outstanding £m	End of month Amount Outstanding £m	Interest Rate Range %	
				Min	Max
April 2017	63.8	68.8	68.8	0.33	0.60
May 2017	68.8	73.8	68.8	0.25	0.60
June 2017	63.8	74.1	74.1	0.25	0.60
July 2017	74.1	79.1	79.1	0.25	0.60
August 2017	79.1	89.1	84.1	0.27	0.60
September 2017	75.1	90.1	90.1	0.27	0.60
October 2017	88.1	93.1	93.1	0.27	0.60
November 2017	83.1	93.1	88.1	0.27	0.65
December 2017	85.1	88.1	85.1	0.30	0.69

January 2018	85.1	91.1	86.1	0.30	0.75
February 2018	86.1	91.1	91.1	0.33	0.89
March 2018	88.1	96.1	88.1	0.37	0.89

The IORB rate which is paid on non-General Fund cash balances is based on the 7-day rate and averaged 0.45% throughout the year. It can be seen from the above that short-term borrowing was undertaken throughout the year in line with Treasury Strategy Statement on short term borrowing.

7.2.3 Debt Rescheduling

Over the period of 31 August to 15 September, a debt rescheduling exercise was undertaken to refinance 20 loans with maturity dates between 2022 and 2033, paying average annual interest rates of 8.03%. These loans were replaced on 31st August with a £20m loan with an annual rate of 2.3%, with tactical repayment on 15 September when the applicable rate had risen to 2.39%, which reduced the premium charge by £263,812. The details of the repayment are noted below:

Loan Repayment	£13,920,392
Premium	£8,875,775
Interest	£404,791
	£23,200,958

This enabled a gross saving of £2.57m over the next 5 years (£0.2m savings for the General Fund in current financial year). Over the longer term, this rescheduling over the 50 year term provides a positive net present value of £0.219m. This saving has been incorporated into the Council's 3 year budget.

8 LENDING

Balances on reserves and variations in cash flow requirements mean that there will be surplus funds which will be invested for short periods (maximum of 364 days).
Short term investments will be restricted to only those institutions identified in the Council's Approved Counter-parties list provided they have maintained their credit rating. An analysis of the lending position to 31 March 2018 shows:

Month	Lowest Amount Lent £m	Highest Amount Lent £m	End of month Amount Lent £m	Interest Rate Range %	
2017				Min	Max
April	0.1	22.0	0.1	0.25	0.29
May	0.1	18.0	8.9	0.24	0.33
June	0.4	17.7	5.6	0.22	0.25
July	3.9	20.7	3.9	0.22	0.24
August	2.8	22.8	22.8	0.21	0.24
September	2.8	27.1	2.8	0.20	0.21
October	1.0	17.6	2.0	0.19	0.21
November	0.8	27.1	13.7	0.20	0.38
December	5.7	25.1	5.7	0.37	0.40
January	2.9	21.5	2.9	0.38	0.40
February	0.8	14.8	3.6	0.40	0.43
March	4.2	29.2	4.2	0.42	0.46

The lending activity shown above related solely to short-term positions. All of these loans were in compliance with the Treasury Strategy Statement provisions on such lending with regards to amounts and institutions involved.

9 SPECIFIED INVESTMENTS

In accordance with the Treasury Management Strategy, in specific circumstances, specified funds identified by the Executive Director of Corporate Services are invested in longer term investment vehicles. These funds are Common Good; General Insurance; and Maintenance and Perpetuity of Lairs. These investments may have a higher risk threshold and can be subject to market fluctuation. Investment activity throughout 2017/18 financial year is summarised as follows:

Value of funds invested at 1 April 2017	9,452,712
Withdrawals made within period	-1,250,000
Value of funds invested at end of period	8,202,712
Value of funds at 31 March 2018	8,227,582
Capital Growth of Investments	24,869
Income from Investments	350,350
Total Return on Investments in period	375,219

The specified investment portfolio maintained capital value throughout the period in spite of the rise in global yields in February 2018, whilst continuing to provide the required budgetary income.

10 CONSOLIDATED LOANS FUND INTEREST RATE

When setting the 2017/2018 Revenue Budget, the Council set its Loans Fund interest rate at 4.10%. The actual interest rate payable was 3.86%.

11 OUTLOOK FOR THE FIRST HALF OF 2017/18

The latest Money Policy Committee (MPC) decision was to leave Bank Rate unchanged, based on the sharp downturn of economic data since mid-February, the first estimate was of a mere 0.1% GDP growth in quarter 1. Over the quarter, this was compounded with Purchasing Managers Index (PMI) indicators and actual production figures coming in weaker than expected. The MPC have delayed the promised increase of Bank Rate until they can see if economic growth recovers during the year and that the downturn experienced in the first quarter of 2018 proves only to be a temporary dip.

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. In light of the MPC decision, they have revised their forecasts and are predicting a first Bank Rate increase in November 2018, to be followed by further increases in September 2019, June 2020 and November 2020.

They do point out that this forecast is based on the current situation and have to flag up that there is a wide spread of potential outcomes during this three year forecast period and a likelihood of heightened volatility as events actually unfold. Their forecasts are based on a central assumption that the UK will make progress with concluding a satisfactory outcome over the Brexit negotiations with the EU by March 2019, although the UK finance sector is likely to be an area of particular concern and difficulty. Forecasts for average investment earnings beyond the three year time horizon will be heavily dependent on economic and political developments. The following table gives their central view:

Period	Bank Rate	PWLB Borrowing Rates % (including certainty rate adjustment)			
Quarter ending	%	5 year	10 year	25 year	50 year
Jun-18	0.50	1.90	2.40	2.70	2.40
Sep-18	0.50	2.00	2.40	2.80	2.50
Dec-18	0.75	2.00	2.60	2.90	2.60
Mar-19	0.75	2.10	2.60	3.00	2.70
Jun-19	0.75	2.20	2.60	3.10	2.80
Sep-19	1.00	2.20	2.70	3.20	2.90
Dec-19	1.00	2.30	2.80	3.30	3.00
Mar-20	1.00	2.30	2.80	3.30	3.00
Jun-20	1.25	2.40	2.90	3.40	3.10
Sep-20	1.25	2.40	2.90	3.40	3.10
Dec-20	1.50	2.50	3.00	3.50	3.20
Mar-21	1.50	2.50	3.00	3.50	3.20

See Appendix 2 for full economic review of FY 2017/18.

12 PRUDENTIAL CODE INDICATORS

The Treasury Management activity at the year end was maintained within the prudential code limits. All borrowing was maintained within the authorised borrowing limit throughout the year. All lending was in compliance with the Treasury Policy Statement provisions, with regard to amounts and institutions involved. Updated indicators are shown in Appendix 1.

13 RISK

The Treasury Risks have been reviewed. There are 2 changes to the risk profile as follows:

- Risk 6 (Revenue Budget) – The risk that the Council may not be able to execute some desired projects. This risk has been reduced as a result of the improved controls in relation to revenue budget monitoring which would identify any risks more readily than previously.
- Risk 8 (Expertise of the Committee or amongst Officers) – The risk of detrimental decisions due to a lack of expertise has been reduced due to the increasing length of experience of the Committee following the local government elections in 2017.

The Treasury Risk Register attached in Appendix 3.

14 REVISED CIPFA CODES

Treasury Management

In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income. Full implementation is not expected until the 2019/20 budget cycle across all Councils, however all non-treasury investments and financial guarantees, loans etc. are already required to be listed as part of the AIS for Scottish authorities. The new codes require greater explanation for the investment in non-financial assets as investments in such areas as their objectives, how they have been appraised, how they have been financed, and what powers were used to undertake them. This is in addition to the existing requirements in Finance Circular 5/2010.

Prudential Code

- Prudential Indicators in the revised Prudential Code 2017 are as before, with the exception of the following:-

  - Net Debt and the Capital Financing Requirement (CFR) prudential indicator have been updated to Gross Debt and the CFR
  - The prudential indicator requirement to note the approval of the Treasury Management Code has been removed.
  - The incremental impact on the Council Tax / Housing Rents prudential indicators have been removed.

  There remains some confusion regarding Prudential Indicators which previously formed part of the Treasury Management Code of Practice. These were not covered in the Treasury Management Code previously and only formed part of the Guidance Notes. As CIPFA has only updated the Treasury Management Code of Practice to date, and not the Guidance Notes, there is a lack of clarity as to whether these indicators remain in place. This template therefore retains the current indicators.

- Investments for longer than 365 days - In its consultation on revising the codes, CIPFA had indicated support for a change in the requirement to report on investments for longer than 364 days to longer than 365 days. The revised codes do not include any mention of this change. Finance circular 5/2010 defined longer term investments as follows: - Longer term investment means investments entered into for a period actually (or expected to be) longer than one year.

15 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

16 CONSULTATION

The Council Management Team have been consulted in the preparation of this report.

17 BACKGROUND PAPERS

None

GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **15 JUNE 2018**

APPENDIX 1

PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT INDICATORS

Adoption of Revised CIPFA Treasury Management Code of Practice	Yes

Upper limit for variable and fixed rate exposure

	Net principal re variable rate borrowing / investments	Net principal re fixed rate borrowing / investments
2017/18	30%	100%
2018/19	30%	100%
2019/20	30%	100%
2020/21	30%	100%
2021/22	30%	100%

Actual External Debt (31/03/2018)	£'000
Actual borrowing	536,587
Actual other long term liabilities	70,113
Actual external debt	**606,700**

Maturity structure of fixed rate borrowing 2017/18

Period	Lower %	Upper %
Under 12 months	0	10
12 months & within 24 months	0	15
24 months & within 5 years	0	25
5 years & within 10 years	0	25
10 years +	50	95
Upper limit for total principal sums invested for over 364 days	n/a	No sums will be invested longer than 364 days

External debt, excluding investments, with limit for borrowing and other long term liabilities separately identified

	Authorised Limit			Operational Boundary		
	Borrowing £000	Other £000	Total £000	Borrowing £000	Other £000	Total £000
2017/18	587,000	70,000	657,000	537,000	70,000	607,000
2018/19	642,000	103,000	745,000	592,000	103,000	695,000
2019/20	659,000	101,000	760,000	609,000	101,000	710,000
2020/21	664,000	99,000	763,000	614,000	99,000	713,000
2021/22	669,000	97,000	766,000	619,000	97,000	716,000
2022/23	676,000	95,000	771,000	626,000	95,000	721,000

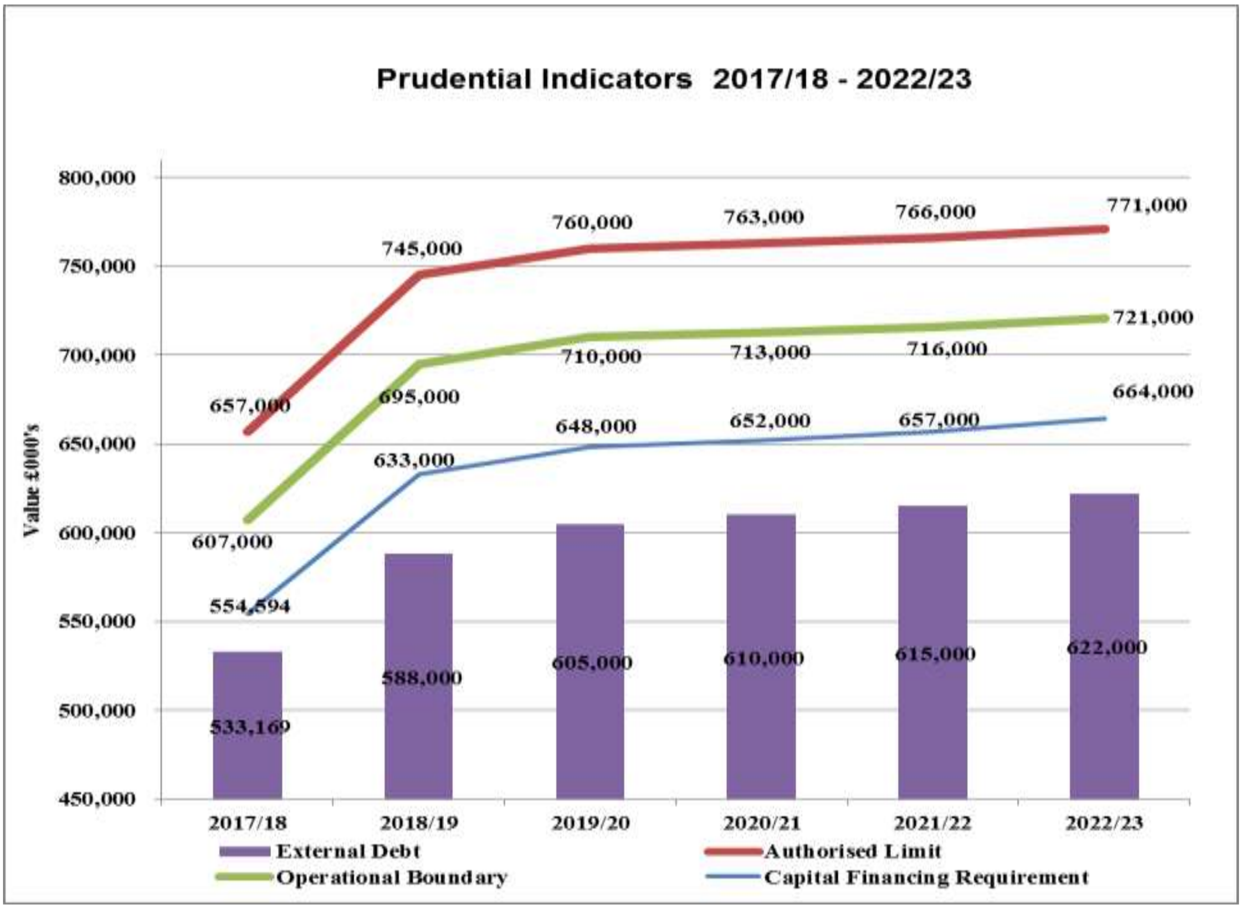
PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS

	Capital Expenditure			Ratio of financing costs to net revenue stream	
	Non-HRA £000	HRA £000	Total £000	Non-HRA %	HRA %
2017/18	109,861	22,656	132,517	8.2	37.9
2018/19	123,045	28,746	151,791	8.5	39.3
2019/20	42,605	24,315	76,920	8.3	40.4
2020/21	26,567	20,869	47,436	8.1	38.8
2021/22	27,706	20,573	48,279	8.1	39.1
2022/23	29,639	20,575	50,214	8.1	40.3

	Net Borrowing Requirement (NBR)			Capital Financing Requirement (CFR)			
	1 April £000	31 March £000	Movement £000	Non-HRA £000	HRA £000	Total £000	Movement £000
2017/18	495,786	533,169	37,383	376,594	178,000	554,594	48,545
2018/19	533,169	588,000	54,831	447,000	186,000	633,000	78,406
2019/20	588,000	605,000	17,000	455,000	193,000	648,000	15,000
2020/21	605,000	610,000	5,000	453,000	199,000	652,000	4,000
2021/22	610,000	615,000	5,000	452,000	205,000	657,000	5,000
2022/23	615,000	622,000	7,000	453,000	211,000	664,000	7,000

	NBR v CFR Difference	Incremental Impact of Capital Investment Decisions
	Total £000	Increase in average housing rent per week £
2017/18	21,425	0.68
2018/19	45,000	1.22
2019/20	43,000	0.86
2020/21	42,000	0.87
2021/22	42,000	0.87
2022/23	42,000	0.81

The following provides a graphical representation of the 5 year projection:



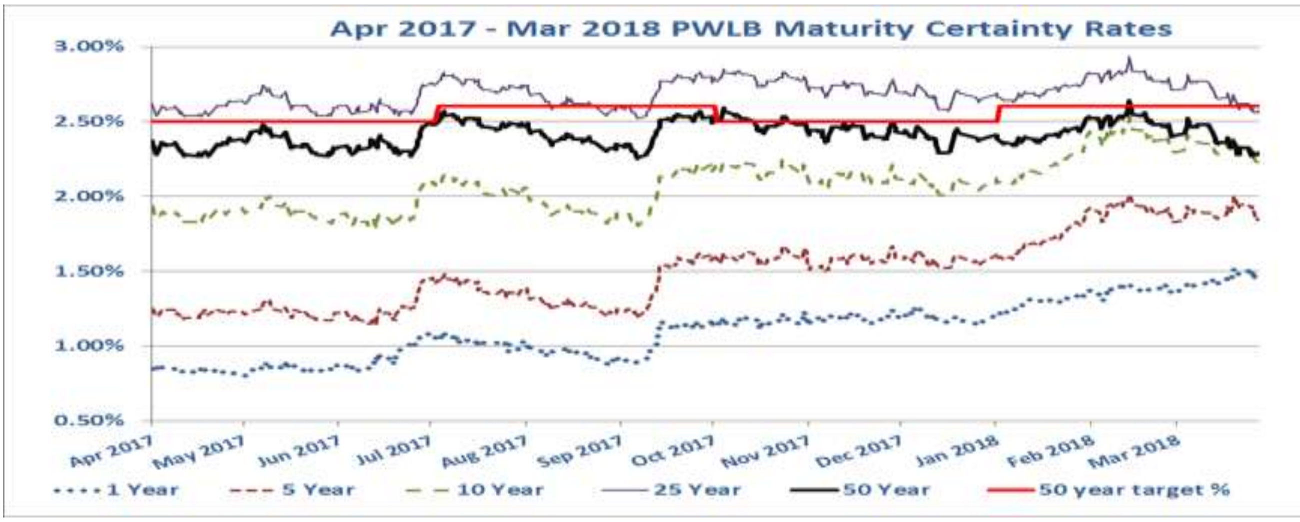
ECONOMIC REVIEW **APPENDIX 2**

1. Economics update

1.1 Interest Rates

The expectation for interest rates within the treasury management strategy for 2017/18 anticipated that Bank Rate would not start rising from 0.25% until June 2019 and then only increase once more before March 2020. There would also be gradual rises in medium and longer term fixed borrowing rates during 2017/18 and the two subsequent financial years. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

During 2017/18, longer term PWLB rates were volatile but with little overall direction, whereas shorter term PWLB rates were on a rising trend during the second half of the year. The graph below depicts the rate variances throughout the financial year.



1.2 UK

During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

Consequently, market expectations during the autumn were of imminently raising Bank Rate. The November MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and done move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

However, GDP growth in the second half of 2017 came in stronger than expected, while in the New Year there was evidence that wage increases had started to rise. The February MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

PWLB borrowing rates increased correspondingly to the above developments with the shorter term rates increasing more sharply than longer term rates. In addition, UK gilts have moved in a relatively narrow band this year, (within 25 bps for much of the year), compared to US treasuries. During the second half of the year, there was a noticeable trend in treasury yields being on a rising trend with the Fed raising rates by 0.25% in June, December and March, making six increases in all from the floor. The effect of these three increases was greater in shorter terms around 5 year, rather than longer term yields.

As for equity markets, the FTSE 100 hit a new peak near to 7,800 in early January before there was a sharp selloff in a number of stages during the spring, replicating similar developments in US equity markets.

The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets. However, sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up to making progress.

The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

1.3 EU

Growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

1.4 USA

Growth in the American economy was volatile in 2017 with quarter 1 at 1.2%, quarter 2 3.1%, quarter 3 3.2% and quarter 4 2.9%. The annual rate of GDP growth for 2017 was 2.3%, up from 1.6% in 2016. Unemployment in the US also fell to the lowest level for 17 years, reaching 4.1% in October to February, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has been the first major western central bank to start on an upswing in rates with six increases since the first one in December 2015 to lift the central rate to 1.50 – 1.75% in March 2018. There could be a further two or three increases in 2018 as the Fed faces a challenging situation with GDP growth trending upwards at a time when the recent Trump fiscal stimulus is likely to increase growth further, consequently increasing inflationary pressures in an economy which is already operating at near full capacity. In October 2017, the Fed also became the first major western central bank to make a start on unwinding quantitative easing by phasing in a gradual reduction in reinvesting maturing debt.

1.5 China

Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

1.6 Japan

GDP growth has been improving to reach an annual figure of 2.1% in quarter 4 of 2017. However, it is still struggling to get inflation up to its target rate of 2% despite huge monetary and fiscal stimulus, although inflation has risen in 2018 to reach 1.5% in February. It is also making little progress on fundamental reform of the economy.

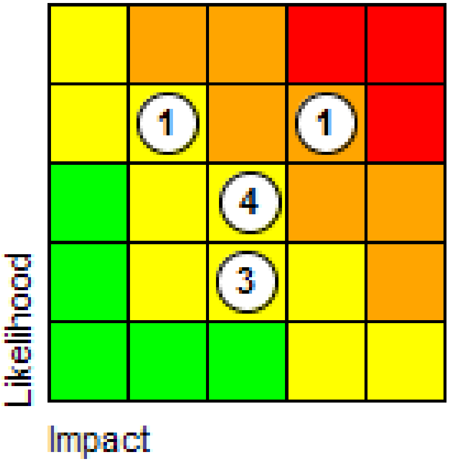
APPENDIX 3

Six Monthly Risk Report

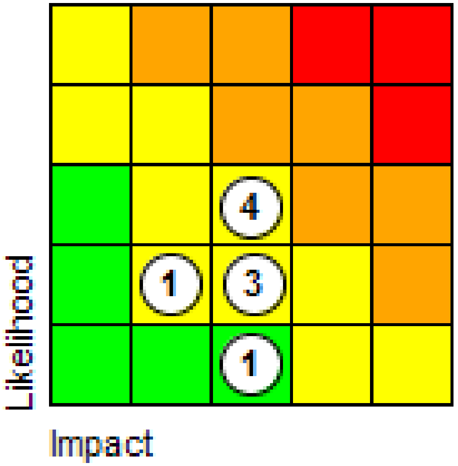
Treasury Risk Register Report
Report Author: Executive Director of Corporate Services
Generated on: 10th May 2018

Total Risk Summary

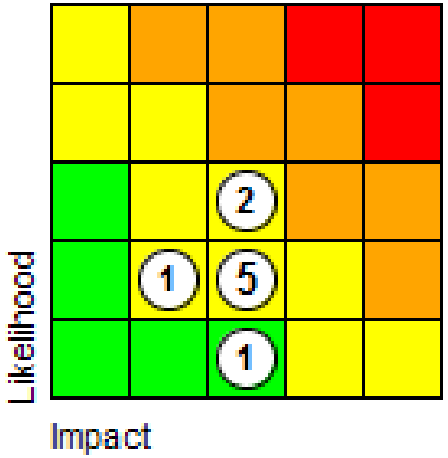
Inherent Risk



Risk at last report October 2017

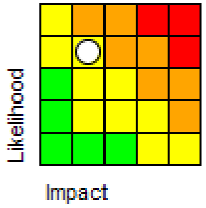
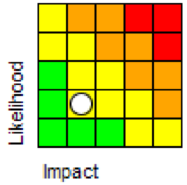
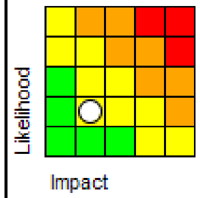
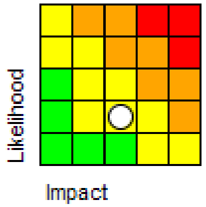
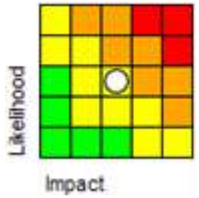
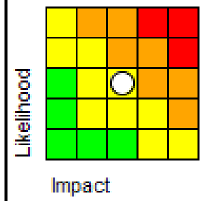


Residual Risk May 2018



Six Monthly Risk Report

Treasury Risk Register Report
Report Author: Executive Director of Corporate Services
Generated on: 10th April 2018

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	Risk at 12 October 2017	Residual Risk
1. Loss of capital due to counterparty collapse	The Council loses its principal investment or investment becomes impaired	Counterparty collapses or faces a financial crisis rendering it unable to repay investments	. The Council may suffer financial loss . The repayment of funds from the counterparty could be significantly delayed or impaired Either of these outcomes could have an adverse impact on operational funding levels		Per the Treasury Management Strategy: . Maximum investment value on approved counterparties in order to spread and reduce risk. . Controls and procedures are in place to ensure investment and durations limits with approved counterparties are not exceeded. . Counterparties are also monitored and reviewed on a weekly basis at least or more regularly if considered necessary to do so. Limiting the threshold rating for approval of counterparties.		
2. Decline / rise in interest rates	. The Council may not achieve its target level of interest for budgetary purposes. . Impact on revenue budget resulting in mandatory efficiencies affecting service delivery	Interest rates continue to remain at an all-time low with very little movement.	. No change to base rate and associated market investment rates. . Lower risk counterparties not offering competitive rates.		. Arranging longer term investments where investment objectives and criteria allows in order to capitalise on higher rate of returns without risk of opportunity cost. . Offsetting the loss of interest income by undertaking refinancing loans at lower rates than previously undertaken as opportunities arise. . The Council continually monitors base rate and rates being achieved against budget to ensure it has secured the best value possible in		

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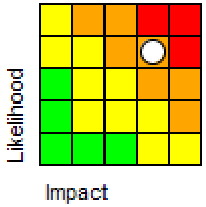
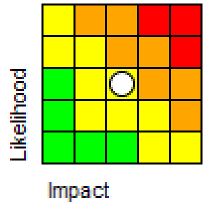
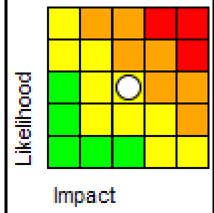
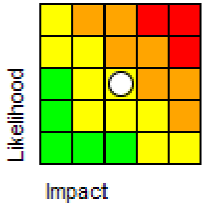
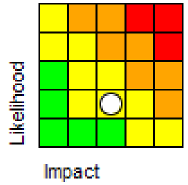
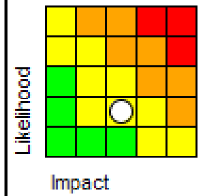
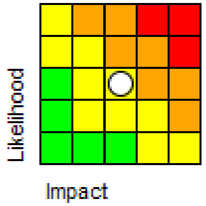
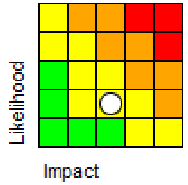
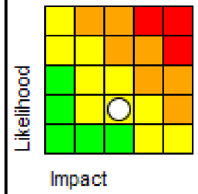
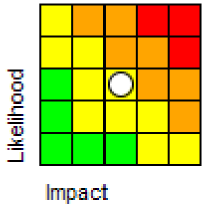
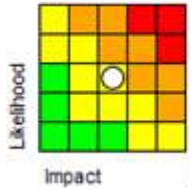
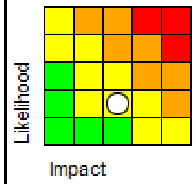
					the challenging economic climate.		
3. Fraudulent activity (now incorporating cybercrime)	. Financial loss to the Council as a direct consequence of fraudulent activity . Loss of money for the Council Disciplinary action for the staff involved . Reputational damage	Potential fraud by staff	Fraudulent activity		. Segregation of staff duties. . Review and monitor of internal controls to ensure the correct protocol across all relevant areas is being followed. . Ensure all insurance policies and relevant guarantees (Fidelity £2m per individual circumstance) are fully up to date.		
4. Money laundering	. Fine and/or imprisonment . Reputational damage	Money laundering by external parties	External parties pay a transaction by cash and subsequently request a refund		. Ensure the money laundering policy is reviewed and up to date. . Reconcile refunds back to source of income. . Raise awareness of this issue amongst staff . Review requirements of financial regulations.		
5. Network Failure / banking system being inaccessible	Daily Treasury functions will not be carried out	The Council is unable to carry out its daily treasury functions due to a network failure	RBS Bankline is unavailable or the Council's network has failed		. Invoke the business continuity plan to minimise the effects of a network issue.		
6. Revenue Budgets	The Council may not be able to execute some desired projects	Revenue budgets are unable to meet borrowing costs of capital schemes	Revenue budgets come under pressure from restricted government funding or non-delivery of programmed savings		. Revenue budgets monitored on monthly basis and future year forecasts undertaken. This control has been tightened and the risk reduced to reflect. . Reserve some capital receipts to cover borrowing costs in the short		

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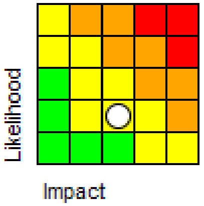
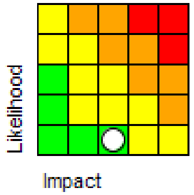
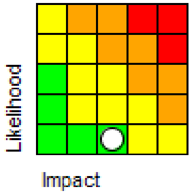
					term. . Ensure monthly financial reports and Forecasts are produced and analysed . All borrowing decisions are made based on prudential indicators and are planned based on long term projections. . Capital Plans and borrowing is reviewed annually before the revenue budget is set to ensure that the costs are affordable.		
7. Lack of suitable counterpartie s	Use of counterparties not paying best value rates.	The Council does not have enough "space" with approved counterparties to place investments/deposit surplus cash balances.	Rising cash balances and a restricted counterparty list		. The Council continually monitors its approved counterparty listing in conjunction with cash balances. . Any potential new investment opportunities are discussed at Treasury Management performance meetings. . The Council uses call accounts and money market funds to deposit surplus cash balances in the event of no space with other counterparties and also to ensure there is always cash instantly available in order to meet payment obligations when they fall due. . There are also limits on the amounts deposited to such funds. The Council has a facility to deposit cash with the Debt Management Office should all other investment options be exhausted.		

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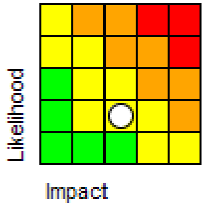
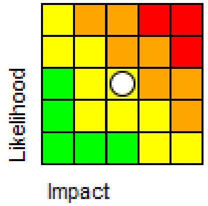
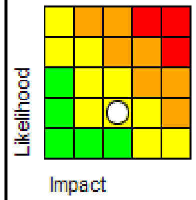
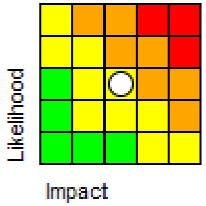
8. Lack of expertise of Committee or amongst officers	Financial consequence	Lack of training and continuous professional development.	Detrimental decisions made in relation to financial investment management.		. Provision of training . External investment advice . Consultation with peer groups. . The experience and of the new elected members has increased since appointment in 2017.		
9. Over reliance on key officers	Detrimental decisions made in relation to financial investment management.	Specialist nature of work means there are relatively few experts in this field	If an officer leaves or falls ill knowledge gap may be difficult to fill.		. Key officers transfer specialist knowledge to colleagues. . Procedures & guidance available. . In the short-term advice can be sought from external investment adviser and/or peer support.