

REPORT TO: POLICY & RESOURCES COMMITTEE – 12 JUNE 2017

REPORT ON: TREASURY RISK REGISTER

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 191-2017

1 PURPOSE OF REPORT

This report introduces the Treasury Risk Register for Dundee City Council. It identifies the risks associated with treasury activities, their severity, and the measures taken to mitigate.

2 RECOMMENDATIONS

The Committee are asked to approve the Risk Register for the Council in respect of its Treasury activities.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 BACKGROUND

The Audit Scotland report 'Borrowing and Treasury Management in Councils' published in March 2015 (article VIII of the minutes of the Scrutiny Committee on 23rd September 2015, Borrowing and Treasury Management in Councils (Audit Scotland Report), report 238-2015 refers), recommended that Council Officers and Councillors involved in borrowing and treasury management should have access to all reports relating to treasury management activity, including Risk Registers.

Whilst the Council's treasury management governance arrangements met the Audit Scotland recommendations, with the various types of treasury risk being emphasised throughout the Treasury Management Policy and Strategy, and incorporated into the Councils Corporate Risk Register, the need for a separate Treasury Management Risk Register was recognised. Whilst risks are continuously monitored, the Risk Register will be presented on a six monthly basis, and maintained within the Council's Risk Management system (Covalent).

5 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, other than Risk Management itself, which is addressed through the register.

6 CONSULTATIONS

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

7 BACKGROUND PAPERS

None

**MARJORY M STEWART
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

2 JUNE 2017

Six Monthly Risk Report

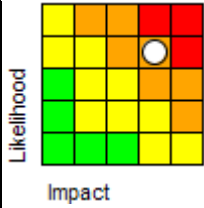
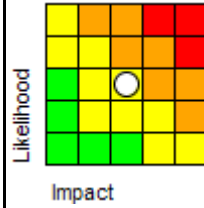
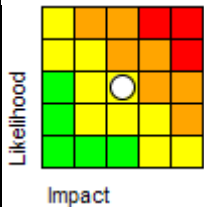
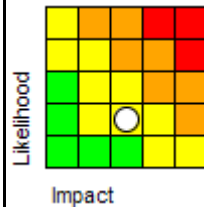
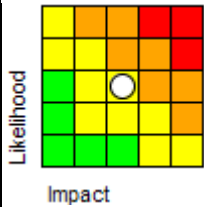
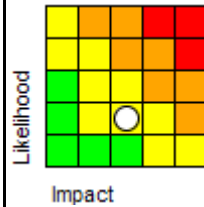
Treasury Risk Register Report

Report Author: Executive Director of Corporate Services

Generated on: 17 May 2017



Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk	Control Measures/Mitigation	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	<ul style="list-style-type: none"> 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 		<p>Per the Treasury Management Strategy:</p> <ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> No change to base rate and associated market investment rates. Lower risk counterparties not offering competitive rates. 		<ul style="list-style-type: none"> 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. 	

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					The Council continually monitors base rate and rates being achieved against budget to ensure it has secured the best value possible in the challenging economic climate.	
3. Fraudulent activity	<ul style="list-style-type: none"> . 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		<ul style="list-style-type: none"> . 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	<ul style="list-style-type: none"> . Fine and/or imprisonment . Reputational damage 	Money laundering by external parties	External parties pay a transaction by cash and subsequently request a refund		<ul style="list-style-type: none"> . 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.	

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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		<ul style="list-style-type: none"> . Revenue budgets monitored on monthly basis and future year forecasts undertaken. . Reserve some capital receipts to cover borrowing costs in the short 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 counterparties	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		<p>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.</p> <p>However, there are also limits on the</p>	

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					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.	
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.	<p>Likelihood</p> <p>Impact</p>	<ul style="list-style-type: none"> . Provision of training . External investment advice . Consultation with peer groups. 	<p>Likelihood</p> <p>Impact</p>
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.	<p>Likelihood</p> <p>Impact</p>	<ul style="list-style-type: none"> . 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. 	<p>Likelihood</p> <p>Impact</p>