Appendix 4

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TREASURY MANAGEMENT STRATEGY

2013/14

CONTENTS

Treasury Management Strategy Report 2013/14

The Council is recommended to:

- **approve the Treasury Management Strategy for 2013/14**
- **approve the Treasury Management Indicators for 2013/14**

1.0 Introduction

In April 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

In addition, the Welsh Government (WG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the WG Guidance.

2.0 Economic Context – as provided by Arlingclose Ltd

Despite some stronger economic growth data towards the end of 2012, consumers are yet to loosen their purse strings and businesses are still reticent to make long-term investment decisions. The momentum in GDP growth is therefore unlikely to be sustained while uncertainty over the economic outlook persists. Consumer Price Inflation has picked up from the low of 2.2% in September to 2.7% in December and it is expected to be affected by volatility in energy and commodity prices throughout 2013.

The Bank of England's Monetary Policy Committee is monitoring current economic conditions after voting not to extend quantitative easing in November. Policymakers appear to be hoping the Funding for Lending Scheme (FLS), which started in August, is more effective at easing restricted credit conditions. Although HSBC has opted out of the scheme, most of the UK's biggest lenders have now signed up. There has been some indication in recent data that the FLS is beginning to boost lending to the household sector, but business lending remains relatively subdued. Further asset purchases remain a distinct possibility, although above target inflation may constrain the MPC in the near future. Based on the last Inflation Report, Bank of England policymakers believe there is a good chance that the CPI rate will remain above target throughout 2013.

The US Federal Reserve has responded to the slowdown in growth and employment with large scale asset purchases of $85bn a month until the outlook for the labour market improves substantially. The US public finance 'fiscal cliff' remains a serious risk despite the last minute deal reached before the deadline at the end of December. The political turmoil is likely to return in February when the talks on increasing the debt ceiling will create a stage for further political brinkmanship, no doubt prompting further volatility in financial markets unless a political solution is reached soon.

The Eurozone is making slow headway, with the European Stability Mechanism now operational, announcements on the Outright Monetary Transactions programme well received, and some progress being made towards banking union. These have placated markets and curtailed some of the immediate risks to the stability of the monetary union. A sustainable solution to the Eurozone crisis is some way off though, as fiscal integration and mutualisation of Eurozone sovereign debt liabilities remain politically unpalatable.

3.0 Interest Rate Forecasts

The Council's treasury management adviser, Arlingclose, believes that it could be 2016 before official UK interest rates rise. The US Federal Reserve has signalled it will keep interest rates "at exceptionally low levels" until at least 2015. The UK's safe haven status and the minimal prospect of short-term rate rises, should maintain gilt yields near their current lows.

Arlingclose central interest rate forecast – December 2012

	Bank Rate	3 month LIBID	12 month LIBID	20-year gilt yield *
Q1 2013	0.50	0.40	0.90	2.80
Q2 2013	0.50	0.40	0.90	2.80
Q3 2013	0.50	0.40	0.95	2.80
Q4 2013	0.50	0.45	0.95	2.80
H1 2014	0.50	0.50	1.00	2.90
H2 2014	0.50	0.50	1.00	2.90
H1 2015	0.50	0.55	1.10	3.00
H2 2015	0.50	0.60	1.10	3.00

* The Council can currently borrow from the PWLB at 0.80% above gilt yields

HM Treasury Survey of Forecasts – November 2012

	Average annual Bank Rate %			
	2013	2014	2015	2016
Highest	0.60	1.60	2.80	3.60
Average	0.50	0.65	1.30	1.80
Lowest	0.25	0.25	0.50	0.50

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.60%, and that new long-term loans will be borrowed at an average rate of 4.1%.

4.0 Current and Expected Treasury Portfolios

Current portfolio
The Council's treasury portfolio as at 31st December 2012 was as follows.

	Principal amount £m	Interest rate %
Investments:		
Call accounts	3.3	0.40
Money market funds	30.9	0.36
Short-term deposits	30.3	0.99
Long-term deposits	-	-
Total Investments	**64.5**	**0.66**
Borrowing:		
Short-term loans	-	-
Long-term PWLB loans (fixed)	143.16	5.86
Long-term PWLB loans (variable)	10.00	0.55
Long-term market loans (LOBOs)	18.95	4.53
Total Borrowing	**172.11**	**5.42**
Net Borrowing	**107.61**	

Expected changes in portfolio
According to current cash flow forecasts, net borrowing is expected to increase to £117.11 million by 31st March 2013. Net borrowing will remain at a fairly constant level throughout 2013/14, until the single status agreement is implemented and the reserve created specifically is used.

This forecast increase in net borrowing may be achieved by reducing investment balances, as discussed in the borrowing strategy below.

Budget implications
The budget for investment income in 2013/14 is £380K, based on an average investment portfolio of £64 million at an interest rate of 0.60%. The budget for loan interest paid in 2013/14 is £9.3 million, based on an average debt portfolio of £172.11 million at an average interest rate of 5.42%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

5.0 Investment Strategy

The Council holds surplus funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £51.8 and £80.1 million, and similar levels are expected to be maintained in the forthcoming year.

Both the CIPFA Code and the WG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

Investment criteria and limits

The Council defines the following as being of "high credit quality" (as per the WG Guidance), subject to the monetary and time limits shown.

	Fitch	**Moody's**	**S & P**	**Cash Limit**	**Time Limit**
Banks, Building Societies and other organisations whose lowest published long-term credit rating from Fitch, Moody's and Standard & Poor's is:	AAA	Aaa	AAA	£7m each	5 years
	AA+	Aa1	AA+		5 years
	AA	Aa2	AA		4 years
	AA-	Aa3	AA-		3 years
	A+	A1	A+		2 years
	A	A2	A		1 year
	A-	A3	A-	£5m	6 months
The council's current account bank (NatWest Bank plc) if rated below A-				£5m	next day
UK Building Societies with assets greater than £1bn, which are either unrated by the credit rating agencies or have a minimum rating of BBB or equivalent and above.				£5m each	1 year
Money Market Funds[1] and similar pooled vehicles whose lowest published credit rating is AAA				£7m each	1 year
UK Central Government (irrespective of credit rating)				unlimited	5 years
UK Local Authorities[2]				£7m each	5 years

[1] as defined in the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003

[2] as defined in the Local Government Act 2003

To manage the risk of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £7 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Current account bank

Following a competitive tender exercise held in 2008, the Council's current accounts are held with NatWest Bank plc, which does not currently meet the above credit rating criteria. The Council will treat NatWest as "high credit quality" for the purpose of making investments that can be withdrawn on the next working day, even if it does not meet the above criteria, subject to the bank maintaining a credit rating no lower than BBB-.

Building societies

UK building societies without credit ratings, but with an asset size of at least £1bn will be considered to be of "high credit quality", but subject to a lower cash limit and shorter time limit than rated societies. The Council takes additional comfort from the building societies' regulatory framework and insolvency regime where, in the unlikely event of a building society liquidation, the Council's deposits would be paid out in preference to retail depositors. The Government has announced plans to amend the building society insolvency regime alongside its plans for wide ranging banking reform, and investments in lower rated and unrated building societies will therefore be kept under continuous review.

However, no investments will be made with building societies that hold a long-term credit rating lower than BBB or equivalent, due to the increased likelihood of default implied by this rating.

The limit for building society investments is 60% of the total investment portfolio.

<u>Money market funds</u>
Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council.

Investments in money market funds involve the acquisition of share capital, and are therefore counted as capital expenditure under WG regulations. However, since withdrawals from funds count as capital receipts, these will be used to fund the capital expenditure, leaving no overall impact on the Council's capital programme.

<u>Foreign countries</u>
Investments in foreign countries will be limited to those that hold an AAA or AA+ / Aa1 sovereign credit rating from all three major credit rating agencies, and to a maximum of £10 million per foreign country. Investments in countries whose lowest sovereign rating is not AAA will be limited to one year's duration. No country limit will apply to investments in the UK, irrespective of the sovereign credit rating.

Overseas subsidiaries of foreign banking groups will normally be assessed according to the country of domicile of the parent organisation. However, Santander UK plc (a subsidiary of Spain's Banco Santander) and Clydesale Bank plc (a subsidiary of National Australia bank) will be classed as UK banks due to their substantial UK franchises and the arms-length nature of the parent-subsidiary relationships.

Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

<u>Risk assessment and credit ratings</u>

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default. The lowest available credit rating will be used to determine credit quality.

Long-term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade. The Council's credit rating criteria are set to ensure that it is unlikely that the Council will hold speculative grade investments, despite the possibility of repeated downgrades.

Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it is likely to fall below the above criteria, then no further investments will be made in that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks.

The Council's investments are normally senior unsecured liabilities of the borrower, and the credit rating of the investment is therefore normally identical to the credit rating of the counterparty. However, where a credit rating agency awards a different rating to a particular class of investment instruments, the Council will base its investment decisions on the instrument credit rating rather than the counterparty credit rating.

<u>Other information on the security of investments</u>
The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

If these restrictions mean that insufficient commercial organisations of “high credit quality” are available to invest the Council’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Non-specified investments

The WG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments in foreign currencies, nor any with low credit quality bodies, nor any that are defined as capital expenditure by legislation (such as company shares), Non-specified investments will therefore be limited to money market funds (which are defined as capital expenditure in Wales) and long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

The total limit for money market funds is £30 million, the total limit on long-term investments is £20 million and the total limit on non-specified investments is £50 million.

Liquidity management

The Council uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.

Limits on long-term investments are set by reference to the Council’s medium term financial plan and cash flow forecast.

Planned investment strategy for 2013/14

The economic climate in 2012/13 meant it was necessary for the strategic approach to centre on placing money “on call” with banks, depositing with other local authorities and extensive use of AAA rated Money Market Funds.

With the exception of two longer term fixed rate deposits, investments operated within a self-imposed maximum 3 month term for deposits with banks & building societies, unless economic conditions deteriorate.

Following discussions with the Council's treasury management advisors amid an improvement in the credit risk environment, the 3 month self imposed limit will not be applied during 2013/14.

Treasury management staff will continue to seek out investments that meet the criteria detailed within this strategy whilst having full regard for the Council's cash flow requirements, in particular the expectancy to meet single status and equal pay obligations during the 2013/14 financial year.

The cash flow forecast will be used to divide surplus funds into three categories:

- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
- Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
- Long-term – cash not required to meet cash flows, and used primarily to generate investment income.

Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash. It is estimated that about 35% of surplus monies will be short term for cash flow purposes, although this may vary depending on changes to the interest rate yield curve.

Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks. It is estimated that about 55% of surplus funds will be medium term. However, again this may vary depending on changes to the interest rate yield curve.

Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments. However, in the current economic and financial environment it is likely that only a small percentage, about 10% will be invested longer term, probably over two years in fixed term deposits or callable deposits.

With short-term interest rates currently much lower than long-term rates, due consideration will also be given to using surplus funds to make early repayments of long-term borrowing. In addition to the savings on the interest rate differential, this strategy will also reduce the Council's exposure to credit risk and interest rate risk.

6.0 Borrowing Strategy

The Council currently holds £172.11m of long-term loans, as part of its strategy for funding previous years' capital programmes. The Council's capital financing requirement (CFR, or underlying need to borrow for capital purposes) as at 31st March 2013 is expected to be £175m, and is forecast to rise to £176m by March 2014 as capital expenditure is incurred.

Given the Council's latest cash flow forecast, and the forecast pattern of interest rates during the year, the Council does not anticipate undertaking any long term borrowing during 2013/14, considering it to be more cost effective to defer borrowing until later years, and to temporarily reduce the size of the Council's investment balance instead.

In addition, the Council may borrow for short periods of time (normally for up to two weeks) to cover unexpected cash flow shortages.

The Council's debt portfolio position as at 31st December 2012 is:

	Type	Principal £m	Average Interest Rate %
Fixed Rate Funding	PWLB	143.16	5.86%
Variable Rate Funding	PWLB	10.00	0.55%
	Market	18.95	4.53%
Total Long Term Debt		**172.11**	**5.42%**

The efficient management of cash flow should mean that no short term borrowing is required unless as a short term measure during debt re-structuring, so it is assumed the cost of short term borrowing will be zero. The Council has an overdraft limit with the bank of £300,000.

The Council has £172.11m of long term borrowing. Most of these loans are with the Public Loans Works Board (£153m of PWLB debt). Loans of £143.16m are at a fixed rate of interest which has the advantage of providing budget certainty. The interest payment on this debt is £8.4m per annum. A loan of £10 million is at a variable rate (currently 0.55%), which cost the Council £70k in 2012/13. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a formula based on current interest rates. There may be opportunities to re-structure debt in 2013/14 by replacing some higher rate loans with new loans at a lower rate where this will lead to an overall saving or reduce risk. However, given current expectations of interest rates, this is unlikely.

The remainder of the long term debt (£19m) has been borrowed from banks in the form of three LOBOs (Lenders Option, Borrowers Option). These have a short fixed interest rate period (which has now passed for these loans) followed by a longer variable rate period. There is an option for the Council to repay the loan during the variable rate period if the lender increases the interest rate. The advantage of using these loans is that the interest rate, during the fixed rate period especially, can be lower than the PWLB.

The interest cost on these loans is estimated to be £860K in 2013/14 but they are all in their variable rate period and the lender could increase the interest rate, albeit given the current expectations for interest rates this is unlikely.

The total estimated interest cost for 2013/14 is £9.3m.

For a number of years the Council has not taken any new long term borrowing and used cash reserves to fund capital expenditure. The Council's Capital Programme, including Prudential Borrowing will be reviewed to consider the most financially advantageous method of financing future debt. The situation is monitored on an on-going basis by the Head of Finance.

<u>Sources of borrowing</u>
The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- any institution approved for investments above
- any other bank or building society approved by the Financial Services Authority
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

<u>Planned borrowing strategy for 2013/14</u>
The Head of Finance will:

- Manage the Council's debt maturity profile, i.e. to leave no one future year with a high level of repayments that could cause problems in re-borrowing with the limits stated in this Strategy Statement. Appendix A analyses the debt portfolio of the Council, as at 31st December, 2012.

- To effect any borrowing that maybe required in 2013/14 at the cheapest cost commensurate with future risk based on interest rate forecasts.

- To monitor and review the level of variable interest rate loans in order to take greater advantage of interest rate movements, within the limits stated in this Strategy.

- Continue to monitor options for debt-restructuring and debt re-payment.

The Head of Finance will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions and actions taken under delegated powers to Cabinet via the Audit Committee.

With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either borrow short-term loans, variable rate loans or to not borrow and reduce the level of investments held instead. However, with long-term rates forecast to rise in the coming years, any such short-term savings will need to be balanced against the potential longer-term costs.

The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board, but it continues to investigate other sources of finance, such as bond issues and bank loans, that may be available at more favourable rates.

Loans that present additional risk to the authority, such as lender's option borrower's option (LOBO) loans and variable rate loans will be restricted to the limit on the net exposure to variable interest rates in the treasury management indicators below.

7.0 Policy on Use of Financial Derivatives

The Localism Act 2011 includes a general power competence that removes the uncertain legal position over English local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). Although this change does not apply to Wales, the latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

In the absence of any legislative power, the Council's policy is not to enter into standalone financial derivatives transactions such as swaps, forwards, futures and options. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

8.0 Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators. The Council is asked to approve the following indicators:

Interest rate exposures
This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as an amount of net principal borrowed will be:

	2013/14	2014/15	2015/16
Upper limit on fixed interest rate exposures	£200m	£200m	£200m
Upper limit on variable interest rate exposures	£40m	£40m	£40m

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing
This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Lower	Upper
Under 12 months	0%	10%
12 months and within 24 months	0%	10%
24 months and within five years	0%	30%
Five years and within 10 years	0%	50%
10 years and above	0%	100%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days
The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2013/14	2014/15	2015/16
Limit on total principal invested beyond year end	£20m	£20m	£20m

Any long term investments carried forward from previous years will be included in each years limit.

Borrowing limits
The Council is being asked to approve these Prudential Indicators as part of the Capital Programme report. However they are repeated here for completeness.

	2013/14	2014/15	2015/16
Operational boundary – borrowing Operational boundary – other long-term liabilities Operational boundary – TOTAL	£182.6 £15.6 £198.2	£198 £16.6 £214.6	£233.1 £17.6 £250.7
Authorised limit – borrowing Authorised limit – other long-term liabilities Authorised limit – TOTAL	£202.6 £15.6 £218.2	£218 £16.6 £234.6	£253.1 £17.6 £270.7

9.0 Other Matters

The WG Investment Guidance requires the Council to note the following three matters each year as part of the investment strategy:

Treasury Management Advisers
The Council's treasury management adviser Sterling Consultancy Services was acquired by Arlingclose Limited in October 2012. Arlingclose continues to provide advice and information on the Council's investment and borrowing activities, although responsibility for final decision making remains with the Council and its officers. The services received include:

- advice and guidance on relevant policies, strategies and reports,
- advice on investment decisions,
- notification of credit ratings and changes,
- other information on credit quality,
- advice on debt management decisions,
- accounting advice,
- reports on treasury performance,
- forecasts of interest rates, and
- training courses.

The quality of this service is controlled by Financial Procedure Rules

Investment training
The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment of Money Borrowed in Advance of Need
The Council will not borrow more than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

The Head of Finance under delegated powers may borrow in advance of need if it is within forward approved Capital Financing Requirement estimates, and if there is a clear business case for doing so.

Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. The Council would not look to borrow more than 12 months in advance of need.

The Council will only invest money borrowed in advance of need for known debt maturities or to finance the borrowing requirement for the year concerned.

Other Options Considered

The WG Investment Guidance and the CIPFA Code of Practice do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Adopt a narrower definition of “high credit quality” and/or shorter time limits	Interest income will be lower	Reduced risk of losses from credit related defaults
Adopt a wider definition of “high credit quality” and/or longer time limits	Interest income will be higher	Increased risk of losses from credit related defaults
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs will be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs will be less certain
Reduce level of borrowing if debt rescheduling costs weren’t prohibitive	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs will be less certain

APPENDIX A – DEBT MATURITY PROFILE