Attachment 5a

Appendix A

Treasury Management Strategy 2022/23

DRAFT

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a Treasury Management 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 the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy ***(Appendix C).***

External Context

The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Council's Treasury Management Strategy for 2022/23.

The Bank of England (BoE) increased the Bank Rate to 0.25% in December 2021 while maintaining its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 8-1 in favour of raising rates, and unanimously to maintain the asset purchase programme.

The Arlingclose forecast released in December 2021 anticipates a Bank Rate to rise to 0.50% during the ending March 2022. A very stable position – with the rate remaining unchanged – is then projected through to December 2024.

Within the announcement the MPC noted that the pace of the global recovery was broadly in line with its November 2021 Monetary Policy Report. Prior to the emergence of the Omicron coronavirus variant, the Bank also considered the UK economy to be evolving in line with expectations.

However, due to the increased uncertainty and risk to activity the new variant presents, the Bank reduced its estimate for (calendar) Quarter 4 GDP growth from 1.0% to 0.6%.

Inflation was projected to be higher than previously forecast, with CPI likely to remain above 5.0% throughout the winter and peak at 6.0% in April 2022. The labour market was generally performing better than previously forecast and the BoE now expects the unemployment rate to fall to 4.0% compared to the 4.5% previously forecast but notes that Omicron could weaken the demand for labour.

UK CPI for November 2021 registered 5.1% year on year, up from 4.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 4.0% year on year from 3.4%. The most recent labour market data for the three months to October 2021 showed the unemployment rate fell to 4.2% while the employment rate rose to 75.5%.

In October 2021, the headline 3-month average annual growth rate for wages was 4.9% for total pay and 4.3% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 1.7% while regular pay was up 1.0%. The change in pay growth has been affected by a change in composition of employee jobs, where there has been a fall in the number and proportion of lower paid jobs.

Gross Domestic Product (GDP) grew by 1.3% in the third calendar quarter of 2021 according to the initial estimate, compared to a gain of 5.5% in the previous quarter, with the annual rate slowing down from 23.6% to 6.6%. Looking ahead, while monthly GDP readings suggest there had been some increase in momentum in the latter part of Quarter 3, Quarter 4 growth is expected to be soft.

<u>Local Context</u>

At close of business on 31st December 2021, the Council held £265.606 million Borrowing and £24.978 million in Treasury Investments (excluding Qualis Working Capital Loan). This is set out in further detail at ***Appendix C.*** Forecast changes in these sums are shown in the Balance Sheet analysis in Table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31/03/21 Actual £m	**31/03/22 Estimate £m**	**31/03/23 Forecast £m**	**31/03/24 Forecast £m**	**31/03/25 Forecast £m**
General Fund CFR	145.0	182.7	249.3	279.3	277.0
HRA CFR	157.8	157.5	183.6	221.3	242.7
Total CFR	**302.8**	**340.2**	**432.9**	**500.6**	**519.7**
Less: Other debt liabilities*	0	0	0	0	0
Less: External borrowing	**261.7**	**238.8**	**230.3**	**229.9**	**229.4**
Internal borrowing	**41.1**	**101.4**	**202.6**	**270.7**	**290.3**
Less: Usable reserves	(47.2)	(45.8)	(45.8)	(45.8)	(45.8)
Less: Working capital surplus**	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Investments/ (New borrowing)	**10.5**	**(51.2)**	**(152.4)**	**(220.5)**	**(240.1)**

** Leases and PFI liabilities that form part of the Council's total debt*
***Includes impact of Qualis Working Capital Loan*

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Council has an increasing CFR due to the Capital Programme (including Qualis Investments) and will therefore be required to borrow up to a further £240.1 million over the forecast period (2022/23 to 2024/25).

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2022/23.

Liability Benchmark

To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £12.0 million at each year-end to maintain adequate liquidity but minimise credit risk.

Table 2: Liability Benchmark

	31/03/21 Actual £m	31/03/22 Estimate £m	31/03/23 Forecast £m	31/03/24 Forecast £m	31/03/25 Forecast £m
Total CFR	302.8	340.2	432.9	500.6	519.7
Less: Usable reserves	(47.2)	(45.8)	(45.8)	(45.8)	(45.8)
Less: Working capital	(4.4)	(4.4)	(4.4)	(4.4)	(4.4)
Plus: Minimum investments*	12.0	12.0	12.0	12.0	12.0
Liability benchmark	**263.2**	**302.0**	**394.7**	**462.4**	**481.5**

******Excludes Qualis Working Capital Loan*

Borrowing Strategy

The Council currently (@ 31st December 2021) holds £265.606 million of loans, an increase of £3.9 million compared to 31st March 2021, as part of its strategy for funding previous years' Capital Programmes. The Council's current lenders are the PWLB and other local authorities. There are total loans of £234.606 million outstanding with the PWLB as summarised in Table 3 below.

Table 3: PWLB Borrowing

PWLB Loans (@ 31st December 2021)			
Description	**Amount (£m's)**	**Interest Rate**	**Maturity Date**
Long-Term Maturities			
Fixed-Rate Maturity	30.000	3.46%	28/03/38
Fixed-Rate Maturity	30.000	3.47%	28/03/39
Fixed-Rate Maturity	30.000	3.48%	28/03/40
Fixed-Rate Maturity	30.000	3.49%	28/03/41
Fixed-Rate Maturity	33.656	3.50%	28/03/42
Fixed-Rate Maturity	9.250	2.99%	03/12/59
Fixed-Rate Maturity	30.000	2.06%	21/09/30
Fixed-Rate Maturity	5.700	1.98%	25/03/51
Fixed-Rate Maturity	0.250	2.99%	03/12/59
Fixed-Rate Maturity	0.200	1.98%	25/03/51
Short-Term Maturities			
Variable Rate Maturity	31.800	0.23%	28/03/22
Fixed-Rate EIP	1.250	2.27%	03/02/22
Fixed-Rate EIP	1.250	2.33%	27/02/22
Fixed-Rate EIP	1.250	2.21%	03/03/22
Total PWLB	**234.606**		

Local authorities are able to access preferential interest rates on PWLB loans (known as the "Certainty Rate"; currently a 0.2% discount on published rates) provided they submit a high-level description of their capital spending and financing plans (whether it is financed through PWLB borrowing or another source) for the following three years (meaning any capital spending and financing for the whole current financial year and subsequent two financial years), including their expected use of the PWLB.

The PWLB lending terms are contained in *Circular 163* (issued 21st October 2021) and are attached at ***Appendix B*.** The updated terms now explicitly forbid borrowing for the purposes of purchasing investment assets primarily for yield. Thus Paragraph 41 requires that – before a loan can be granted – the Council's Section 151 Officer must confirm that the Council does not plan to:

- Use the PWLB to refinance any prior investment asset primarily for yield transactions which concluded after 25th November 2020; and/or
- Buy investment assets primarily for yield in the next three years.

The Council also has further outstanding loans of £31.0 million with other local authorities as summarised in Table 4 below.

Table 4: Local Authority Borrowing

Local Authority Short-Term Loans (@ 31st December 2021)*			
Lender	**Amount (£m's)**	**Interest Rate**	**Maturity Date**
Derry City & Strabane District Council	8.0	0.25%	28/10/22
Gwynedd Council	5.0	0.08%	19/01/22
Knowsley Metropolitan Borough Council	7.0	0.10%	24/03/22
West Berkshire Council	3.0	0.06%	20/01/22
West Midlands Combined Authority	5.0	0.10%	31/03/22
West Suffolk Council	3.0	0.04%	10/01/22
Total Local Authority	**31.0**		

**Exclusively fixed rate Maturity Loans*

The Balance Sheet forecast in Table 1 shows that the Council expects to borrow up to £394.7 million in 2022/23 (if the minimum Investment balance of £12.0 million illustrated in Table 2 is achieved). The Council may also borrow additional sums to pre-fund future years' requirements, providing the Authorised Limit for Borrowing of £453.184 million is not exceeded.

<u>*Objectives*</u>

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy

Given the significant cuts to local government funding in recent years, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. 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 use internal resources, or to borrow short-term loans instead.

By doing so, the Council reduces its net borrowing costs (despite foregone investment income) and reduces overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised all of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may take out further short-term loans to cover unplanned cash flow shortages.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Essex County Pension Fund)
- Capital market bond investors; and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

Other sources of Debt Finance

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase; and
- Sale and leaseback.

Municipal Bonds Agency

UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency would therefore be the subject of a separate report to full Council.

Short-Term and Variable Rate Loans

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the Treasury Management indicators below.

Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure, plus balances and reserves held. During 2021/22, the Council's 'Cash and Cash Equivalent' balance has so far remained over £6.0 million at all times but the highly exceptional cash flows experienced in 2020/21 – due to the effects of the pandemic (the result of Government advancing the Council large sums of money at very short notice for distribution to local businesses as part of its Coronavirus support measures) – have gradually receded, with balances moving closer to a target liquidity level of £12.0 million (subject to some further volatility caused by a series of changes to payment arrangements announced by Government as part of the Business Rates Retention system).

The Council currently (@ 31st December 2021) holds £20.328 million in Cash and Cash Equivalents, an increase of £8.5 million compared to 31st March 2021. In addition, an outstanding balance of £4.650 million (£1.20 million due within 12 months) is owed by Qualis to the Council in respect of the original Cash Flow Loan of £6.0 million. The overall position is summarised in Table 5 below.

Table 5: Treasury Management Investments

Treasury Management Investments (@ 31st December 2021)		
Counterparty	**Amount (£m's)**	**Interest Rate**
Long-Term Investments (maturity > 12 months)		
Qualis Working Capital Loan	3.450	3.80%
Short-Term Investments (maturity < 12 months)		
Qualis Working Capital Loan	1.200	3.80%
Cash and Cash Equivalents (instant access)		
NatWest Bank (bank deposits)	3.727	0.01%
Federated Prime (MMF)	5.101	0.005%
Goldman Sachs (MMF)	3.000	0.000%
JP Morgan (MMF)	8.500	0.003%
Total Investments	**24.978**	

Objectives

The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative Interest Rates

The COVID-19 pandemic has increased the risk that the Bank of England could set its Bank Rate at or below zero, which – if it happened – would be likely to feed through to negative interest rates on low risk, short-term investment options. Since investments cannot pay negative income, negative rates would be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

Given the risk and very low returns from short-term unsecured bank investments, the Council may consider diversifying into more secure and/or higher yielding asset classes during 2022/23.

Business Models

Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

The Council may invest its surplus funds with any of the counterparty types in Table 6 below, subject to the limits shown.

Table 6: Treasury Investment Counterparties and Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	N/A
Local authorities & other government entities	25 years	£10 million	Unlimited
Banks (unsecured)*	13 months	£4.0 million	£20.0 million
Building Societies* (unsecured)	13 months	£2.0 million	£2.0 million
Registered Providers* (unsecured)	5 years	£3.0 million	£3.0 million
Money Market Funds*	N/A	£10.0 million	Maximum of 3 Funds (see below)

Note - this table must be read in conjunction with the notes below.

** Minimum Credit Rating*

Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken account of.

Government

Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Banks and Building societies (unsecured)

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured)

Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money Market Funds

Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee.

If operational need requires the use of more than three funds, the S151 officer can authorise this in consultation with the Portfolio Holder for Finance, Qualis Client and Economic Development, provided this is reported to the Chair of the Audit and Governance Committee, and a report is submitted to the next available meeting of the Audit and Governance Committee.

Operational Bank Accounts

The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4.0 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

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 credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

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, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, 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, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment Limits

The Council had £27.825 million in reserves on its (draft) Balance Sheet as at 31st March 2021 to cover unexpected credit losses in an emergency. A reasonable level of risk to carry in a single institution would be 15% (based on current market conditions, as advised by Arlingclose). An Investment Limit for a single institution of £4.0 million will therefore be applied (rounded down for prudence).

Liquidity Management

The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis 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.

Treasury Management Indicators

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

Security

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	**Target**
Portfolio average credit rating	A-

Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling [three] month period, without additional borrowing.

Liquidity Risk Indicator	**Target**
Total cash available within 3 months	£3.0 million

Interest Rate Exposure

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest Rate Risk Indicator	**Limit £000's**
Upper limit on one-year revenue impact of a 1% rise in interest rates	1,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	500

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

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 Borrowing will be:

Refinancing Rate Risk Indicator	Upper Limit	Lower Limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 15 years	50%	0%
15 years and within 20 years	50%	0%
25 years and above	50%	0%

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 a Year

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 long-term principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£10.0 million	£10.0 million	£10.0 million

Related Matters

Housing Revenue Account

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured, with interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive (MIFID)

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

Financial Implications

In 2022/23, the budgets for General Fund and HRA investment income are £50,000 and £6,000 respectively. If investment levels and borrowing, or interest rates, differ from expectations, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any specific Treasury Management Strategy for local authorities to adopt. The Section 151 Officer, having consulted the Portfolio Holder for Finance and Economic Development, 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
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
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 may 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 may be less certain
Reduce level of borrowing	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 may be less certain

Attachment 5a

Annex 1

Existing Investment & Debt Portfolio

	31/12/21 Actual Portfolio £m	31/12/21 Average Rate %
External Borrowing		
Public Works Loan Board	234.606	
Local authorities	31.0	
Other loans	0	
Total External Borrowing	**265.606**	**2.47%**
Other Long-Term Liabilities:		
Leases	0	
Total Other Long-Term Liabilities	**0**	
Total Gross External Debt	**265.606**	
Treasury Investments		
The UK Government	0	
Local authorities	0	
Banks (unsecured)	3.727	
Money market funds	16.601	
Other investments (Qualis WC loan)	4.650	
Total Treasury Investments	**24.978**	**0.711%**
Net Debt	**240.628**	