Appendix 2

Treasury Management Strategy

Introduction

1. Treasury management is the management of Kent County 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 liquidity of invested funds, maturity of debt 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.

2. The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) as described in Section 5 of the Code and treasury risk management at the Council is conducted within the framework of the CIPFA Code.

3. The Code requires the Council to approve a treasury management strategy before the start of each financial year and this report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

4. Investments held for service purposes or for commercial profit are considered in the separate Appendix 5 - Investment Strategy.

Governance

5. The Corporate Director of Finance is responsible for the Council's treasury management operations and day to day responsibility is delegated to the Head of Finance (Policy, Planning & Strategy) / Head of Finance (Operations) and Treasury and Investments Manager. The detailed responsibilities are set out in the Council's Treasury Management Practices.

6. The Treasury Management Advisory Group (TMAG) has been established to work with Officers on treasury management. The agreed terms of reference are "The Treasury Management Advisory Group will be responsible for advising the Cabinet and Corporate Director of Finance on treasury management policy within KCC's overarching Treasury Management Strategy". TMAG meets the requirement in the CIPFA Code for a member body focussing specifically on treasury management. TMAG meets half yearly and members of the group receive detailed information on a monthly basis.

7. Council will agree the Treasury Management Strategy and receives annual and half yearly reports on treasury management activity. Governance and Audit Committee receives annual and half-yearly reports and makes recommendations to County Council. It also receives quarterly updates.

External Context

Economic background

8. The UK’s progress in negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Council’s treasury management strategy for 2020-21. The General Election has removed some uncertainty within the market, however following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

9. GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England’s Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping yearly GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

10. UK Consumer Price Inflation in December 2019 was 1.3% year-on-year, continuing to fall from highs of 2.1% in July and April 2019, as part of a trend which has seen the rate of inflation decline since autumn 2017, below the Bank of England (BoE) target of 2%. Labour market data continues to be positive. The International Labour Organisation (ILO) unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses was 3.4% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages increased by 1.8% in the three months to November 2019 (and wages have only been rising by more than inflation since early 2018) and only likely to have a moderate impact on household spending.

11. Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the BoE target of 2%. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee (MPC). Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

12. The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

13. The fallout from the US-China trade war continues and risks contributing to a slowdown in global economic activity in 2019. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change

quickly. Slow growth in Europe, combined with changes in leadership at the European Central Bank (ECB) and International Monetary Fund (IMF) has led to a change of stance in 2019. Quantitative easing has continued and been extended.

Credit outlook

14. The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major banks have steadily increased their capital for many years now.

15. In 2020 the Bank of England plan to add Virgin Money/Clydesdale to the testing group and separate tests will be included of ringfenced banks.

16. Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers.

17. Looking forward, the potential for a “no-deal” Brexit and/or a global recession remain the major risks facing banks and building societies in 2020-21 and a cautious approach to bank deposits remains advisable.

Interest rate forecast

18. The Council’s treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. Substantial risks to this forecast remain, arising primarily from the government’s policy around Brexit and the transitionary period. Arlingclose judges that the risks are significantly weighted to the downside.

19. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose’s interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.10% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

20. For the purpose of setting the budget, it has been assumed that new internally managed treasury investments will be made at an average rate of 0.70% and that new long-term loans will be borrowed at an average rate of 2.5%.

Local Context

21. At 31 December 2019 the Council held £898m of external borrowing and £382m of treasury investments. This is set out in further detail in Annexe A.

22. 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.

23. 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 and the Council expects to comply with this recommendation.

Borrowing Strategy

24. On 31 December 2019, the Council's £898m external debt included £31.4m attributable to Medway Council, as part of its strategy for funding previous years' capital programmes. This represents a decrease of £9m on 31 March 2019 and reflects the Council's strategy of maintaining borrowing below their underlying levels.

25. The Council may borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1,020m.

Objective

26. 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

27. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability or sustainability of the debt portfolio.

28. 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. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Using cash available on the Council's balance sheet is also known as internal borrowing and at the end of March 2019 the Council had supplemented external debt with £123m of internal borrowing. Internal borrowing is not cost free as it is at the expense of investment returns and does not remove the need for Minimum Revenue Provision (MRP) to be made.

29. 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. The Council will use the services of its treasury advisor to develop this 'cost of carry' and breakeven analysis and based on the results the Council will determine whether to borrow additional sums at long-term fixed rates in 2020-21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

30. The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board (PWLB) but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Council will now

look to borrow any 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.

31. Alternatively, the Council may arrange forward starting loans during 2020-21, 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.

32. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

33. **Prudential Indicators:** The Council's capital strategy prudential indicator 3 indicates that the Council will increase its external borrowing in 2020-21 but it retains the flexibility to consider borrowing either long term or short term as well as using its cash balances.

34. **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:
    - Public Works Loan Board (PWLB) and any successor body
    - 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 the Kent County Council Superannuation Fund)
    - capital market bond investors
    - UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
    - UK Government backed funding initiatives

35. **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
    - Private Finance Initiative
    - sale and leaseback

36. **LOBO (Lender's Option Borrower's Option) loans:** The Council holds £90m of LOBO loans (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the e Council has the option to either accept the new rate or to repay the loan at no additional cost. LOBOs totalling £40m have option dates during 2020-21, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if the opportunity arises.

37. **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.

38. **Debt rescheduling:** The PWLB allows councils 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 in the current interest rate environment

Investment Strategy

39. The Council holds significant cash balances, representing income received in advance of expenditure plus balances and reserves held. Since the beginning of April 2019 the Council's cash balance has ranged between £333m and £537m. The average balance is expected to reduce in 2020-21 reflecting the Council's policy of using cash balances to repay maturing loans and internally funding capital expenditure.

40. **Objectives:** The CIPFA Code requires 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. 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, the liquidity of investments 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.

41. **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments the Council has continued its strategy of investing in pooled investment funds during 2019-20 adding a further £30m to its existing pooled fund portfolio. It will consider investing more in these higher yielding asset classes during 2020-21 which invest in a diversified range of assets primarily focussed on an income return rather than capital growth. It will however continue to invest in money market funds and Government including local authority deposits to meet its liquidity requirements.

42. **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 internally managed 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 Investment Counterparties

43. The Council may invest its surplus funds with any of the counterparty types listed below:

44. **Government:** Loans, 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 Central Government may be made in unlimited amounts for up to 50 years.

45. **Banks 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. Unsecured investments with banks rated below the agreed minimum rating of A- are restricted to overnight deposits with the Council’s current banking services provider.

46. **Money Market Funds:** Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts.

47. **Cash plus / Short Bond Funds:** Pooled investment funds whose value change with market prices and have a notice period, will be used as alternatives to unsecured bank deposits for longer investment periods.

48. **Banks secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank’s assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

49. **Corporates:** Bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

50. **Registered providers:** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing. As providers of public services, they retain the likelihood of receiving government support if needed.

51. **Loans:** Loans to entities set up on an arms-length basis from the Council, and other suitable opportunities, on which the Council will take advice from Arlingclose on the appropriate structure of the loans and applicable rate of interest. Included are interest bearing loans to developers under the No Use Empty Development Programme.

52. **Pooled investment funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks,

coupled with the services of a professional fund manager in return for a fee. Pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

53. Pooled funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

54. **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

55. **Operational bank accounts:** The Council may incur operational exposures, for example through 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 £50,000 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.

Credit ratings

56. 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.

57. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") 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 entity 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

58. 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 entities 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 Arlingclose, the Council's treasury management adviser. No investments will be made with an entity if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

59. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened 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 or invested in government treasury bills, 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.

Investment limits

60. The Council may invest its surplus funds with any of the counterparty types listed above subject to the cash limits per counterparty and the durations shown in the table below.

61. The Council's cash reserves available to cover investment losses are forecast to be £429m on 31 March 2020. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one counterparty (other than the UK Government and the CCLA LAMIT property fund) will be £25m.

Approved Investment Counterparties and limits

	Minimum Credit rating	Maximum Cash Limit		Maximum Duration
		Individual	**Total**	
Government				
- UK Government		unlimited		50 years
- UK Local Authorities		£25m		10 years
- Supranational banks	AAA	£20m	£30m	25 years
- Non-UK Government	AA+	£20m	£30m	25 years
UK banks and building societies – unsecured	A-	£15m		13 months
Council's banking services provider		£20m		Overnight
Overseas banks - unsecured	Country limit AA+,	£20m	£30m country	13 months

	Minimum Credit rating	Maximum Cash Limit		Maximum Duration
	Individual limit A-		limit	
Short-term Money Market Funds	A+	£20m per fund or 0.5% of the fund size if lower		
Cashplus / short bond funds		£20m per fund		
Banks secured				
- Covered bonds	AAA	£20m	£100m	5 years
- Reverse repurchase agreements	collateral of AA or better	£20m each		5 years
Corporates (non- financials)	A	£2m per issuer	£20m	2 years
Registered Providers		£10m	£40m	5 years
Loans			£20m	
Pooled funds and real estate investment trusts			£250m	
- Absolute Return funds		£25m per fund		
- Multi Asset Income funds		£25m per fund		
- Property funds		£75m or 5% of total fund value if greater		
- Bond funds		£25m per fund		
- Equity Income Funds		£25m per fund		
- Real Estate Investment Trusts		£25m per fund		

62. **Liquidity management:** The Council forecasts its cash flow requirements 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

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

64. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its internally managed 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 ach investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit rating	AA

65. **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	£100m

66. **Interest rate exposures**: 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**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£10m
Upper limit on one-year revenue impact of a 1% fall in interest rates	£10m

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

67. **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	100%	0%
12 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	50%	0%
20 years and within 40 years	50%	0%
40 years and longer	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.

68. **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	**2020-21**	**2021-22**	**2022-23**
Limit on principal invested beyond year end	£300m	£300m	£300m

Related Matters

69. The CIPFA Code requires the Council to include the following in its treasury management strategy.

70. **Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

71. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

72. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

73. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

74. **Markets in Financial Instruments Directive**: 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 Corporate Director of Finance believes this to be the most appropriate status.

Financial Implications

75. The budget for investment income in 2020-21 is £9.6m, based on an average investment portfolio of £440m at an interest rate of 2.18%. The budget for debt interest paid in 2020-21 is £42.8m, based on an average debt portfolio of £935m at an average interest rate of 4.58%. If actual levels of investments and borrowing, or actual interest rates, differ from forecast, performance against budget will be correspondingly different.

Other Options Considered

76. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Corporate Director of Finance, having consulted the Deputy Leader and Cabinet Member for Finance, Traded and Corporate Services, 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

Annexe A – Existing Investment & Debt Portfolio Position

	31-Dec-19 Actual Portfolio £m	31-Dec-19 Average Rate %
External borrowing		
Public Works Loan Board	475.6	4.96
LOBO loans from banks	90.0	4.15
Banks and other lenders (Fixed term)	321.9	4.08
Local Authorities	10.0	0.75
Total external borrowing	**897.5**	**4.51**
Treasury investments		
Covered bonds (secured)	87.9	1.13
Government (incl. local authorities)	65.4	0.90
Money Market Funds	45.0	0.73
Equity	2.1	
Total internally managed investments	**200.4**	**0.98**
Pooled investments funds		
- Property	59.2	3.57
- Multi Asset	62.3	2.76
- Absolute Return	5.0	1.81
- Equity UK	33.1	6.85
- Equity Global	21.8	3.24
Total externally managed investments	**181.4**	**4.63**
Total treasury investments	**381.8**	**2.71**
Net debt	**515.7**	