Treasury Management Strategy

Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Treasury Management is the management of the Council's cash flows, borrowing, investments and their associated risks, to ensure this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

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 the Capital and Investment Strategy [link] rather than the Treasury Management Strategy document. This will cover in detail the capital plans for the authority (including the capital related prudential indicators), the minimum revenue provision (MRP) policy and non-financial investments (such as Property).

CIPFA Treasury Management Code of Practice

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses:

(i) This organisation will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

  The content of the policy statement and TMPs will follow the recommendations contained in the CIPFA Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

(ii) This Council will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

(iii) This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Resources Cabinet Member, and for the implementation and administration of treasury management policy and decisions to the Section 151 Officer, who will act in accordance with the organisation's policy statement and TMPs and, as a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

(iv) This organisation nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Treasury Management Reporting Arrangements

The Council is required to receive and approve, as a minimum 3 main treasury reports each year, after appropriate scrutiny from the Audit and Governance Committee:

(i) The Treasury Management Strategy – Forward looking detailing the Council's approach to cash investment and borrowing, including the treasury indicators.
(ii) A mid-year treasury management report – This is delegated to the Audit and Governance Committee and is primarily a progress report for members, reporting of any policy revisions if required.
(iii) An annual treasury management report – This is delegated to the Audit and Governance Committee and is a backward looking review document providing details of prudential and treasury indicators and treasury performance.

External Context

Economic background: GDP growth rose by 0.3% 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 1.0% from 1.2%. 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 GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022. The Bank of England maintained Bank Rate at 0.75% in November following a 7-2 vote by the Monetary Policy Committee. 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.

Credit outlook: Credit conditions for larger UK banks have remained relatively benign over the past year. The UK's departure from the European Union was delayed three times in 2019 and while there remains some concern over a global economic slowdown, this has yet to manifest in any credit issues for banks. Meanwhile, the post financial crisis banking reform is now largely complete, with the new ring-fenced banks embedded in the market. 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: The treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% 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.

PWLB: The PWLB increased the margin applied to loan rates by 1% on 8 October 2019, the new margin above gilts is now 1.8%. The treasury advisers have suggested that those authorities that can sensibly delay long-term funding do so and select short-term loans from other local authorities in the interim. There are several alternatives to PWLB funding, such as bank loans and the Municipal Bonds Agency. HM Treasury (HMT) is keen to ensure that borrowing across local government is controlled. While they increased the statutory PWLB limit by £10bn to £95bn, they were fearful that, at the current rate of borrowing, this could be exhausted in a few months. With no appetite to extend the statutory limit beyond this, HMT decided to control demand by increasing rates, therefore preserving the facility. HMT are less concerned about the type of borrowing or purpose, than the overall level of local authority debt.

Current Portfolio Position

The existing Buckinghamshire councils consolidated treasury position as at 31 December 2019 is summarised below:

	31 Mar 2019 £m	30 Sep 2019 £m	31 Dec 2019 £m
Borrowing:			
PWLB[1]	-277.2	-303.6	-301.2
LOBO[2]	-30.0	-30.0	-30.0
Temporary Borrowing	-20.0	-0.0	-0.0
Accrued Interest	-2.7	-2.2	-2.5
Gross Borrowing	-329.9	-335.8	-333.7
Treasury Cash:			
UK institutions	106.0	95.0	107.4
Non-UK institutions	1.0	1.0	3.0
Money Market Funds	65.0	75.2	61.0
Gilts/Bonds/Bond	0.6	0.0	0.0
Property Fund	13.7	21.2	21.2
Gross Cash	186.3	192.4	192.6
Net	**-143.6**	**-143.4**	**-141.1**

[1] PWLB (Public Works Loan Board) – The PWLB is a statutory body, part of the Treasury. Its purpose is to lend money to local authorities. The Council's main 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 those funds are required.

[2] LOBO (Lender Option Borrower Option) – LOBOs are long term borrowing instruments which include an option for the lender to periodically revise the interest rate. If the lender decides to revise the interest rate, the borrower then has the option to pay the revised rate or repay the loan.

The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

Borrowing Strategy

The Council currently holds £331.2 million of loans as part of its strategy for funding previous years' capital programmes, £17.2m will be repaid to the PWLB by the end of 2020/2021. The amount borrowed has increased in recent years due to the acquisition of commercial properties. Following advice from the County Council's treasury management advisors, the County Council arranged a £10m long term loan in May 2019 with the intention of reducing the temporary borrowing requirement. Consequently cash balances and total borrowing values have increased temporarily until the temporary borrowing arrangements mature. The Council may borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £630 million.

Objectives: 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: 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 is able to reduce net borrowing costs (despite foregone investment income) and reduce 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. The Council's treasury management advisors 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 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The councils have previously raised the majority of its long-term borrowing from the PWLB, but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Council will consider borrowing any long-term loans from other sources including banks, pensions and local authorities, and may 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.

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.

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

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 Buckinghamshire Pension Fund)
- capital market bond investors
- 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
- sale and leaseback

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

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be 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. The 1% rise in margin on PWLB rates may bring the agency into serious consideration. Any decision to borrow from the Agency will be the subject of a separate report to Cabinet for approval before pursuing this option.

LOBOs: The Council holds £30m of LOBO (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 Council has the option to either accept the new rate or to repay the loan at no additional cost. £15m of these LOBOs have options during 2019/20, 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 it has the opportunity to do so.

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. Financial derivatives may be used to manage this interest rate risk (see section 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.

Borrowing in Advance of Need

The Council has the power to borrow in advance of need in line with its future borrowing requirements under the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, as amended.

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 and not in relation to any commercial property investment. Any decision to borrow in advance will be within the forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance of activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

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 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: If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Base Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. 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 increasing risk and very low returns from short-term unsecured bank investments, the majority of the Buckinghamshire councils' surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification represents a continuation of the current strategy.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Approved investment counterparties and limits

Credit Rating	Banks Unsecured	Banks Secured	Government
UK Government	n/a	n/a	£Unlimited 50 years
AAA	£5m 5 years	£10m 20 years	£10m 50 years
AA+	£5m 5 years	£10m 20 years	£10m 25 years
AA	£5m 4 years	£10m 5 years	£10m 15 years
AA-	£5m 3 years	£10m 4 years	£10m 10 years
A+	£5m 2 years	£10m 3 years	£5m 5 years
A	£5m 13 months	£10m 2 years	£5m 5 years
A-	£5m 6 months	£10m 13 months	£5m 5 years
None	n/a	n/a	£10m 25 years
Pooled Funds		£25m per fund	

This table must be read in conjunction with the notes below.

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. 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 into account.

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. See below for arrangements relating to operational bank accounts.

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.

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.

Pooled funds: Shares or units in diversified investment vehicles consisting of the 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. 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, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property 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.

Operational bank accounts: The Council may incur operational exposures, for example though current 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. 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.

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 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: The Council's revenue reserves available to cover investment losses are forecast to be approximately £187 million on 31st 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 organisation (other than the UK Government) will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	Unlimited
Any group or organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£25m per manager
AAA sovereign rated foreign countries	£20m per country
AA+ sovereign rated foreign countries	£10m per country
Money Market Funds	£75m in total

Borrowing Prudential Indicators

Indicator			**Unit**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Gross Debt	Estimate	Years 1, 2 and 3	£m	484.48	508.78	535.74	573.01
Capital Financing Requirement			£m	561.15	713.87	750.44	678.65

Indicator			**Unit**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Authorised limit (for borrowing) *	Estimate	Years 1, 2 and 3	£m	540	630	655	695
Authorised limit (for other long term liabilities) *	Estimate	Years 1, 2 and 3	£m	10	10	10	10
Authorised Limit (for total external debt) *			**£m**	**550**	**640**	**665**	**705**

*These limits can only be breached with the approval of full Council to raise them

Indicator			Unit	2019/20	2020/21	2021/22	2022/23
Operational boundary (for borrowing)	Estimate	Years 1, 2 and 3	£m	482.50	530.00	555.00	595.00
Operational boundary (for other long term liabilities)	Estimate	Years 1, 2 and 3	£m	9.50	7.50	7.50	7.50
Operational Boundary			**£m**	**492.00**	**537.50**	**562.50**	**602.50**

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 one month period, without additional borrowing.

Liquidity Risk Indicator	Target
Total cash available within one month	£10m

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	Target
Upper limit on one-year revenue impact of a 1% rise in interest rates	£250,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	-£250,000

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	25%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	25%	0%
10 years and above	70%	25%

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	2020/21	2021/22	2022/23
Limit on principal invested beyond year end	£25m	£25m	£25m

Related Matters

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

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).

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.

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.

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

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, 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.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance and Procurement, having consulted the Cabinet Member for Resources, 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 periods.	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 periods.	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.