APPENDIX A

RISK APPETITE STATEMENTS

The following risk appetite statements are contained in the Capital Strategy subject to approval by the Cabinet and the City Council.

Borrowing Risk Appetite

It is often possible to borrow money short term at lower rates than it is possible to borrow long term. This often leaves the Council with two choices:

- To borrow short term or at variable interest rates. This would often enable the Council to borrow relatively cheaply, but the Council would need to accept that its borrowing costs may be volatile, as it exposes the Council to the benefits and dis-benefits of interest rate movements that can give rise to budge variances. This is a major risk when interest rates are expected to increase.
- To borrow long term at fixed rates. This will provide stable and predictable revenue costs of borrowing, but may be dearer than short term or variable loans. Fixed interest rates avoid the risk of budget variances caused by interest rate movements but prevent the council from benefiting from falling interest rates on its borrowing or rising interest rates on its investments. There is a risk that the Council could become locked into relatively high rates of interest if interest rates fall.

The Council attaches a high priority to a stable and predictable revenue cost of borrowing in the long term. This reflects the fact that debt servicing represents a significant cost to the Council's net revenue budget.

It is the Council's objective in relation to debt to borrow as cheaply as possible for the long-term at a fixed rate

This means that the Council is not totally risk averse, and the Council may borrow either short term or at variable rates if interest rates are expected to fall. Treasury management staff have the capability and flexibility to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

Risk Appetite Statement for Investing Surplus Cash

Sums are invested with a diversified range of counter parties using the maximum range of instruments consistent with a low risk of the capital sum being diminished through movements in prices.

This means that the Council is not totally risk averse. Treasury management staff have the capability to actively manage treasury risks within the scope of the Council's treasury management policy and strategy.

In particular when investing surplus cash, the Council will not necessarily limit itself to making deposits with the UK Government and local authorities, but may invest in other bodies including unrated building societies, RSLs, universities and corporate bonds. The Council may invest surplus funds through tradable instruments such as treasury bills, gilts, certificates of deposit, corporate bonds, covered bonds and repos / reverse repos. The duration of such investments will be limited so that they do not have to be sold (although they may be) prior to maturity thus avoiding the risk of the capital sum being diminished through movements in prices.

The Council will invest its surplus cash to provide sufficient liquidity to meet its cash flow needs, but is mindful that the value of its investments will fall in real terms unless investment returns are at least equal to inflation. In order to earn investment returns in excess of inflation on as much of its surplus cash as possible, the Council will invest as much as it can in longer term higher yielding investments whilst maintaining sufficient liquidity to meet its cash flow needs.

The Council may invest in lower risk structured investment products that follow the developed equity markets where movements in prices may diminish the capital sum invested. These investments, and indeed any other investment, could also be diminished if the counter party defaults. Although the Council only invests in counter parties offering good credit quality, the credit quality of an investment counter party can decline during the life of the investment. This is particularly the case with long term investments.

The Council may invest in externally managed pooled investment vehicles such as corporate bond funds, equity funds, property funds and multi asset funds. The Government has made regulations that will prevent fluctuations on the capital value of these funds from impacting on the General Fund prior to disposal for at least 5 years. Fluctuations in the capital value of these funds will impact on the General Fund in 5 year's time unless the regulations are extended.