Borrowing strategy

1 The Council's primary objective when borrowing money is to seek an optimal balance between securing long term low interest costs and achieving optimal certainty of those costs over the period for which funds are required. Given the significant cuts to public expenditure and, in particular, future local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the long term stability of the debt portfolio.

2 There lies an opportunity to take further advantage of financing at historically low short term rates, just prior to long term rates rising. With short term interest rates currently much lower than long term rates, it will be more cost effective in the short term to continue using internal resources at an increased level and to borrow short term loans when cash flow requirements demand.

3 By maximising its internal borrowing strategy and further reducing the minimum cash balances, the Council will need to utilise short term borrowing (normally for up to one month) to cover the expected cash flow shortages. The expected "lower for longer" short term interest rate environment will enable the Council to further reduce its annual net borrowing costs (interest cost net of investment income) and reduce the overall treasury risk, especially counterparty risk.

4 In previous years, the council set itself a minimum working cash investment balance of £47m. In order to take increased advantage of internal borrowing for capital expenditure whilst the interest rate scenario remains viable, it is recommended that the Council approve the reduction of its minimum working cash balance from £47m to above zero or non overdrawn status.

5 The benefits of internal and short-term borrowing will be monitored regularly against the possible potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise.

6 The Council will assess the timing carefully in order to take full advantage of the current environment. The Council's treasury advisors, Arlingclose, will assist the Council with the analysis of the future 'cost of carry' of long term borrowing in comparison with its short term borrowing strategy. If the interest rate scenario changes, the Council may switch its strategy and borrow additional sums at long term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

7 It is expected that the future return to long term external borrowing will take place on a gradual basis in order to reduce the impact of unanticipated market movements. This underlines the Council's need to maintain a cautious and low risk approach, and monitor on a daily basis the economic position against the Council's existing treasury position.

8 As an alternative strategy, the Council may arrange forward starting loans during 2016/17, 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 the cost of carry in the intervening period.

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