

Annual Treasury Strategy 2011/12

Finance and Resources Committee

29 March 2011

Purpose of Report

- 1 To refer a report on the Council's Treasury Management Strategy for 2011/12 to the Finance and Resources Committee for scrutiny.

Main Report

- 2 On 10 March 2011, the Council considered the attached report by the Director of Finance setting out the Council's Treasury Management Strategy for 2011/12.
- 3 The Council:
 - a) approved the Treasury Management Strategy for 2011/12;
 - b) approved the revised Treasury Policy Statements; and
 - c) **remitted the Director's report to the Finance and Resources Committee for its scrutiny.**

Recommendation

- 4 That the Committee scrutinises the attached report.

Alastair Maclean
Head of Legal and Administrative Services

Appendices	Report no CEC/91/10-11/F by the Director of Finance
Contact/tel	Rhona Sinclair ☎ 529 4238; ✉ rhona.sinclair@edinburgh.gov.uk
Wards affected	City wide
Background Papers	Act of Council of 10 March 2011

Annual Treasury Strategy 2011/12

The City of Edinburgh Council

10 March 2011

1 Purpose of report

- 1.1 This report proposes a Treasury Management Strategy for 2011/12 including estimates of funding requirements, an economic forecast, borrowing and investment strategies.

2 Summary

- 2.1 The Council's Treasury Management activities are carried out in accordance with the Council's Treasury Policy Statement. Under the provisions of the Treasury Policy Statement, a report should be submitted on the proposed Treasury Management Strategy for the ensuing year. The Treasury Strategy aims to:
- a) ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs;
 - b) secure new funding at the lowest cost;
 - c) ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks.

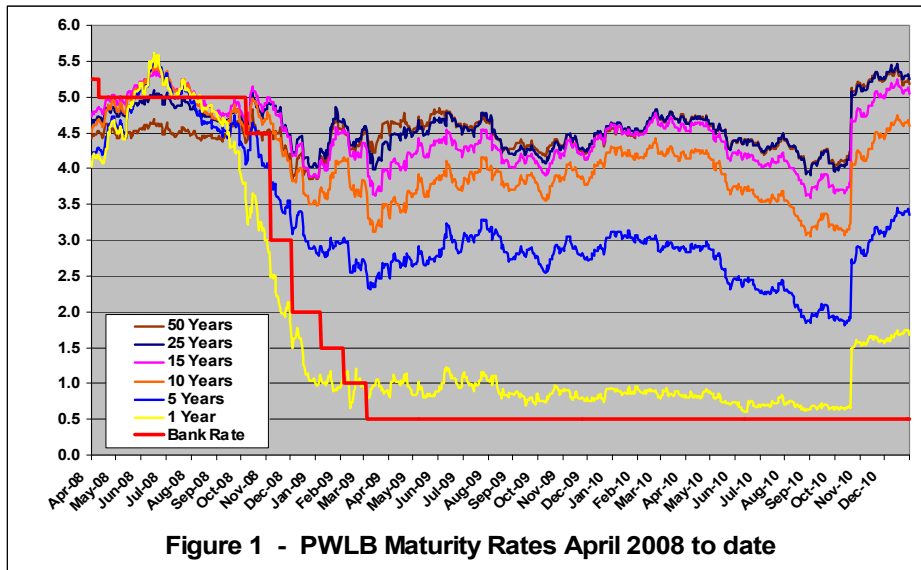
3 Main Report

Funding Requirement

- 3.1 Table 1 below summarises the Council's funding requirement for the next three years. It is anticipated that the Council's capital spend to be financed by borrowing in 2011/12 will be £132.973 million. An estimated £71.733 million is financed by repayments of previous advances from service departments but £22.259 million of loans maturing also require to be financed giving a net funding requirement of £83.499 million in 2011/12.

		2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Debt at start of year		1,094.757	1,207.826	1,305.555	1,298.160
Capital expenditure to be financed by borrowing		159.964	100.425	132.973	140.053
plus maturing fixed debt to be refinanced:					
	PWLB	0.797	2.024	22.095	7.148
	Market	0.000	0.000	0.000	0.000
	EIB	0.139	0.151	0.164	0.179
	<i>Total</i>	0.936	2.175	22.259	7.327
plus maturing variable debt to be refinanced	PWLB	0.000	0.000	0.000	0.000
Total maturing debt		0.936	2.175	22.259	7.327
less scheduled repayments by borrowing committees		57.560	65.116	71.733	77.479
Net Borrowing Requirement		103.341	37.484	83.499	69.901
Pre-borrowing		-4.449	6.215	68.635	
Internalisation of Temp Loans			9.904		
Actual PWLB Borrowed		150.000	65.000		
Actual Repaid		50.995			
Market Borrowing		15.000	25.000		
Debt at end of the year		1,207.826	1,305.555	1,283.296	1,290.833
Cumulative Capital Expenditure Over / (under) borrowed		6.215	68.635	-14.864	-69.901
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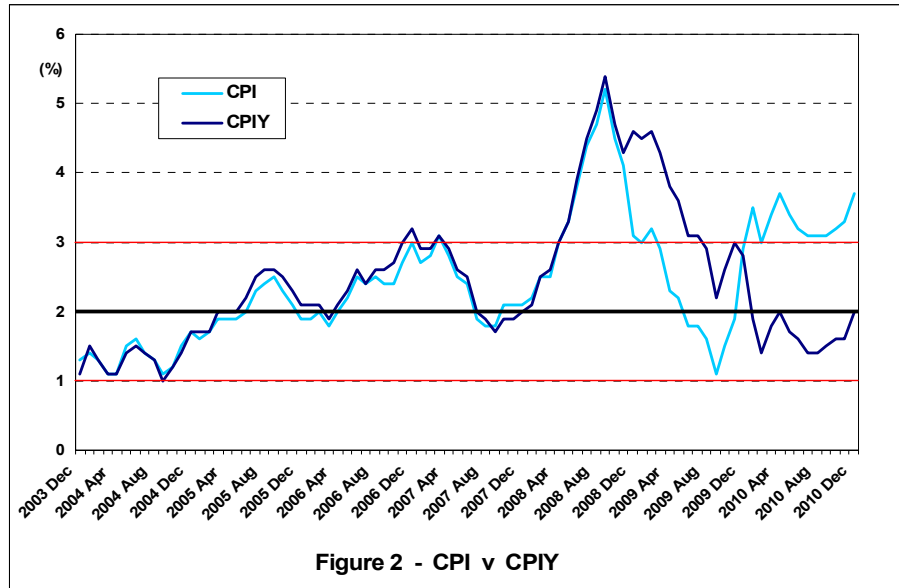
3.2 The 2010/11 Strategy was to lock in the borrowing early. This turned out to be a prudent decision for the Council as on the 21st October 2010, as part of the new Government's spending review announcements, the PWLB was instructed by HM Treasury to increase the margin over Gilts from 0.125% to 1.000% on all new loans, greatly increasing interest rates for all periods and types of PWLB loans, as can be seen in Figure 1 below.



- 3.3 The graph also shows that there has been a significant increase in Gilt Yields for all periods across the curve since the Spending Review, and that this has had the effect of increasing PWLB borrowing rates still further. However, the Council had already borrowed £65 million from the PWLB between May and September 2010 at an average rate of 3.953% with an average maturity in excess of 17 years. In addition, the 2010/11 borrowing also includes the drawdown of the remaining £25 million of a market debt facility which has been previously reported to members and which will run at 2% in the first year.
- 3.4 The net effect of this is that the Council has already secured most of the borrowing requirement to fund the 2011/12 capital investment programme at very low medium to long term rates. While there is a cost of carry of this debt in the current year, it is considered that the longer-term benefit of securing the debt at the low interest rates very much outweighs this short term cost.

3.5 ECONOMIC FORECAST

- 3.6 Throughout the year, the Government's preferred measure of inflation, Consumer Price Index (CPI), has remained steadfastly above its target range. The Governor of the Bank of England and most of its Monetary Policy Committee are still convinced that the elevated inflation level is a combination of one-off effects and will therefore be temporary. However, by its February meeting, the MPC was split four ways one voting for an increase in Bank Rate of 0.5%, two for an increase of 0.25%, five for no change and one voting for an increase in Quantitative Easing.
- 3.7 While the headline rate of inflation as judged by the Government's chosen CPI measure has stayed well above target, the underlying rate is actually right in the middle of the target range. Figure 2 below shows CPI and CPIY (CPI minus indirect taxation). Further, the initial estimate of GDP for Quarter 4 2010 which showed a 0.5% contraction emphasises the point we have made previously on how fragile the UK recovery actually is. On top of this the effect of the increased taxation and contraction of the public sector announced in the Spending Review have yet to be felt in the economy.



3.8 Nonetheless, the money markets are anticipating an increase in Bank Rate in May and there is a danger that the MPC may decide on an early increase regardless of the underlying inflation prospects. The decision may well be heavily dependent on the Quarter 1 2011 GDP figure and the effect of the Middle East political situation on oil prices over the next two months.

Debt Management Strategy

- 3.9 As noted above, it is anticipated that the Council's out-turn for 2010/11 will show that the Council has already pre-borrowed most of its net requirement for 2011/12.
- 3.10 As noted previously, there is some upside potential in interest rates. One of the major risks to the Council's debt portfolio is the possibility that lenders of the LOBO loans which the Council hold exercise their option to request an increase in interest rates. The LOBO loans that have been through their option period this year have not so far requested an increase in the interest rate. If in future an organisations did request a rate increase, the Council could either accept the revised rate or repay the loan at no additional cost. The Council is therefore exposed either to higher interest rates or a re-financing risk, and PWLB rates are significantly less attractive than previously.
- 3.11 Although the Council has secured most of its 2011/12 borrowing requirement, there may be additional borrowing to be undertaken, for TIF (Tax Incremental Financing) projects and affordable housing in association with the National Housing Trust. In light of the change to the PWLB rates, it is considered appropriate to review the different borrowing options available to the Council including the possibility of Local Government Bond Issuance.
- 3.12 Where there is a significant difference between an Authority's Net and Gross Debt, the Authority is required to note why this is the case. As at the end of January 2011 the Council has Gross Debt (total borrowing) of £1.460bn and Net Debt (Gross Debt less current investments) of £1.252bn. The Council has a

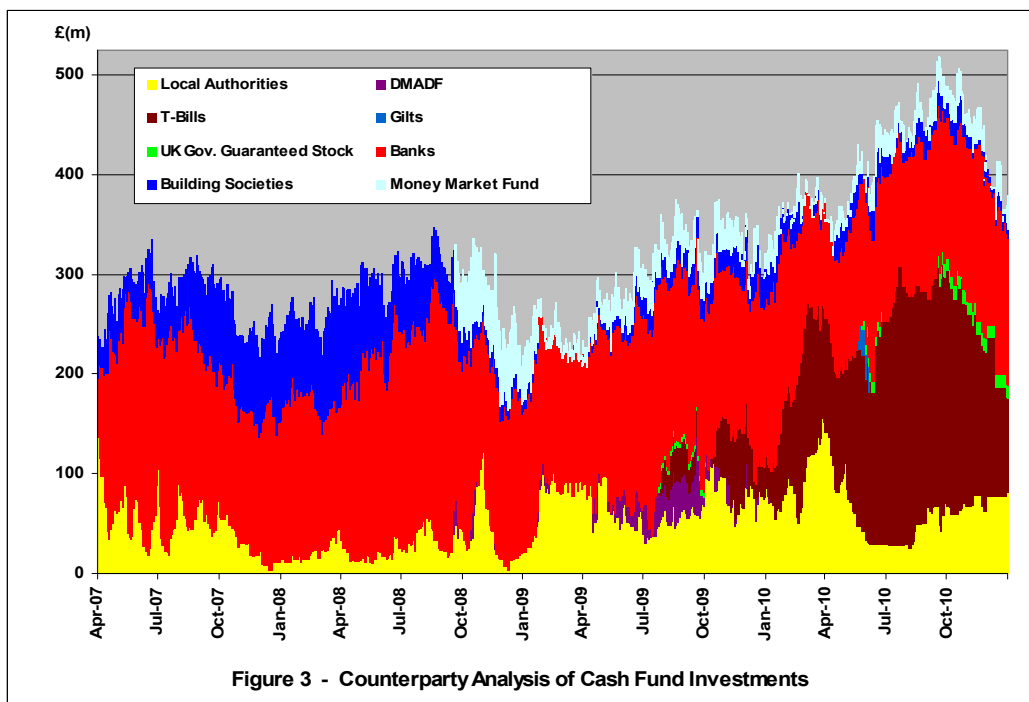
significant level of investments which represent allocated short term balances and which are likely to be required for expenditure in the short term. Given the short term nature of the balances, it was not considered appropriate to use them to finance long term capital expenditure. Particularly in a rising interest rate environment, this would have created a significant re-financing risk and ultimately an increased cost to the Council.

Investment Strategy – The City of Edinburgh Council

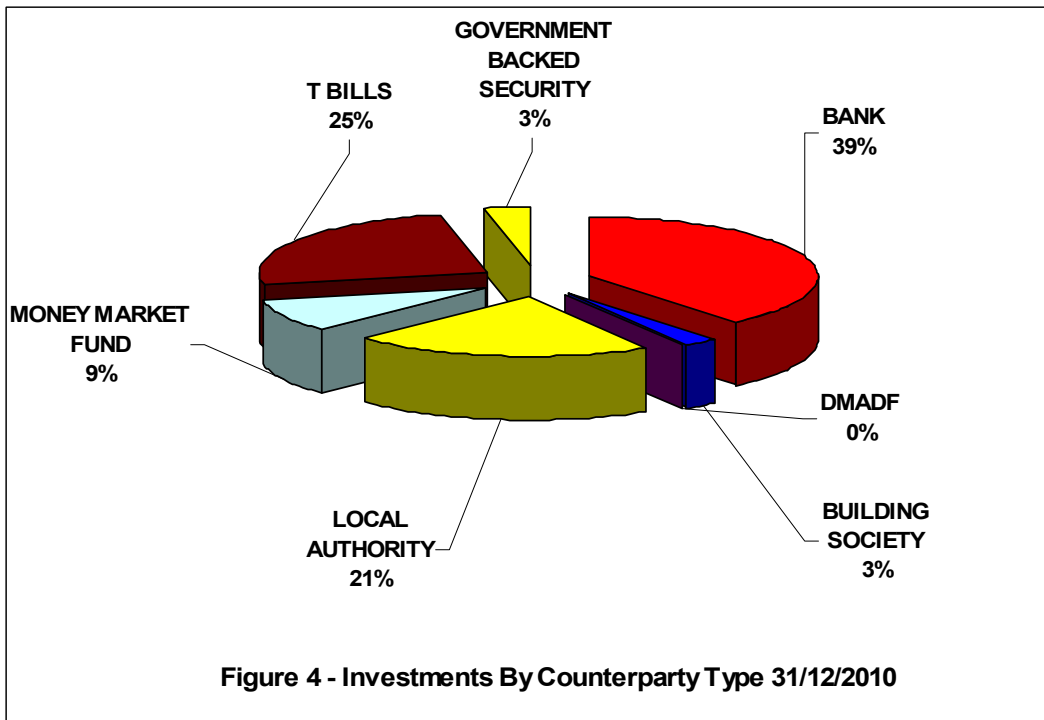
- 3.13 While small balances may be retained in accounts with the Council’s bankers, the main cash balances of the Council will be invested via the Treasury Cash Fund and subject to its strategy and limits. Monies of the Common Good are also invested in the Treasury Cash Fund.

Investment Strategy – Treasury Cash Fund

- 3.14 Security continues to be the key to the Investment approach of the Cash Fund. Figure 3 below shows an analysis of where the Cash Fund has been invested since April 2008.

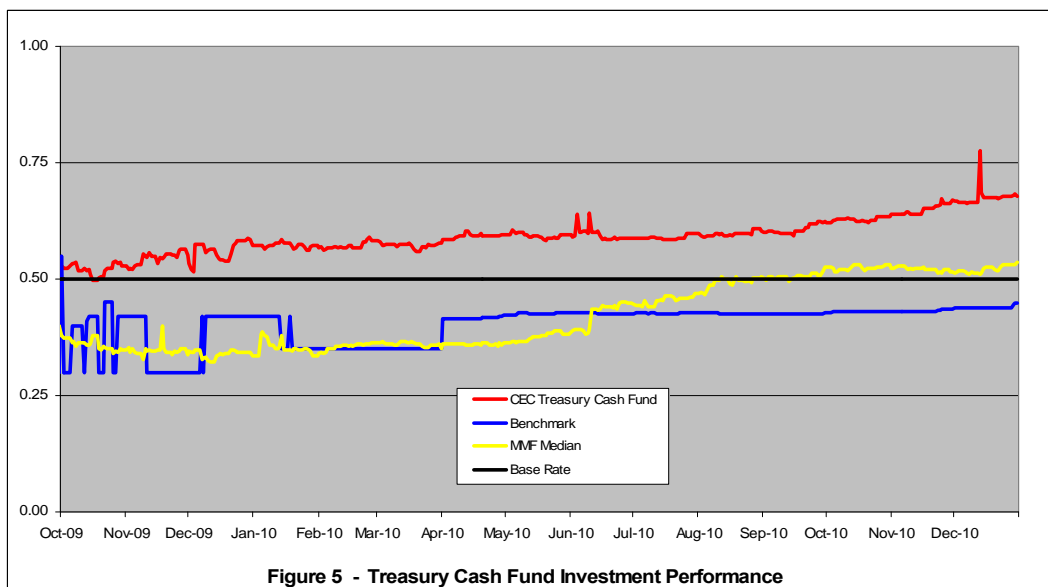


- 3.15 As can be seen from the chart, investment in UK Government Treasury Bills has been used to provide ‘AAA’ security with a significantly greater investment return than the DMO’s deposit facility. With an expected reduction in the overall amount of cash held, Treasury Bills have been replaced by fixed deposits with Local Authorities and call account deposits. We have also sold some Treasury Bills at a profit. The decision was taken to do this when we expected to have large cash outflows from Lothian Pension Fund. Figure 4 below shows the percentage asset distribution at the end of the 3rd quarter, of the cash investment which totalled £445.8 million.



3.16 Almost half of the fund was invested either with other local authorities or directly with the government. A large majority of money invested in Banks is within instant access call accounts, 5% of the fund is within a 15 day notice account and a further 0.13% placed on a certificate of deposit with a Rank 1 AAA rated bank.

3.17 The performance of the Treasury Cash Fund continued to be exceptional against its benchmark, as seen in figure 5 below. The annualised rate of return for the Cash Fund over the last quarter was 0.651%, outperforming the benchmark by 0.218% and the median money market fund by 0.129% on an annualised basis.



- 3.18 As previously approved, we have implemented the change to the Counterparty limits relating to banks and building societies to being based mainly on a percentage of the money under management. It is considered relating the limit to the funds under management would give a better balance in light of the volatility of the funds under management. The limits are shown in the Cash Fund Treasury Policy Statement in Appendix 5. CIPFA's Guidance Notes on treasury management for Local Authorities states that "Authorities are advised to have regard to the ratings issued by the three main agencies and to make decision based on the lowest rating". The Council has always used ratings from the three main agencies in setting its counterparty limits, but currently uses a combination of this 'lowest common denominator' (LCD) approach and individual ratings. The Council will continue with this approach for the time being and review at a later date.

4 Financial Implications

- 4.1 The Council continues to manage its debt portfolio so as to minimise the medium term cost of funding its capital projects, and the Treasury Cash Fund has generated significant additional income relative to its benchmark for the Council and associated organisations.

5 Environmental Impact

- 5.1 There are no adverse environmental impacts arising from this report.

6 Conclusions

- 6.1 The decision to secure medium term funding early in the financial year has proved to be very prudent with PWLB rates substantially now higher due to the new Governments Spending Review announcements in October 2010 and the subsequent movement in Gilt Yields.
- 6.2 The security of the Council's deposits remains the priority, with a considerable proportion of the Cash Fund invested in very secure deposits / Treasury Bills. Although the Cash Fund continues to out-perform its benchmark, the absolute investment return during 2011/12 is likely to remain very low, given the current and anticipated level of short term interest rates.

7 Recommendations

7.1 It is recommended that the Council:

- approves the Treasury Management Strategy for 2011/12;
- approves the revised Treasury Policy Statements; and
- remits the report to the Finance and Resources Committee for their scrutiny.

**D. McGougan,
Director of Finance.**

Appendices	5
Contact/tel/e-mail	Innes Edwards (0131 469 6291)
Wards affected	All
Single Outcome Agreement	2. We realise our full economic potential with more and better employment opportunities for our people 15. Our public services are high quality, continually improving, efficiency and responsive to local people's needs

Background Papers

Appendix 1

The City of Edinburgh Council Capital Investment Programme

<u>SUMMARY OF EXPENDITURE</u>	Budget 2011-12	Budget 2012-13	Budget 2013-14	Budget 2014-15	Total Budget 2011-15
	£000	£000	£000	£000	£000
Children and Families	23,961	40,336	21,227	21,693	107,217
City Development	28,918	30,163	13,865	2,750	75,696
City Development - Asset Management Works					
- Children and Families	5,980	8,820	6,848	-	21,648
- City Development	1,110	1,825	1,112	-	4,047
- Corporate Services	1,420	1,800	1,900	-	5,120
- Health and Social Care	1,660	1,720	723	-	4,103
- Services for Communities	2,700	2,700	2,700	-	8,100
Corporate Services	9,317	2,165	165	165	11,812
Council Wide / Corporate Projects	27,809	29,309	2,501	-	59,619
Finance	126	-	-	-	126
Health and Social Care	4,890	8,104	133	-	13,127
Services for Communities	66,030	16,500	13,900	15,069	111,499
Total General Services	173,921	143,442	65,074	39,677	422,114
	173,921	143,442	65,074	39,677	422,114

Funding to Support the
Capital Investment Programme

	2011-12 £000	2012-12 £000	2013-14 £000	2014-15 £000
Capital Receipts	17,360	25,037	4,059	-
Specific Capital Grants				
Cycling, Walking and Safer Streets	686	-	-	-
Development Funding	29,610	-	-	-
Funding for James Gillespies (unconfirmed)	-	-	-	12,186
General Capital Grant	46,749	23,331	-	-
Total Capital Income	94,405	48,368	4,059	12,186
Total Expenditure per Appendix 1	173,921	143,442	65,074	39,677
Borrowing Requirement	79,516	95,074	61,015	27,491
Borrowing Supported through General Rev Grant	21,274	21,274	21,274	21,274
Prudential Borrowing Supported through Council Tax / Income Streams / Savings	76,626	64,415	15,160	-
Total Supported Borrowing	97,900	85,689	36,434	21,274
Over / (Under) Programming	-18,384	9,385	24,581	6,217

Appendix 2 Maturing Debt Profile

As at January 2011

Start Date	Loan Type	Maturity	Outstanding £	Current Interest Rate %	Annual Interest £
PUBLIC WORKS LOAN BOARD					
15-Jun-51	E	15-May-11	2,089.93	3	62.70
15-Jun-51	E	15-May-11	2,089.93	3	62.70
01-Dec-08	M	01-Jun-11	5,000,000.00	2.74	137,000.00
08-Dec-08	M	08-Jun-11	10,000,000.00	2.27	227,000.00
30-Oct-08	M	30-Oct-11	5,000,000.00	3.65	182,500.00
23-Nov-51	E	11-Nov-11	7,933.38	3.75	297.50
14-Dec-51	E	11-Nov-11	284.85	3.75	10.68
14-Dec-51	E	11-Nov-11	2,824.85	3.75	105.93
28-Dec-51	E	11-Nov-11	3,501.08	3.75	131.29
01-Feb-52	E	11-Nov-11	331.08	3.75	12.42
01-Feb-52	E	11-Nov-11	26.85	3.75	1.01
01-Feb-52	E	11-Nov-11	4,000.00	3.75	150.00
01-Feb-52	E	11-Nov-11	1,208.60	3.75	45.32
13-Oct-08	M	13-Apr-12	5,000,000.00	3.91	195,500.00
21-Apr-09	M	21-Apr-13	10,000,000.00	2.39	239,000.00
01-Dec-08	M	01-Dec-13	10,000,000.00	3.45	345,000.00
30-Mar-09	M	30-Mar-14	5,000,000.00	2.61	130,500.00
21-Apr-09	M	21-Apr-14	10,000,000.00	2.64	264,000.00
15-May-54	E	15-May-14	3,502.48	4	140.10
01-Dec-08	M	01-Jun-14	5,000,000.00	3.55	177,500.00
07-Jan-55	E	11-Nov-14	5,973.41	3.75	224.00
08-Dec-08	M	08-Dec-14	5,000,000.00	3.3	165,000.00
30-Mar-09	M	30-Mar-15	5,000,000.00	2.84	142,000.00
12-May-09	M	12-May-15	10,000,000.00	3.08	308,000.00
23-Feb-90	M	15-May-15	8,000,000.00	10.875	870,000.00
06-Nov-90	M	25-Mar-16	10,000,000.00	11.375	1,137,500.00
17-May-91	M	25-Mar-16	10,000,000.00	11	1,100,000.00
13-Oct-09	M	13-Apr-16	5,000,000.00	2.95	147,500.00
23-Apr-09	M	23-Apr-16	5,000,000.00	2.96	148,000.00
17-Jan-91	M	15-May-16	15,000,000.00	11.25	1,687,500.00
09-Jun-09	M	09-Jun-16	5,000,000.00	3.37	168,500.00
27-Sep-91	M	25-Sep-16	2,736,307.00	10.5	287,312.24
15-Aug-91	M	11-Nov-16	10,000,000.00	10.875	1,087,500.00
10-Dec-08	M	10-Dec-16	5,000,000.00	3.61	180,500.00
27-Mar-92	M	25-Sep-17	10,000,000.00	10.625	1,062,500.00
09-Oct-08	M	09-Oct-17	5,000,000.00	4.39	219,500.00
03-Apr-92	M	25-Mar-18	30,000,000.00	10.875	3,262,500.00
23-Apr-09	M	23-Apr-18	15,000,000.00	3.24	486,000.00
17-Sep-92	M	15-May-18	8,496,500.00	9.75	828,408.75
09-Jun-09	M	09-Jun-18	5,000,000.00	3.75	187,500.00
17-Sep-93	M	11-Nov-18	5,000,000.00	7.875	393,750.00
23-Mar-94	M	11-Nov-18	5,000,000.00	8	400,000.00
14-Mar-94	M	11-Mar-19	2,997,451.21	7.625	228,555.65
18-Oct-93	M	25-Mar-19	5,000,000.00	7.875	393,750.00
30-Mar-09	M	30-Mar-19	5,000,000.00	3.46	173,000.00

Start Date	Loan Type	Maturity	Outstanding £	Current Interest Rate %	Annual Interest £
PUBLIC WORKS LOAN BOARD (Contd)					
21-Apr-09	M	21-Apr-19	10,000,000.00	3.4	340,000.00
23-Apr-09	M	23-Apr-19	5,000,000.00	3.38	169,000.00
23-Mar-94	M	11-Nov-19	5,000,000.00	8	400,000.00
07-Dec-94	M	11-Nov-19	10,000,000.00	8.625	862,500.00
12-Nov-08	A	12-Nov-19	4,243,651.55	3.96	168,048.60
01-Dec-08	A	01-Dec-19	4,232,371.10	3.65	154,481.55
01-Dec-09	M	01-Dec-19	5,000,000.00	3.77	188,500.00
14-Dec-09	M	14-Dec-19	10,000,000.00	3.91	391,000.00
15-Feb-95	M	25-Mar-20	5,000,000.00	8.625	431,250.00
21-Apr-09	M	21-Apr-20	10,000,000.00	3.54	354,000.00
12-May-09	M	12-May-20	10,000,000.00	3.96	396,000.00
21-Oct-94	M	15-May-20	5,000,000.00	8.625	431,250.00
07-Dec-94	M	15-May-20	5,000,000.00	8.625	431,250.00
16-Aug-95	M	03-Aug-20	2,997,451.21	8.375	251,036.54
09-Dec-94	M	11-Nov-20	5,000,000.00	8.625	431,250.00
10-May-10	M	10-May-21	4,807,433.81	3.09	148,549.70
21-Oct-94	M	15-May-21	10,000,000.00	8.625	862,500.00
10-Mar-95	M	15-May-21	11,900,000.00	8.75	1,041,250.00
12-Jun-95	M	15-May-21	10,000,000.00	8	800,000.00
02-Jun-10	M	02-Jun-21	5,000,000.00	3.89	194,500.00
16-Aug-94	M	03-Aug-21	2,997,451.21	8.5	254,783.35
28-Apr-94	M	25-Sep-21	5,000,000.00	8.125	406,250.00
23-Apr-09	M	23-Apr-22	5,000,000.00	3.76	188,000.00
12-Jun-95	M	15-May-22	10,200,000.00	8	816,000.00
14-Jun-10	M	14-Jun-22	10,000,000.00	3.95	395,000.00
31-Mar-95	M	25-Sep-22	6,206,000.00	8.625	535,267.50
16-Feb-95	M	03-Feb-23	2,997,451.21	8.625	258,530.17
24-Apr-95	M	25-Mar-23	10,000,000.00	8.5	850,000.00
05-Dec-95	M	15-May-23	5,200,000.00	8	416,000.00
20-Sep-93	M	14-Sep-23	2,997,451.21	7.875	236,049.28
20-Sep-93	M	14-Sep-23	584,502.98	7.875	46,029.61
08-May-96	M	25-Sep-23	10,000,000.00	8.375	837,500.00
13-Oct-09	M	13-Oct-23	5,000,000.00	3.87	193,500.00
05-Dec-95	M	11-Nov-23	10,000,000.00	8	800,000.00
10-May-10	M	10-May-24	10,000,000.00	4.32	432,000.00
28-Sep-95	M	28-Sep-24	2,895,506.10	8.25	238,879.25
14-Dec-09	A	14-Dec-24	9,489,107.64	3.66	347,301.34
17-Oct-96	M	25-Mar-25	10,000,000.00	7.875	787,500.00
10-May-10	M	10-May-25	5,000,000.00	4.37	218,500.00
13-Feb-97	M	18-May-25	10,000,000.00	7.375	737,500.00
20-Feb-97	M	11-Nov-25	20,000,000.00	7.375	1,475,000.00
01-Dec-09	A	01-Dec-25	14,294,516.09	3.64	520,320.39
21-Dec-95	M	21-Dec-25	2,397,960.97	7.875	188,839.43
21-May-97	M	15-May-26	10,000,000.00	7.125	712,500.00
28-May-97	M	15-May-26	10,000,000.00	7.25	725,000.00
29-Aug-97	M	11-Nov-26	5,000,000.00	7	350,000.00
24-Jun-97	M	11-Nov-26	5,328,077.00	7.125	379,625.49
07-Aug-97	M	11-Nov-26	15,000,000.00	6.875	1,031,250.00

Start Date	Loan Type	Maturity	Outstanding £	Current Interest Rate %	Annual Interest £
PUBLIC WORKS LOAN BOARD (Contd)					
13-Oct-97	M	25-Mar-27	10,000,000.00	6.375	637,500.00
22-Oct-97	M	25-Mar-27	5,000,000.00	6.5	325,000.00
13-Nov-97	M	15-May-27	3,649,966.00	6.5	237,247.79
17-Nov-97	M	15-May-27	5,000,000.00	6.5	325,000.00
12-Mar-98	M	11-Nov-27	8,677,693.00	5.875	509,814.46
06-Sep-10	M	06-Sep-28	10,000,000.00	3.85	385,000.00
14-Jul-50	E	03-Mar-30	4,929.46	3	147.88
15-Jun-51	E	15-May-31	4,804.49	3	144.13
06-Sep-10	M	06-Sep-31	20,000,000.00	3.95	790,000.00
10-Dec-07	M	10-Dec-37	10,000,000.00	4.49	449,000.00
23-Jan-06	M	23-Jul-46	10,000,000.00	3.7	370,000.00
23-Jan-06	M	23-Jul-46	10,000,000.00	3.7	370,000.00
19-May-06	M	19-Nov-46	10,000,000.00	4.25	425,000.00
07-Jan-08	M	07-Jan-48	5,000,000.00	4.4	220,000.00
27-Jan-06	M	27-Jul-51	1,250,000.00	3.7	46,250.00
16-Jan-07	M	16-Jul-52	40,000,000.00	4.25	1,700,000.00
30-Jan-07	M	30-Jul-52	10,000,000.00	4.35	435,000.00
13-Feb-07	M	13-Aug-52	20,000,000.00	4.35	870,000.00
20-Feb-07	M	20-Aug-52	70,000,000.00	4.35	3,045,000.00
22-Feb-07	M	22-Aug-52	50,000,000.00	4.35	2,175,000.00
08-Mar-07	M	08-Sep-52	5,000,000.00	4.25	212,500.00
30-May-07	M	30-Nov-52	10,000,000.00	4.6	460,000.00
11-Jun-07	M	11-Dec-52	15,000,000.00	4.7	705,000.00
12-Jun-07	M	12-Dec-52	25,000,000.00	4.75	1,187,500.00
05-Jul-07	M	05-Jan-53	12,000,000.00	4.8	576,000.00
25-Jul-07	M	25-Jan-53	5,000,000.00	4.65	232,500.00
10-Aug-07	M	10-Feb-53	5,000,000.00	4.55	227,500.00
24-Aug-07	M	24-Feb-53	7,500,000.00	4.5	337,500.00
13-Sep-07	M	13-Mar-53	5,000,000.00	4.5	225,000.00
12-Oct-07	M	12-Apr-53	5,000,000.00	4.6	230,000.00
05-Nov-07	M	05-May-57	5,000,000.00	4.6	230,000.00
15-Aug-08	M	15-Feb-58	5,000,000.00	4.39	219,500.00
			<u>1,014,120,349.68</u>		<u>57,945,616.75</u>
EUROPEAN INVESTMENT BANK					
20-Apr-93		05-Apr-13	<u>438,542.37</u>	8.75	<u>38,372.46</u>

Start Date	Loan Type	Maturity	Outstanding £	Current Interest Rate %	Annual Interest £
MARKET LOANS					
03-Dec-90		04-Dec-15	2,000,000.00	11	220,000.00
12-Dec-90		11-Dec-15	2,000,000.00	11	220,000.00
30-Mar-92		30-Mar-17	1,000,000.00	10.25	102,500.00
21-Aug-92		21-Aug-17	500,000.00	9.75	48,750.00
21-Aug-92		21-Aug-17	500,000.00	9.75	48,750.00
12-Nov-98		13-Nov-28	3,000,000.00	4.75	142,500.00
15-Dec-03		15-Dec-53	10,000,000.00	4.25	425,000.00
18-Feb-04		18-Feb-54	10,000,000.00	4.54	454,000.00
28-Apr-05		28-Apr-55	12,900,000.00	4.75	612,750.00
25-Feb-11		25-Feb-60	15,000,000.00	2	300,000.00
25-Feb-11		25-Feb-60	10,000,000.00	2	200,000.00
26-Feb-10		26-Feb-60	5,000,000.00	0.73875	36,937.50
26-Feb-10		26-Feb-60	10,000,000.00	0.73875	73,875.00
30-Jun-05		30-Jun-65	5,000,000.00	4.4	220,000.00
01-Jul-05		01-Jul-65	10,000,000.00	3.86	386,000.00
07-Jul-05		07-Jul-65	5,000,000.00	4.4	220,000.00
24-Aug-05		24-Aug-65	5,000,000.00	4.4	220,000.00
07-Sep-05		07-Sep-65	10,000,000.00	4.99	499,000.00
13-Sep-05		14-Sep-65	5,000,000.00	3.95	197,500.00
03-Oct-05		05-Oct-65	5,000,000.00	4.375	218,750.00
21-Dec-05		21-Dec-65	5,000,000.00	4.99	249,500.00
23-Dec-05		23-Dec-65	10,000,000.00	4.75	475,000.00
28-Dec-05		24-Dec-65	12,500,000.00	4.99	623,750.00
06-Mar-06		04-Mar-66	5,000,000.00	4.625	231,250.00
14-Mar-06		15-Mar-66	15,000,000.00	5	750,000.00
17-Mar-06		17-Mar-66	10,000,000.00	3.5	350,000.00
03-Apr-06		01-Apr-66	10,000,000.00	4.875	487,500.00
03-Apr-06		01-Apr-66	10,000,000.00	4.875	487,500.00
03-Apr-06		01-Apr-66	10,000,000.00	4.875	487,500.00
07-Apr-06		07-Apr-66	10,000,000.00	4.75	475,000.00
05-Jun-06		07-Jun-66	20,000,000.00	4.4	880,000.00
05-Jun-06		07-Jun-66	16,500,000.00	4.4	726,000.00
18-Aug-06		18-Aug-66	10,000,000.00	3.5	350,000.00
01-Feb-08		01-Feb-78	10,000,000.00	3.95	395,000.00
			<u>280,900,000.00</u>		<u>11,814,312.50</u>
TOTAL OUTSTANDING LONG TERM DEBT			<u>1,295,458,892.05</u>		
TEMPORARY LOANS			<u>7,438,806.05</u>		
TOTAL OUTSTANDING DEBT			<u><u>1,302,897,698.10</u></u>		

Appendix 3 The City of Edinburgh Council Prudential Indicators

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2009/10 and the estimates of capital expenditure (excluding the tram project) to be incurred for the current and future years that are recommended for approval are:

	----- Capital Expenditure General Services -----					
	2009/10	2010/11	*2011/12	2012/13	2013/14	2014/15
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Children and Families	15,882	16,252	29,941	49,156	28,075	21,693
City Development	98,468	27,703	30,028	31,988	14,977	2,750
City Development - Trams	118,926					
Corporate Services	27,109	21,384	10,737	3,965	2,065	165
Health and Social Care	5,562	8,301	6,550	9,824	856	0
Services for Communities	71,489	63,975	68,730	19,200	16,600	15,069
Other Services	2,965	12,343	27,935	29,309	2,501	0
Contributions to unapplied capital grants fund	1,136	0	0	0	0	0
Contributions to Investments	1,246	0	0	0	0	0
Total General Services	342,783	149,958	173,921	143,442	65,074	39,677

*Note 2011/12 includes slippage brought forward based on projected capital expenditure reported at the nine month stage.

	----- Capital Expenditure Housing Revenue Account -----					
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Housing Revenue Account	33,864	39,840	45,250	38,774	40,058	40,379

*Note: The report on the Housing Revenue Account (HRA) Budget 2011/12 (Ref CEC/84/10-11/SFC) provides for a one-year capital budget. Indicative capital budget figures have been included for future years based on the Housing Revenue Account business plan.

Indicator 2 - Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years and the actual figures for 2009/10 are:

	Ratio of Financing Costs to Net Revenue Stream					
	2009/10 Actual	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	%	%	%	%	%	%
General Services	8.88	10.09	10.78	10.80	10.75	N/A
HRA	35.27	37.49	37.91	39.22	40.36	N/A

Note: Figures for 2012/13 onwards are indicative as neither the Council or HRA has set a budget for these years.

The estimates of financing costs include current commitments and the proposals in this budget report.

Indicator 3 - Capital Financing Requirement

Estimates of the end of year capital financing requirement(including the Council's share of the financing requirement for trams project) for the authority for the current and future years and the actual capital financing requirement at 31st March 2010 are:

	----- Capital Financing Requirement -----					
	2009/10 Actual	2010/11 Estimate	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
	£000	£000	£000	£000	£000	£000
Non-HRA	1,083,833	1,090,931	1,119,595	1,160,267	1,153,051	1,110,574
HRA	313,158	335,026	359,839	376,692	393,095	408,155

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

“In order to ensure that the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current next two financial years.”

	Net External Borrowing and the Capital Financing Requirement					
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000
Net External Borrowing	993,573	1,091,175	1,144,651	1,202,175	1,211,363	1,183,946
Capital Financing requirements	1,396,991	1,425,958	1,479,434	1,536,958	1,546,146	1,518,729
Under Limit by:	403,418	334,783	334,783	334,783	334,783	334,783

Net external borrowing does not include PFI finance lease liabilities but capital financing requirement includes advances and repayments relating to PFI assets. As a result, the forecast comparison of net external borrowing against forecast capital financing requirement results in a large variance. This anomaly will be rectified once the Prudential Code is updated to change the definition from Net External Borrowing to Net External Debt thus allowing PFI Finance Lease Liabilities to be included.

As demonstrated in the above table, the authority had no difficulty meeting this requirement in 2009/10, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Indicator 4 – Authorised Limit for External Debt

The authorised limit should reflect a level of borrowing which, while not desired, could be afforded, but may not be sustainable. In respect of its external debt, it is recommended that Council approves the following authorised limits for its total external debt gross of investments for the next three financial years. These limits separately identify borrowing from other long term liabilities including finance leases and PFI assets. Council is asked to approve these limits and to delegate authority to the Director of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its meeting following the change:

	Authorised Limit for External Debt			
	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000
Borrowing	1,484,622	1,462,364	1,480,037	N/A
Other long term liabilities	217,522	209,497	201,137	N/A
	1,702,144	1,671,861	1,681,174	N/A

These authorised limits are consistent with the authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

Indicator 5 – Operational Boundary for External Debt

The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also asked to delegate authority to the Director of Finance, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change:

	Operational Boundary for External Debt			
	2011/12	2012/13	2013/14	2014/15
	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000
Borrowing	1,344,171	1,394,788	1,405,037	N/A
Other long term liabilities	217,522	209,497	201,137	N/A
	<hr/>	<hr/>	<hr/>	<hr/>
	1,561,693	1,604,285	1,606,174	N/A

The Council's actual external debt at 31st March 2010 was £1,230.985m, comprising borrowing (including sums repayable within 12 months). Of this sum, £38.343m relates to borrowing carried out by the Council on behalf of the Police and Fire Joint Boards and Further Education Colleges.

In taking its decisions on this budget report, the Council is asked to note that the estimate of capital expenditure determined for 2010/11 (see paragraph 1 above) will be the statutory limit determined under section 35(1) of the Local Government in Scotland Act 2003.

Indicator 6 – Impact on Council Tax and House Rents

The estimate of the incremental impact of capital investment decisions proposed in this budget report, together with changes in projected interest rates, over and above capital investment decisions that have previously been taken by the Council are:

a) for the band “D” Council Tax

2011/12	2012/13	2013/14	2014/15
£	£	£	£
3.46	12.45	17.07	N/A

b) for average weekly housing rents

2011/12	2012/13	2013/14	2014/15
£	£	£	£
0.20	0.67	0.84	1.40

The increase shown against Council Tax reflects the rephasing of the capital programme.

Consideration of options for the capital programme

In considering its programme for capital investment, Council is required within the Prudential Code to have regard to:

- affordability, e.g., implications for Council Tax;
- prudence and sustainability, e.g., implications for external borrowing;
- value for money, e.g., option appraisal;
- stewardship of assets, e.g., asset management planning;
- service objectives, e.g., strategic planning for the authority;
- practicality, e.g., achievability of the forward plan.

A key measure of affordability is the incremental impact on the Council Tax, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

Indicators included in Treasury Management Strategy

The Council’s treasury management strategy and annual plan for 2011/12 will include the following:

- The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services;
- It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2011/12, 2012/13, 2013/14 and 2014/15 of 100% of its net outstanding principal sums;

- It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2011/12, 2012/13, 2013/14 and 2014/15 of 50% of its net outstanding principal sums;
- This means that the Director of Finance will manage fixed interest rate exposures within the range 50% to 100% and variable interest rate exposures within the range 0% to 50%. This is a continuation of current practice;
- It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows.

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate:

	Upper Limit	Lower Limit
	%	%
under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	100	20

The maximum total principal sum which may be invested with a maturity of up to 3 years is £100m. The Council currently has no investments longer than 364 days.

Appendix 4

The City of Edinburgh Council

Treasury Management Policy Statement

Summary

The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Services. As part of the adoption of that code, the Council agreed to create and maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities; and
- 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.

This document outlines the Council's Treasury Management Policy Statement which provides a framework for the Council's treasury management activities. Any reference in the Treasury Policy Statement to the Director of Finance should be taken to be any other officer to whom the Director of Finance has delegated his powers.

Approved Activities

The Council defines its treasury management activities as:

“The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

Subject to any legal restrictions, this definition covers the following activities:

- arranging, administering and managing all capital financing transactions
- approving, arranging and administering all borrowing on behalf of the Council
- cash flow management
- investment of surplus funds
- ensuring adequate banking facilities are in place, negotiating bank charges, and ensuring the optimal use by the Council of banking and associated facilities and services

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.

The Council also acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Treasury Management Strategy

The treasury management strategy for the cash fund is to:

- Secure both capital and revenue funding at the lowest cost in the medium term; and
- ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks

Approved Sources of Finance

Finance will only be raised in accordance with legislation and within this limit the Council has a number of approved methods and sources of raising capital finance. No other instrument other than those listed below may be used

- Bank Overdraft
- Temporary Loans
- Loans from the Public Works Loan Board
- Loans from the European Community institutions
- Long-Term Market Loans
- Bonds
- Stock Issues
- Negotiable Bonds
- Internal (Capital Receipts and Revenue Balances)
- Commercial Paper
- Medium Term Notes
- Finance and Operating Leases
- Deferred Purchase Covenant Agreements
- Government and European Community Capital Grants
- Lottery Monies
- Public and Private Partnership funding initiatives

Permitted Instruments

Where possible the Director of Finance will manage all of the Council's temporary surplus funds together and invest them using the Council's Treasury Cash Fund. The investment restrictions contained in the Treasury Cash Fund Policy Statement therefore apply to the City of Edinburgh Council's monies.

However small operational balances will need to be retained with the Council's bankers, and in other cases – such as devolved schools – relatively small investment balances may be operated locally. Some allowance for temporary deposits has therefore been made.

In addition, the Council has some non-cash investment types and these are also included in the Policy Statement.

The Director of Finance may invest monies in accordance with the Council's requirements only by using the following instruments:

- (a) Temporary deposit with an approved institution of the Bank of England or with any other approved organisation for investment (see below)
- (b) Money Market Funds
- (c) Debt Management Office's Debt Management Agency Deposit Facility
- (d) Investment Properties
- (e) Loans to Other Organisations
- (f) Investment in share capital of Council Companies and Joint Ventures
- (g) Loans to / investment in the Loan Stock of Council Companies
- (h) Investment in Shared Equity Housing Schemes

Approved Organisations for Investment

The approved counterparty limits are as follows:

- (a) *The Council's bankers with no limit.*
- (b) *DMO's DMADF with no limit.*
- (c) *AAA Money Market Funds with no limit.*
- (d) *financial institutions on the Bank of England's authorised list which have a short-term credit rating with Fitch of F1+ or Standard and Poors of A-1+ or with Moody's of P-1 up to a maximum of £10 million per institution.*
- (e) *building societies which a short term credit rating with Fitch of F1 or which have Moodys ratings of at least Short Term P-1, Long Term A2, and Financial Strength C+ up to a maximum of £5 million per institution.*

In addition to meeting the above criteria for short-term ratings, banks must have a long-term rating of at least A from one of the credit rating agencies and a support rating of 1,2 or 3 from Fitch or a Financial Strength Rating from Moody's of A, B or C. Building societies should have a minimum long-term rating of A and a support rating of 4 or above from Fitch.

In addition, there is no explicit limit at present for the non-cash investment types. However, it is anticipated that each specific investment of these types would be reported individually to Council and a full list of them will be contained in the Treasury Annual Report.

The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation

Responsibility for the implementation and regular monitoring of the Council's treasury management policies and practices is retained by the Council.

The Council delegates responsibility for the execution and administration of Treasury Management decisions to the Director of Finance who will act in accordance with the organisation's policy statement and TMPs and, if he is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates the Finance and Resources Committee to be responsible for the ensuring effective scrutiny of the treasury management strategy and policies.

Reporting Arrangements

This will include, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs. The Director of Finance will report to the Council as follows:

- (a) A Treasury Strategy prior to the commencement of the financial year.
- (b) A mid-term report during the financial year
- (c) A Treasury Annual Report as soon as practicable after the end of the financial year..
- (d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (Very low risk)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. Money Market Funds (MMFs) (low/medium risk)	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be sparingly used.	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Pools.
c. Call account deposit accounts with financial institutions (banks and building societies) (Risk is dependent on credit rating)	These tend to be moderately low risk investments, but will exhibit higher risks than the category (a) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Pools. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence
d. Term deposits with financial institutions (banks and building societies) (Low to medium risk depending on period & credit rating)	The risk on these is determined, but will exhibit higher risks than category (a) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Pools On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
e. Investment properties	These are non-service properties which are being held solely for a longer term rental income stream or capital appreciation. These are highly illiquid assets with high risk to value (the potential for property prices to fall).	Property holding will be re-valued regularly and reported annually with gross and net rental streams.
f. Loans to third parties, including soft loans	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit substantial credit risk and are likely to be highly illiquid.	Each third party loan requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.
g. Loans to a local authority company	These are service investments either at market rates of interest or below market rates (soft loans). These types of investments may exhibit significant credit risk and are likely to be highly illiquid.	Each loan to a local authority company requires Member approval and each application is supported by the service rational behind the loan and the likelihood of partial or full default.
h. Shareholdings in a local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.
i. Investment in Shared Equity Schemes	These are service investments which exhibit property market risk and are likely to be highly illiquid, with funds tied up for many years.	Each scheme investment requires Member approval and each decision will be supported by the service rational behind the investment and the likelihood of loss.

Appendix 5

The City of Edinburgh Council

Treasury Cash Fund

Treasury Management Policy Statement

Summary

The Council operates the Treasury Cash Fund on a low risk low return basis for cash investments on behalf of itself, Lothian Pension Fund and other associated organisations. This Policy Statement covers the type of investments which are permitted for monies held with the Cash Fund and should be read in conjunction with the Treasury Policy Statement for the City of Edinburgh Council.

Approved Activities

The activity undertaken in the management of cash balances and their investment in cash and near cash instruments. In undertaking this activity, the key objective is the security of the monies invested. Accordingly, the investment types and counterparty limits below represent a prudent attitude towards the instruments with which and the institutions with whom investment will be undertaken.

Treasury Management Strategy

The treasury management strategy for the cash fund is to ensure that surplus funds are invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and optimising the return on these funds consistent with those risks

Permitted Instruments

The Director of Finance may invest monies in accordance with the Council's requirements only by using the following instruments:

- (a) Temporary deposit, Certificate of Deposit, collateralised deposit, structured deposit, floating rate note or Bonds with an approved institution of the Bank of England or with any other approved organisation for investment (see below)
- (b) UK Treasury Bills
- (c) Gilt-edged securities
- (d) Gilt repo only in accordance with CIPFA guidelines
- (e) Money Market Funds
- (f) Debt Management Office's Debt Management Agency Deposit Facility

Limits on Investment

The approved limits on counterparties and investment types are as follows:

- (a) DMO's DMADF, UK Treasury Bills and UK Gilts with no limit
- (b) UK local authorities with no limit.
- (c) other public bodies up to a maximum of £20 million per organisation.
- (d) The Council's bankers with no limit.
- (e) AAA Money Market Funds with no limit.

- (f) financial institutions where the relevant deposits, CDs or Bonds are guaranteed by a sovereign government (which itself has a AAA rating) up to a maximum of 20 percent of the fund per institution for the duration of the guarantee in addition to the appropriate counterparty limit for the institution.
- (g) Collateralised deposits up to a maximum of 10 percent of the fund per institution in addition to the appropriate counterparty limit for the institution.
- (h) Structured deposits up to a maximum of 10 percent of the fund, subject to the appropriate counterparty limits for the institution also being applied.
- (i) financial institutions included on the Bank of England's authorised list and with a:
 - Fitch short term credit rating of F1+;
 - Standard & Poors Short Term of A-1+;
 - Moody's Short Term rating of P-1;
 - Fitch Long Term rating of AA or above;
 - Fitch Individual Rating of A or A/B;
 - Fitch Support Rating of 1;
 - Moody's Financial Strength Rating of B or above; and
 - S&P Long Term Rating of AA or above.

up to a maximum of £60 million.

- (j) financial institutions included on the Bank of England's authorised list and with a short-term credit rating by Fitch of F1+ and with Standard and Poors of A-1+ and with Moody's of P-1 up to a maximum of 15 percent of monies available for investment.
- (k) financial institutions on the Bank of England's authorised list which have a short-term credit rating with Fitch of F1+ or Standard and Poors of A-1+ or with Moody's of P-1 up to a maximum of 10 percent of monies available for investment.
- (l) financial institutions on the Bank of England's authorised list which have a short-term credit rating with Fitch of F1 or Standard and Poors of A-1 up to a maximum of 5 percent of monies available for investment.
- (m) building societies which have a short-term credit rating with Fitch of F1 up to a maximum of 5 percent of monies available for investment and those with a short-term credit rating of F1+ up to a maximum of 10 percent of monies available for investment.
- (n) Building Societies which have a short term credit rating with Moody's of P-1, a long term credit rating of at least A2, and a Financial Strength Rating of at least C+ up to a maximum of 5 percent of monies available for investment.

In addition to meeting the above criteria for short-term ratings, banks must have a long-term rating of at least A from one of the credit rating agencies and a support rating of 1,2 or 3 from Fitch or a Financial Strength Rating from Moody's of A, B or C. Building societies should have a minimum long-term rating of A and a support rating of 4 or above from Fitch.

The investment risks and controls to mitigate those risks are outlined to the end of this document.

Policy on Delegation

The Treasury Cash Fund is operated under the Council's Treasury Policy Statement and the delegations are defined in that document.

Reporting Arrangements

This will include, as a minimum, an annual strategy and plan in advance of the year, and an annual report after its close, in the form prescribed in its TMPs. The Director of Finance will report to the Council as follows:

- (a) A Treasury Strategy prior to the commencement of the financial year.
- (b) A mid-term report during the financial year
- (c) A Treasury Annual Report as soon as practicable after the end of the financial year..
- (d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (Very low risk)	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. UK Treasury Bills (Very Low Risk)	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. Maturity at issue is only 1, 3 or 6 months so will be used mainly in the 1 to 3 month period to provide a high level of security but a better return than the DMADF in (a).	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
c. UK Gilts (Very Low Risk)	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. There is a risk to capital if the Gilt needed to be sold, so should only be used on a hold to maturity basis as a proxy for a slightly longer maturity Treasury Bill	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. Would only be used on a hold to maturity basis at the very short end of the yield curve.
d. Deposits with other local authorities or public bodies (Very low risk)	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value.	Little mitigating controls required for local authority deposits, as this is a quasi UK Sovereign Government investment.
e. Money Market Funds (MMFs) (low/medium risk)	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be used for only a small proportion of the Fund	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.
f. Call account deposit accounts with financial institutions (banks and building societies) (Risk is dependent on credit rating)	These tend to be moderately low risk investments, but will exhibit higher risks than the categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.

<p>g. Term deposits with financial institutions (banks and building societies) (Low to medium risk depending on period & credit rating)</p>	<p>The risk on these is determined , but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.</p>	<p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors</p> <p>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.</p>
<p>h. Certificates of deposits with financial institutions (risk dependent on credit rating)</p>	<p>These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a) to (d) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.</p>	<p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors.</p> <p>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.</p>
<p>i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) (Low to medium risk depending on period & credit rating)</p>	<p>These tend to be medium to low risk investments, but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).</p>	<p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors.</p> <p>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.</p>
<p>j. Floating Rate Notes (Low to medium risk depending on credit rating)</p>	<p>These are Bonds on which the rate of interest is established periodically with reference to short term interest rates.</p>	<p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors.</p> <p>Will be used in an increasing interest rate environment but only for a limited proportion of the portfolio.</p>
<p>k. Bonds (Low to medium risk depending on period & credit rating)</p>	<p>This entails a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to movements in market prices of assets held.</p>	<p>The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. Bonds may also carry an explicit Government Guarantee.</p>