

Treasury Management: Annual Report 2010/11

The City of Edinburgh Council

25 August 2011

1 Purpose of report

- 1.1 To report on the Treasury Management activity undertaken and the performance of the Council's Treasury function during 2010/11.

2 Summary

- 2.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in the Public Sector, and under the code, an Annual Report on Treasury Management has to be submitted to the Council after the end of each financial year. A separate mid-term report will also be produced during the financial year and therefore, no update on the current year is included in this report.

3 Main Report

3.1 Borrowing Requirement 2010/11

Table 1 below shows that net funding of £15.406 million was required during the year. Capital expenditure which was funded by borrowing was £78.155 million,

	£m
New capital expenditure financed by loans	78.155
Add maturing loans	2.367
Less repayment by services committees	(65.116)
Total Funding Requirement	15.406

Table 1 - 2010/11 Debt Funding Requirements

With pre borrowing and short term borrowing totalling £13.772m a net borrowing of £1.634m was required. Having already secured £25m of Market debt and borrowing £65m during the year from the PWLB, this left the Council over-borrowed for the financial year by £88.366m.

3.2 Borrowing out-turn for 2010/11

As previously stated at the 31st March 2011 the Council was £88.366m over borrowed. £65million was borrowed from the Public Works Loans Board in the first half of the financial year with an average interest rate of 3.95% and an average maturity in excess of 16 years. This included £30 million which was taken in September when the interest rates for all periods briefly dropped below 4%. Using the anticipated capital expenditure figures at the time, the projected year-end position was an over-borrowing of £35.960m, allowing for the additional £25m of market debt to be drawn down in February. However given the historical spending pattern of further capital expenditure slippage occurring, it was anticipated that this figure would be higher by year end. At the time it was considered that history showed that these rates would not be available for an extended period. While there is a cost of carry to the Council in the decision to borrow in advance, it has proved to have been a prudent longer term decision as in October the PWLB was instructed by HM Treasury to increase the margin over Gilts from 0.125% to 1.000% on all new loans as part of the Government's Comprehensive Spending Review. This greatly increased the interest rates on all periods and types of PWLB loans, as can be seen from Figure 1 below.

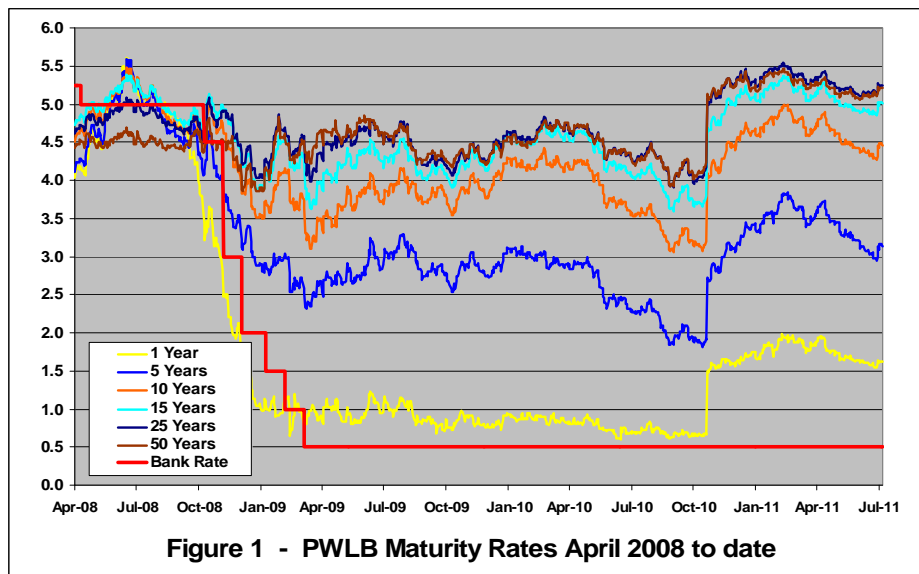


Figure 1 - PWLB Maturity Rates April 2008 to date

While there are likely to be further flights to safety over the next year with debt crises on both sides of the Atlantic, the increase in the PWLB margin over Gilts means that it is very unlikely that sub 4% rates for longer maturity periods will be available from the PWLB in the foreseeable future. The borrowing is required to fund the 2011/12 capital programme and rates for 15+ years maturity loans at the start of April, when the borrowing would not be deemed to be in advance, were a full percent higher than those at which the Council borrowed.

Table 2 below summarises the outstanding debt portfolio during the year. As can be seen from the table, the Council's underlying debt position increased by £13.039m during the year. As previously stated at 31 March 2011, the Council was over borrowed by £88.366m.

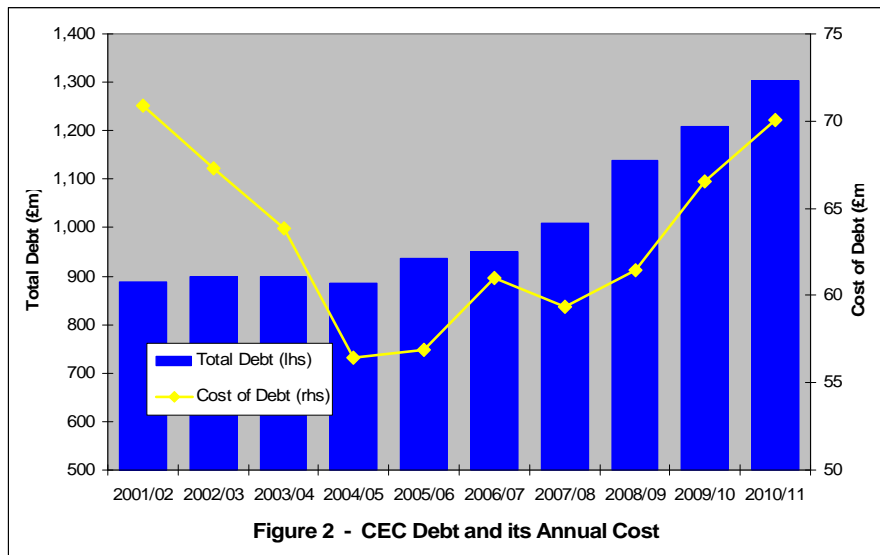
Type of Loan	Balance 01.04.10 £m	Raised £m	Repaid £m	Balance 31.03.11 £m
PWLB – fixed	951.336	65.000	(2.216)	1,014.120
PWLB – Variable	0.000	0.000	0.000	0.000
EIB	0.589	0.000	(0.151)	0.438
Market	255.900	25.000	0.000	280.900
Temp	0.000	7.557	0.000	7.557
Internal/Temp	(6.215)	0.000	(82.151)	(88.366)
	<u>1,201.610</u>	<u>97.557</u>	<u>(84.518)</u>	<u>1,214.649</u>

Table 2 – Outstanding Debt Portfolio 2010/11

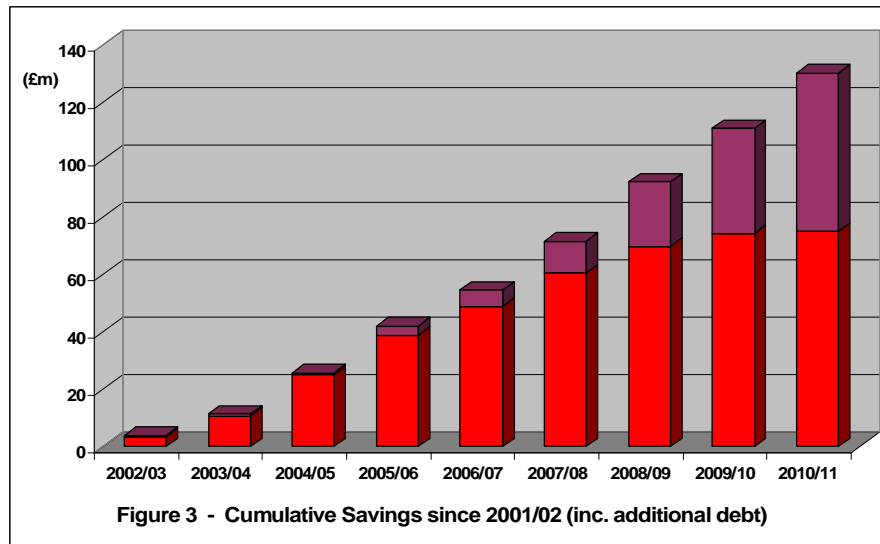
Appendix 1 provides details of the Council's outstanding PWLB debt at 31 March 2011.

4 Pro-active Debt Management

4.1 Figure 2 below shows the Council's level of external debt which has been incurred to fund Capital Expenditure and the actual cost of servicing that debt each year.



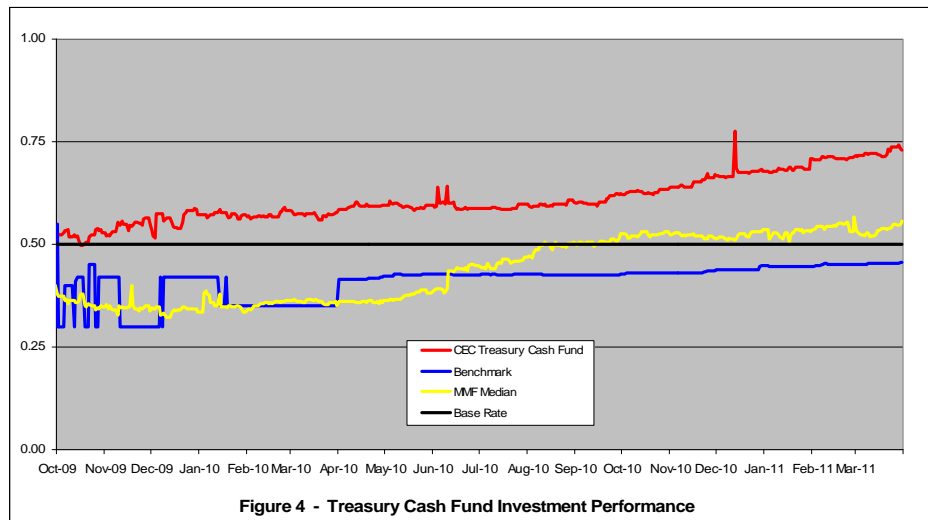
4.2 Figure 3 below shows the amount of savings restructurings and new borrowing undertaken has made on the Council's loans fund. As can be seen on figure 2 above the Council is currently carrying an increased level of debt from 2001/02 at a reduced cost. When the cost of the additional debt which the Council has incurred since 2001/02 is included, the cumulative savings achieved increase to just over £120 million, a substantial sum which has been released for the Council to spend on front line services over this period.



5 Investment Out-turn for 2010/11

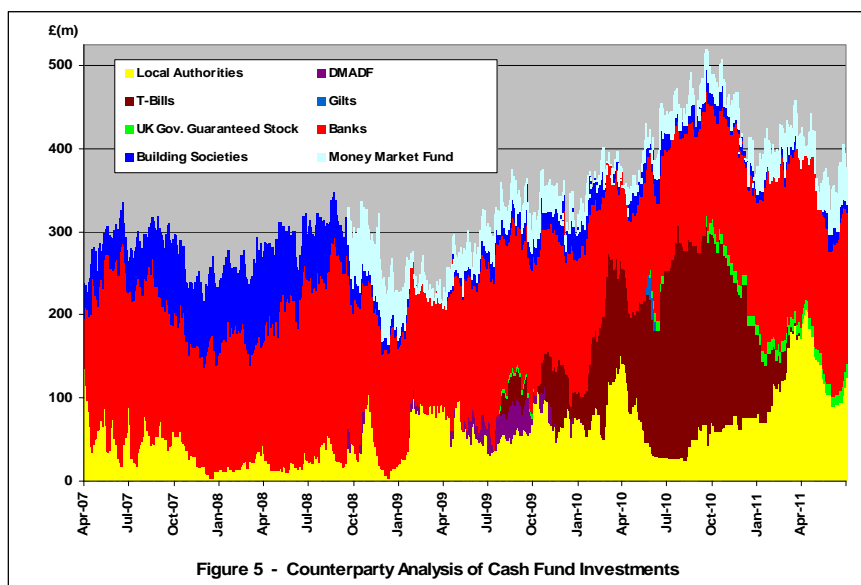
5.1 The Council's money is invested in the Treasury Cash Fund. The Cash fund has several members including Lothian Pension Fund, Lothian and Borders Police and Transport Initiative Edinburgh (TIE). Interest is awarded on a monthly basis and the Treasury sections performance is marked against a benchmark.

5.2 The benchmark for cash investment is 7-day LIBID, which, in normal circumstances, moves broadly in line with actual and anticipated fluctuations in Base Rate. Figure 4 below shows the investment performance since October 2009.



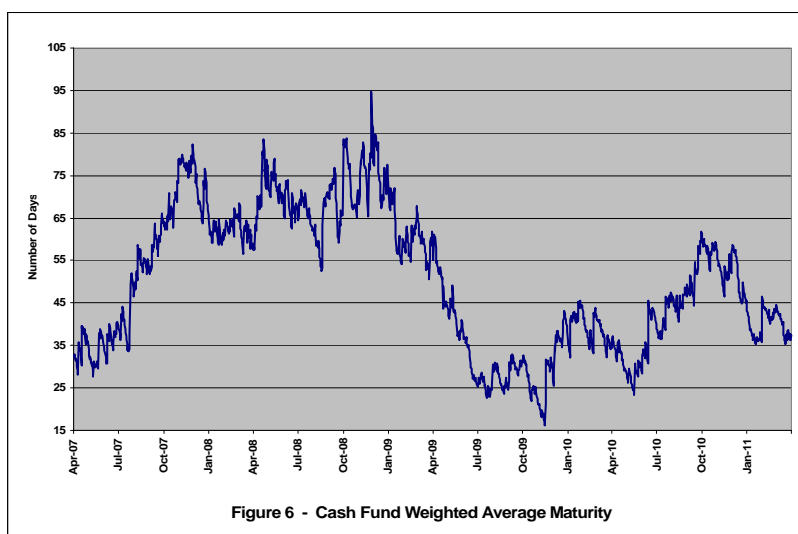
5.3 The average interest rate on the Fund for the year was 0.639 % this continued to outperform the benchmark of 0.434% for another financial year. This generated income of £1.65m for the financial year to CEC.

5.4 During this Financial Year the emphasis remained on security with the return of the principal sum being the main concern. With this in mind Cash Fund money invested in banking institutions is mostly on call or near call. Rates being achieved with Local Authority deposits increased during the year which made deposit rates more attractive than rates being achieved on Treasury Bills whilst having the same level of security. However, it must be appreciated that security comes at the cost of a lower investment return. Figure 5 below shows the distribution of the Cash Fund investments since April 2008.

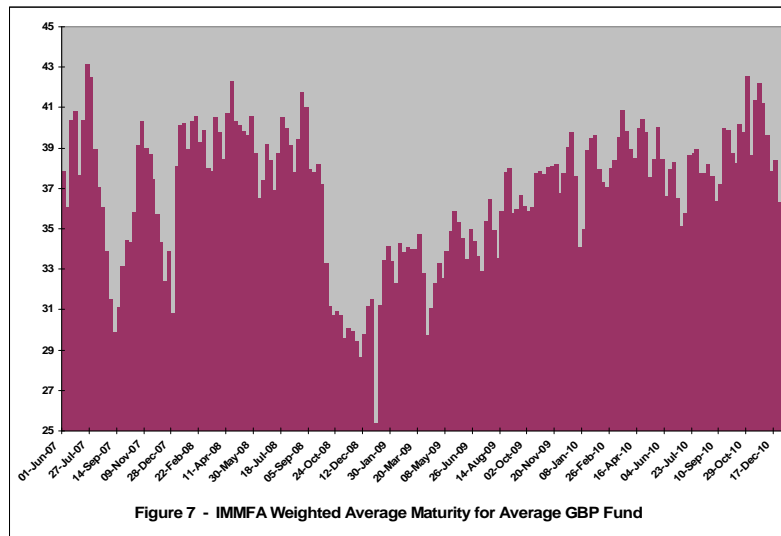


6 Cash Fund Investment Strategy

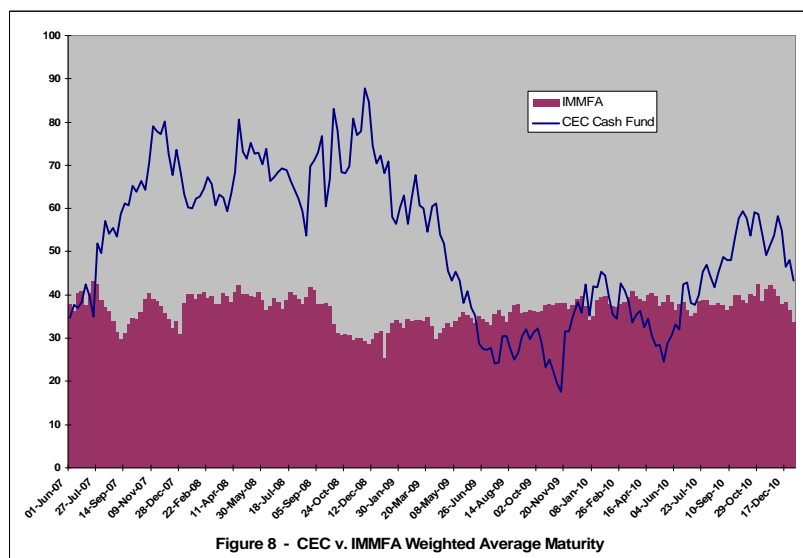
- 6.1 The Cash Fund's Investment Strategy continued to be based around security of the investments. Figure 6 below shows the weighted average maturity (WAM) of the Cash Fund since inception.



- 6.2 The Weighted Average Maturity increased at the end of January as the first of the longer local authority deposits was placed, then fell back during the quarter as additional funds were received.
- 6.3 It has been questioned what value in-house management of cash can achieve relative to Money Market Funds (MMFs). Figure 7 below shows a chart from a presentation at the CIPFA Scottish Treasury Management Forum AGM in February by the Secretary General of the Institutional Money Market Funds Association (IMMFA), the trade association for MMFs.



6.4 The slide is designed to show the relatively narrow range in which the Money Market Funds manage their weighted average maturity (WAM) to minimise performance volatility. The Funds use instruments such as Floating Rate Notes which have their interest rate reset periodically. Therefore changes in interest rates alter the value of the securities held, and limiting the WAM (the average time to the next interest rate reset NOT the investment's maturity) to a maximum of 60 days limits susceptibility to interest rate changes. The average time to maturity is referred to as the Weighted Average Life (WAL). Figure 8 below shows the Cash Fund's WAM (which in the case of the Cash Fund is the same as the WAL) superimposed on the IMMFA's WAM in Figure 7.



6.5 This shows that subject to liquidity requirements, the Cash Fund set up has allowed a more strategic investment approach to be taken. This is exemplified by the period in the latter part of 2008 when the Cash Fund's WAM was increased significantly with longer investments at high interest

rates with the most secure financial institutions such as HSBC before UK interest rates were cut dramatically. At the same time, the MMFs' WAM was reduced presumably to keep funds liquid to meet the substantial withdrawals from funds at that time as investors sought even safer havens. This led to the Cash Funds out performance relative to the average MMF of nearly 2% in the following period.

7 Compliance with Treasury Limits

7.1 During the financial year, the Council operated within the treasury limits set out in the Council's Treasury Policy Statement.

8 Conclusions

8.1 The Council's total outstanding debt to finance capital projects increased by £13.039m in 2010/11 and the council's pool rate was reduced further.

8.2 The Council borrowed £65m of PWLB loans at an average interest rate of 3.95%, and £25m of market debt running at 2% for the first year. This led to the Council having a borrowing in advance position of £88.366m at 31 March 2011, which will be required to fund capital expenditure in 2011/12.

8.3 The investment return for 2010/11 continued to show significant out-performance against the Fund's benchmark, although low in absolute terms, while maintaining the security of the investments.

9 Recommendations

9.1 It is recommended that the Council:

- notes the Annual Report on Treasury Management for 2010/11; and
- refers this report to the Finance and Resources Committee for their scrutiny.

Karen Kelly
Acting Director of Finance

Appendices	One
Contact/tel/e-mail	Innes Edwards (0131 469 6291)
Wards affected	All
Single Outcome Agreement	
Background Papers	

Appendix 1

Outstanding PWLB debt as at 31st March 2011

Start Date	Maturity Date	Loan Type	Principal Outstanding £	Interest Rate %
15-Jun-51	15/05/2011	E	2,089.93	3.00
15-Jun-51	15/05/2011	E	2,089.93	3.00
01-Dec-08	01/06/2011	M	5,000,000.00	2.74
08-Dec-08	08/06/2011	M	10,000,000.00	2.27
30-Oct-08	30/10/2011	M	5,000,000.00	3.65
23-Nov-51	11/11/2011	E	7,933.38	3.75
14-Dec-51	11/11/2011	E	284.85	3.75
14-Dec-51	11/11/2011	E	2,824.85	3.75
28-Dec-51	11/11/2011	E	3,501.08	3.75
01-Feb-52	11/11/2011	E	331.08	3.75
01-Feb-52	11/11/2011	E	26.85	3.75
01-Feb-52	11/11/2011	E	4,000.00	3.75
01-Feb-52	11/11/2011	E	1,208.60	3.75
13-Oct-08	13/04/2012	M	5,000,000.00	3.91
21-Apr-09	21/04/2013	M	10,000,000.00	2.39
01-Dec-08	01/12/2013	M	10,000,000.00	3.45
30-Mar-09	30/03/2014	M	5,000,000.00	2.61
21-Apr-09	21/04/2014	M	10,000,000.00	2.64
15-May-54	15/05/2014	E	3,502.48	4.00
01-Dec-08	01/06/2014	M	5,000,000.00	3.55
07-Jan-55	11/11/2014	E	5,973.41	3.75
08-Dec-08	08/12/2014	M	5,000,000.00	3.30
30-Mar-09	30/03/2015	M	5,000,000.00	2.84
12-May-09	12/05/2015	M	10,000,000.00	3.08
23-Feb-90	15/05/2015	M	8,000,000.00	10.88
06-Nov-90	25/03/2016	M	10,000,000.00	11.38
17-May-91	25/03/2016	M	10,000,000.00	11.00
13-Oct-09	13/04/2016	M	5,000,000.00	2.95
23-Apr-09	23/04/2016	M	5,000,000.00	2.96
17-Jan-91	15/05/2016	M	15,000,000.00	11.25
09-Jun-09	09/06/2016	M	5,000,000.00	3.37
27-Sep-91	25/09/2016	M	2,736,307.00	10.50
15-Aug-91	11/11/2016	M	10,000,000.00	10.88
10-Dec-08	10/12/2016	M	5,000,000.00	3.61
27-Mar-92	25/09/2017	M	10,000,000.00	10.63
09-Oct-08	09/10/2017	M	5,000,000.00	4.39
03-Apr-92	25/03/2018	M	30,000,000.00	10.88
23-Apr-09	23/04/2018	M	15,000,000.00	3.24
17-Sep-92	15/05/2018	M	8,496,500.00	9.75
09-Jun-09	09/06/2018	M	5,000,000.00	3.75
17-Sep-93	11/11/2018	M	5,000,000.00	7.88
23-Mar-94	11/11/2018	M	5,000,000.00	8.00
14-Mar-94	11/03/2019	M	2,997,451.21	7.63

18-Oct-93	25/03/2019	M	5,000,000.00	7.88
30-Mar-09	30/03/2019	M	5,000,000.00	3.46
21-Apr-09	21/04/2019	M	10,000,000.00	3.40
23-Apr-09	23/04/2019	M	5,000,000.00	3.38
23-Mar-94	11/11/2019	M	5,000,000.00	8.00
07-Dec-94	11/11/2019	M	10,000,000.00	8.63
12-Nov-08	12/11/2019	A	4,243,651.55	3.96
01-Dec-08	01/12/2019	A	4,232,371.10	3.65
01-Dec-09	01/12/2019	M	5,000,000.00	3.77
14-Dec-09	14/12/2019	M	10,000,000.00	3.91
15-Feb-95	25/03/2020	M	5,000,000.00	8.63
21-Apr-09	21/04/2020	M	10,000,000.00	3.54
12-May-09	12/05/2020	M	10,000,000.00	3.96
21-Oct-94	15/05/2020	M	5,000,000.00	8.63
07-Dec-94	15/05/2020	M	5,000,000.00	8.63
16-Aug-95	03/08/2020	M	2,997,451.21	8.38
09-Dec-94	11/11/2020	M	5,000,000.00	8.63
10-May-10	10/05/2021	A	4,807,433.81	3.09
21-Oct-94	15/05/2021	M	10,000,000.00	8.63
10-Mar-95	15/05/2021	M	11,900,000.00	8.75
12-Jun-95	15/05/2021	M	10,000,000.00	8.00
02-Jun-10	02/06/2021	M	5,000,000.00	3.89
16-Aug-94	03/08/2021	M	2,997,451.21	8.50
28-Apr-94	25/09/2021	M	5,000,000.00	8.13
23-Apr-09	23/04/2022	M	5,000,000.00	3.76
12-Jun-95	15/05/2022	M	10,200,000.00	8.00
14-Jun-10	14/06/2022	M	10,000,000.00	3.95
31-Mar-95	25/09/2022	M	6,206,000.00	8.63
16-Feb-95	03/02/2023	M	2,997,451.21	8.63
24-Apr-95	25/03/2023	M	10,000,000.00	8.50
05-Dec-95	15/05/2023	M	5,200,000.00	8.00
20-Sep-93	14/09/2023	M	2,997,451.21	7.88
20-Sep-93	14/09/2023	M	584,502.98	7.88
08-May-96	25/09/2023	M	10,000,000.00	8.38
13-Oct-09	13/10/2023	M	5,000,000.00	3.87
05-Dec-95	11/11/2023	M	10,000,000.00	8.00
10-May-10	10/05/2024	M	10,000,000.00	4.32
28-Sep-95	28/09/2024	M	2,895,506.10	8.25
14-Dec-09	14/12/2024	A	9,489,107.64	3.66
17-Oct-96	25/03/2025	M	10,000,000.00	7.88
10-May-10	10/05/2025	M	5,000,000.00	4.37
13-Feb-97	18/05/2025	M	10,000,000.00	7.38
20-Feb-97	11/11/2025	M	20,000,000.00	7.38
01-Dec-09	01/12/2025	A	14,294,516.09	3.64
21-Dec-95	21/12/2025	M	2,397,960.97	7.88
21-May-97	15/05/2026	M	10,000,000.00	7.13
28-May-97	15/05/2026	M	10,000,000.00	7.25
29-Aug-97	11/11/2026	M	5,000,000.00	7.00
24-Jun-97	11/11/2026	M	5,328,077.00	7.13
07-Aug-97	11/11/2026	M	15,000,000.00	6.88
13-Oct-97	25/03/2027	M	10,000,000.00	6.38
22-Oct-97	25/03/2027	M	5,000,000.00	6.50

13-Nov-97	15/05/2027	M	3,649,966.00	6.50
17-Nov-97	15/05/2027	M	5,000,000.00	6.50
12-Mar-98	11/11/2027	M	8,677,693.00	5.88
06-Sep-10	06/09/2028	M	10,000,000.00	3.85
14-Jul-50	03/03/2030	E	4,803.05	3.00
15-Jun-51	15/05/2031	E	4,804.49	3.00
06-Sep-10	06/09/2031	M	20,000,000.00	3.95
10-Dec-07	10/12/2037	M	10,000,000.00	4.49
23-Jan-06	23/07/2046	M	10,000,000.00	3.70
23-Jan-06	23/07/2046	M	10,000,000.00	3.70
19-May-06	19/11/2046	M	10,000,000.00	4.25
07-Jan-08	07/01/2048	M	5,000,000.00	4.40
27-Jan-06	27/07/2051	M	1,250,000.00	3.70
16-Jan-07	16/07/2052	M	40,000,000.00	4.25
30-Jan-07	30/07/2052	M	10,000,000.00	4.35
13-Feb-07	13/08/2052	M	20,000,000.00	4.35
20-Feb-07	20/08/2052	M	70,000,000.00	4.35
22-Feb-07	22/08/2052	M	50,000,000.00	4.35
08-Mar-07	08/09/2052	M	5,000,000.00	4.25
30-May-07	30/11/2052	M	10,000,000.00	4.60
11-Jun-07	11/12/2052	M	15,000,000.00	4.70
12-Jun-07	12/12/2052	M	25,000,000.00	4.75
05-Jul-07	05/01/2053	M	12,000,000.00	4.80
25-Jul-07	25/01/2053	M	5,000,000.00	4.65
10-Aug-07	10/02/2053	M	5,000,000.00	4.55
24-Aug-07	24/02/2053	M	7,500,000.00	4.50
13-Sep-07	13/03/2053	M	5,000,000.00	4.50
12-Oct-07	12/04/2053	M	5,000,000.00	4.60
05-Nov-07	05/05/2057	M	5,000,000.00	4.60
15-Aug-08	15/02/2058	M	5,000,000.00	4.39

1,014,120,223.27
