

## Treasury Management: Annual Report 2011/12

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### Finance and Resources Committee

25 September 2012

#### Purpose of Report

- 1 To refer the annual report on Treasury Management to the Finance and Resources Committee for scrutiny.

#### Main Report

- 2 On 23 August 2012, the Council considered the attached report by the Director of Corporate Governance detailing Treasury Management activity and the performance of the Council's Treasury function during 2011/12.
- 3 The Council:
  - a) noted the Annual Report on Treasury Management for 2011/12;
  - b) congratulated the Treasury Team for their achievements in 2011/12;
  - c) referred the Director's report to the Finance and Resources Committee for its scrutiny; and
  - d) noted the need to provide contextual information which allowed members of Finance and Resources to come to a judgement as to the effectiveness of the performance of the Treasury Management function.

#### For Decision

- 4 The Council has invited the Finance and Resources Committee to scrutinise the attached report.

**Carol Campbell**  
Acting Head of Legal, Risk and Compliance

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<b>Appendix</b>	Report no CEC/24/12-13/CG by the Director of Corporate Governance
<b>Contact/tel</b>	Innes Edwards 0131 469 6291; <a href="mailto:innes.edwards@edinburgh.gov.uk">innes.edwards@edinburgh.gov.uk</a>
<b>Wards affected</b>	City wide
<b>Background Papers</b>	Act of Council of 23 August 2012

## Treasury Management: Annual Report 2011/12

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### The City of Edinburgh Council

23 August 2012

#### 1 Purpose of report

- 1.1 To report on the Treasury Management activity undertaken and the performance of the Council's Treasury function during 2011/12.

#### 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 2011/12

As shown in Table 1 below, capital expenditure which was funded by borrowing was £230.199 million with a net funding requirement of £179.686 million.

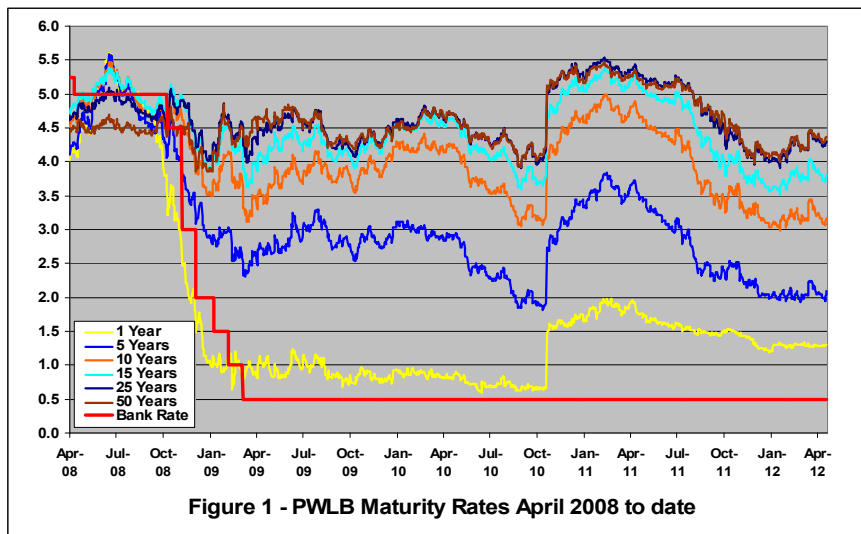
	£m
New capital expenditure to be financed by borrowing	230.199
Add maturing loans	22.653
Less repayment by services committees	(73.166)
<b>Net Funding Requirement</b>	<b>179.686</b>

**Table 1 - 2011/12 Debt Funding Requirements**

Although the Net Funding Requirement out-turn was £180m, it had been anticipated that it would be significantly higher than this during the year. Even in the 2012/13 Treasury Strategy report approved by Council in March 2012, it was projected to be £210m.

### 3.2 Borrowing out-turn for 2011/12

As noted above there was an anticipated Net Borrowing Requirement of £210m in 2011/12. The Net Borrowing requirement forecast for 2012/13 and 2013/14 were £174m and £25m respectively. A further £45m will also be required for National Housing Trust projects over the next three years. With £454 million to be borrowed, the strategy was to balance the Council's exposure to a large borrowing requirement with the likelihood that there would be lower interest rates due to little growth in the UK economy and the on-going European Sovereign Debt crisis. Figure 1 below shows PWLB Borrowing Rates from April 2008.



As previously reported, in anticipation of the increased borrowing requirement, the Council had borrowed substantially during the middle of 2010. Fortuitously, this was just before the increase to PWLB Rates announced in the Government's Comprehensive Spending review in October 2010. At the 31<sup>st</sup> March 2011, the Council had advance borrowings of £83.141m at an average rate of 3.41% and an average maturity of over 25 years. During 2011/12 a further £135million was borrowed from the Public Works Loans Board with an average interest rate of 4.28% and an average maturity in excess of 24 years. The borrowing for the year was completed in mid December, before rates started to increase again towards the end of the financial year. Although at the time this was still projected to show the Council slightly under borrowed, slippage in the capital programme left the Council with a pre-borrowed position of £38.538m at year end. In the budget in March 2012, the PWLB announced that it would introduce a reduction in the margin over gilts a reduction of 20 bps for PWLB borrowing, in return for greater information from local authorities. It has not yet been announced when this reduction will come into force.

Table 2 below summarises the outstanding debt portfolio during the year Appendix 1 provides details of the Council's outstanding PWLB debt at 31 March 2012. As can be seen from the table, the Council's actual debt increased by £112m during the year.

<b>Type of Loan</b>	<b>Balance 01.04.11 £m</b>	<b>Raised £m</b>	<b>Repaid £m</b>	<b>Balance 31.03.12 £m</b>
PWLB – fixed	1,014.120	135.000	(22.489)	1,126.631
PWLB – Variable	0.000	0.000	0.000	0.000
EIB	0.438	0.000	(0.164)	0.274
Market	280.900	0.000	0.000	280.900
Temp	7.557	0.068	0.000	7.625
	<u>1,303.015</u>	<u>135.068</u>	<u>(22.653)</u>	<u>1,415.430</u>
Capital Advances	1,219.875			1,376.892
Pre-borrowed	<u>(83.140)</u>			<u>(38.538)</u>

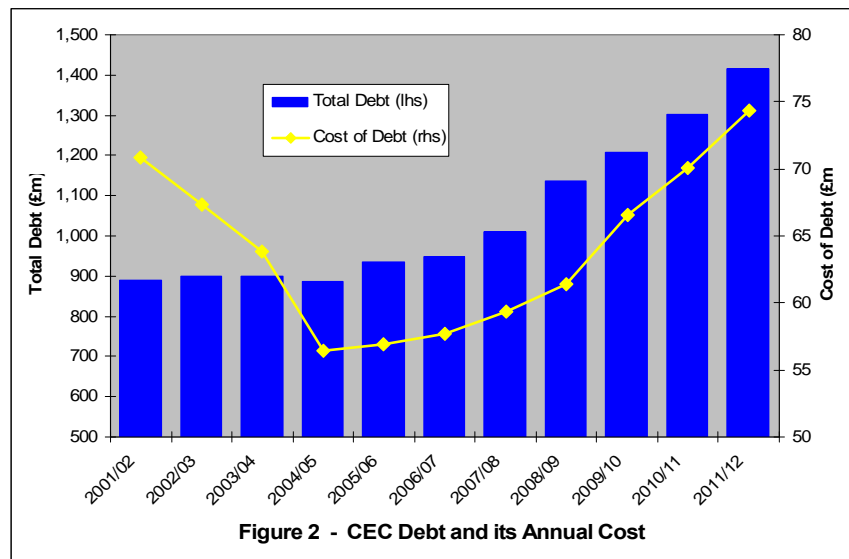
**Table 2 – Outstanding Debt Portfolio 2011/12**

With the re-profiling of the capital expenditure slippage, the Council's Net Borrowing Requirement between 2012/13 and 2014/15 is £264m, less the £38.6m borrowing carried forward from 2011/12. Gilt yields have fallen again since April as the effects of the on-going Eurozone Sovereign Debt are felt. The strategy has therefore been to reduce the Council's investments and hold off borrowing further at present until it becomes clearer how the current economic turmoil will be resolved. Having secured some good longer term rates, any borrowing that is undertaken is likely to be in the short to medium part of the curve.

#### **4 Pro-active Debt Management**

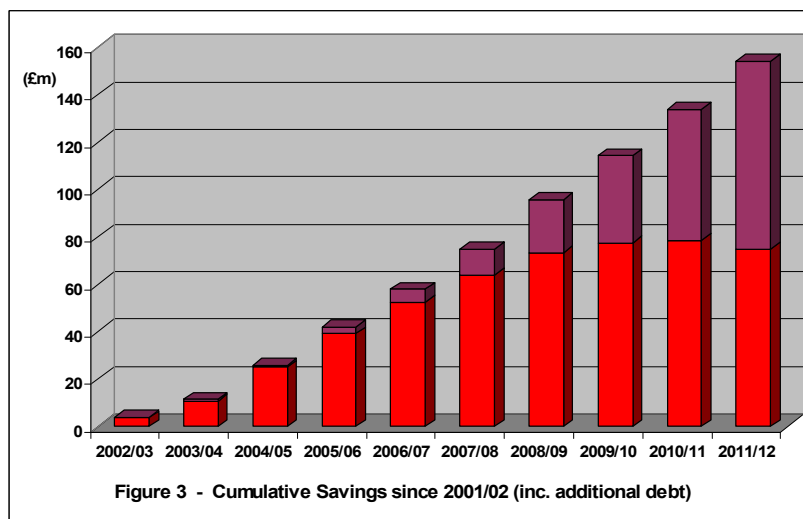
4.1 In spite of the historically low interest rate on the Council's new long term borrowing, the Council's Loans Pool Interest Rate, which reflects the cost to the Council of its external debt, increased slightly from 5.6684% to 5.7977% last year. This was mainly due to the phasing of the capital expenditure during the year with the main transport infrastructure expenditure occurring late in the financial year, giving a much lower weighted cumulative capital expenditure than would otherwise have been the case.

4.2 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 For the first time the cost of servicing the Council's debt has exceeded the 2001/02 base cost. However, in the intervening period, the Council's external debt has increased by over £0.5 billion, or nearly 60%.

4.3 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 from Figure 2 above although the Council substantially increased its level of debt from 2001/02, the cost of servicing the Council's debt was actually lower during the 2000s. When the cost of the additional debt which the Council has incurred since 2001/02 is included, the cumulative savings achieved increase to over £140 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 2011/12

- 5.1 The Council's money is invested in the Treasury Cash Fund. The Cash Fund encompasses a number of organisations, including Lothian Pension Fund, Lothian & Borders Police Board and Lothian & Borders Fire and Rescue Service. Interest is accrued on a monthly basis and performance is evaluated 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 during the financial year.

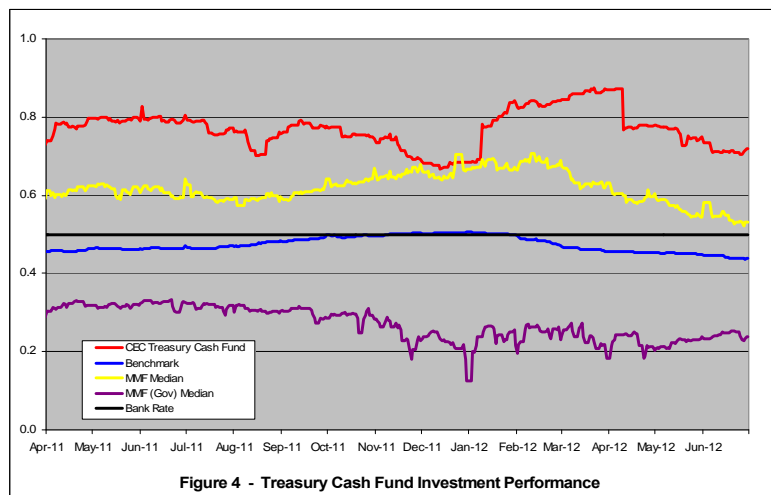
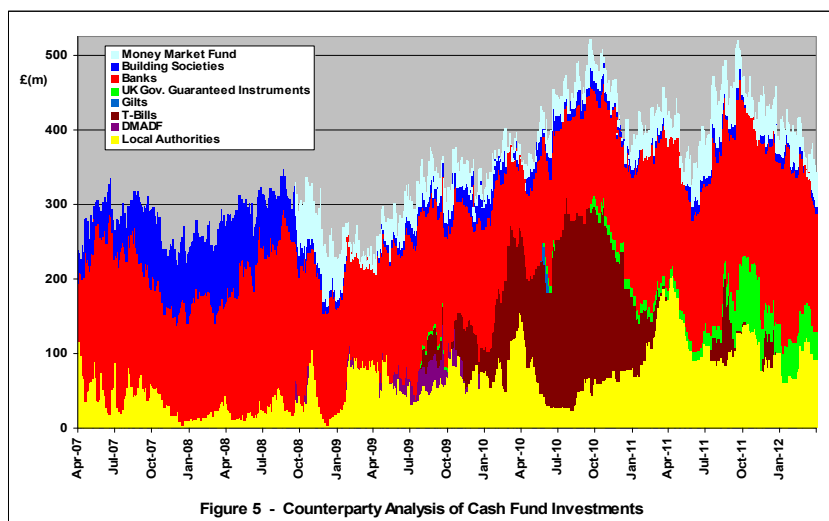


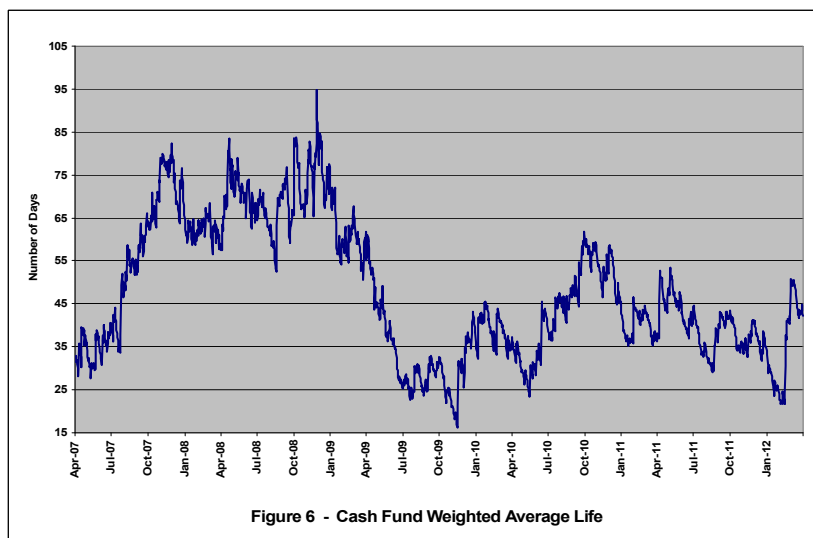
Figure 4 - Treasury Cash Fund Investment Performance

- 5.3 The average interest rate on the Fund for the year was 0.778066 % this continued to outperform the benchmark of 0.482561% for another financial year. This generated income of £2.047m for the financial year to CEC.
- 5.4 During this Financial Year the emphasis continued to remain on security with the return of the principal sum being the main concern. With this in mind Cash Fund money invested with banking institutions is mostly on call or near call. Rates being achieved with Local Authority deposits decreased during the year, and Treasury Bill rates also dropped which made achieving an attractive interest rate whilst securing security of principal extremely difficult. Figure 5 below shows the distribution of the Cash Fund investments since April 2007.



## 6 Cash Fund Investment Strategy

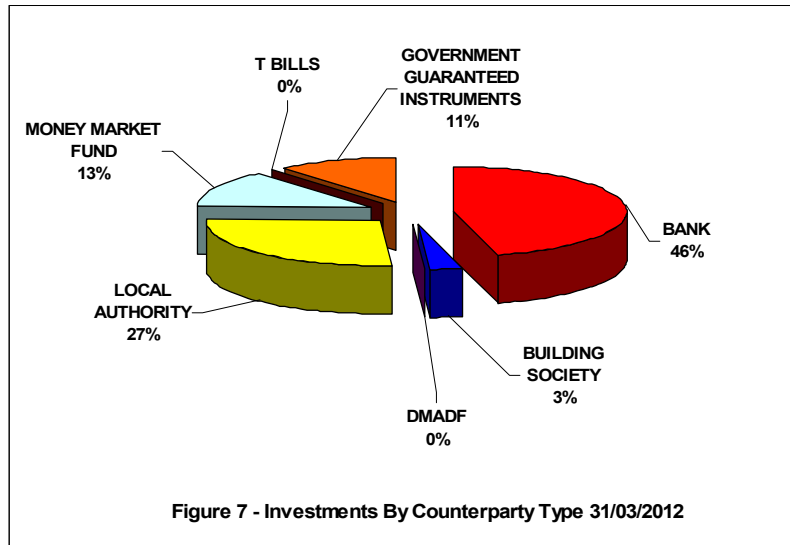
6.1 The Cash Fund's Investment Strategy continued to be based around security of the investments. Figure 6 below shows the weighted average maturity (WAM) of the Cash Fund since inception.



6.2 The WAL (weighted average time to the final maturity of investments) increased towards the end of the financial year as Some longer term deposits were placed with other local authorities to lock in higher interest rates whilst retaining the security of funds.

6.3 Figure 7 below shows the percentage asset distribution at the end of the financial year.





## 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 borrowed £135m of PWLB loans at an average interest rate of 4.28%. This led to the Council having a borrowing in advance position of £38.538m at 31 March 2012, which will be required to fund capital expenditure in 2012/13. The Council's total outstanding debt therefore increased by £112m in 2011/12 although the Council's Loans Pool Rate also increased slightly.
- 8.2 The investment return for 2011/12 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 2011/12; and
- refers this report to the Finance and Resources Committee for their scrutiny.

**Alastair Maclean,  
Director of Corporate Governance**

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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 31<sup>st</sup> March 2012

Start Date	Maturity Date	Loan Type	Principal Outstanding	Int Rate %
15-May-54	15-May-14	E	2,501.76	4
07-Jan-55	15-Nov-14	E	4,480.05	3.75
15-Jun-51	15-May-31	E	4,570.11	3
14-Jul-50	03-Mar-30	E	4,550.23	3
23-Feb-90	15-May-15	M	8,000,000.00	10.875
06-Nov-90	25-Mar-16	M	10,000,000.00	11.375
17-Jan-91	15-May-16	M	15,000,000.00	11.25
17-May-91	25-Mar-16	M	10,000,000.00	11
15-Aug-91	15-Nov-16	M	10,000,000.00	10.875
27-Sep-91	25-Sep-16	M	2,736,307.00	10.5
27-Mar-92	25-Sep-17	M	10,000,000.00	10.625
03-Apr-92	25-Mar-18	M	30,000,000.00	10.875
17-Sep-92	15-May-18	M	8,496,500.00	9.75
17-Sep-93	15-Nov-18	M	5,000,000.00	7.875
20-Sep-93	14-Sep-23	M	2,997,451.21	7.875
20-Sep-93	14-Sep-23	M	584,502.98	7.875
18-Oct-93	25-Mar-19	M	5,000,000.00	7.875
14-Mar-94	11-Mar-19	M	2,997,451.21	7.625
23-Mar-94	15-Nov-18	M	5,000,000.00	8
23-Mar-94	15-Nov-19	M	5,000,000.00	8
28-Apr-94	25-Sep-21	M	5,000,000.00	8.125
16-Aug-94	03-Aug-21	M	2,997,451.21	8.5
21-Oct-94	15-May-20	M	5,000,000.00	8.625
21-Oct-94	15-May-21	M	10,000,000.00	8.625
07-Dec-94	15-Nov-19	M	10,000,000.00	8.625
07-Dec-94	15-May-20	M	5,000,000.00	8.625
09-Dec-94	15-Nov-20	M	5,000,000.00	8.625
15-Feb-95	25-Mar-20	M	5,000,000.00	8.625
16-Feb-95	03-Feb-23	M	2,997,451.21	8.625
10-Mar-95	15-May-21	M	11,900,000.00	8.75
31-Mar-95	25-Sep-22	M	6,206,000.00	8.625
24-Apr-95	25-Mar-23	M	10,000,000.00	8.5
12-Jun-95	15-May-22	M	10,200,000.00	8
12-Jun-95	15-May-21	M	10,000,000.00	8
16-Aug-95	03-Aug-20	M	2,997,451.21	8.375
28-Sep-95	28-Sep-24	M	2,895,506.10	8.25
05-Dec-95	15-May-23	M	5,200,000.00	8
05-Dec-95	15-Nov-23	M	10,000,000.00	8
21-Dec-95	21-Dec-25	M	2,397,960.97	7.875
08-May-96	25-Sep-23	M	10,000,000.00	8.375
29-Aug-97	15-Nov-26	M	5,000,000.00	7
23-Jan-06	23-Jul-46	M	10,000,000.00	3.7
23-Jan-06	23-Jul-46	M	10,000,000.00	3.7
27-Jan-06	27-Jul-51	M	1,250,000.00	3.7
19-May-06	19-Nov-46	M	10,000,000.00	4.25
16-Jan-07	16-Jul-52	M	40,000,000.00	4.25

30-Jan-07	30-Jul-52	M	10,000,000.00	4.35
13-Feb-07	13-Aug-52	M	20,000,000.00	4.35
20-Feb-07	20-Aug-52	M	70,000,000.00	4.35
22-Feb-07	22-Aug-52	M	50,000,000.00	4.35
08-Mar-07	08-Sep-52	M	5,000,000.00	4.25
30-May-07	30-Nov-52	M	10,000,000.00	4.6
11-Jun-07	11-Dec-52	M	15,000,000.00	4.7
12-Jun-07	12-Dec-52	M	25,000,000.00	4.75
05-Jul-07	05-Jan-53	M	12,000,000.00	4.8
25-Jul-07	25-Jan-53	M	5,000,000.00	4.65
10-Aug-07	10-Feb-53	M	5,000,000.00	4.55
24-Aug-07	24-Feb-53	M	7,500,000.00	4.5
13-Sep-07	13-Mar-53	M	5,000,000.00	4.5
12-Oct-07	12-Apr-53	M	5,000,000.00	4.6
05-Nov-07	05-May-57	M	5,000,000.00	4.6
10-Dec-07	10-Dec-37	M	10,000,000.00	4.49
07-Jan-08	07-Jan-48	M	5,000,000.00	4.4
15-Aug-08	15-Feb-58	M	5,000,000.00	4.39
09-Oct-08	09-Oct-17	M	5,000,000.00	4.39
13-Oct-08	13-Apr-12	M	5,000,000.00	3.91
12-Nov-08	12-Nov-19	A	3,842,643.15	3.96
01-Dec-08	01-Dec-19	A	3,827,223.24	3.65
01-Dec-08	01-Dec-13	M	10,000,000.00	3.45
01-Dec-08	01-Jun-14	M	5,000,000.00	3.55
08-Dec-08	08-Dec-14	M	5,000,000.00	3.3
10-Dec-08	10-Dec-16	M	5,000,000.00	3.61
30-Mar-09	30-Mar-14	M	5,000,000.00	2.61
30-Mar-09	30-Mar-15	M	5,000,000.00	2.84
30-Mar-09	30-Mar-19	M	5,000,000.00	3.46
21-Apr-09	21-Apr-14	M	10,000,000.00	2.64
21-Apr-09	21-Apr-19	M	10,000,000.00	3.4
21-Apr-09	21-Apr-20	M	10,000,000.00	3.54
21-Apr-09	21-Apr-13	M	10,000,000.00	2.39
23-Apr-09	23-Apr-16	M	5,000,000.00	2.96
23-Apr-09	23-Apr-18	M	15,000,000.00	3.24
23-Apr-09	23-Apr-19	M	5,000,000.00	3.38
23-Apr-09	23-Apr-22	M	5,000,000.00	3.76
12-May-09	12-May-20	M	10,000,000.00	3.96
12-May-09	12-May-15	M	10,000,000.00	3.08
09-Jun-09	09-Jun-16	M	5,000,000.00	3.37
09-Jun-09	09-Jun-18	M	5,000,000.00	3.75
13-Oct-09	13-Apr-16	M	5,000,000.00	2.95
13-Oct-09	13-Oct-23	M	5,000,000.00	3.87
01-Dec-09	01-Dec-19	M	5,000,000.00	3.77
01-Dec-09	01-Dec-25	A	13,563,118.88	3.64
14-Dec-09	14-Dec-19	M	10,000,000.00	3.91
14-Dec-09	14-Dec-24	A	8,959,345.53	3.66
10-May-10	10-May-24	M	10,000,000.00	4.32
10-May-10	10-May-25	M	5,000,000.00	4.37
10-May-10	10-May-21	A	4,413,330.02	3.09
02-Jun-10	02-Jun-21	M	5,000,000.00	3.89
14-Jun-10	14-Jun-22	M	10,000,000.00	3.95

06-Sep-10	06-Sep-28	M	10,000,000.00	3.85
06-Sep-10	06-Sep-31	M	20,000,000.00	3.95
14-Jul-11	14-Jul-29	M	10,000,000.00	4.9
14-Jul-11	14-Jul-30	M	10,000,000.00	4.93
09-Aug-11	09-Feb-46	M	20,000,000.00	4.8
08-Sep-11	08-Sep-38	M	10,000,000.00	4.67
15-Sep-11	15-Sep-36	M	10,000,000.00	4.47
15-Sep-11	15-Sep-39	M	10,000,000.00	4.52
22-Sep-11	22-Sep-36	M	10,000,000.00	4.49
06-Oct-11	06-Oct-43	M	20,000,000.00	4.35
21-Nov-11	21-May-20	M	15,000,000.00	2.94
02-Dec-11	02-Jun-17	M	5,000,000.00	2.28
02-Dec-11	02-Dec-61	M	5,000,000.00	3.98
15-Dec-11	15-Jun-32	M	10,000,000.00	3.98
17-Oct-96	25-Mar-25	M	10,000,000.00	7.875
13-Feb-97	18-May-25	M	10,000,000.00	7.375
20-Feb-97	15-Nov-25	M	20,000,000.00	7.375
21-May-97	15-May-26	M	10,000,000.00	7.125
28-May-97	15-May-26	M	10,000,000.00	7.25
24-Jun-97	15-Nov-26	M	5,328,077.00	7.125
07-Aug-97	15-Nov-26	M	15,000,000.00	6.875
13-Oct-97	25-Mar-27	M	10,000,000.00	6.375
22-Oct-97	25-Mar-27	M	5,000,000.00	6.5
13-Nov-97	15-May-27	M	3,649,966.00	6.5
17-Nov-97	15-May-27	M	5,000,000.00	6.5
12-Mar-98	15-Nov-27	M	8,677,693.00	5.875

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**1,126,631,532.07**