Governance, Risk and Best Value Committee

10am, Thursday 3 April 2014

Annual Treasury Strategy 2014/15 – referral from the City of Edinburgh Council

Item number	8.7
Report number	
Wards	

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report

Carol Campbell

Head of Legal, Risk and Compliance

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Terms of Referral

Annual Treasury Strategy 2014/15

Terms of referral

The Council on 13 March 2014 considered a report providing proposals for a Treasury Management Strategy for 2014/15. The strategy included estimates of funding requirements, an economic forecast and borrowing and investment strategies.

The Council agreed:

1) To approve the Treasury Management Strategy for 2014/15.

2) To approve the Treasury Policy Statements.

3) To remit the report by the Director of Corporate Governance to the Governance, Risk and Best Value Committee for its scrutiny.

For decision/action

The City of Edinburgh Council has referred the attached report to the Governance, Risk and Best Value Committee for further scrutiny.

Background reading / external references

City of Edinburgh Council 13 March 2014

Links

Coalition pledges	See attached report
Council outcomes	See attached report
Single Outcome Agreement	See attached report
Appendices	Report by the Director of Corporate Governance

The City of Edinburgh Council

10.00am, Monday 13 March 2013

Annual Treasury Strategy 2014/15

Item number	8.4
Report number	
Wards	

Links

Coalition pledges	P30
Council outcomes	C025
Single Outcome Agreement	SO1

Alastair D Maclean

Director of Corporate Governance

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EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Executive summary

Annual Treasury Strategy 2014/15

Summary

This report sets out a Treasury Management Strategy for 2014/15 including estimates of funding requirements, an economic forecast and borrowing and investment strategies.

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:

- ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs;
- secure new funding at the lowest cost; 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.

Recommendations

It is recommended that the Council:

1. approves the Treasury Management Strategy for 2014/15;
2. approves the Treasury Policy Statements; and
3. remits the report to the Governance, Risk and Best Value Committee for their scrutiny.

Measures of success

The success of the Treasury Section can be measured by the out-performance of the Treasury Cash Fund against its benchmark and managing the Councils debt portfolio to minimise the cost to the Council while mitigating risk.

Financial impact

The Council continues to manage its debt portfolio so as to minimise the medium term cost of funding its capital projects.

The Treasury Cash Fund has generated significant additional income for the Council.

Equalities impact

There are no adverse equality impacts arising from this report.

Sustainability impact

There are no adverse sustainability impacts arising from this report.

Consultation and engagement

Not applicable.

Background reading / external references

For a copy of the City of Edinburgh Council Treasury Cash Fund Investment Report Quarter 4 2013, please contact Innes Edwards innes.edwards@edinburgh.gov.uk

Report

Annual Treasury Strategy 2014/15

1. Background

1.1 The Treasury Management Strategy 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 and to manage the Council's debt portfolio so as to minimise the medium term cost of funding.

1.2 Treasury Management is undertaken with regard to CIPFA's Code of Practice for Treasury Management in the Public Services and the Prudential Code. It also adheres to the statutory requirements in Scotland which require this report, including Capital Programme and Prudential Indicators to be approved by the full Council. Appendix 1 and Appendix 3 give detail of the capital investment programme and prudential indicators which have already been approved by Council as part of the budget process.

2. Main report

2.1 Economic and Market Outlook

2.1.1 Inflation Outlook

Figure 1 below shows CPI and RPI since March 2009. CPI grew by 2% in the year to December 2013, down from 2.1% in November. Inflation has therefore hit the Government's set target of 2%.

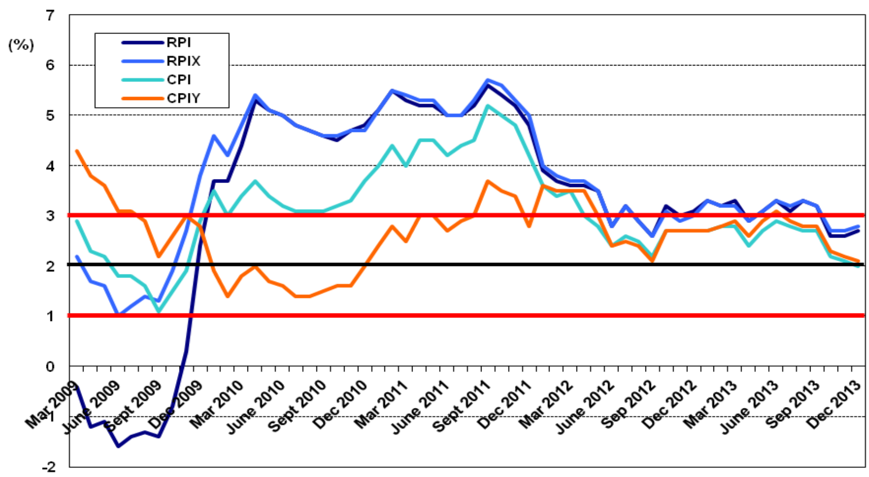

Figure 1 - CPI, CPIY, RPI and RPIX

2.1.2 The amount of Bonds purchased by the Bank of England under Quantitative Easing has remained at £375bn since July 2012 and the UK Bank Rate at 0.50% since March 2009.

2.1.3 UK retail sales figures released by the Office for National Statistics (ONS) show a 5.3% increase in December on a year ago, the fastest annual increase in sales in more than 9 years. The Unemployment Rate has fallen to only 0.1% above the level of forward guidance at which the Bank of England said unemployment would have to reach before it considered raising interest rates. This is way before the 2015 projection which the Bank of England had given for when this rate would be reached. The housing market has remained strong partly due to the brighter economic outlook with improvements in the labour market helping bolster sentiment among potential buyers. According to the Nationwide House Price Index, prices increased by 8.4% in 2013, around 5% below the all time highs recorded in late 2007. Although there is significant good news for the UK economy, it is still unlikely that this will feed through into an early tightening of monetary policy.

2.1.4 **Interest Rate Outlook**

Table 2 below gives a Reuters poll of up to 65 economists, taken 29 January, showing their forecasts for UK Bank Rate until Quarter 2 2015.

	2014				**2015**	
	Q1/14	**Q2/14**	**Q3/14**	**Q4/14**	**Q1/15**	**Q2/15**
Median	0.5	0.5	0.5	0.5	0.5	0.75
Mean	0.5	0.5	0.5	0.52	0.62	0.75
Mode	0.5	0.5	0.5	0.5	0.5	0.75
Highest	0.5	0.5	0.75	1	1.25	1.5
Lowest	0.5	0.5	0.5	0.5	0.5	0.5
Count	65	65	65	65	62	60

Table 2 – Forecast for UK Bank Rate

This now shows that most economists believe Bank Rate will be raised to 0.75% in quarter 2 2015 although there are still some who believe Bank Rate will stay at 0.50% in the same period.

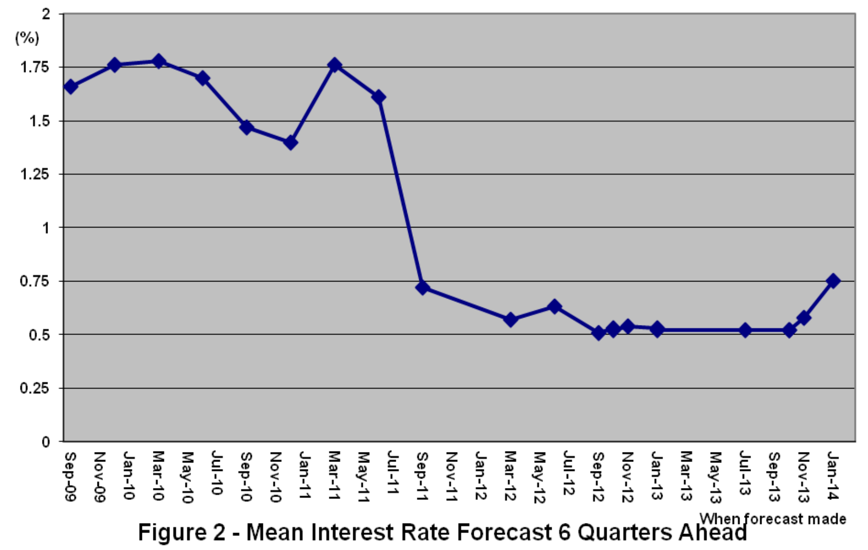

Figure 2 - Mean Interest Rate Forecast 6 Quarters Ahead

2.1.5 Figure 2 above shows the mean forecasts of economists from September 2009 of what the UK Bank Rate will be in 6 quarters time from the date of the forecast.

2.2 Treasury Management Strategy – Debt

2.2.1 The overall objectives of the Council's Strategy for Debt Management are to:

- forecast average future interest rates and borrow accordingly;
- secure new funding at the lowest cost in a manner that is sustainable in the medium term;
- ensure that the Council's interest rate risk is managed appropriately;
- ensure smooth debt profile with a spread of maturities; and
- reschedule debt to take advantage of interest rates.

2.2.2 Table 1 below summarises how much the Council needs to borrow for the next five years. It is anticipated that the Council's capital expenditure to be financed by borrowing in 2014/15 will be £92.32 million. However, an estimated £80.85million of this is financed by repayments of previous advances from service departments, giving net new additional borrowing of £11.47 million. A further £27.74 million of external loans mature during the year and these require to be re-financed. The Council therefore has a total borrowing requirement of £39.21m for the year. The Council was £58.68m under-borrowed at the end of 2012/13 and is currently projected to be under-borrowed by £135.16 million at the end of 2013/14.

	2013/14 £(m)	2014/15 £(m)	2015/16 £(m)	2016/17 £(m)	2017/18 £(m)	2018/19 £(m)
Debt b/fd	**1,431.36**	**1,403.62**	**1,375.88**	**1,331.04**	**1,279.36**	**1,225.31**
Cummulative Capital Expenditure b/fd	**1,490.05**	**1,538.83**	**1,550.30**	**1,541.30**	**1,480.81**	**1,439.61**
Over/underborrowed b/fd	**-58.68**					
Capital expenditure to be financed by borrowing	121.15	92.32	73.04	25.14	48.05	28.80
less scheduled repayments by borrowing committees	-72.37	-80.85	-82.04	-85.64	-89.24	-92.84
	48.79	11.47	-9.00	-60.50	-41.19	-64.04
plus total maturing debt	27.74	27.74	44.84	51.68	54.05	54.66
Total Borrowing Requirement	**76.53**	**39.21**	**35.84**	**-8.82**	**12.86**	**-9.39**
Actual PWLB Borrowed for year	0.00					
Debt at end of the year	**1,403.62**	**1,375.88**	**1,331.04**	**1,279.36**	**1,225.31**	**1,170.65**
Cummulative Capital Expenditure	**1,538.83**	**1,550.30**	**1,541.30**	**1,480.81**	**1,439.61**	**1,375.57**
Cummulative Over/under Borrowed	**-135.21**	**-174.42**	**-210.26**	**-201.45**	**-214.31**	**-204.92**

Table 1 – Borrowing Requirement (CEC only)

2.2.3 Due to the Strategy of using Investments to fund expenditure the projection above for the end of this financial year shows a significantly under-borrowed position. There is also a large borrowing requirement anticipated for the next financial year.

2.2.4 Figure 3 below shows the interest rates for borrowing new maturity loans from the Government via the Public Works Loans Board since April 2005

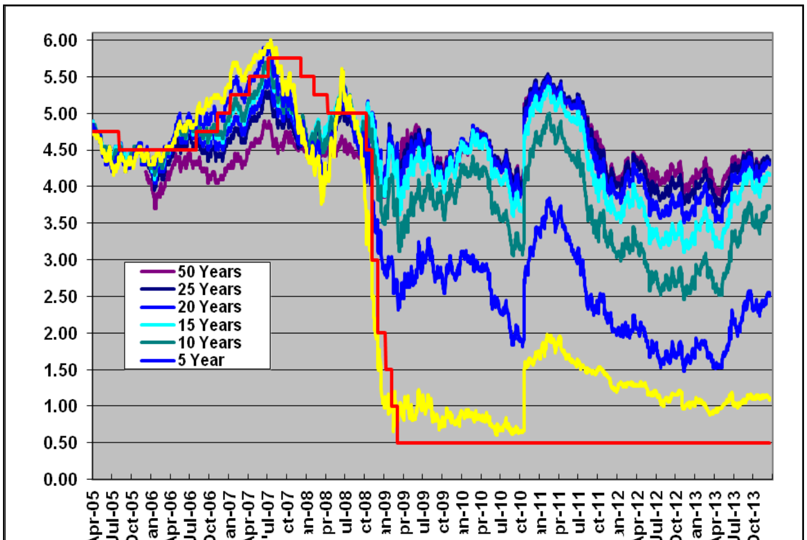

Figure 3 - PWLB Rates 2005 to Date

2.2.5 There has been some press comment on interest rates rising this year in light of the better growth in the UK economy. However, although the UK Bank Rate has not been raised, and is actually likely to stay at 0.5% for some time to come, medium and longer rates have been rising since April 2013, with most of them up over 1% in that period. However, this rise has been pre-empted by the strategy which the Council has been running over the last 5 years. Table 2 below shows the borrowing undertaken since 2009.

Period Maturity	**Amount Borrowed**	**Average Maturity**	**Average Interest Rate**
2009/10	£165m	13 years	3.14%
2010 to 12	£225m	25 years	3.93%
2012/13	£50m	13 years	3.10%

Table 2 - Borrowing from 2009 to 2014

2.2.6 In 2009/10 a combination of short term borrowing to fill in the maturity profile and attractive longer term debt was taken. In 2010 to 2012, as we considered short term rates would be low for longer, longer term debt was locked out at historically attractive rates, averaging under 4%. In 2012/13, we moved from longer term to securing medium term debt at nearer 3% before the rates increased.

2.2.7 The final phase of this strategy has been to reduce the Council's surplus funds by using them to temporarily fund capital expenditure rather than securing new borrowing. The Council's investment balances were reduced to only £22m between Christmas and New Year and are expected to reduce to zero in the early part of the new financial year. Temporary short term borrowing will then be used to fund the Council's expenditure. By funding expenditure using Investment balances the Council is saving around 3.5% due to using Investments running at an average rate of 0.54% over the last three months as compared to borrowing from the PWLB for 15 years over the same period averaging 4.07%. On a borrowing requirement of £135m this is a substantial short term saving to the Council.

2.2.8 Depending on the Council's cash flows, it is intended to use investments and temporary borrowing to fund the net borrowing requirement for 2014/15. PWLB borrowing, if any, is also likely to be short term as will be considered as the economy and interest rates evolve.

2.2.9 It is anticipated that the strategy outlined in this report will result in a further reduction to the Council's Pool Rate out-turn for 2013/14 although savings generated by using temporary investments are not sustainable in the medium term. Appendix 2 lists the maturity of the Council's debt as of February 2014.

2.3 **Treasury Management Strategy – Investment of Surplus Funds**

2.3.1 In line with CIPFA's Code of Practice, the overall objectives of the Council's Strategy for Investment Management are to:

- ensure the security of funds invested;
- ensure that the Council has sufficient liquid funds to cover its expenditure commitments; and
- pursue optimum investment return within the above two objectives.

2.3.2 The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Treasury Management Policy Statement in Appendix 5. The only change to the previously approved Treasury Policy Statement is to add a percentage limit to Building Societies in addition to a monetary limit. Monies of the Common Good are also invested in the Treasury Cash Fund.

2.3.3 The Cash Fund's Investment Strategy continues to be based around the security of the investments. Figure 4 shows the distribution of Cash Fund deposits since inception.

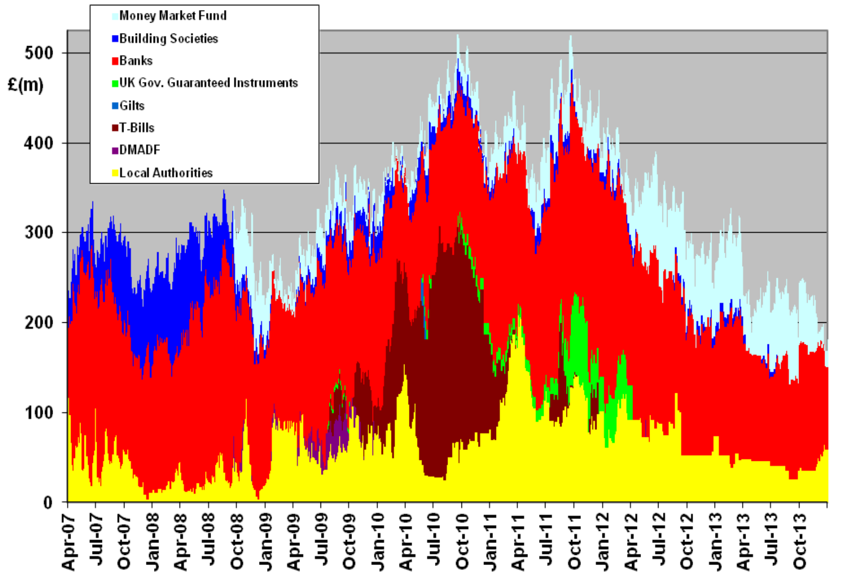

Figure 4 - Counterparty Analysis of Cash Fund Investments

2.3.4 This financial year has proved yet again to be very difficult in striking the balance between maintaining a high level of security and at the same time achieving an adequate return. As can be seen in Figure 4 above deposits placed with local authorities increased over the end of the calendar year, this was due to increased demand over the festive period. Any deposits within Money Market Funds and Banks are all instant access.

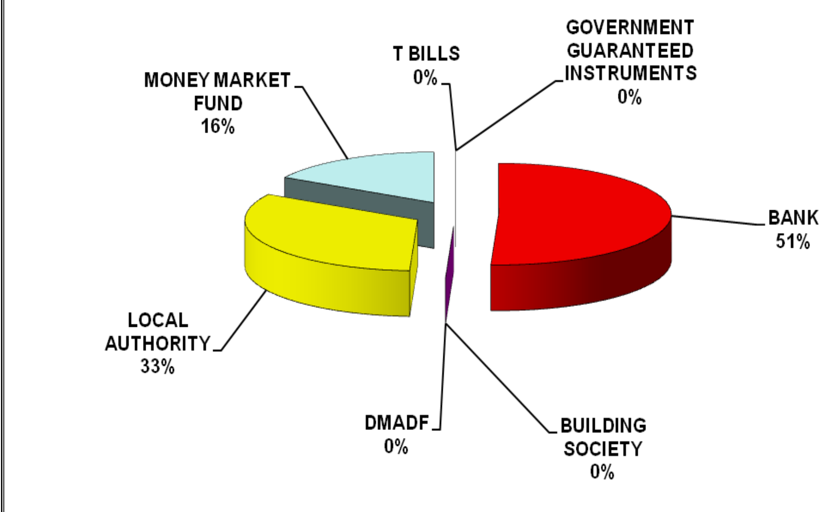

Figure 5 - Investments By Counterparty Type 31/12/2013

2.3.5 The amount on deposit with Local Authorities has increased by 17% since the mid-term report. The reduction in the amount of overall investments has meant a drop in value of funds deposited in Banks and Money Market funds. Figure 5 shows Investments by Counterparty type at 31 December 2013.

2.3.6 Figure 6 below shows the source of the funds under management in the Cash Fund. The effect of the Council's under-borrowed position explained above is clear in the reduction of funds invested.

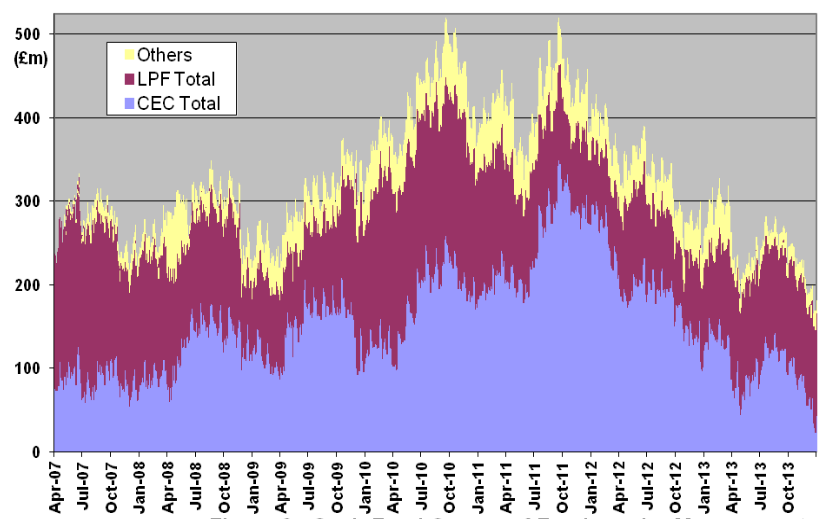

Figure 6 - Cash Fund Source of Funds under Management

3. Recommendations

3.1 It is recommended that the Council:

3.1.1 approves the Treasury Management Strategy for 2014/15;

3.1.2 approves the Treasury Policy Statements; and

3.1.3 remits the report to the Governance, Risk and Best Value Committee for their scrutiny.

Alastair D Maclean

Director of Corporate Governance

Links

Coalition pledges	P30 - Continue to Maintain a sound financial position including long-term financial planning
Council outcomes	C025 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all
Appendices	Appendix 1 – Capital Investment Programme Appendix 2 – Maturing Debt Profile as at February 2013 Appendix 3 – Prudential Indicators Appendix 4 – Treasury Management Policy Statement – The City of Edinburgh Council Appendix 5 – Treasury Management Policy Statement – Treasury Cash Fund

Appendix 1

CAPITAL INVESTMENT PROGRAMME 2014-2019

SUMMARY OF EXPENDITURE AND RESOURCES - GENERAL SERVICES

2014-2019	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Expenditure	**157,518**	**95,977**	**59,249**	**50,187**	**40,307**	**403,238**
Resources						
Capital receipts						
General asset sales	8,000	8,000	8,000	8000	8,350	**40,350**
Less General asset sales for property rationalisation savings	(6,200)	(2,350)	-	-	-	**(8,550)**
Asset sales to reduce corporate borrowing	3,000	3,150	2,250	-	-	**8,400**
Ring-fenced asset sales	-	-	14,895	-	-	**14,895**
Developers and other contributions	1,690	845	-	-	-	**2,535**
Capital Grants Unapplied Account	253	-	-	-	-	**253**
Total receipts	6,743	9,645	25,145	8,000	8,350	**57,883**
Grants						
Specific Capital Grant	33,274	-	-	-	-	**33,274**
General Capital Grant	50,658	45,000	40,000	38,000	38,000	**211,658**
Total Grants	83,932	45,000	40,000	38,000	38,000	**244,932**

Borrowing						
Support brought forward	62,996	-	-	-	-	**62,996**
Prudential framework						
- Through council tax	9,247	4,458	120	-	-	**13,825**
- Departmentally supported	15,248	1,200	-	-	-	**16,448**
Total borrowing	87,491	5,658	120	-	-	**93,269**
Over / (under)-programming	(20,648)	35,674	(6,016)	4,187	(6,043)	**7,154**
Total Resources	**157,518**	**95,977**	**59,249**	**50,187**	**40,307**	**403,238**

Grant funding for 2015/16, 2016/17,2017/18 and 2018/2019 is outside the current three year settlement and therefore the grant settlement figures for these years are based on estimates.

Programme Heading	2014/15	2015/16	2016/17	2017/18	2018/19	Total
	£million	£million	£million	£million	£million	
HRA Core programme						
Housing Investment (incl SHQS work in 2014/15)	27.610	22.755	23.255	23.255	23.255	**120.130**
Neighbourhood Environmental Investment	2.150	2.150	2.150	2.150	2.150	**10.750**
Community Care	1.892	1.736	1.814	1.895	1.981	**9.318**
Regeneration	1.400	0.010	0.000	0.000	0.000	**1.410**
Capital & Council House Sales Salaries	4.100	4.200	3.800	3.800	3.800	**19.700**
Sub Total	***37.152***	***30.851***	***31.019***	***31.100***	***31.186***	**161.308**
21st Century Homes						
21st Century Homes Investment	11.043	16.561	12.547	16.648	7.235	**64.034**
Total	**48.195**	**47.412**	**43.566**	**47.748**	**38.421**	**225.342**
Funding Source	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**Total**
HRA core programme						
Prudential Borrowing	-33.645	-27.544	-28.223	-29.479	-29.565	**-148.456**
Receipts from Council House Sales	-2.350	-1.692	-1.175	0.000	0.000	**-5.217**
Receipts from other HRA assets (Land etc)	0.000	0.000	0.000	0.000	0.000	**0.000**
Capital Grant	0.000	0.000	0.000	0.000	0.000	**0.000**
Owners Contributions	-1.157	-1.615	-1.621	-1.621	-1.621	**-7.635**
Sub Total	***-37.152***	***-30.851***	***-31.019***	***-31.100***	***-31.186***	**-161.308**
21st Century Homes						
CFCR and Reserves	-8.331	-13.663	-10.770	-2.500	-2.500	**-37.764**
Prudential Borrowing	0.000	0.000	-1.317	-12.882	-3.779	**-17.978**
Developers contributions	-1.087	-0.743	-0.460	-1.266	-0.956	**-4.512**
Scottish Government Subsidy	-1.625	-2.155	0.000	0.000	0.000	**-3.780**
Sub Total	**-11.043**	**-16.561**	**-12.547**	**-16.648**	**-7.235**	**-64.034**
Total	**-48.195**	**-47.412**	**-43.566**	**-47.748**	**-38.421**	**-225.342**

Appendix 2

Maturing Debt Profile

As at February 2014

PWLB

Start Date	Loan Type	Maturity Date	Principal Outstanding	Int Rate %	Annual Int
15/05/1954	P	15/05/2014	500.32	4	20.01
07/01/1955	P	15/11/2014	1,493.33	3.75	56.00
15/06/1951	P	15/05/2031	4,101.35	3	123.04
14/07/1950	P	03/03/2030	4,171.00	3	125.13
23/02/1990	P	15/05/2015	8,000,000.00	10.875	870,000.00
06/11/1990	P	25/03/2016	10,000,000.00	11.375	1,137,500.00
17/01/1991	P	15/05/2016	15,000,000.00	11.25	1,687,500.00
17/05/1991	P	25/03/2016	10,000,000.00	11	1,100,000.00
15/08/1991	P	15/11/2016	10,000,000.00	10.875	1,087,500.00
27/09/1991	P	25/09/2016	2,736,307.00	10.5	287,312.24
27/03/1992	P	25/09/2017	10,000,000.00	10.625	1,062,500.00
03/04/1992	P	25/03/2018	30,000,000.00	10.875	3,262,500.00
17/09/1992	P	15/05/2018	8,496,500.00	9.75	828,408.75
17/09/1993	P	15/11/2018	5,000,000.00	7.875	393,750.00
20/09/1993	P	14/09/2023	2,997,451.21	7.875	236,049.28
20/09/1993	P	14/09/2023	584,502.98	7.875	46,029.61
18/10/1993	P	25/03/2019	5,000,000.00	7.875	393,750.00
14/03/1994	P	11/03/2019	2,997,451.21	7.625	228,555.65
23/03/1994	P	15/11/2018	5,000,000.00	8	400,000.00
23/03/1994	P	15/11/2019	5,000,000.00	8	400,000.00
28/04/1994	P	25/09/2021	5,000,000.00	8.125	406,250.00
16/08/1994	P	03/08/2021	2,997,451.21	8.5	254,783.35
21/10/1994	P	15/05/2020	5,000,000.00	8.625	431,250.00
21/10/1994	P	15/05/2021	10,000,000.00	8.625	862,500.00
07/12/1994	P	15/11/2019	10,000,000.00	8.625	862,500.00
07/12/1994	P	15/05/2020	5,000,000.00	8.625	431,250.00
09/12/1994	P	15/11/2020	5,000,000.00	8.625	431,250.00
15/02/1995	P	25/03/2020	5,000,000.00	8.625	431,250.00
16/02/1995	P	03/02/2023	2,997,451.21	8.625	258,530.17
10/03/1995	P	15/05/2021	11,900,000.00	8.75	1,041,250.00
31/03/1995	P	25/09/2022	6,206,000.00	8.625	535,267.50
24/04/1995	P	25/03/2023	10,000,000.00	8.5	850,000.00
12/06/1995	P	15/05/2022	10,200,000.00	8	816,000.00
12/06/1995	P	15/05/2021	10,000,000.00	8	800,000.00
16/08/1995	P	03/08/2020	2,997,451.21	8.375	251,036.54
28/09/1995	P	28/09/2024	2,895,506.10	8.25	238,879.25
05/12/1995	P	15/05/2023	5,200,000.00	8	416,000.00
05/12/1995	P	15/11/2023	10,000,000.00	8	800,000.00
21/12/1995	P	21/12/2025	2,397,960.97	7.875	188,839.43
08/05/1996	P	25/09/2023	10,000,000.00	8.375	837,500.00
29/08/1997	P	15/11/2026	5,000,000.00	7	350,000.00
23/01/2006	P	23/07/2046	10,000,000.00	3.7	370,000.00
23/01/2006	P	23/07/2046	10,000,000.00	3.7	370,000.00
27/01/2006	P	27/07/2051	1,250,000.00	3.7	46,250.00
19/05/2006	P	19/11/2046	10,000,000.00	4.25	425,000.00
16/01/2007	P	16/07/2052	40,000,000.00	4.25	1,700,000.00

30/01/2007	P	30/07/2052	10,000,000.00	4.35	435,000.00
13/02/2007	P	13/08/2052	20,000,000.00	4.35	870,000.00
20/02/2007	P	20/08/2052	70,000,000.00	4.35	3,045,000.00
22/02/2007	P	22/08/2052	50,000,000.00	4.35	2,175,000.00
08/03/2007	P	08/09/2052	5,000,000.00	4.25	212,500.00
30/05/2007	P	30/11/2052	10,000,000.00	4.6	460,000.00
11/06/2007	P	11/12/2052	15,000,000.00	4.7	705,000.00
12/06/2007	P	12/12/2052	25,000,000.00	4.75	1,187,500.00
05/07/2007	P	05/01/2053	12,000,000.00	4.8	576,000.00
25/07/2007	P	25/01/2053	5,000,000.00	4.65	232,500.00
10/08/2007	P	10/02/2053	5,000,000.00	4.55	227,500.00
24/08/2007	P	24/02/2053	7,500,000.00	4.5	337,500.00
13/09/2007	P	13/03/2053	5,000,000.00	4.5	225,000.00
12/10/2007	P	12/04/2053	5,000,000.00	4.6	230,000.00
05/11/2007	P	05/05/2057	5,000,000.00	4.6	230,000.00
10/12/2007	P	10/12/2037	10,000,000.00	4.49	449,000.00
07/01/2008	P	07/01/2048	5,000,000.00	4.4	220,000.00
15/08/2008	P	15/02/2058	5,000,000.00	4.39	219,500.00
09/10/2008	P	09/10/2017	5,000,000.00	4.39	219,500.00
12/11/2008	P	12/11/2019	2,991,873.55	3.96	118,478.19
01/12/2008	P	01/12/2019	2,971,609.34	3.65	108,463.74
01/12/2008	P	01/06/2014	5,000,000.00	3.55	177,500.00
08/12/2008	P	08/12/2014	5,000,000.00	3.3	165,000.00
10/12/2008	P	10/12/2016	5,000,000.00	3.61	180,500.00
30/03/2009	P	30/03/2014	5,000,000.00	2.61	130,500.00
30/03/2009	P	30/03/2015	5,000,000.00	2.84	142,000.00
30/03/2009	P	30/03/2019	5,000,000.00	3.46	173,000.00
21/04/2009	P	21/04/2014	10,000,000.00	2.64	264,000.00
21/04/2009	P	21/04/2019	10,000,000.00	3.4	340,000.00
21/04/2009	P	21/04/2020	10,000,000.00	3.54	354,000.00
23/04/2009	P	23/04/2016	5,000,000.00	2.96	148,000.00
23/04/2009	P	23/04/2018	15,000,000.00	3.24	486,000.00
23/04/2009	P	23/04/2019	5,000,000.00	3.38	169,000.00
23/04/2009	P	23/04/2022	5,000,000.00	3.76	188,000.00
12/05/2009	P	12/05/2020	10,000,000.00	3.96	396,000.00
12/05/2009	P	12/05/2015	10,000,000.00	3.08	308,000.00
09/06/2009	P	09/06/2016	5,000,000.00	3.37	168,500.00
09/06/2009	P	09/06/2018	5,000,000.00	3.75	187,500.00
13/10/2009	P	13/04/2016	5,000,000.00	2.95	147,500.00
13/10/2009	P	13/10/2023	5,000,000.00	3.87	193,500.00
01/12/2009	P	01/12/2019	5,000,000.00	3.77	188,500.00
01/12/2009	P	01/12/2025	12,018,742.29	3.64	437,482.22
14/12/2009	P	14/12/2019	10,000,000.00	3.91	391,000.00
14/12/2009	P	14/12/2024	7,840,398.50	3.66	286,958.59
10/05/2010	P	10/05/2024	10,000,000.00	4.32	432,000.00
10/05/2010	P	10/05/2025	5,000,000.00	4.37	218,500.00
10/05/2010	P	10/05/2021	3,587,924.66	3.09	110,866.87
02/06/2010	P	02/06/2021	5,000,000.00	3.89	194,500.00
14/06/2010	P	14/06/2022	10,000,000.00	3.95	395,000.00
06/09/2010	P	06/09/2028	10,000,000.00	3.85	385,000.00
06/09/2010	P	06/09/2031	20,000,000.00	3.95	790,000.00
14/07/2011	P	14/07/2029	10,000,000.00	4.9	490,000.00
14/07/2011	P	14/07/2030	10,000,000.00	4.93	493,000.00
09/08/2011	P	09/02/2046	20,000,000.00	4.8	960,000.00
08/09/2011	P	08/09/2038	10,000,000.00	4.67	467,000.00
15/09/2011	P	15/09/2036	10,000,000.00	4.47	447,000.00
15/09/2011	P	15/09/2039	10,000,000.00	4.52	452,000.00

22/09/2011	P	22/09/2036	10,000,000.00	4.49	449,000.00
06/10/2011	P	06/10/2043	20,000,000.00	4.35	870,000.00
21/11/2011	P	21/05/2020	15,000,000.00	2.94	441,000.00
02/12/2011	P	02/06/2017	5,000,000.00	2.28	114,000.00
02/12/2011	P	02/12/2061	5,000,000.00	3.98	199,000.00
15/12/2011	P	15/06/2032	10,000,000.00	3.98	398,000.00
14/05/2012	P	14/11/2024	10,000,000.00	3.36	336,000.00
16/11/2012	P	16/05/2025	20,000,000.00	2.88	576,000.00
13/12/2012	P	13/06/2027	20,000,000.00	3.18	636,000.00
17/10/1996	P	25/03/2025	10,000,000.00	7.875	787,500.00
13/02/1997	P	18/05/2025	10,000,000.00	7.375	737,500.00
20/02/1997	P	15/11/2025	20,000,000.00	7.375	1,475,000.00
21/05/1997	P	15/05/2026	10,000,000.00	7.125	712,500.00
28/05/1997	P	15/05/2026	10,000,000.00	7.25	725,000.00
24/06/1997	P	15/11/2026	5,328,077.00	7.125	379,625.49
07/08/1997	P	15/11/2026	15,000,000.00	6.875	1,031,250.00
13/10/1997	P	25/03/2027	10,000,000.00	6.375	637,500.00
22/10/1997	P	25/03/2027	5,000,000.00	6.5	325,000.00
13/11/1997	P	15/05/2027	3,649,966.00	6.5	237,247.79
17/11/1997	P	15/05/2027	5,000,000.00	6.5	325,000.00
12/03/1998	P	15/11/2027	8,677,693.00	5.875	509,814.46
			1,146,430,583.44		63,669,953.30

MARKET

Start Date	Loan Type	Maturity Date	Principal Outstanding	Int Rate %	Annual Int
03/12/1990	M	04/12/2015	2,000,000.00	11	220,000.00
12/12/1990	M	11/12/2015	2,000,000.00	11	220,000.00
30/03/1992	M	30/03/2017	1,000,000.00	10.25	102,500.00
21/08/1992	M	21/08/2017	500,000.00	9.75	48,750.00
21/08/1992	M	21/08/2017	500,000.00	9.75	48,750.00
12/11/1998	M	13/11/2028	3,000,000.00	4.75	142,500.00
15/12/2003	M	15/12/2053	10,000,000.00	5.25	525,000.00
18/02/2004	M	18/02/2054	10,000,000.00	4.54	454,000.00
28/04/2005	M	28/04/2055	12,900,000.00	4.75	612,750.00
01/07/2005	M	01/07/2065	10,000,000.00	3.86	386,000.00
30/06/2005	M	30/06/2065	5,000,000.00	4.4	220,000.00
07/07/2005	M	07/07/2065	5,000,000.00	4.4	220,000.00
24/08/2005	M	24/08/2065	5,000,000.00	4.4	220,000.00
07/09/2005	M	07/09/2065	10,000,000.00	4.99	499,000.00
13/09/2005	M	14/09/2065	5,000,000.00	3.95	197,500.00
03/10/2005	M	05/10/2065	5,000,000.00	4.375	218,750.00
21/12/2005	M	21/12/2065	5,000,000.00	4.99	249,500.00
28/12/2005	M	24/12/2065	12,500,000.00	4.99	623,750.00
23/12/2005	M	23/12/2065	10,000,000.00	4.75	475,000.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
07/04/2006	M	07/04/2066	10,000,000.00	4.75	475,000.00
06/03/2006	M	04/03/2066	5,000,000.00	4.625	231,250.00
14/03/2006	M	15/03/2066	15,000,000.00	5	750,000.00
18/08/2006	M	18/08/2066	10,000,000.00	5.25	525,000.00
17/03/2006	M	17/03/2066	10,000,000.00	5.25	525,000.00
05/06/2006	M	07/06/2066	20,000,000.00	5.25	1,050,000.00
05/06/2006	M	07/06/2066	16,500,000.00	5.25	866,250.00

01/02/2008	M	01/02/2078	10,000,000.00	3.95	395,000.00
26/02/2010	M	26/02/2060	5,000,000.00	6.216	310,800.00
26/02/2010	M	26/02/2060	10,000,000.00	6.216	621,600.00
25/02/2011	M	25/02/2060	15,000,000.00	6.217	932,550.00
25/02/2011	M	25/02/2060	10,000,000.00	6.217	621,700.00
			280,900,000.00		14,450,400.00

Appendix 3

The City of Edinburgh Council

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2012/13 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

	Capital Expenditure General Services						
	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Children and Families	16,334	15,944	31,563	47,139	17,112	16,203	6,323
Corporate Governance	7,002	5,621	5,433	3,315	165	165	165
Economic Development	2	53	0	0	0	0	0
Health and Social Care	12,643	5,296	3,934	3,274	120	0	0
Services for Communities	80,701	106,213	89,690	24,828	27,852	19,819	19,819
SFC - Asset Management Programme	8,152	11,005	25,965	17,421	14,000	14,000	14,000
Other Capital Projects	33,188	-1,587	933	0	0	0	0
Police Expenditure (Share of Grant Funding)	1,568	n/a	n/a	n/a	n/a	n/a	n/a
Sub Total General Services Capital Expenditure	**159,590**	**142,545**	**157,518**	**95,977**	**59,249**	**50,187**	**40,307**
Trams Project as approved by Council in Sept 2011 but not detailed in CIP	135,115	57,255	0	0	0	0	0
Redesign of recycling services - prudential borrowing approved by Transport and Environment Committee August 2013	0	0	3,327	2,660	0	0	0
Total General Services Capital Expenditure	**294,705**	**199,800**	**160,845**	**98,637**	**59,249**	**50,187**	**40,307**

Note: the 2014-2019 Capital Investment Programme includes slippage / acceleration brought forward, based on projected capital expenditure reported at the nine-month stage.

Capital Expenditure Housing Revenue Account

	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000
Housing Revenue Account	41,640	41,911	48,195	47,412	43,566	47,748	38,421

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 2012/13 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2012/13 Actual %	2013/14 Estimate %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Services	11.18	12.34	12.93	13.51	13.43	13.20	n/a
Housing Revenue Account	36.58	36.65	39.63	42.35	43.72	45.09	46.66

Note: Figures for 2015/16 onwards are indicative as neither the Council nor the HRA has set a budget for these years. No figure is available for General Services in 2018/19, as the Council has a four-year financial plan to 2017/18.

The estimates of financing costs include current commitments (including trams expenditure approved by Council in September 2011) and the proposals in this budget report.

Indicator 3 - Capital Financing Requirement

Estimates of the end of year capital financing requirement for the authority for the current and future years and the actual capital financing requirement at 31 March 2014 are:

	Capital Financing Requirement						
	2012/13 Actual £m	2013/14 Estimate £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
General Services (including Finance Leases)	1,332	1,361	1,350	1,326	1,249	1,181	1,100
Housing Revenue Account	369	380	395	402	411	431	440
Total	1,701	1,741	1,745	1,728	1,660	1,612	1,540

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 debt will only be for a capital purpose, the local authority should ensure that debt 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 and next two financial years.”

	Gross Debt and the Capital Financing Requirement						
	2012/13 Actual £m	**2013/14 Estimate £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**
Gross Debt	1,642	1,610	1,614	1,597	1,529	1,481	1,409
Capital Financing requirements	1,701	1,741	1,745	1,728	1,660	1,612	1,540
(Over) / under limit by:	59	131	131	131	131	131	131

At 31 March 2013, the authority was underborrowed by £58.683m. Current projections suggest that the authority will be underborrowed by approximately £131m at 31 March 2014, although this may vary in light of actual capital expenditure and market conditions. This projected underborrowing is as a result of the current treasury strategy of reducing investments to fund capital expenditure in the short term.

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years.

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 Head 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				
	2014/15	**2015/16**	**2016/17**	**2017/18**	**2018/19**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,713	1,691	1,665	1,634	1,569
Other long term liabilities	195	187	179	172	165
	1,908	1,878	1,844	1,806	1,734

These authorised limits are consistent with the authority's current commitments and existing plans 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 level 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 Head 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				
	2014/15	2015/16	2016/17	2017/18	2018/19
	Estimate £m	Estimate £m	Estimate £m	Estimate £m	Estimate £m
Borrowing	1,618	1,589	1,561	1,530	1,465
Other long term liabilities	195	187	179	172	165
	1,813	1,776	1,740	1,702	1,630

The Council's actual external debt at 31 March 2013 was £1,478.754m, comprising borrowing (including sums repayable within 12 months). Of this sum, £28.465m relates to borrowing carried out by the Council on behalf of the Police and Fire Joint Boards and Further Education Colleges.

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:

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
a) for the band "D" Council Tax	-3.22	-9.17	-10.95	-26.45	n/a
b) for average weekly housing rents	0.05	0.16	0.29	1.02	3.39

The Capital Investment Programme for 2014-2019 includes an estimate of the funding from the Scottish Government through General Capital Grant. Financial years 2015/16 to 2018/19 are outwith the scope of the current three year settlement. This estimated income was not previously included in the capital programme. Inclusion of capital grant, together with a rephasing of the capital programme has had the effect of reducing the incremental impact on the General Fund.

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 2014/15 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 2014/15, 2015/16, 2016/17, 2017/18 and 2018/19 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 2014/15, 2015/16, 2016/17, 2017/18 and 2018/19 of 75% of its net outstanding principal sums;

This means that the Head of Finance will manage fixed interest rate exposures within the range 25% to 100% and variable interest rate exposures within the range 0% to 75%. This reflects the need for a high level of liquidity to assist in managing counterparty exposure in the current market environment;

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.

In relation to Gross and Net Debt, the Council will continue its current practice of monitoring throughout the year that the projected Gross Debt position for the financial year 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 and next two financial years.

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 Chief Financial Officer should be taken to be any other officer to whom the Chief Financial Officer 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 Chief Financial Officer 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 Head 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

(i) Investment in the Subordinated Debt of projects delivered via the "HubCo" model

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.

(f) Subordinated debt of projects delivered via "HubCo" model up to a maximum of £1 million.

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 Chief Financial Officer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Council nominates the Governance, Risk and Best Value 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 Head 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 & Poors.
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 Poors. 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 Poors 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	These are service investments which may	Each equity investment in a local authority

	local authority company	exhibit market risk and are likely to be highly illiquid.	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.
j.	Investment in the Subordinated Debt of projects delivered via the “Hubco” model	These are investments which are exposed to the success or failure of individual projects and are highly illiquid	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project’s term

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 Chief Financial Officer may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit, Certificate of Deposit, collaterised deposit, structured deposit, commercial paper, 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 and Bond 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 (where money limits and percentages are stated, the greater of the two should be applied):

(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 in total but with no more than £30 million or 15% of the funds under management with any one Fund.

(f) AAA Bond Funds with no more than £20 million or 10% of the funds under management.

(g) Supranational Bonds with a limit of £60 million or 20% of the fund in total.

(h) 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 £60 million or 20 percent of the fund per institution for the duration of the guarantee in addition to the appropriate counterparty limit for the institution.

(i) Collateralised deposits up to a maximum of £30 million or 15 percent of the fund per institution in addition to the appropriate counterparty limit for the institution.

(j) Structured deposits up to a maximum of £20 million or 10 percent of the fund, subject to the appropriate counterparty limits for the institution also being applied.

(k) 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 Viability Rating of aa or above;
- 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 or 20 percent of monies available for investment.

(l) 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 £30 million or 15 percent of monies available for investment.

(m) 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 £20 million or 10 percent of monies available for investment.

(n) 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 £10 million or 5 percent of monies available for investment.

(o) building societies which have a short-term credit rating with Fitch of F1 up to a maximum of £10 million or 5 percent of monies available for investment and those with a short-term credit rating of F1+ up to a maximum of £20 million or 10 percent of monies available for investment.

(p) 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 £10 million or 5 percent of monies available for investment.

(q) Bonds, FRN's or Commercial Paper from other organisations where the instrument itself has a credit rating within points (j) to (m) above with the same limits as in (j) to (m).

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 Head 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. Bond Funds **(low/medium risk)**	AAA Rated Pooled cash investment vehicle investing in a range of Government, Financial Institutions and Government Bonds.	Fairly liquid vehicle investing in Bonds with a high average credit rating, will only be used for a relatively small proportion of the fund.
g. Call account deposit accounts with financial institutions (banks and building societies) **(Risk is**	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	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch,

dependent on credit rating)	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	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.
h. 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 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.	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.
i. Certificates of deposits with financial institutions **(risk dependent on credit rating)**	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.	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.
j. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	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).	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.
k. Bonds **(Low to medium risk depending on period & credit rating)**	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.	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.
l. Floating Rate Notes **(Low to medium risk depending on credit rating)**	These are Bonds on which the rate of interest is established periodically with reference to short term interest rates.	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. Will be used in an increasing interest rate environment but only for a limited proportion of the portfolio.
m. Commercial Paper **(Low to medium**	These are short term promissory notes	The counterparty selection criteria

risk depending on credit rating)	issued at a discount par. They entail 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.	approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short maturity.