The City of Edinburgh Council

10am, Thursday 14 March 2013

Annual Treasury Strategy 2013/14

Item number	8.2
Report number	
Wards	

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Coalition pledges	P30
Council outcomes	C025
Single Outcome Agreement	SO1

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Executive summary

Annual Treasury Strategy 2013/14

Summary

This report sets out a Treasury Management Strategy for 2013/14 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:

- approves the Treasury Management Strategy for 2013/14;
- approves the Treasury Policy Statements; and
- 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 2012, please contact Innes Edwards innes.edwards@edinburgh.gov.uk

Report

Annual Treasury Strategy 2013/14

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.

2. Main report

2.1 Funding Requirement

2.1.1 Table 1 below summarises the Council's funding requirement for the next three years. It is anticipated that the Council's capital spend to be financed by borrowing in 2013/14 will be £175.557million. An estimated £83.320million is financed by repayments of previous advances from service departments but £27.742million of loans maturing also require to be financed. The Council is currently projected to be under-borrowed by £80.314million at the end of 2012/13 giving a net funding requirement of £200.293million in 2013/14.

	2012/13	**2013/14**	**2014/15**	**2015/16**
Cummulative Capital Expenditure b/fd	**1,376.892**	**1,538.012**	**1,630.249**	**1,608.355**
Capital expenditure to be financed by borrowing	235.286	175.557	65.990	56.245
plus total maturing debt	7.733	27.742	27.743	44.841
less scheduled repayments by borrowing committees	-74.166	-83.320	-87.883	-91.161
Total Borrowing Requirement	**168.853**	**119.979**	**5.849**	**9.925**
Actual PWLB Borrowed for year	88.539			
Debt at end of the year	**1,457.698**	**1,429.955**	**1,402.213**	**1,357.372**
Cummulative Capital Expenditure	**1,538.012**	**1,630.249**	**1,608.355**	**1,573.440**
Cummulative Borrowing Requirement	**80.314**	**200.293**	**206.143**	**216.068**

Table 1 – Borrowing Requirement

2.1.2 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 Economic and Market Outlook

2.2.1 **Inflation Outlook**

Figure 1 below shows the figures for inflation since March 2009. The Government's preferred measure of inflation, CPI, finally reverted into the Bank of England's target range in May and now stands at 2.7%.

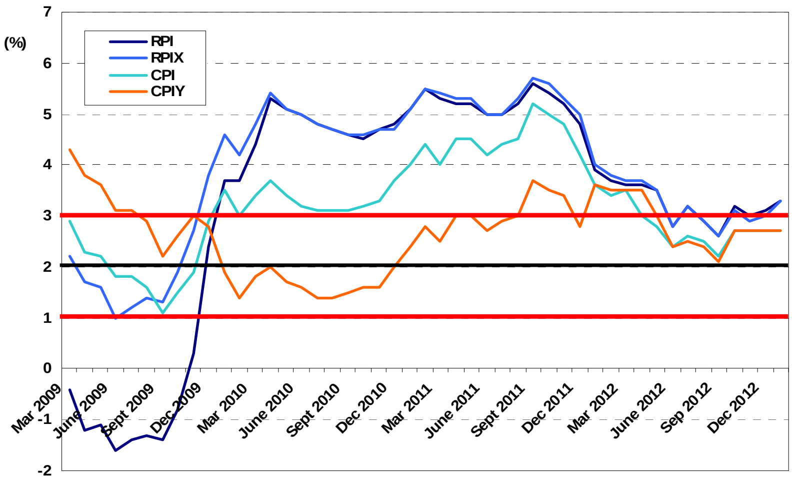

Figure 1 - CPI, CPIY, RPI and RPIX

2.2.2 However, there is significant upward pressure on the inflation rate. Much of the rise in the inflation figure in October was due to Education costs as they rose 19.1% after the Government lifted the cap on University Fees. Food prices increased as the wet weather affected crops and confectionery also contributed to the rise, with the shrinking size of various food stuffs including chocolate bars meaning that consumers are getting less for their money. Energy Prices also contributed to the rise with most of the large suppliers increasing prices in December 2012/January 2013. However, it is considered that the appointment of Mark Carney, as the Governor of the Bank of England, may have a pivotal effect on the future course of inflation. In their February 2013 Inflation Report, the Bank of England have said that inflation is likely to rise further and may remain above the target of 2% for the next two years. Mr Carney's appointment is likely to generate discussion on the MPC's mandate, and although the inflation target of 2% may be re-affirmed, the new Governor may be comfortable with a longer timeframe for inflation reverting to target.

2.2.3 In the Bank of England's MPC minutes from their February meeting it was agreed by all members that it was appropriate to maintain Bank Rate at 0.50% and six of the members voted to maintain QE at £375billion in order to meet the 2% CPI inflation target with three members, Bank of England Governor Mervyn King, Paul Fisher and David Miles, preferring to increase the size of the Asset purchase programme by £25billion to a total of £400billion.

2.2.4 High Street spending was relatively weak, retail sales increased in December by 0.3%, much less than the anticipated 0.7% and fell by 0.6% in January 2013. With GDP growth at 0.9% in the third quarter after the Olympics there is likely to be a contraction in the fourth quarter of 2012 as the impact of the Olympics unwinds. The unemployment rate fell by 0.2% on the previous three months to 7.8%. The number of people out of work reduced by 82,000, the biggest quarterly fall since 2001, although the average rate of earnings grew by just 1.3%. This has fallen even further behind inflation at less than half the rate and has now been falling since the summer of 2010. Indeed if you consider that the inflation measures understate the real increase in the essential cost of living, there has been a substantial pressure on discretionary disposable income.

2.2.5 Interest Rates

Table 2 below gives a Reuters poll of up to 70 economists, taken 30 January, showing their forecasts for UK Bank Rate until Quarter 2 2014.

	2013				2014	
	Q1/13	**Q2/13**	**Q3/13**	**Q4/13**	**Q1/14**	**Q2/14**
Median	0.5	0.5	0.5	0.5	0.5	0.5
Mean	0.5	0.5	0.5	0.51	0.51	0.52
Mode	0.5	0.5	0.5	0.5	0.5	0.5
Highest	0.5	0.5	0.75	1	1	0.75
Lowest	0.5	0.5	0.5	0.5	0.5	0.5
Count	70	70	70	69	62	59

Table 2 – Forecast for UK Bank Rate

This continues to show a consensus of opinion that UK Bank Rate will remain low through 2012, 2013 and into 2014, with even the rise in inflation failing to make any impressions on forecasts.

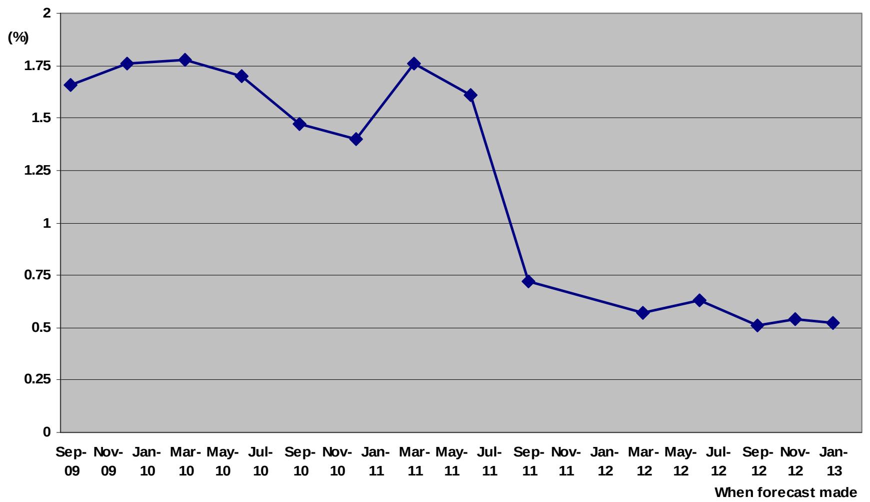

Figure 2 - Mean Interest Rate Forecast 6 Quarters Ahead

2.2.6 Figure 2 above shows their mean forecast of what the UK Bank Rate will be in 6 quarters time from the date of the forecast. The forecast again is for Bank Rate to remain at 0.5% in 18 months time, economists are forecasting no change in Bank Rate for at least the next 18 months. The Investment Strategy is still to keep all investments liquid to enable instant access to cash.

2.3 Treasury Management Strategy – Debt

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

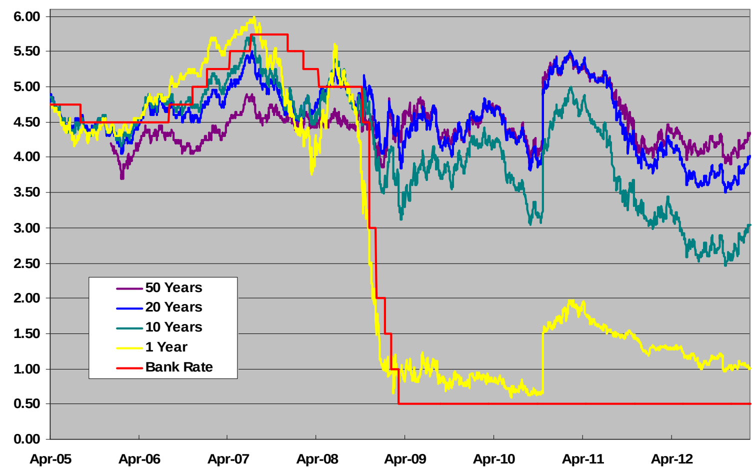

Figure 3 - PWLB Rates 2005 to Date

2.3.2 The strategy for the last two financial years has been to balance the view that interest rates would continue to come down, with the financing risk of a large borrowing requirement. Significant borrowing was therefore taken in 2010 before the Government increased PWLB Borrowing Rates by nearly one percent, then again in 2011 when longer rates had dropped by 1.5%. Over the last three financial years the Council has therefore borrowed a quarter of a billion pounds from the PWLB with an average maturity in excess of 20 years at an average interest rate of 3.959%.

2.3.3 As outlined in the Mid-Term Report, the strategy for 2012/13 has been to reduce the Council's investments until borrowing rates were at historically low levels again, when further PWLB debt would be locked out. After the Government introduced the 'Certainty Rate', reducing borrowing costs by 0.2%, some medium term debt was taken. Of the quarter of a billion borrowed from the PWLB mentioned above, £89 million has been borrowed to finance capital expenditure in 2012/13 with a maturity of 15.56 years at an average interest rate of 3.22%.

2.3.4 This 3 to 4 year strategy of locking out longer then medium and now short term debt has been based on the expectation that Bank Rate will stay lower for longer, anchoring short term rates, but that longer terms rates would be vulnerable to significant upward pressure.

2.3.5 Figure 4 shows the Yield on the 10 Year Gilt minus the yield on the 2 Year Gilt since last June – i.e. the difference in their yields. The very end of Figure 3 above shows that longer term rates have increased by about 0.5% since the later part of 2012. However, Figure 4 shows that the difference between the 10 year interest rate and the two year rate has increased by almost the same amount.

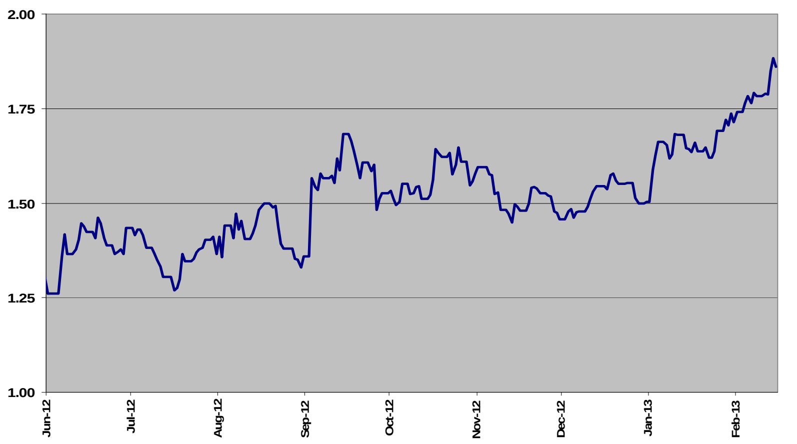

Figure 4 - 10 - 2 Year Gilt Yield Differential

2.3.6 Table 1 shows that subject to slippage, the Council still has to fund a further £80m of capital expenditure this year and £120m next year. However, in considering the strategy for this, there are two key considerations. Firstly, the capital advances for NHT and EICC. £45m of the total is for advances in relation to the National Housing Trust which is guaranteed by the Scottish Government and which may be repaid anytime between years 5 and 10. The capital advances for EICC additional floor space are included in the figures, but the business plan is that the Office Accommodation built as part of this development will be sold, unwinding the advance. Together these have the potential to reduce the funding requirement in the region of £100m by year 5.

2.3.7 Secondly, the mis-match between external debt maturity and internal debt amortization needs to be considered. Figure 5 below shows the current maturity profile of the Council's PWLB debt.

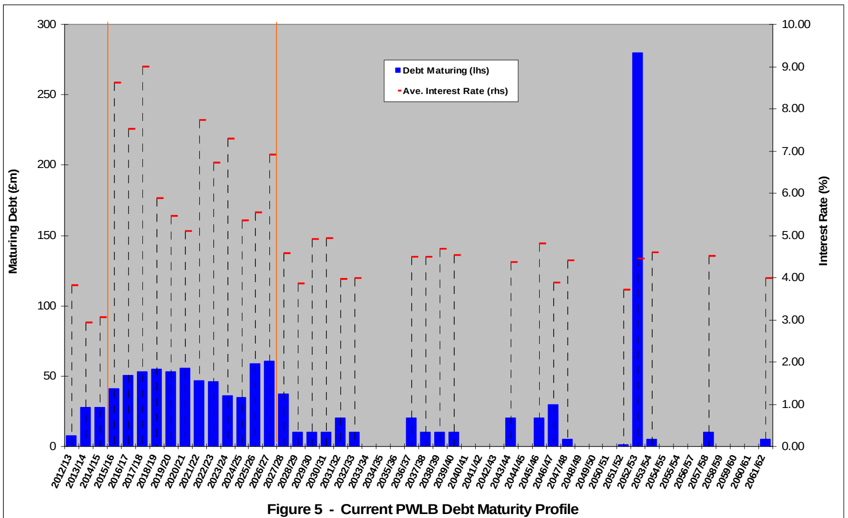

Figure 5 - Current PWLB Debt Maturity Profile

2.3.8 The Council has historically low interest rate long term debt, as well as having filled in some of the short to medium term periods at attractive interest rates. Figure 6 shows the current estimate for the repayment of principal from previous capital advances

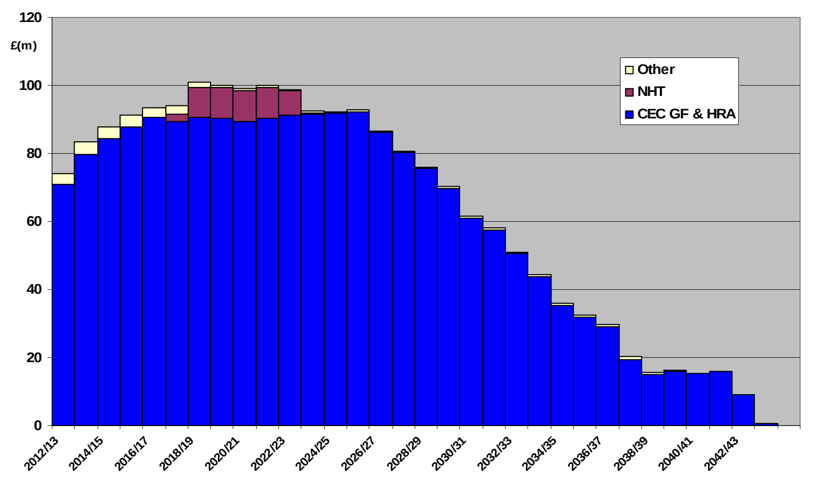

Figure 6 - Estimated Debt Amortisation Profile

2.3.9 The key point in this graph is that the repayment of previous capital advances by the Council rises to about £90m in 2016/17 and remains at that level for 10 years. However, Figure 5 shows that only about £50m of external debt matures in each of those years. Therefore, unless the Council can meet revenue consequences of an additional annual sum of £40m of new capital expenditure funded by Prudential Borrowing, it will have to repay that amount of external debt over and above the debt that is currently due to mature each year.

2.3.10 Taking all of this into account, the strategy for 2013/14 is to complete the 3 to 4 year term strategy outlined above i.e. moving from locking out longer term debt to medium term and then short term. This strategy means the Council will continue to fund capital expenditure in the short term by reducing its investments further, and as the future plans become clearer, it is intended that debt will be taken with a sub-10 year maturity.

2.4 Treasury Management Strategy – Investment of Surplus Funds

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

2.4.2 The Cash Fund's Investment Strategy continues to be based around the security of the investments. Figure 7 shows the distribution of Cash Fund deposits since inception.

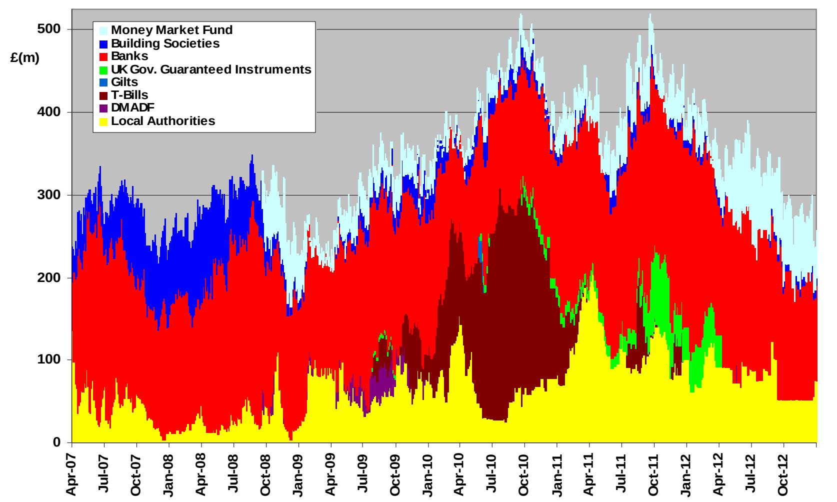

Figure 7 - Counterparty Analysis of Cash Fund Investments

2.4.3 The quarter 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. Deposits placed with local authorities remained static until the end of the quarter when short term deposits where placed with two authorities. Local Authorities are continuing to lend to each other at extremely low rates of interest with some examples of 3 months money for 0.30% and 1 year at 0.50% with very short term money being offered regularly at 0.27%. We were able to get short money away to locals near the festive season for 0.50% this was due to money being slightly harder to get hold of around these times. Treasury Bill auctions have also been extremely low with the minimum bid on the 1 month auction coming out as low as 0.15% for settlement 24th December.

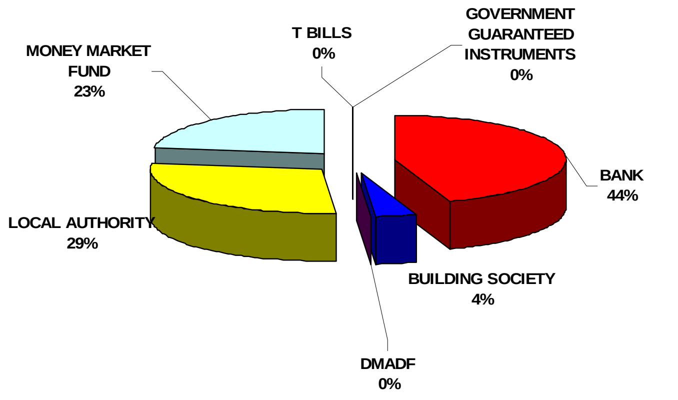

Figure 8 - Investments By Counterparty Type 31/12/2012

2.4.4 The amount we have on deposit with Local Authorities has increased by 10%, this is mainly due to a reduction in the total cash invested with the cash fund. The reductions have mainly been taken from the call accounts and money market funds therefore increasing proportion of the fund deposited with Local Authorities. A significant amount of money held within the banking sector is in instant access call accounts with a £10m Standard Chartered CD maturing in June and a 1 month fixed deposit with a building society maturing in January.

2.4.5 Figure 9 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.

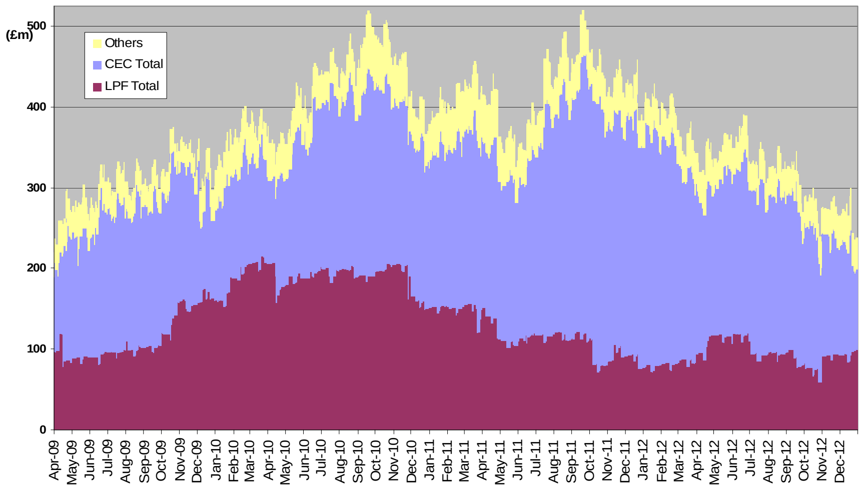

Figure 9 - Cash Fund Source of Funds under Management

2.4.6 A small change is proposed to the Cash Fund Treasury Policy Statement where for Financial Institutions such as banks and other investments, a monetary limit as well as percentage of the funds under management is proposed (Appendix 5, Limits on Investment (e) to (q)). This will simply give some operational flexibility if the funds under management are reduced significantly more.

2.5 Treasury Management - Comparative Performance

2.5.1 As discussed at more length in the recent Treasury Management Effectiveness report, it is problematical to attempt to compare directly the absolute level of debt or the debt servicing costs between authorities. In acknowledging this, the Prudential Code states that:

> "The Prudential Indicators are designed to support and record local decision making. They are not designed to be comparative performance indicators and the use of them in this way would be likely to be misleading and counter-productive."

2.5.2 The City of Edinburgh Council has one of the higher Loans Pool Interest Rates in Scotland, but even comparing Pool Rates, there are many current and historical considerations which must be bourne in mind.

2.5.3 Figure 10 summarises the reduction in the Loans Pool Rate for the Scottish Urban Authorities over the last 10 years, showing that Edinburgh's performance is at least as good as most.

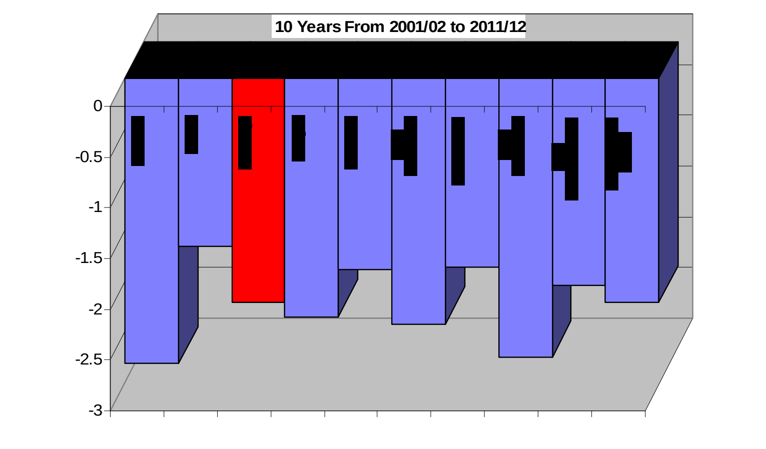

Figure 10 - Change in Loans Pool Rate 2001/02 to 2011/12

2.5.4 It is anticipated that the strategy outlined in this report will result in a further reduction to the Council's Pool Rate.

3. Recommendations

3.1 It is recommended that the Council:

3.1.1 approves the Treasury Management Strategy for 2013/14;

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 2013-2018

SUMMARY OF EXPENDITURE AND RESOURCES

2013-2018	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Expenditure	**236,308**	**140,688**	**70,168**	**47,950**	**40,258**	**535,372**
Resources						
Capital Receipts						
General Asset Sales	6,435	6,900	3,000	3,000	3,000	**22,335**
Ring-Fenced Asset Sales	-	-	-	10,000	-	**10,000**
Developers and Other Contributions	1,690	-	-	-	-	**1,690**
Capital Grants Unapplied Account	269	-	-	-	-	**269**
Total Receipts	8,394	6,900	3,000	13,000	3,000	**34,294**
Grants						
Specific Gapital Grant	22,657	33,274	-	-	-	**55,931**
General Capital Grant (incl Trams)	65,720	67,148	38,000	-	-	**170,868**
Total Grants	88,377	100,422	38,000	-	-	**226,799**
Borrowing						
Support Brought Forward	26,562	-	-	-	-	**26,562**
Prudential Framework						
- Through Council Tax	57,610	7,422	3,708	120	-	**68,860**
- Departmentally Supported	51,936	3,127	-	-	-	**55,063**
Total Borrowing	136,108	10,549	3,708	120	-	**150,485**
Over / (Under)-Programming	3,429	22,817	25,460	34,830	37,258	**123,794**
Total Resources	**236,308**	**140,688**	**70,168**	**47,950**	**40,258**	**535,372**

Grant funding for 2015/16, 2016/17 and 2017/18 is outside the current three year settlement. An estimate has been included for 2015/16.

Appendix 1 continued

SUMMARY OF EXPENDITURE	Realigned Budget 2013/14	Realigned Budget 2014/15	Indicative Budget 2015/16	Indicative Budget 2016/17	Indicative Budget 2017/18	**Total Budget 2013-2018**
	£000	£000	£000	£000	£000	**£000**
General Services						
Children and Families	19,269	42,076	31,917	13,846	6,274	**113,382**
Corporate Governance	6,981	1,067	665	165	165	**9,043**
Council Wide / Corporate Projects	10,849	-	-	-	-	**10,849**
Economic Development	54	-	-	-	-	**54**
Health and Social Care	4,246	1,461	3,267	120	-	**9,094**
Services for Communities	120,896	72,307	17,819	19,819	19,819	**250,660**
Tram Project	50,068	6,344				**56,412**
Services for Communities - Asset Management Works	23,945	17,433	16,500	14,000	14,000	**85,878**
Total General Services	**236,308**	**140,688**	**70,168**	**47,950**	**40,258**	**535,372**

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Appendix 2

Maturing Debt Profile

As at February 2013

PWLB Start Date	Loan Type	Maturity	Outstanding £	Current Interest Rate	Annual Interest £
21-Apr-09	P	21-Apr-13	10,000,000	2.39	239,000
01-Dec-08	P	01-Dec-13	10,000,000	3.45	345,000
30-Mar-09	P	30-Mar-14	5,000,000	2.61	130,500
21-Apr-09	P	21-Apr-14	10,000,000	2.64	264,000
15-May-54	P	15-May-14	1,501	4	60
01-Dec-08	P	01-Jun-14	5,000,000	3.55	177,500
07-Jan-55	P	15-Nov-14	2,987	3.75	112
08-Dec-08	P	08-Dec-14	5,000,000	3.3	165,000
30-Mar-09	P	30-Mar-15	5,000,000	2.84	142,000
12-May-09	P	12-May-15	10,000,000	3.08	308,000
23-Feb-90	P	15-May-15	8,000,000	10.875	870,000
17-May-91	P	25-Mar-16	10,000,000	11	1,100,000
06-Nov-90	P	25-Mar-16	10,000,000	11.375	1,137,500
13-Oct-09	P	13-Apr-16	5,000,000	2.95	147,500
23-Apr-09	P	23-Apr-16	5,000,000	2.96	148,000
17-Jan-91	P	15-May-16	15,000,000	11.25	1,687,500
09-Jun-09	P	09-Jun-16	5,000,000	3.37	168,500
27-Sep-91	P	25-Sep-16	2,736,307	10.5	287,312
15-Aug-91	P	15-Nov-16	10,000,000	10.875	1,087,500
10-Dec-08	P	10-Dec-16	5,000,000	3.61	180,500
02-Dec-11	P	02-Jun-17	5,000,000	2.28	114,000
27-Mar-92	P	25-Sep-17	10,000,000	10.625	1,062,500
09-Oct-08	P	09-Oct-17	5,000,000	4.39	219,500
03-Apr-92	P	25-Mar-18	30,000,000	10.875	3,262,500
23-Apr-09	P	23-Apr-18	15,000,000	3.24	486,000
17-Sep-92	P	15-May-18	8,496,500	9.75	828,409
09-Jun-09	P	09-Jun-18	5,000,000	3.75	187,500
23-Mar-94	P	15-Nov-18	5,000,000	8	400,000
17-Sep-93	P	15-Nov-18	5,000,000	7.875	393,750
14-Mar-94	P	11-Mar-19	2,997,451	7.625	228,556
18-Oct-93	P	25-Mar-19	5,000,000	7.875	393,750
30-Mar-09	P	30-Mar-19	5,000,000	3.46	173,000
21-Apr-09	P	21-Apr-19	10,000,000	3.4	340,000
23-Apr-09	P	23-Apr-19	5,000,000	3.38	169,000
12-Nov-08	P	12-Nov-19	3,425,598	3.96	135,654
07-Dec-94	P	15-Nov-19	10,000,000	8.625	862,500
23-Mar-94	P	15-Nov-19	5,000,000	8	400,000
01-Dec-09	P	01-Dec-19	5,000,000	3.77	188,500
01-Dec-08	P	01-Dec-19	3,407,153	3.65	124,361
14-Dec-09	P	14-Dec-19	10,000,000	3.91	391,000
15-Feb-95	P	25-Mar-20	5,000,000	8.625	431,250
21-Apr-09	P	21-Apr-20	10,000,000	3.54	354,000
12-May-09	P	12-May-20	10,000,000	3.96	396,000
07-Dec-94	P	15-May-20	5,000,000	8.625	431,250
21-Oct-94	P	15-May-20	5,000,000	8.625	431,250

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21-Nov-11	P	21-May-20	15,000,000	2.94	441,000
16-Aug-95	P	03-Aug-20	2,997,451	8.375	251,037
09-Dec-94	P	15-Nov-20	5,000,000	8.625	431,250
10-May-10	P	10-May-21	4,006,954	3.09	123,815
12-Jun-95	P	15-May-21	10,000,000	8	800,000
10-Mar-95	P	15-May-21	11,900,000	8.75	1,041,250
21-Oct-94	P	15-May-21	10,000,000	8.625	862,500
02-Jun-10	P	02-Jun-21	5,000,000	3.89	194,500
16-Aug-94	P	03-Aug-21	2,997,451	8.5	254,783
28-Apr-94	P	25-Sep-21	5,000,000	8.125	406,250
23-Apr-09	P	23-Apr-22	5,000,000	3.76	188,000
12-Jun-95	P	15-May-22	10,200,000	8	816,000
14-Jun-10	P	14-Jun-22	10,000,000	3.95	395,000
31-Mar-95	P	25-Sep-22	6,206,000	8.625	535,268
16-Feb-95	P	03-Feb-23	2,997,451	8.625	258,530
24-Apr-95	P	25-Mar-23	10,000,000	8.5	850,000
05-Dec-95	P	15-May-23	5,200,000	8	416,000
20-Sep-93	P	14-Sep-23	2,997,451	7.875	236,049
20-Sep-93	P	14-Sep-23	584,503	7.875	46,030
08-May-96	P	25-Sep-23	10,000,000	8.375	837,500
13-Oct-09	P	13-Oct-23	5,000,000	3.87	193,500
05-Dec-95	P	15-Nov-23	10,000,000	8	800,000
10-May-10	P	10-May-24	10,000,000	4.32	432,000
28-Sep-95	P	28-Sep-24	2,895,506	8.25	238,879
14-May-12	P	14-Nov-24	10,000,000	3.36	336,000
14-Dec-09	P	14-Dec-24	8,410,017	3.66	307,807
17-Oct-96	P	25-Mar-25	10,000,000	7.875	787,500
10-May-10	P	10-May-25	5,000,000	4.37	218,500
16-Nov-12	P	16-May-25	20,000,000	2.88	576,000
13-Feb-97	P	18-May-25	10,000,000	7.375	737,500
20-Feb-97	P	15-Nov-25	20,000,000	7.375	1,475,000
01-Dec-09	P	01-Dec-25	12,804,857	3.64	466,097
21-Dec-95	P	21-Dec-25	2,397,961	7.875	188,839
28-May-97	P	15-May-26	10,000,000	7.25	725,000
21-May-97	P	15-May-26	10,000,000	7.125	712,500
29-Aug-97	P	15-Nov-26	5,000,000	7	350,000
07-Aug-97	P	15-Nov-26	15,000,000	6.875	1,031,250
24-Jun-97	P	15-Nov-26	5,328,077	7.125	379,625
22-Oct-97	P	25-Mar-27	5,000,000	6.5	325,000
13-Oct-97	P	25-Mar-27	10,000,000	6.375	637,500
17-Nov-97	P	15-May-27	5,000,000	6.5	325,000
13-Nov-97	P	15-May-27	3,649,966	6.5	237,248
13-Dec-12	P	13-Jun-27	20,000,000	3.18	636,000
12-Mar-98	P	15-Nov-27	8,677,693	5.875	509,814
06-Sep-10	P	06-Sep-28	10,000,000	3.85	385,000
14-Jul-11	P	14-Jul-29	10,000,000	4.9	490,000
14-Jul-50	P	03-Mar-30	4,424	3	133
14-Jul-11	P	14-Jul-30	10,000,000	4.93	493,000
15-Jun-51	P	15-May-31	4,336	3	130
06-Sep-10	P	06-Sep-31	20,000,000	3.95	790,000
15-Dec-11	P	15-Jun-32	10,000,000	3.98	398,000
15-Sep-11	P	15-Sep-36	10,000,000	4.47	447,000
22-Sep-11	P	22-Sep-36	10,000,000	4.49	449,000
10-Dec-07	P	10-Dec-37	10,000,000	4.49	449,000
08-Sep-11	P	08-Sep-38	10,000,000	4.67	467,000
15-Sep-11	P	15-Sep-39	10,000,000	4.52	452,000
06-Oct-11	P	06-Oct-43	20,000,000	4.35	870,000

09-Aug-11	P	09-Feb-46	20,000,000	4.8	960,000
23-Jan-06	P	23-Jul-46	10,000,000	3.7	370,000
23-Jan-06	P	23-Jul-46	10,000,000	3.7	370,000
19-May-06	P	19-Nov-46	10,000,000	4.25	425,000
07-Jan-08	P	07-Jan-48	5,000,000	4.4	220,000
27-Jan-06	P	27-Jul-51	1,250,000	3.7	46,250
16-Jan-07	P	16-Jul-52	40,000,000	4.25	1,700,000
30-Jan-07	P	30-Jul-52	10,000,000	4.35	435,000
13-Feb-07	P	13-Aug-52	20,000,000	4.35	870,000
20-Feb-07	P	20-Aug-52	70,000,000	4.35	3,045,000
22-Feb-07	P	22-Aug-52	50,000,000	4.35	2,175,000
08-Mar-07	P	08-Sep-52	5,000,000	4.25	212,500
30-May-07	P	30-Nov-52	10,000,000	4.6	460,000
11-Jun-07	P	11-Dec-52	15,000,000	4.7	705,000
12-Jun-07	P	12-Dec-52	25,000,000	4.75	1,187,500
05-Jul-07	P	05-Jan-53	12,000,000	4.8	576,000
25-Jul-07	P	25-Jan-53	5,000,000	4.65	232,500
10-Aug-07	P	10-Feb-53	5,000,000	4.55	227,500
24-Aug-07	P	24-Feb-53	7,500,000	4.5	337,500
13-Sep-07	P	13-Mar-53	5,000,000	4.5	225,000
12-Oct-07	P	12-Apr-53	5,000,000	4.6	230,000
05-Nov-07	P	05-May-57	5,000,000	4.6	230,000
15-Aug-08	P	15-Feb-58	5,000,000	4.39	219,500
02-Dec-11	P	02-Dec-61	5,000,000	3.98	199,000
			1,169,077,594		64,349,547

MARKET LOANS

Start Date	Loan Type	Maturity	Outstanding	Current Interest Rate	Annual Interest
03-Dec-90	M	04-Dec-15	2,000,000	11	220,000
12-Dec-90	M	11-Dec-15	2,000,000	11	220,000
30-Mar-92	M	30-Mar-17	1,000,000	10.25	102,500
21-Aug-92	M	21-Aug-17	500,000	9.75	48,750
21-Aug-92	M	21-Aug-17	500,000	9.75	48,750
12-Nov-98	M	13-Nov-28	3,000,000	4.75	142,500
15-Dec-03	M	15-Dec-53	10,000,000	4.25	425,000
18-Feb-04	M	18-Feb-54	10,000,000	4.54	454,000
28-Apr-05	M	28-Apr-55	12,900,000	4.75	612,750
25-Feb-11	M	25-Feb-60	15,000,000	7.031	1,054,650
25-Feb-11	M	25-Feb-60	10,000,000	7.031	703,100
26-Feb-10	M	26-Feb-60	5,000,000	7.001	350,050
26-Feb-10	M	26-Feb-60	10,000,000	7.001	700,100
30-Jun-05	M	30-Jun-65	5,000,000	4.4	220,000
01-Jul-05	M	01-Jul-65	10,000,000	3.86	386,000
07-Jul-05	M	07-Jul-65	5,000,000	4.4	220,000
24-Aug-05	M	24-Aug-65	5,000,000	4.4	220,000
07-Sep-05	M	07-Sep-65	10,000,000	4.99	499,000
13-Sep-05	M	14-Sep-65	5,000,000	3.95	197,500
03-Oct-05	M	05-Oct-65	5,000,000	4.375	218,750
21-Dec-05	M	21-Dec-65	5,000,000	4.99	249,500
23-Dec-05	M	23-Dec-65	10,000,000	4.75	475,000
28-Dec-05	M	24-Dec-65	12,500,000	4.99	623,750
06-Mar-06	M	04-Mar-66	5,000,000	4.625	231,250

14-Mar-06	M	15-Mar-66	15,000,000	5	750,000
17-Mar-06	M	17-Mar-66	10,000,000	5.25	525,000
03-Apr-06	M	01-Apr-66	10,000,000	4.875	487,500
03-Apr-06	M	01-Apr-66	10,000,000	4.875	487,500
03-Apr-06	M	01-Apr-66	10,000,000	4.875	487,500
07-Apr-06	M	07-Apr-66	10,000,000	4.75	475,000
05-Jun-06	M	07-Jun-66	20,000,000	4.4	880,000
05-Jun-06	M	07-Jun-66	16,500,000	4.4	726,000
18-Aug-06	M	18-Aug-66	10,000,000	5.25	525,000
01-Feb-08	M	01-Feb-78	10,000,000	3.95	395,000
			280,900,000		14,361,400

EUROPEAN INVESTMENT BANK

Start Date	Loan Type	Maturity	Outstanding	Current Interest Rate	Annual Interest
			£		£
20-Apr-93	Z	05-Apr-13	561,000	8.75	49,088

Appendix 3

The City of Edinburgh Council

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2011/12 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 ----------						
	2011/12 Actual £000	**2012/13 Estimate £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
Children and Families	26,659	16,957	19,269	42,076	31,917	13,846	6,274
Corporate Governance	22,486	8,039	6,981	1,067	665	165	165
Economic Development	0	1	54	0	0	0	0
Health and Social Care	3,932	15,488	4,246	1,461	3,267	120	0
Services for Communities	96,737	86,751	120,896	72,307	17,819	19,819	19,819
SFC - Asset Management Programme	5,189	6,696	23,945	17,433	16,500	14,000	14,000
Other Capital Projects	23,426	33,768	10,849	0	0	0	0
Police Expenditure (Share of Grant Funding)	1,906	1,568	0	0	0	0	0
Sub Total General Services Capital Expenditure	**180,335**	**169,268**	**186,240**	**134,344**	**70,168**	**47,950**	**40,258**
Trams Project as approved by Council in Sept 2011 but not detailed in CIP	109,544	139,640	50,068	6,344	0	0	0
Total General Services Capital Expenditure	**289,879**	**308,908**	**236,308**	**140,688**	**70,168**	**47,950**	**40,258**

Note that the 2013-2018 CIP includes the majority of slippage brought forward based on projected capital expenditure reported at the nine month stage.

	---------- Capital Expenditure Housing Revenue Account ----------						
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000	£000
Housing Revenue Account	49,045	41,531	51,877	55,649	53,854	49,160	42,741

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 2011/12 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%	%	%
General Services	10.45	11.59	13.21	13.37	13.43	13.35	13.11
HRA	36.76	37.06	40.14	41.16	41.14	41.45	41.86

Note: Figures for 2014/15 onwards are indicative as neither the Council or HRA has set a budget for these years.

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 31st March 2012 are:

	----- Capital Financing Requirement -----						
	2011/12 Actual £000	**2012/13 Estimate £000**	**2013/14 Estimate £000**	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
Non-HRA	1,211,255	1,350,384	1,421,481	1,381,620	1,334,563	1,290,623	1,246,658
HRA	352,296	368,902	384,491	397,242	403,060	407,601	410,838

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

	2011/12 Actual £000	2012/13 Estimate £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Gross Debt	1,602,092	1,639,285	1,805,971	1,778,861	1,737,622	1,698,223	1,657,495
Capital Financing requirements	1,563,551	1,719,286	1,805,972	1,778,861	1,737,623	1,698,224	1,657,496
(Over) / under limit by:	-38,541	80,000	0	0	0	0	0

The Prudential Code was updated in 2012 to change the definition of debt in the comparison with capital financing requirement from net debt to gross debt. In Scotland, the relevant legislation still refers to the 2009 version of the Code, although this is likely to be revised next financial year. To adhere to best practice, gross debt has been used in the comparison above. At 31/03/12, the authority was over borrowed by £38.541m. This was due to a combination of the Treasury Strategy to lock out borrowing at historically low interest rates and a lower than projected capital outturn. The previous definition of net debt reduced the gross debt by the level of investments and would therefore be significantly lower than the capital financing requirement.

As demonstrated in the above table, other than the latter part of 2011/12, the authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This view takes into account current commitments, existing plans, and the proposals in this budget report. Current projections suggest that the authority will be under borrowed by approximately £80m at 31/03/13, although this may vary in light of actual capital expenditure and market conditions. This projected under borrowing is as a result of the current strategy of reducing investments to fund capital expenditure in the short-term.

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

	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000
Borrowing	1,763,073	1,735,331	1,707,589	N/A	N/A
Other long term liabilities	201,184	194,161	186,758	N/A	N/A
	1,964,257	1,929,492	1,894,347	N/A	N/A

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

Indicator 5 – Operational Boundary for External Debt

The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary equates to the estimated maximum of external debt. It is based on the same estimates as the authorised limit but reflects directly the estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements. The operational boundary represents a key management tool for in year monitoring. Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also asked to delegate authority to the 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

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**
	Estimate £000	**Estimate £000**	**Estimate £000**	**Estimate £000**	**Estimate £000**
Borrowing	1,702,530	1,676,518	1,657,589	N/A	N/A
Other long term liabilities	201,184	194,161	186,758	N/A	N/A
	1,903,714	1,870,679	1,844,347	N/A	N/A

Indicators 4 and 5 have not been calculated for 2016/17 and 2017/18 on the basis that grant funding figures are not available for these years and no reasonable estimate can be made of what will be received from the Scottish Government.

The Council's actual external debt at 31st March 2012 was £1,433.637m, comprising borrowing (including sums repayable within 12 months). Of this sum, £31.745m relates to borrowing carried out by the Council on behalf of the Police and Fire Joint Boards and Further Education Colleges.

In taking its decisions on this budget report, the Council is asked to note that the estimate of capital expenditure determined for 2012/13 (see paragraph 1 above) will be the statutory limit determined under section 35(1) of the Local Government in Scotland Act 2003.

Indicator 6 – Impact on Council Tax and House Rents

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

a) for the band "D" Council Tax

2013/14	2014/15	2015/16	2016/17	2017/18
£	**£**	**£**	**£**	**£**
7.88	26.77	29.20	28.98	44.16

b) for average weekly housing rents

2013/14	2014/15	2015/16	2016/17	2017/18
£	**£**	**£**	**£**	
0.11	0.51	1.38	3.14	5.51

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 2013/14 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 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 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 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 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 Chief Financial Officer may invest monies in accordance with the Council's requirements only by using the following instruments:

(a) Temporary deposit with an approved institution of the Bank of England or with any other approved organisation for investment (see below)

(b) Money Market Funds

(c) Debt Management Office's Debt Management Agency Deposit Facility

(d) Investment Properties

(e) Loans to Other Organisations

(f) Investment in share capital of Council Companies and Joint Ventures

(g) Loans to / investment in the Loan Stock of Council Companies

(h) Investment in Shared Equity Housing Schemes

Approved Organisations for Investment

The approved counterparty limits are as follows:

(a) The Council's bankers with no limit.

(b) DMO's DMADF with no limit.

(c) AAA Money Market Funds with no limit.

(d) financial institutions on the Bank of England's authorised list which have a short-term credit rating with Fitch of F1+ or Standard and Poors of A-1+ or with Moody's of P-1 up to a maximum of £10 million per institution.

(e) building societies which a short term credit rating with Fitch of F1 or which have Moodys ratings of at least Short Term P-1, Long Term A2, and Financial Strength C+ up to a maximum of £5 million per institution.

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

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

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

Policy on Delegation

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

The Council delegates responsibility for the execution and administration of Treasury Management decisions to the 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 Finance and Budget 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 Chief Financial Officer 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.

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

(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 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 Chief Financial Officer 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 risk depending on credit rating)**	These are short term promissory notes 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.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short maturity.