City of Edinburgh Council

10.00am, Thursday 12 March 2015

Annual Treasury Strategy 2015/16 – referral from the Corporate Policy and Strategy Committee

Item number	8.3
Report number	
Wards	All

Executive summary

The Corporate Policy and Strategy Committee on 24 February 2015 recommended that the Council consider the Treasury Management strategy for the Council for 2015/16.

Links

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

EDINBVRGH
THE CITY OF EDINBURGH COUNCIL

Terms of Referral

Annual Treasury Strategy 2015/16

Terms of referral

1.1 On 24 February 2015, the Corporate Policy and Strategy Committee considered a report on the proposed Treasury Management strategy for the Council for 2015/16 which included an annual Investment Strategy and Debt Management strategy.

1.2 The Corporate Policy and Strategy Committee agreed:

1.2.1 To approve the Treasury Management Strategy for 2015/16.

1.2.2 To approve the revised Treasury Policy Statements.

1.2.3 To refer the report to Council for its approval and remit to the Governance, Risk and Best Value Committee for scrutiny.

For Decision/Action

2.1 The Council is asked to approve the Treasury Management Strategy for 2015/16.

Background reading / external references

Corporate Policy and Strategy Committee 24 February 2015.

Carol Campbell

Head of Legal, Risk and Compliance

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Links

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

Corporate Policy and Strategy Committee

10.00am, Tuesday 24 February 2015

Annual Treasury Strategy 2015/16

Item number	7.1
Report number	
Executive/routine	
Wards	

Executive summary

The report proposes a Treasury Management strategy for the Council for 2015/16, including an Annual Investment Strategy and a Debt Management strategy. It also discusses how failing financial institutions are likely to be resolved in the future and the implications which this has for the Council's strategy and Treasury Management Policy Statement.

Links

Coalition pledges	P30
Council outcomes	CO25
Single Outcome Agreement	SO1

Report

Annual Treasury Strategy 2015/16

Recommendations

1.1 It is recommended that the Committee:

1.1.1 approves the Treasury Management Strategy for 2015/16;

1.1.2 approves the revised Treasury Policy Statements; and

1.1.3 refers the report to Council for their approval and remit to the Governance, Risk and Best Value Committee for their scrutiny.

Background

2.1 This report sets out a Treasury Management Strategy for 2015/16 including estimates of funding requirements, an economic forecast and borrowing and investment strategies.

2.2 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:

2.2.1 ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs;

2.2.2 secure new funding at the lowest cost; and

2.2.3 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.

Main report

3.1 Introduction

3.1.1 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.

3.1.2 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 details of the capital investment programme and prudential indicators which are being recommended as part of the budget process.

3.2 Economic and Market Outlook

Overview

3.2.1 The UK has been showing some signs of recovery, driven by household consumption. While it is likely that growth will continue into 2015, albeit at a more modest rate, there are significant headwinds. Global growth forecasts have been downgraded, UK household consumption has been on the back of the increase in house prices and increased debt, the state of the Eurozone economy is precarious, and the general election in the UK creates a further level of uncertainty for markets. In particular, the short term deflationary outlook in Europe, the continuing concerns over the outlook for European banks, and geo-political concerns are significant worries.

Inflation Outlook

3.2.2 Figure 1 below shows CPI (Consumer Price Index) and RPI (Retail Price Index) since March 2009.

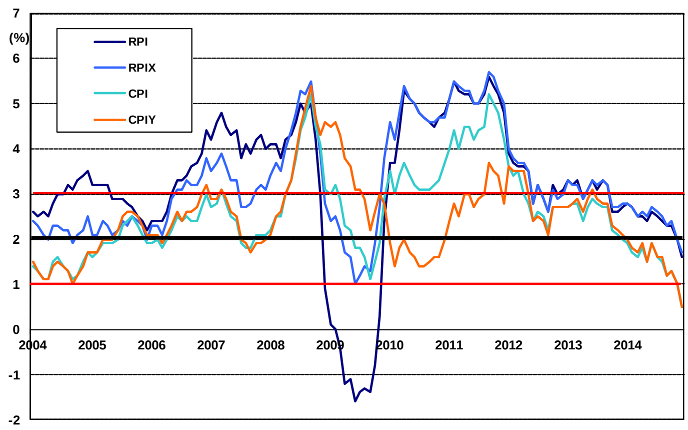

Figure 1 – CPI and RPI

3.2.3 CPI fell to 0.5% in December 2014, it's lowest level since May 2000. This has meant that the Governor of the Bank of England will have written a letter to the Chancellor explaining why CPI has fallen below 1% and what the Bank of

England is going to do to ensure that it reverts to the target. The price of Crude Oil since 1990 can be seen in Figure 2 below.

Figure 2 – Oil Price

3.2.4 Although the oil pirice has staged a modest recovery, the fall in oil and gas prices have led to energy companies announcing a drop in their prices. However, they have delayed the implementation date for the drop and so there is likely to be further dis-inflationary pressure as we go through 2015. While it is expected that inflation (CPI) is likely to turn negative during the first half of 2015, we anticipate that inflation will revert back to the target range over a two year horizon.

Interest Rate Outlook

3.2.5 We have consistently maintained a “much lower for much longer” stance in spite of market sentiment and forecasts given and see no reason to change this view any time soon, especially now that market consensus is closer to our position than any time in recent years.

3.2.6 Yet paradoxically, we consider that the deflationary pressure from oil and gas prices may in due course actually create pressure for an interest rate rise. If, and we believe it is a big if, the UK’s recovery is sustained, there is a danger that suppressed wage demands will surface. Further, as with all deflationary movements, the negative impact of the reduction in oil, gas and hence retail energy prices will fall out of the calculation by early to mid 2016. If oil and gas prices recover at the same time as demands for wage increases to recover some of the lost ground then there could be significant pressure to proactively increase UK interest rates.

3.2.7 However, we consider that this is not the most likely scenario. There are further substantial cuts to come in the public sector and any wage increases are likely to continue to be very modest. It is also unlikely that the Eurozone in particular will be robust enough to sustain any revival in UK growth via increased exports.

3.2.8 We therefore consider that there is likely to be an increase in US Interest Rates, maybe as soon as June, but it is less likely that there will be any increase in UK Bank rate this year.

3.3 **Treasury Management Strategy – Debt**

3.3.1 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.

3.3.2 Table 1 below shows the anticipated out-turn for the current year and summarises how much the Council needs to borrow for the following five years, based on the capital investment programme and Prudential Indicators proposed as part of the budget process. It is anticipated that the Council's capital expenditure to be financed by borrowing in 2014/15 will be £34.28million. However, an estimated £75.59million is due to be repaid by service departments for previous advances. Overall the Council's need to borrow reduced during the year by £44.67m. £27.78million of external Public Works Loans Board (PWLB) loans matured during the year, given the net position that the Council's under-borrowed position is anticipated to reduce from £110m to £88m at the end of 2014/15.

	2014/15 £(m)	2015/16 £(m)	2016/17 £(m)	2017/18 £(m)	2018/19 £(m)	2019/20 £(m)
Debt b/fd	**1,434.29**	**1,411.57**	**1,394.16**	**1,388.56**	**1,355.38**	**1,300.68**
Cumulative Capital Expenditure b/fd	**1,544.44**	**1,499.77**	**1,544.16**	**1,538.56**	**1,505.38**	**1,439.56**
Over/underborrowed b/fd	**-110.15**	**-88.20**	**-150.00**	**-150.00**	**-150.00**	**-138.88**
Capital expenditure to be financed by borrowing	34.28	127.35	84.04	56.47	23.43	23.27
less scheduled repayments by borrowing committees	-75.59	-79.71	-86.67	-87.17	-87.68	-88.18
less scheduled repayments by Former Joint Boards	-3.36	-3.25	-2.96	-2.48	-1.58	-0.52
	-44.67	44.39	-5.59	-33.19	-65.82	-65.42
plus total maturing debt	27.78	40.88	50.72	53.09	54.70	53.32
Total Borrowing Requirement	**-13.53**	**88.52**	**48.09**	**22.38**	**-9.55**	**-11.59**
Planned PWLB or short borrowing for year	0.00	23.47	45.13	19.90	0.00	0.00
Actual Other Borrowing	5.06	0.00	0.00	0.00	0.00	0.00
Debt at end of the year	**1,411.57**	**1,394.16**	**1,388.56**	**1,355.38**	**1,300.68**	**1,247.36**
Cumulative Capital Expenditure	**1,499.77**	**1,544.16**	**1,538.56**	**1,505.38**	**1,439.56**	**1,374.13**
Cumulative Over/under Borrowed	**-88.20**	**-150.00**	**-150.00**	**-150.00**	**-138.88**	**-126.77**

Table 1 – Borrowing Requirement

3.3.3 The Council's last borrowing from the PWLB was undertaken in mid-December 2012. Since then, the Council's strategy has been to reduce its temporary investment balances to fund capital expenditure in the short term. Figure 3 below shows the interest rates for borrowing new maturity loans from the Government via the Public Works Loans Board since April 2005.

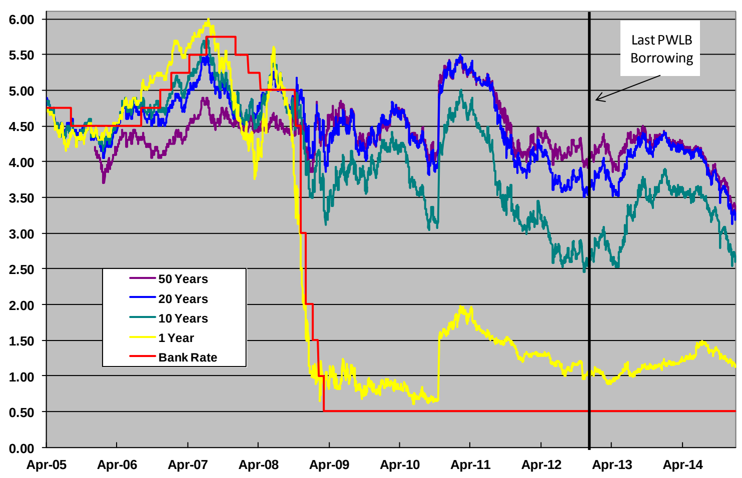

Figure 3 – PWLB Borrowing Rates

3.3.4 While interest rates, particularly for borrowing with longer maturity dates, have dropped significantly over the last year, it is intended to continue this strategy during 2015/16. However, depending on the exact level of reserves, working capital, and temporary cash flow during the year, the Head of Finance will continue to balance the need to undertake some borrowing for cash flow purposes, and the need for medium term borrowing against the cost of carrying that borrowing in light of the anticipated outlook for interest rates.

3.3.5 It is not intended to borrow in advance of need during the year. Appendix 2 lists the maturity of the Council's debt as of February 2015.

3.4 Resolution of Failing Financial Institutions

3.4.1 There are a number of legislative and regulatory changes which have been, or are in the process of being, made which we believe require changes to be made to the Council's investment arrangements.

3.4.2 Firstly, the Financial Service (Banking Reform) Act 2013 gave depositors protected under the Financial Services Compensation Scheme (FSCS) preference if a bank enters insolvency. It classed "insured deposits" – i.e. those eligible for compensation in the UK for deposits up to £85,000 as preferred creditors in event of an insolvency.

3.4.3 In May 2014, the EU issued the Bank Recovery and Resolution Directive (BRRD) which created a second category of preferred creditor – ranking below insured depositors but above senior creditors. This gave greater protection to deposits over £85,000 held by individuals and SMEs. This was implemented in the UK on 01 January 2015. Table 2 below shows the creditor hierarchy with effect from 01 January.

3.4.4 Additionally, from this July, all corporates (but not local authorities) will be insured for deposits up to the £85,000 limit regardless of the size of the corporate.

3.4.5 Therefore, in the event of an insolvency event, the shareholders are wiped out first, then the junior bond holders, then the unsecured senior creditors, including senior bond holders, trade creditors, non-SME deposits over £85,000 and local authority deposits. This is a substantially different regime for local authorities than before the financial crisis.

Figure 3 Insolvency creditor hierarchy[(a)]

Order of priority (from January 2015)

Proceeds flow down

Fixed charge holders (ie security in the form of: mortgage, fixed charge, pledge, lien), including:
- Capital market transactions (eg covered bonds)
- Trading book creditors (eg collateralised positions)

Liquidators (fees and expenses)

Preferential creditors (ordinary), including:
- FSCS, taking the place of all protected depositors for amounts up to £85,000[(b)]
- Employees with labour-related claims

Preferential creditors (secondary):[(b)]
- Depositors that are individuals and micro, small or medium-sized businesses for amounts in excess of £85,000

Floating charge holders[(c)]

Unsecured senior creditors, including:
- Bondholders
- Trading book creditors (eg uncollateralised positions)
- Creditors with master netting agreements (net position only)
- Commercial or trade creditors arising from the provision of goods and services
- Depositors that are not individuals or micro, small and medium-sized businesses for amounts in excess of £85,000[(b)]
- FSCS, taking the place of individuals with funds invested with the insolvent firm (including protected amounts up to £50,000)[(d)]

Unsecured subordinated creditors (eg subordinated bondholders)

Interest incurred post-insolvency[(e)]

Shareholders (**preference shares**)

Shareholders (**ordinary shares**)

Losses flow up

(a) Proceeds recovered through an insolvency are used to meet the claims of creditors in the top row first, with any excess being passed down to meet claims of creditors in the second row, and so on. Any losses arising from a shortfall between proceeds and creditor claims are incurred firstly by shareholders, and then pass up the creditor hierarchy until they are fully absorbed. Creditors within a row are treated equally (rank 'pari passu').
(b) Amendments to existing creditor hierarchy introduced by the Bank Recovery and Resolution Directive.
(c) Floating charges that constitute financial collateral arrangements or collateral security (pursuant to the UK Financial Collateral Arrangements Regulation and the Financial Markets and Settlement Finality Regulations) rank senior to preferential creditors and liquidators' fees and expenses.
(d) Some smaller businesses are also protected by the FSCS for investment business up to £50,000.
(e) Ranking for all statutory interest from the date of the winding-up order until a final dividend is declared or all proved debts have been paid — unless otherwise specified by the terms of the debt contract. Statutory interest may rank ahead of unsecured subordinated creditors, depending on the precise circumstances, including the terms of the subordination.

Table 2 – Bank Insolvency Creditor Hierarchy

3.4.6 In the past governments had only two options to resolve banks which had a major credit event: either insolvency where the bank ceases to provide essential services such as bank accounts, ATM facilities, BACS payments, etc immediately with the further risk of financial instability, or alternatively the taxpayer stepping in to bail the bank out. In future credit events for banks and, subject to further regulations, building societies, it is likely that the resolution tool used to resolve a failing institution will be a 'bail in'. Bail-in involves shareholders of a failing bank being divested of their shares and creditors having their claims cancelled or reduced to the extent necessary to restore the bank to financial viability. It recapitalises the institution by reducing the losses on its balance sheet. The shares can be transferred to the affected creditors as compensation, or the shares can be transferred to third party buyer with the creditors instead receiving, where appropriate, some other form of compensation.

3.4.7 Where the regulatory authority steps in and "bails in" a bank, there are a number of categories of creditor that are exempt from being bailed in - 7 day interbank loans, covered bonds, repurchase agreements and derivatives. Otherwise the bail in is likely to follow the creditor hierarchy in Table 2 above.

3.4.8 A further consequence of the new bail in regime is that the credit ratings of some of the UK financial institutions are likely to be downgraded over the next few months. The requirement to 'bail in' bond holders and depositors before Government support can be provided will mean the Ratings Agencies will remove the uplift they have given to the ratings of some institutions for the likelihood of support from the Government. The credit ratings of the institutions will therefore revert to the rating which the agency believes is appropriate for the institution's stand alone financial strength. Figure 4 below gives an indication of what the ratings of some UK institutions are currently and what they might be following the ratings changes.

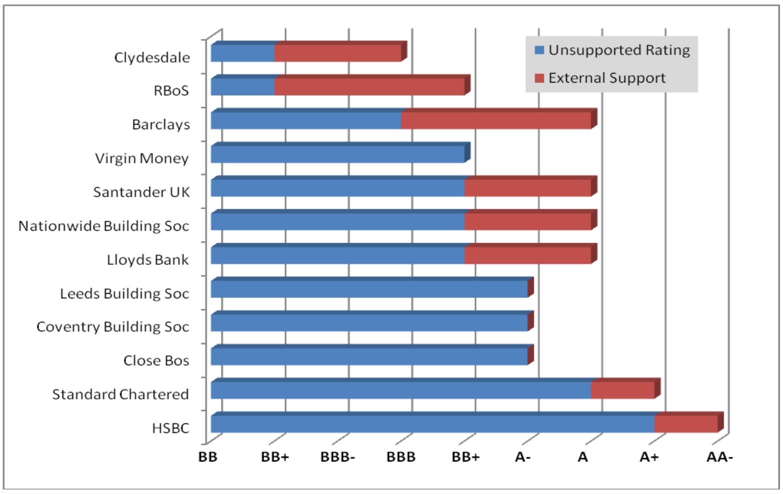

Figure 4 – Credit Ratings Support

3.4.9 It should be noted that the downgrades which we are anticipating do not reflect a deteriorating financial position of the banks, rather a change in the likelihood of government support in the event of a credit event. However, it is considered that the above issues have a number of implications for the Council's Investment Strategy and Treasury Management Policy Statement.

3.5 Treasury Management Policy Statement

3.5.1 The Treasury Management Policy Statement for the Treasury Cash Fund defines the counterparties with which the Council will invest its surplus funds. As a result of the regulatory and legislative changes on bank resolution, and the resultant likelihood of changes to credit ratings, a number of changes are proposed to the Policy.

3.5.2 The key changes proposed are:

- the criteria relating to financial institutions are simplified, concentrating more on the longer term credit ratings, and removing the support ratings category from the matrix;
- separate categories are created for deposits or bonds with financial institutions where the deposits or bonds are secured against a specific pool of assets such as mortgages;

- the credit rating criteria are aligned with the changes anticipated to be made by the ratings agencies, while retaining Investment Grade as a minimum criteria;
- remove the AAA requirement for Money Market Funds and Bond Fund as it is likely that these ratings will be withdrawn by the ratings agencies as part of the regulatory reviews;
- addition of maximum time limits for investments; and
- clarification is given to the use of the Council's bankers in the event that they don't meet the minimum investment criteria at some stage.

3.5.3 It is proposed to retain no limit to the percentage of funds which can be held with the UK Government or with other organisations which have pseudo-sovereign risk such as local authorities. This allows the option to place funds with the most secure counterparties in time of financial market stress.

3.5.4 The Head of Finance has used liquidity to manage Counterparty risk by keeping the duration of investment short and will continue to do so within the limits added to the Cash Fund Treasury Policy Statement. Appendix 5 gives the revised Treasury Management Policy Statement for the Investment of the Council's surplus funds.

3.6 Treasury Management Strategy – Investment of Surplus Funds

3.6.1 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.

3.6.2 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. The Cash Fund's Investment Strategy continues to be based around the security of the investments. Figure 5 below shows the distribution of Cash Fund deposits since inception.

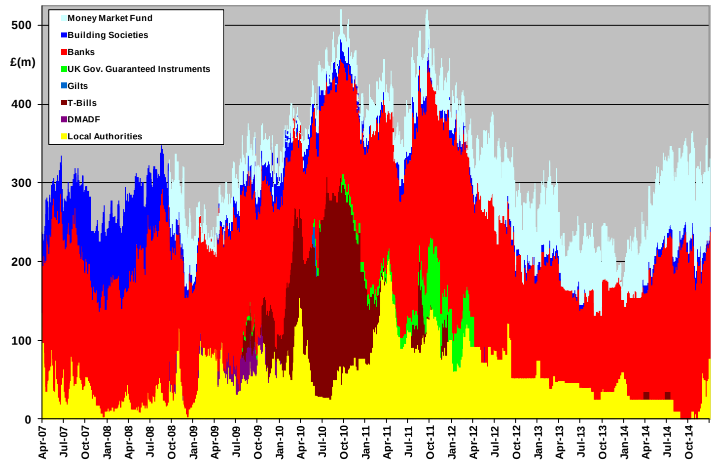

Figure 5 – Counterparty Analysis of Cash Fund

3.6.3 The key change to the proposed strategy is that it is intended to move to a position where more of the Council's investments are secured against some form of collateral. For these investments, it would mean that the Council would rank as Fixed Charge Holders, rather than Unsecured Senior Creditors, in Table 2 above in the event of an insolvency or bail in of the financial institution. The Council would therefore have 'dual recourse' having claims against both the institution's assets and the specific ring-fenced pool of collateral.

3.6.4 This will allow the weighted average maturity of the funds to be increased while maintaining a high level of security of the Council's investments.

Measures of success

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

Financial impact

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

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

Risk, policy, compliance and governance impact

6.1 The changes to the Treasury Management Policy Statement and strategy are designed to manage and mitigate the risk to which the Council is exposed.

Equalities impact

7.1 There are no adverse equality impacts arising from this report.

Sustainability impact

8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

9.1 Not applicable.

Background reading / external references

For a copy of the City of Edinburgh Council Treasury Cash Fund Investment Report Quarter 4 2014, please contact Innes Edwards innes.edwards@edinburgh.gov.uk

Alastair D Maclean

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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 2015 **Appendix 3** – Prudential Indicators **Appendix 4** – Treasury Management Policy Statement – The City of Edinburgh Council **Appendix 5** – Treasury Management Policy Statement – Treasury Cash Fund

CAPITAL INVESTMENT PROGRAMME 2015-2020

SUMMARY OF EXPENDITURE AND RESOURCES - GENERAL SERVICES

2014-2019	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£000	£000	£000	£000	£000	£000
Expenditure	**187,357**	**94,056**	**50,239**	**35,472**	**41,000**	**408,124**
Resources						
Capital receipts						
General asset sales	10,000	13,000	10,000	4,500	3,000	**40,500**
Less General asset sales for property rationalisation savings	(5,400)	-	-	-	-	**(5,400)**
Asset sales to reduce corporate borrowing	1,900	-	-	-	-	**1,900**
Ring-fenced asset sales	-	4,895	-	-	10,000	**14,895**
Developers and other contributions	6,100	869	209	-	-	**7,178**
Total receipts	12,600	18,764	10,209	4,500	13,000	**59,073**
Grants						
Specific Capital Grant	32,392	-	-	-	-	**32,392**
General Capital Grant	57,461	46,000	44,500	44,500	38,000	**230,461**
Total Grants	89,853	46,000	44,500	44,500	38,000	**262,853**
Borrowing						
Support brought forward	63,388	-	-	-	-	**63,388**
Prudential framework						

- Through council tax	4,458	120	-	-	-	**4,578**
- Departmentally supported	7,692	9,452	-	-	-	**17,144**
Total borrowing	75,538	9,572	0	0	0	**85,110**
Over / (under)-programming	9,366	19,720	(4,470)	(13,528)	(10,000)	**1,088**
Total Resources	**187,357**	**94,056**	**50,239**	**35,472**	**41,000**	**408,124**

Grant funding for 2016/17,2017/18, 2018/2019 and 2019/20 is outside the current one year settlement and therefore the grant settlement figures for these years are based on prudent estimates.

Appendix 2

Maturing Debt Profile – February 2015

Market

Start Date	Type	Maturity Date	Principal Outstanding	Interest Rate	Annual Interest
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	6.861	343,050.00
26/02/2010	M	26/02/2060	10,000,000.00	6.861	686,100.00
25/02/2011	M	25/02/2060	15,000,000.00	6.874	1,031,100.00
25/02/2011	M	25/02/2060	10,000,000.00	6.874	687,400.00
			280,900,000.00		14,711,400.00

PWLB

Start Date	Type	Maturity Date	Principal Outstanding	Interest Rate	Annual Interest
15/06/1951	P	15/05/2031	3,866.97	3	116.01
14/07/1950	P	03/03/2030	3,918.18	3	117.55

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	2,540,803.99	3.96	100,615.84
01/12/2008	P	01/12/2019	2,520,023.77	3.65	91,980.87
10/12/2008	P	10/12/2016	5,000,000.00	3.61	180,500.00
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	21/04/2019	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	11,203,753.09	3.64	407,816.61
14/12/2009	P	14/12/2019	10,000,000.00	3.91	391,000.00
14/12/2009	P	14/12/2024	7,249,741.49	3.66	265,340.54
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	3,155,846.94	3.09	97,515.67
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
			1,118,687,723.53		62,833,882.59

SPECIAL

Start Date	Type	Maturity Date	Principal Outstanding	Interest Rate	Annual Interest
07/01/2015	Z	01/09/2021	552,700.00	0	0.00
			552,700.00		0.00

Appendix 3

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2013/14 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 ----------						
	2013/14 Actual £000	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**
Children and Families	15,670	15,843	68,556	31,060	15,543	4,531	0
Corporate Governance	4,211	5,885	3,895	2,089	165	165	165
Economic Development	1	52	0	0	0	0	0
Health and Social Care	4,160	4,646	7,171	1,514	114	0	0
Services for Communities (SFC)	108,953	79,854	79,371	45,736	20,417	16,776	17,835
SFC - Asset Management Programme	17,082	14,191	22,545	13,657	14,000	14,000	14,000
Other Capital Projects	923	797	0	0	0	0	0
Unallocated General Capital Grant funding	0	0	5,819	0	0	0	0
Unallocated - indicative 5 year plan 2019-2023 funding	0	0	0	0	0	0	9,000
Sub Total General Services Capital Expenditure	**151,000**	**121,268**	**187,357**	**94,056**	**50,239**	**35,472**	**41,000**
Trams Project as approved by Council in Sept 2011 (not detailed in CIP)	53,198	5,385	0	0	0	0	0
Additional investment made available from capital fund draw down per budget motion	0	0	7,500	0	0	0	0
Fleet Vehicle Replacement programme	0	0	2,987	0	0	0	0
National Housing Trust Phase 3 (to be approved in Feb 2015)	0	0	0	22,850	27,562	4,585	0
Total General Services Capital Expenditure	**204,198**	**126,653**	**197,844**	**116,906**	**77,801**	**40,057**	**41,000**

Note that the 2015-2020 CIP includes slippage / acceleration brought forward based on projected capital expenditure reported at the nine month stage.

	---------- Capital Expenditure Housing Revenue Account ----------						
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Housing Revenue Account	39,206	34,135	49,830	48,693	51,485	44,375	40,347

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 2013/14 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	**%**	**%**	**%**	**%**	**%**	**%**
General Services	11.60	12.11	12.56	12.42	12.29	N/A	N/A
HRA	36.01	37.30	39.61	41.51	43.05	44.49	45.16

Note: Figures for 2016/17 onwards are indicative as neither the Council or HRA has set a budget for these years. The figures for General Services are based on the budget framework to the end of the current coalition Council and so figures for 2018/19 and 2019/20 have been excluded.

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 2014 are:

	----- Capital Financing Requirement -----						
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**

General Services	1,359	1,306	1,326	1,305	1,257	1,179	1,103
HRA	369	372	390	400	409	414	418

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

	2013/14 Actual £m	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**
Gross Debt	1,618	1,590	1,567	1,555	1,515	1,443	1,371
Capital Financing requirements	1,728	1,678	1,717	1,705	1,665	1,593	1,521
(Over) / under limit by:	110	88	150	150	150	150	150

The Council's Capital Financing Requirement (CFR) is projected to reduce by £50m during 2014/15 as repayments for previous capital advances are higher than the new prudential borrowing undertaken during 2014/15. At 31/03/14, the authority was under borrowed by £110.147m. Current projections suggest that the authority will be under borrowed by approximately £88m at 31/03/15, although this may vary in light of actual capital expenditure and market conditions. This movement is a result of the reduction in CFR, partially offset by maturing external debt.

As demonstrated above, 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.

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 five 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				
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,580	1,637	1,636	1,607	1,542
Other long term liabilities	191	182	173	165	157
	1,771	1,818	1,809	1,772	1,699

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

	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m
Borrowing	1,559	1,611	1,610	1,580	1,515
Other long term liabilities	191	182	173	165	157
	1,750	1,793	1,783	1,745	1,672

The Council's actual external debt at 31st March 2014 was £1,452.582m, comprising borrowing (including sums repayable within 12 months). Of this sum, £24.818m relates to borrowing carried out by the Council on behalf of the Police and Fire Joint Boards.

In taking its decisions on this budget report, the Council is asked to note that the estimate of capital expenditure determined for 2014/15 (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

2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
0.29	4.14	10.19	N/A	N/A

b) for average weekly housing rents

2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20
0.21	0.69	0.52	-0.05	0.52

In calculating the incremental impact of capital investment decisions on the band "D" Council Tax, investment decisions relating to National Housing Trust Phases have been omitted. As agreed with the Scottish Government, the borrowing and associated interest costs related to this expenditure are directly rechargeable to developers at agreed periods in the future. As such, there is no cost to the Council in relation to this element of borrowing and therefore it has been omitted in calculating the incremental impact of capital investment decisions.

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 / House Rents;
-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 / rents, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax / rents.

Indicators included in Treasury Management Strategy

The Council's treasury management strategy and annual plan for 2015/16 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 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 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 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 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.

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 local authority company	These are service investments which may exhibit market risk and are likely to be highly illiquid.	Each equity investment in a local authority company requires Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.
i. Investment in Shared Equity Schemes	These are service investments which exhibit property market risk and are likely to be highly illiquid, with funds tied up for many years.	Each scheme investment requires Member approval and each decision will be supported by the service rational behind the investment and the likelihood of loss.
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

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) Reverse Repurchase Agreements

(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, where not otherwise permitted under (k) below, up to a limit of £20m on an overnight only basis other than when funds are received into the Council's bank account without pre-notification.

(e) 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) 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 of AA or above 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) Local Authority Collateralised deposits up to a maximum of £30 million or 15 percent of the fund per institution up to a maximum of 5 years 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 under the following criteria:

Credit Rating	**Banks Unsecured**	**Banks Secured**	**B. Socs. Unsecured**	**B. Socs. Secured**
AAA	20% or £60m	20% or £60m	20% or £60m	20% or £60m
AA+	15% or £30m	20% or £60m	15% or £30m	20% or £60m
AA	15% or £30m	20% or £60m	15% or £30m	15% or £30m
AA-	15% or £30m	20% or £60m	10% or £20m	15% or £30m
A+	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A	10% or £20m	15% or £30m	10% or £20m	10% or £20m
A-	10% or £20m	15% or £30m	5% or £20m	15% or £30m
BBB+	5% or £10m	5% or £10m	n/a	n/a
BBB or BBB-	5% or £10m	5% or £10m	n/a	n/a
None	n/a	n/a	n/a	n/a

The credit ratings quoted in the above table are for the financial institution, instrument or security provided and are the lowest of the relevant long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch.

Time Limits

In addition to the monetary limits above, the following maximum time limits will be placed on investments:

Category	Max. Time Limit
20% of Assets Under Management / £60m	5 Years
15% of Assets Under Management / £30m	1 Years
10% of Assets Under Management / £20m	6 months
5% of Assets Under Management / £10m	3 months

In addition to the above limits, no more than 25% of assets under management will have a maturity greater than 1 year.

In considering an investment, consideration is given to a wide range of information, not simply the credit ratings of the institution being considered. This will include financial information on the institution, relevant Credit Default Swaps and equity pricing data, and the general macro-economic, market and sector background. 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 dependent on credit rating)**	These tend to be moderately low risk investments, but will exhibit higher risks than the categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody’s and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.

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	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short

	gilts. They do have an exposure to movements in market prices of assets held.	maturity.