# The City of Edinburgh Council

**10.00am, Thursday, 10 March 2016**

# Annual Treasury Strategy 2016/17 - referral report from the Finance and Resources Committee

| | |
|---|---|
| **Item number** | 8.7 |
| **Report number** | |
| **Wards** | All |

## Executive summary

The Finance and Resources Committee on 2 February 2016 considered a report that detailed a Treasury Management Strategy for 2016/17. The report has been referred to the City of Edinburgh Council on 10 March 2016 for approval of the Treasury Management Strategy for 2016/17 and to subsequently refer the report to the Governance, Risk and Best Value Committee for their scrutiny.

## Links

| | |
|---|---|
| **Coalition pledges** | See attached report |
| **Council outcomes** | See attached report |
| **Single Outcome Agreement** | See attached report |
| **Appendices** | See attached report |

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THE CITY OF EDINBURGH COUNCIL

# Terms of Referral

# Annual Treasury Strategy 2016/17

## Terms of referral

1.1 The Council's Treasury Management activities were 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.

1.2 The Treasury Management Strategy aimed to ensure that the Council has sufficient and appropriate facilities available to meet its short and long-term borrowing requirements and funding needs; to secure new funding at the lowest cost; and to ensure that surplus funds were invested in accordance with the list of approved organisations for investment, minimising the risk to the capital sum and to optimise the return on these funds consistent with those risks.

1.3 The Finance and Resources Committee agreed:

1.3.1 To note the Treasury Management Strategy for 2016/17.

1.3.2 To refer the report to Council for approval and then subsequently refer the report to the Governance, Risk and Best Value Committee for their scrutiny.

## For Decision/Action

2.1 The Finance and Resources Committee has referred the report to The City of Edinburgh Council on 10 March 2016 for approval of the Treasury Management Strategy for 2016/17 and to subsequently refer the report to the Governance, Risk and Best Value Committee for their scrutiny.

## Background reading / external references

Minute of the Finance and Resources Committee, 2 February 2016.

**Kirsty-Louise Campbell**

Interim Head of Strategy and Insight

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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 |

# Finance and Resources Committee

## 10.00am, Tuesday 2 February 2016

# Annual Treasury Strategy 2016/17

| | |
|---|---|
| **Item number** | 7.3 |
| **Report number** | |
| **Executive/routine** | |
| **Wards** | |

## Executive summary

The report proposes a Treasury Management strategy for the Council for 2016/17, including an Annual Investment Strategy and a Debt Management strategy.

## Links

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|---|---|
| **Coalition pledges** | |
| **Council outcomes** | |
| **Single Outcome Agreement** | |

# Report

# Annual Treasury Strategy 2016/17

## Recommendations

1.1 It is recommended that the Committee:

1.1.1 approves the Treasury Management Strategy for 2016/17; and

1.1.2 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 2016/17 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:

- 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.

2.3 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 2 gives details of the capital investment programme and prudential indicators which were approved by Council as part of the budget process.

## Main report

### 3.1 Key Points

3.1.1 The key points in the report are that:

- The Council's total capital expenditure is forecast to be £988m between 2015/16 and 2020/21;
- The Council's total underlying need to borrow to finance capital expenditure is forecast to reduce each year to 2020/21;
- From 31 March 2015 to 31 March 2021, the underlying need to borrow is forecast to reduce by £140m from £1.510bn to £1.370bn;
- Over the same period £343m of the Council's external debt is due to mature;
- It is intended to continue to fund the Council's Capital Financing Requirement from temporary investment balances over the next year;
- Investment return is forecast to remain low in absolute terms as no increase in UK Bank Rate is anticipated in 2016/17.

### 3.2 Capital Expenditure

**Overview**

3.2.1 This section summarises the Council's anticipated capital expenditure in the period to March 2021 based on the Capital Investment Programme. It also details how that expenditure will be funded.

**Total Capital Expenditure (Prudential Indicator 1)**

3.2.2 Tables 1 and 2 below show the anticipated expenditure on capital assets for both General Services and the Housing Revenue Account.

**Capital Expenditure - General Services**

| | 2014/15 Actual £000 | 2015/16 Estimate £000 | 2016/17 Estimate £000 | 2017/18 Estimate £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 |
|---|---|---|---|---|---|---|---|
| Children and Families | 16,903 | 46,877 | 49,310 | 6,558 | 10,019 | 14,601 | 393 |
| Corporate Governance | 7,582 | 2,729 | 18,879 | 1,028 | 165 | 165 | 165 |
| Economic Development | 0 | 58 | 0 | 0 | 0 | 0 | 0 |
| Health and Social Care | 4,616 | 6,328 | 4,229 | 114 | 0 | 0 | 0 |
| Services for Communities (SFC) | 85,260 | 76,616 | 98,942 | 73,598 | 30,719 | 24,201 | 19,834 |
| SFC - Asset Management Programme | 18,657 | 13,224 | 24,044 | 11,035 | 8,436 | 19,173 | 14,000 |
| Other Capital Projects | 1,049 | 259 | 0 | 0 | 0 | 0 | 0 |
| Unallocated (indicative 5 year plan 2019-23) | 0 | 0 | 0 | 0 | 0 | 7,000 | 7,000 |
| **General Services Capital Expenditure** | **134,067** | **146,091** | **195,404** | **92,333** | **49,339** | **65,140** | **41,392** |
| Trams Project as approved in Sept 2011 | 5,246 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total General Services Capital Expenditure** | **139,313** | **146,091** | **195,404** | **92,333** | **49,339** | **65,140** | **41,392** |

**Table 1 - Capital Expenditure on General Services**

| Capital Expenditure - Housing Revenue Account | 2014/15 Actual £000 | 2015/16 Estimate £000 | 2016/17 Estimate £000 | 2017/18 Estimate £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 |
|---|---|---|---|---|---|---|---|
| **Total Housing Revenue Account Cap. Ex.** | **37,308** | **38,253** | **48,508** | **65,708** | **76,500** | **84,794** | **85,022** |

**Table 2 - Capital Expenditure on the Housing Revenue Account**

## Funding Capital Expenditure

3.2.3 Tables 3 and 4 below show how the capital expenditure in Tables 1 and 2 is going to be funded by the Council.

| | 2014/15 Actual £000 | 2015/16 Estimate £000 | 2016/17 Estimate £000 | 2017/18 Estimate £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 |
|---|---|---|---|---|---|---|---|
| **General Services Capital Expenditure** | **139,313** | **146,091** | **195,404** | **92,333** | **49,339** | **65,140** | **41,392** |
| Government Capital Grants | 57,675 | 57,461 | 38,795 | 47,921 | 47,921 | 41,422 | 38,000 |
| Cycling, Walking and Safer Streets | 762 | 729 | 540 | 0 | 0 | 0 | |
| Development Funding | 28,512 | 31,663 | 29,248 | 0 | 0 | 0 | |
| Trams Funding (Scot Govt grant and 3rd party) | 42 | 0 | 0 | 0 | 0 | 0 | |
| **Total Central Government Grants** | **86,991** | **89,853** | **68,583** | **47,921** | **47,921** | **41,422** | **38,000** |
| Use of Capital Receipts | 14,177 | 12,852 | 26,575 | 11,760 | 1,260 | 15,503 | 3,000 |
| Transfer Receipts to Capital Fund for trams | -11,298 | -1,000 | -8,084 | -2,334 | -1,500 | -1,500 | -1,500 |
| Other Capital Contributions | 18,469 | 9,728 | 3,643 | 209 | 0 | 309 | 0 |
| Draw down of capital fund - per budget update | 0 | 6,600 | 0 | 0 | 0 | 0 | 0 |
| **Total Grants & Receipts** | **108,339** | **118,033** | **90,717** | **57,556** | **47,681** | **55,734** | **39,500** |
| **GF Cap Ex to be funded** | **30,974** | **28,058** | **104,687** | **34,777** | **1,658** | **9,406** | **1,892** |

**Table 3 - Funding for General Services Capital Expenditure**

| | 2014/15 Actual £000 | 2015/16 Estimate £000 | 2016/17 Estimate £000 | 2017/18 Estimate £000 | 2018/19 Estimate £000 | 2019/20 Estimate £000 | 2020/21 Estimate £000 |
|---|---|---|---|---|---|---|---|
| **HRA Cap Ex** | **37,308** | **38,253** | **48,508** | **65,708** | **76,500** | **84,794** | **85,022** |
| Central Government Grants -: | 4,259 | 4,589 | 736 | 4,738 | 2,346 | 3,861 | 5,376 |
| Capital Receipts / CFCR / Grants / other conts | 13,228 | 10,360 | 24,742 | 30,041 | 31,677 | 24,442 | 14,420 |
| **Total Grants & Receipts** | **17,487** | **14,949** | **25,478** | **34,779** | **34,023** | **28,303** | **19,796** |
| **HRA Cap Ex to be funded by borrowing** | **19,821** | **23,304** | **23,030** | **30,929** | **42,477** | **56,491** | **65,226** |

**Table 4 - Funding for HRA Capital Expenditure**

## 3.3 Economic and Market Outlook

### Overview

3.3.1 Many of the key themes in the UK and global economies are similar to those outlined last year. The UK recovery continues, albeit at a modest rate, the state of the Eurozone economies remain precarious and the global economic outlook is weak.

**World Economy**

3.3.2 2015 was a challenging year for the world economy. World growth by value (in US Dollar terms), has fallen for five consecutive quarters and by Quarter 3 2015 (the latest available statistic) was 13% lower than a year previously. As shown in Figure 1 below this is the largest fall since the Global Financial Crisis (GFC).

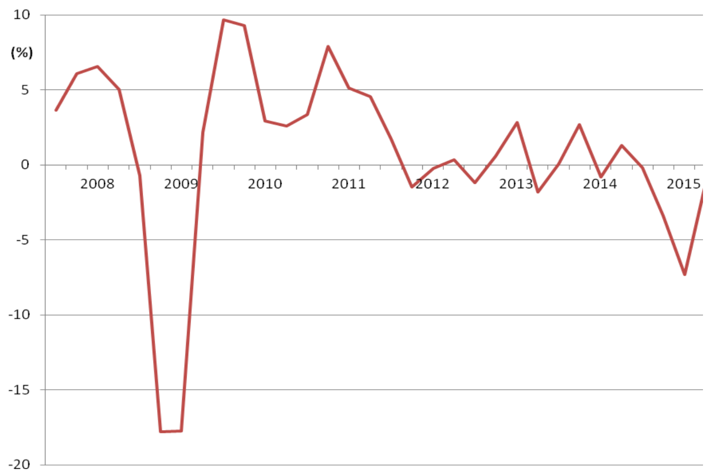


**Figure 1 – QonQ Change in World Trade Value in US$**

**Source: OECD**

3.3.3 While the fall is partly due to the strength of the US Dollar and to the fall in commodity prices, there is no doubt that world growth is constrained with Emerging Market economies in particular facing major difficulties.

3.3.4 Figure 2 below shows the Baltic Dry Index (BDI), which measures the rates for chartering the giant ships that transport iron ore, coal and grain. Since it is indicative of the cost of shifting the basic raw materials that are the ingredients of steel, energy and food it is taken as a leading indicator of the state of the world economy.


**Figure 2 – Baltic Dry Index**

**Source: Reuters**

3.3.5 While the index is also affected by the oversupply of shipping capacity which means it is an imperfect indicator of the world economy, the drop in the index is clear and can be taken as another indication of the weakness of the world economy.

### Inflation Outlook

3.3.6 Figure 3 below shows CPI and RPI since March 2004.

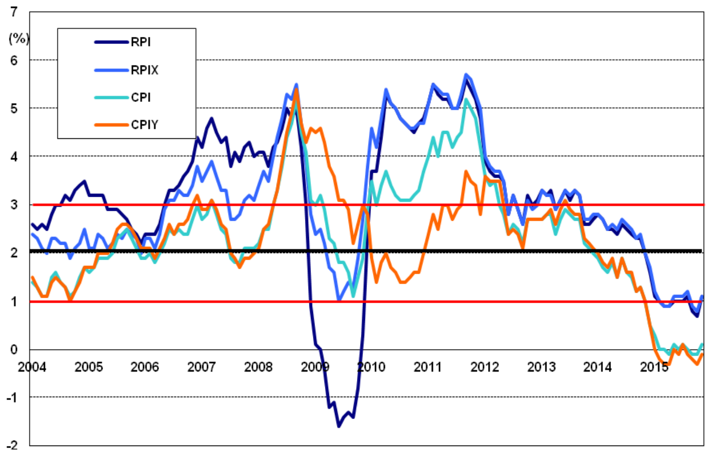


**Figure 3 – CPI and RPI**

**Source: ONS**

3.3.7 The Government's preferred measure of inflation, CPI, has remained in a narrow band between -0.1% and 0.1% for all of 2015.

3.3.8 Members were advised last year that there was "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, it is anticipated that inflation will revert back to the target range over a two year horizon." However the price of oil (Figure 4 below) has fallen even further than we and most comentators had expected.


**Figure 4 – Oil Price**

Source: Reuters

3.3.9 Although little of this had fed through in lower domestic energy prices, transport costs alone are substantially reduced. Further, we continue to believe that there is no underlying pressure to core inflation in the UK. Figure 5 below shows the growth in real wages. While this has been positive during 2015, this is more to do with the exceptionally low inflation rate than soar away wages growth. CPI is still expected to increase back to trend, but on a slightly longer timescale.

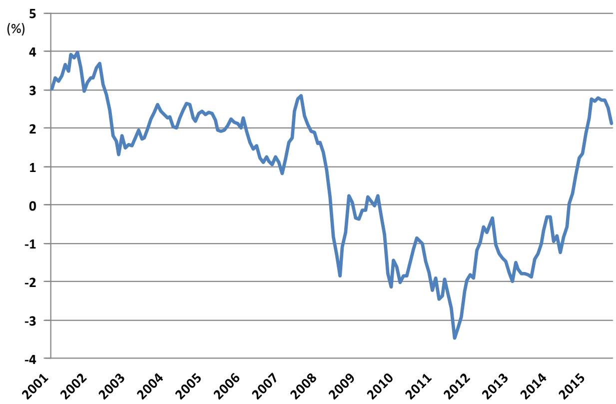


**Figure 5 – Growth in Real Wages**

Source: ONS

### Interest Rate Outlook

3.3.10 The Reuters poll of up to 38 economists, taken 23rd December 2015, shows most economists polled believe that the UK Bank Rate will be at 0.75% by the end of Quarter 2, June 2016. However, for many years, we have consistently maintained a "much lower for much longer" stance on UK Bank Rate, in spite of market sentiment and forecasts, and see no justification for changing this stance at present. There is some pressure from the 0.25% increase in the US Federal Reserve (Fed) Rate and the fact that the Fed is anticipating four 0.25% increases in 2016. However, the reason that the Fed delayed increasing rates in the US from June to September and then to December was the release of poorer than expected economic data. Figure 6 below shows the 'US Economic Surprises Index' which shows whether data released was above or below forecasts.


**Figure 6 – US Economic Surprises Index**

**Source: Reuters**

3.3.11 The index was heavily in negative territory all year as US payroll and other data came in under expectations and then later in the year the effect of growth in China slowing was felt.

3.3.12 In 2015 UK growth continued to be better than the Eurozone countries and other leading economies. However, Figure 7 below compares the recovery in GDP from start of the 2008 recession with the recovery from the start of the Great Depression in the 1930s. Although the concerted action by central banks around the world averted a deeper recession in 2008, the overall rate of recovery in the UK has been modest, and 30 quarters on from the start of the recession the recovery is significantly weaker than that in the 30s.

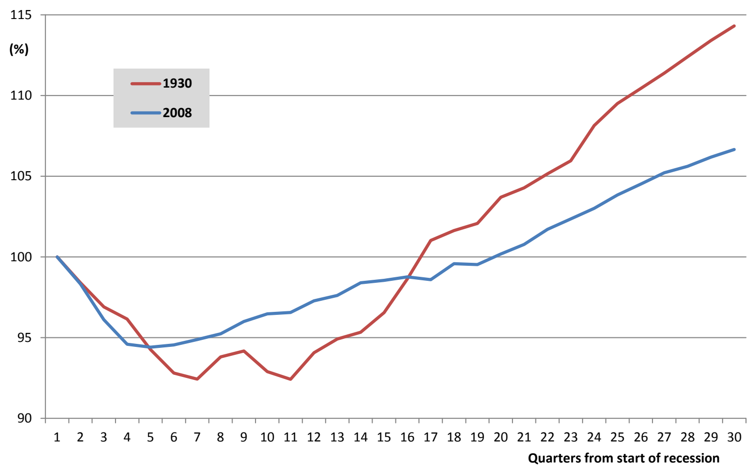


**Figure 7 – UK GDP 1930s v 2008/15**

Sou rce: ONS

3.3.13 With no substantial pick up in UK inflation, modest UK growth at best, slowing growth in China, on-going issues in the Eurozone, a poor global economic backdrop and rates in the US possibly not increasing as much as is being expected, we see no great justification for increasing UK Bank Rate.

3.3.14 Longer term borrowing rates however are more finely balanced. Longer Gilt Yields are lower than they have been for half a century, having fallen from 15% to around 3%, and some commentators see this as a “Bonds Bubble” which is likely to burst sending interest rates higher. However on a longer term view shown below, the argument could be made that they have simply reverted to a more normal level. With a sluggish global economy, there may well be further ‘flights to safety’ from riskier asset classes such as equities which would keep yields low. It is difficult to determine how these completing pressures will resolve themselves.

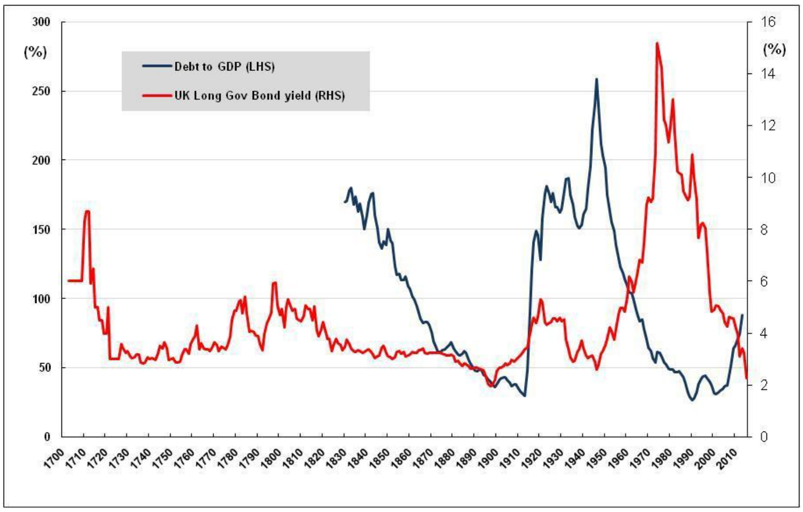


**Figure 8 – Three Centuries of Long Gilt Yields**

Sou rce: Bank of England / DMO

3.3.15 There is the additional possibility of an early referendum on the UK's membership of the EU. If there were to be polls showing the likelihood of a no vote, it might be anticipated that there would be a sell off in UK Gilts with yields increasing.

## 3.4 Treasury Management Strategy – Debt

### Overview

3.4.1 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.

### Loans Fund Borrowing Requirement

3.4.2 Table 5 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 summarised in Tables 1 to 4 above.

| | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 |
|---|---|---|---|---|---|---|---|
| **Debt b/fd** | **1,434,289** | **1,412,998** | **1,367,988** | **1,316,005** | **1,261,650** | **1,256,690** | **1,233,108** |
| **Cumulative Capital Expenditure b/fd** | **1,544,437** | **1,510,154** | **1,483,226** | **1,475,344** | **1,453,153** | **1,409,967** | **1,387,149** |
| **Over/underborrowed b/fd** | **-110,148** | **-97,156** | **-115,238** | **-159,339** | **-191,503** | **-153,278** | **-154,041** |
| GF Capital financed by borrowing (Table 3) | **30,974** | **28,058** | **104,687** | **34,777** | **1,658** | **9,406** | **1,892** |
| HRA Capital financed by borrowing (Table 4) | **19,821** | **23,304** | **23,030** | **30,929** | **42,477** | **56,491** | **65,226** |
| less scheduled repayments by GF | -60,585 | -57,710 | -113,526 | -62,341 | -60,263 | -59,923 | -62,680 |
| less scheduled repayments by HRA | -21,129 | -17,328 | -19,112 | -21,055 | -23,348 | -26,022 | -27,784 |
| less scheduled repayments by Former Joint Boards | -3,364 | -3,252 | -2,962 | -2,481 | -1,575 | -517 | -544 |
| **Underlying Need to Borrow** | **-34,283** | **-26,928** | **-7,883** | **-20,171** | **-41,051** | **-20,565** | **-23,890** |
| plus total maturing debt | 27,782 | 45,010 | 51,984 | 54,355 | 54,960 | 53,581 | 55,567 |
| **Total Borrowing Requirement** | **-6,501** | **18,082** | **44,101** | **34,184** | **13,909** | **33,016** | **31,677** |
| Planned PWLB or short borrowing for year | 0 | 0 | 0 | 0 | 50,000 | 30,000 | 30,000 |
| Actual Other Borrowing | 6,491 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Debt at end of the year** | **1,412,998** | **1,367,988** | **1,316,005** | **1,261,650** | **1,256,690** | **1,233,108** | **1,207,542** |
| **Cumulative Capital Expenditure** | **1,510,154** | **1,483,226** | **1,475,344** | **1,455,173** | **1,414,121** | **1,393,556** | **1,369,666** |
| **Cumulative Over/under Borrowed** | **-97,156** | **-115,238** | **-159,339** | **-193,523** | **-157,432** | **-160,448** | **-162,125** |

**Table 5 - Capital Funding v. External Debt**

3.4.3 In producing the estimates in Table 5, the following assumptions have been made:

- Capital receipts are received as per the most recent forecast and used to repay prudential borrowing;
- The Council's underlying temporary cash balance representing earmarked reserves, allocated funds and other items on the Council's balance sheet is in the region of £150m in the short term.

3.4.4 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 9 below shows the interest rates for borrowing new maturity loans from the Government via the Public Works Loans Board since April 2005.

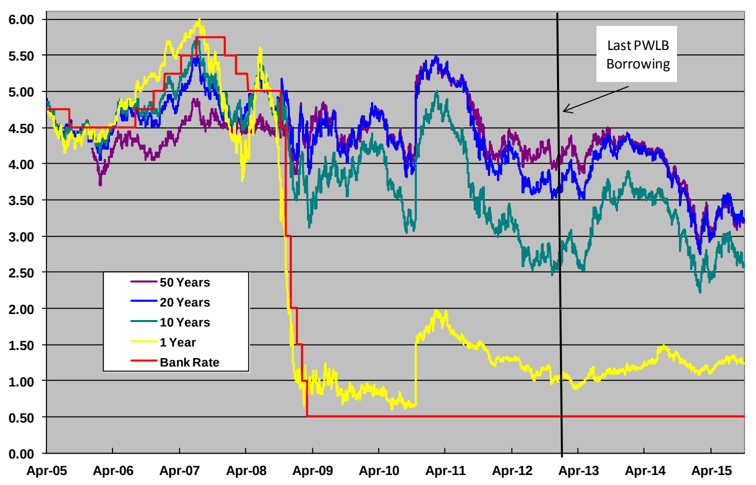


**Figure 9 – PWLB Borrowing Rates**

Sou rce: PWLB

3.4.5 As markets have realised that lower interest rates might be here to stay, the Gilts yield curve has flattened considerably. In the graph above this means that the difference between the one year borrowing rate in yellow and the 50 year borrowing rate in dark purple reduced significantly between 2011 and 2013 and then even further between 2011 and the current date. The strategy over the last three years to fund capital expenditure from reducing investments has proven successful as not only has the funding achieved significant savings but longer borrowing rates are now lower if the Council chose to lock in longer term borrowing.

3.4.6 On the forecasts in Table 5, the Council's need to borrow reduces in each year. Thus if the Council's external borrowing was exactly matching the need to borrow, the Council's external borrowing would fall year on year. However, at the end of 2014/15 £97m of the need to borrow was being funded by reducing the Council's temporary investments. In addition, there is around £50m of debt maturing each year, some of which was borrowed at much higher interest rates in the 1990s.

3.4.7 It is proposed to continue to fund the borrowing requirement by reducing investments further. However, this will be reviewed in light of market conditions as the competing effects of the weak world economic conditions and the potential EU referendum feed through into UK sovereign debt yields.

3.4.8 The reduction in Loans Charges relating to PWLB debt which is maturing at higher interest rates has already been included within the Council's long term financial plan. In addition to a £1.2m saving in the current financial year, a further £5.2m saving in Loans Charges will be generated in 2016/17 based on the current strategy.

3.4.9 It is not intended to borrow in advance of need during the year. Appendix 1 lists the maturity of the Council's debt as of February 2015.

## 3.5 Treasury Management Strategy – Investment of Surplus Funds

3.5.1 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.

3.5.2 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 10 below shows the distribution of Cash Fund deposits since inception.

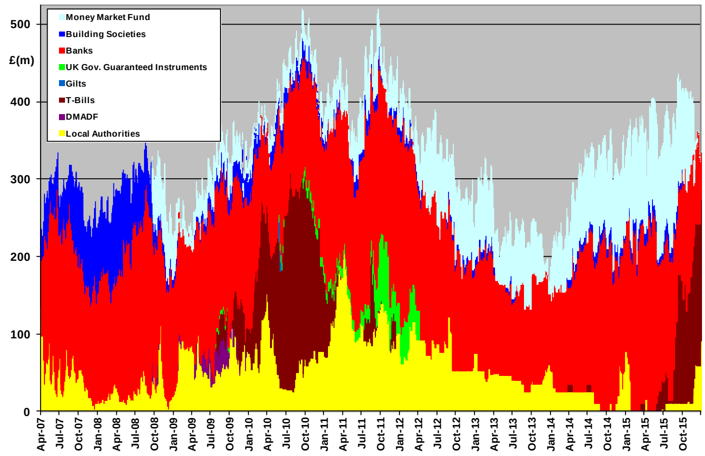


**Figure 10 – Counterparty Analysis of Cash Fund Monies**

3.5.3 As part of the 2015/16 Investment Strategy, the Cash Fund Treasury Policy Statement was amended to allow use of instruments such as Covered Bonds and FRN's. However, during the year there were better opportunities to invest in UK Treasury Bills. In early July the successful rates at the UK Treasury Bill auctions increased significantly which gave the opportunity to invest in Treasury Bills at a higher rate than we were achieving on the Fund's call accounts. This gave both a better rate of return and reduced counterparty risk. At the same time as the rates on offer increased, the Council's Capital Budget monitoring for Period 3 showed that around £60m had been re-phased from 2015/16 to the following financial year which meant the Council projected a higher cash balance for the rest of the financial year. This allowed the cash to be placed longer, gaining the 6 month Treasury Bill return. Figure 11 below shows the lowest and highest accepted yields in the Treasury Bill auctions since 2010.

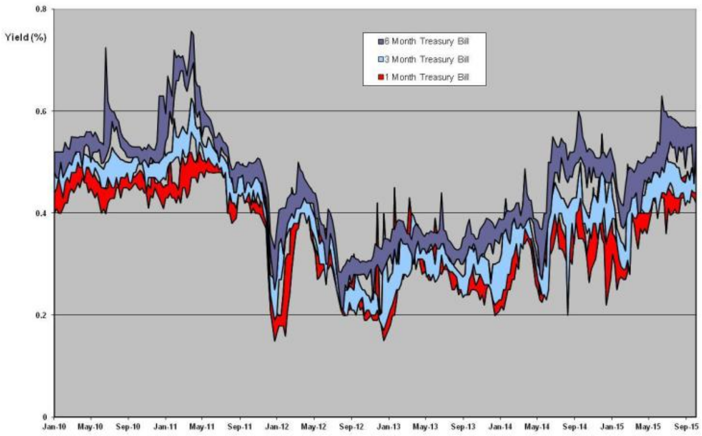


**Figure 11 – Treasury Bill Yields since 2010**

**Sou rce: DMO**

3.5.4 This shows how much the 6 month yield (in dark blue) has risen during 2015, although the return is still very low in absolute terms.

3.5.5 It is intended to continue the current investment strategy centred around the security of the investments, taking advantage of longer rates where liquidity allows. The criteria for approved financial organisations for investment in the CEC Treasury Policy Statement have been simplified in light of technical changes made by the Ratings Agencies. Investment will continue to be made via the Cash Fund arrangement and there are no changes to the investment instruments or counterparty limits in the Cash Fund Treasury Policy Statement.

## 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. Provision for the revenue implications arising from this report have already been included in the Council's long term financial plan.

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

Capital Investment Programme 2016/17 to 2023/24

http://www.edinburgh.gov.uk/download/meetings/id/49400/item_710_-_capital_investment_programme-plan_2016-17_to_2023-24

**Hugh Dunn**

Acting Executive Director of Resources

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## Links

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|---|---|
| **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 – Maturing Debt Profile as at 31 December 2015 |

Appendix 2 – Prudential Indicators

Appendix 3 – Treasury Management Policy Statement – The City of Edinburgh Council

Appendix 4 – Treasury Management Policy Statement – Treasury Cash Fund

**Appendix 1**

Maturing Debt Profile – February 2015

Market Debt

| START DATE | TYPE | MATURITY DATE | PRINCIPAL | INTEREST RATE % | ANNUAL INTEREST |
|---|---|---|---|---|---|
| 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 |
| 25/02/2011 | M | 25/02/2060 | 15,000,000.00 | 7.126 | 1,068,900.00 |
| 25/02/2011 | M | 25/02/2060 | 10,000,000.00 | 7.126 | 712,600.00 |
| 26/02/2010 | M | 26/02/2060 | 5,000,000.00 | 7.085 | 354,250.00 |
| 26/02/2010 | M | 26/02/2060 | 10,000,000.00 | 6.993 | 699,300.00 |
| 30/06/2005 | M | 30/06/2065 | 5,000,000.00 | 4.4 | 220,000.00 |
| 01/07/2005 | M | 01/07/2065 | 10,000,000.00 | 3.86 | 386,000.00 |
| 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 |
| 23/12/2005 | M | 23/12/2065 | 10,000,000.00 | 4.75 | 475,000.00 |
| 28/12/2005 | M | 24/12/2065 | 12,500,000.00 | 4.99 | 623,750.00 |
| 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 |
| 17/03/2006 | M | 17/03/2066 | 10,000,000.00 | 5.25 | 525,000.00 |
| 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 |
| 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 |
| 18/08/2006 | M | 18/08/2066 | 10,000,000.00 | 5.25 | 525,000.00 |
| 01/02/2008 | M | 01/02/2078 | 10,000,000.00 | 3.95 | 395,000.00 |
| | | | 276,900,000.00 | | 14,358,800.00 |

PWLB Debt

| START DATE | TYPE | MATURITY DATE | PRINCIPAL | INTEREST RATE % | ANNUAL INTEREST |
|---|---|---|---|---|---|
| 06/11/1990 | P | 25/03/2016 | 10,000,000.00 | 11.375 | 1,137,500.00 |
| 17/05/1991 | P | 25/03/2016 | 10,000,000.00 | 11 | 1,100,000.00 |
| 13/10/2009 | P | 13/04/2016 | 5,000,000.00 | 2.95 | 147,500.00 |
| 23/04/2009 | P | 23/04/2016 | 5,000,000.00 | 2.96 | 148,000.00 |
| 17/01/1991 | P | 15/05/2016 | 15,000,000.00 | 11.25 | 1,687,500.00 |
| 09/06/2009 | P | 09/06/2016 | 5,000,000.00 | 3.37 | 168,500.00 |
| 27/09/1991 | P | 25/09/2016 | 2,736,307.00 | 10.5 | 287,312.24 |
| 15/08/1991 | P | 15/11/2016 | 10,000,000.00 | 10.875 | 1,087,500.00 |
| 10/12/2008 | P | 10/12/2016 | 5,000,000.00 | 3.61 | 180,500.00 |
| 02/12/2011 | P | 02/06/2017 | 5,000,000.00 | 2.28 | 114,000.00 |
| 27/03/1992 | P | 25/09/2017 | 10,000,000.00 | 10.625 | 1,062,500.00 |
| 09/10/2008 | P | 09/10/2017 | 5,000,000.00 | 4.39 | 219,500.00 |
| 03/04/1992 | P | 25/03/2018 | 30,000,000.00 | 10.875 | 3,262,500.00 |
| 23/04/2009 | P | 23/04/2018 | 15,000,000.00 | 3.24 | 486,000.00 |
| 17/09/1992 | P | 15/05/2018 | 8,496,500.00 | 9.75 | 828,408.75 |
| 09/06/2009 | P | 09/06/2018 | 5,000,000.00 | 3.75 | 187,500.00 |
| 17/09/1993 | P | 15/11/2018 | 5,000,000.00 | 7.875 | 393,750.00 |
| 23/03/1994 | P | 15/11/2018 | 5,000,000.00 | 8 | 400,000.00 |
| 14/03/1994 | P | 11/03/2019 | 2,997,451.21 | 7.625 | 228,555.65 |
| 18/10/1993 | P | 25/03/2019 | 5,000,000.00 | 7.875 | 393,750.00 |
| 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 |
| 23/04/2009 | P | 23/04/2019 | 5,000,000.00 | 3.38 | 169,000.00 |
| 12/11/2008 | P | 12/11/2019 | 2,071,695.24 | 3.96 | 82,039.13 |
| 23/03/1994 | P | 15/11/2019 | 5,000,000.00 | 8 | 400,000.00 |
| 07/12/1994 | P | 15/11/2019 | 10,000,000.00 | 8.625 | 862,500.00 |
| 01/12/2008 | P | 01/12/2019 | 2,051,804.91 | 3.65 | 74,890.88 |
| 01/12/2009 | P | 01/12/2019 | 5,000,000.00 | 3.77 | 188,500.00 |
| 14/12/2009 | P | 14/12/2019 | 10,000,000.00 | 3.91 | 391,000.00 |
| 15/02/1995 | P | 25/03/2020 | 5,000,000.00 | 8.625 | 431,250.00 |
| 21/04/2009 | P | 21/04/2020 | 10,000,000.00 | 3.54 | 354,000.00 |
| 12/05/2009 | P | 12/05/2020 | 10,000,000.00 | 3.96 | 396,000.00 |
| 21/10/1994 | P | 15/05/2020 | 5,000,000.00 | 8.625 | 431,250.00 |
| 07/12/1994 | P | 15/05/2020 | 5,000,000.00 | 8.625 | 431,250.00 |
| 21/11/2011 | P | 21/05/2020 | 15,000,000.00 | 2.94 | 441,000.00 |
| 16/08/1995 | P | 03/08/2020 | 2,997,451.21 | 8.375 | 251,036.54 |
| 09/12/1994 | P | 15/11/2020 | 5,000,000.00 | 8.625 | 431,250.00 |
| 10/05/2010 | P | 10/05/2021 | 2,710,314.88 | 3.09 | 83,748.73 |
| 21/10/1994 | P | 15/05/2021 | 10,000,000.00 | 8.625 | 862,500.00 |
| 10/03/1995 | P | 15/05/2021 | 11,900,000.00 | 8.75 | 1,041,250.00 |
| 12/06/1995 | P | 15/05/2021 | 10,000,000.00 | 8 | 800,000.00 |
| 02/06/2010 | P | 02/06/2021 | 5,000,000.00 | 3.89 | 194,500.00 |
| 16/08/1994 | P | 03/08/2021 | 2,997,451.21 | 8.5 | 254,783.35 |

START MATURITY INTEREST ANNUAL

| DATE | TYPE | DATE | PRINCIPAL | RATE % | INTEREST |
|---|---|---|---|---|---|
| 28/04/1994 | P | 25/09/2021 | 5,000,000.00 | 8.125 | 406,250.00 |
| 23/04/2009 | P | 23/04/2022 | 5,000,000.00 | 3.76 | 188,000.00 |
| 12/06/1995 | P | 15/05/2022 | 10,200,000.00 | 8 | 816,000.00 |
| 14/06/2010 | P | 14/06/2022 | 10,000,000.00 | 3.95 | 395,000.00 |
| 31/03/1995 | P | 25/09/2022 | 6,206,000.00 | 8.625 | 535,267.50 |
| 16/02/1995 | P | 03/02/2023 | 2,997,451.21 | 8.625 | 258,530.17 |
| 24/04/1995 | P | 25/03/2023 | 10,000,000.00 | 8.5 | 850,000.00 |
| 05/12/1995 | P | 15/05/2023 | 5,200,000.00 | 8 | 416,000.00 |
| 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 |
| 08/05/1996 | P | 25/09/2023 | 10,000,000.00 | 8.375 | 837,500.00 |
| 13/10/2009 | P | 13/10/2023 | 5,000,000.00 | 3.87 | 193,500.00 |
| 05/12/1995 | P | 15/11/2023 | 10,000,000.00 | 8 | 800,000.00 |
| 10/05/2010 | P | 10/05/2024 | 10,000,000.00 | 4.32 | 432,000.00 |
| 28/09/1995 | P | 28/09/2024 | 2,895,506.10 | 8.25 | 238,879.25 |
| 14/05/2012 | P | 14/11/2024 | 10,000,000.00 | 3.36 | 336,000.00 |
| 14/12/2009 | P | 14/12/2024 | 6,637,268.64 | 3.66 | 242,924.03 |
| 17/10/1996 | P | 25/03/2025 | 10,000,000.00 | 7.875 | 787,500.00 |
| 10/05/2010 | P | 10/05/2025 | 5,000,000.00 | 4.37 | 218,500.00 |
| 16/11/2012 | P | 16/05/2025 | 20,000,000.00 | 2.88 | 576,000.00 |
| 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 |
| 01/12/2009 | P | 01/12/2025 | 10,358,828.33 | 3.64 | 377,061.35 |
| 21/12/1995 | P | 21/12/2025 | 2,397,960.97 | 7.875 | 188,839.43 |
| 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 |
| 29/08/1997 | P | 15/11/2026 | 5,000,000.00 | 7 | 350,000.00 |
| 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 |
| 13/12/2012 | P | 13/06/2027 | 20,000,000.00 | 3.18 | 636,000.00 |
| 12/03/1998 | P | 15/11/2027 | 8,677,693.00 | 5.875 | 509,814.46 |
| 06/09/2010 | P | 06/09/2028 | 10,000,000.00 | 3.85 | 385,000.00 |
| 14/07/2011 | P | 14/07/2029 | 10,000,000.00 | 4.9 | 490,000.00 |
| 14/07/1950 | P | 03/03/2030 | 3,665.36 | 3 | 109.96 |
| 14/07/2011 | P | 14/07/2030 | 10,000,000.00 | 4.93 | 493,000.00 |
| 15/06/1951 | P | 15/05/2031 | 3,632.59 | 3 | 108.98 |
| 06/09/2010 | P | 06/09/2031 | 20,000,000.00 | 3.95 | 790,000.00 |
| 15/12/2011 | P | 15/06/2032 | 10,000,000.00 | 3.98 | 398,000.00 |
| 15/09/2011 | P | 15/09/2036 | 10,000,000.00 | 4.47 | 447,000.00 |
| 22/09/2011 | P | 22/09/2036 | 10,000,000.00 | 4.49 | 449,000.00 |
| START | | MATURITY | | INTEREST | ANNUAL |
| DATE | TYPE | DATE | PRINCIPAL | RATE % | INTEREST |

| | | | | | |
|---|---|---|---|---|---|
| 10/12/2007 | P | 10/12/2037 | 10,000,000.00 | 4.49 | 449,000.00 |
| 08/09/2011 | P | 08/09/2038 | 10,000,000.00 | 4.67 | 467,000.00 |
| 15/09/2011 | P | 15/09/2039 | 10,000,000.00 | 4.52 | 452,000.00 |
| 06/10/2011 | P | 06/10/2043 | 20,000,000.00 | 4.35 | 870,000.00 |
| 09/08/2011 | P | 09/02/2046 | 20,000,000.00 | 4.8 | 960,000.00 |
| 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 |
| 19/05/2006 | P | 19/11/2046 | 10,000,000.00 | 4.25 | 425,000.00 |
| 07/01/2008 | P | 07/01/2048 | 5,000,000.00 | 4.4 | 220,000.00 |
| 27/01/2006 | P | 27/07/2051 | 1,250,000.00 | 3.7 | 46,250.00 |
| 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 |
| 15/08/2008 | P | 15/02/2058 | 5,000,000.00 | 4.39 | 219,500.00 |
| 02/12/2011 | P | 02/12/2061 | 5,000,000.00 | 3.98 | 199,000.00 |
| | | | 1,092,846,979.05 | | 61,411,262.57 |

SALIX Debt

| START DATE | TYPE | MATURITY DATE | PRINCIPAL | INTEREST RATE % | ANNUAL INTEREST |
|---|---|---|---|---|---|
| 07/01/2015 | Z | 01/09/2021 | 473,742.84 | 0 | 0 |
| 31/03/2015 | Z | 01/04/2023 | 1,352,173.05 | 0 | 0 |
| 22/09/2015 | Z | 01/10/2023 | 351,679.50 | 0 | 0 |
| | | | **2,177,595.39** | | **0** |

**Appendix 2**
## PRUDENTIAL INDICATORS

**Indicator 1 - Estimate of Capital Expenditure**

The actual capital expenditure that was incurred in 2014/15 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 ---------- | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2014/15 Actual £000** | **2015/16 Estimate £000** | **2016/17 Estimate £000** | **2017/18 Estimate £000** | **2018/19 Estimate £000** | **2019/20 Estimate £000** | **2020/21 Estimate £000** |
| Children and Families | 16,903 | 46,877 | 49,310 | 6,558 | 10,019 | 14,601 | 393 |
| Corporate Governance | 7,582 | 2,729 | 18,879 | 1,028 | 165 | 165 | 165 |
| Economic Development | 0 | 58 | 0 | 0 | 0 | 0 | 0 |
| Health and Social Care | 4,616 | 6,328 | 4,229 | 114 | 0 | 0 | 0 |
| Services for Communities (SFC) | 85,260 | 76,616 | 98,942 | 73,598 | 30,719 | 24,201 | 19,834 |
| SFC - Asset Management Programme | 18,657 | 13,224 | 24,044 | 11,035 | 8,436 | 19,173 | 14,000 |
| Other Capital Projects | 1,049 | 259 | 0 | 0 | 0 | 0 | 0 |
| Unallocated - indicative 5 year plan 2019-2023 funding | 0 | 0 | 0 | 0 | 0 | 7,000 | 7,000 |
| **Sub Total General Services Capital Expenditure** | **134,067** | **146,091** | **195,404** | **92,333** | **49,339** | **65,140** | **41,392** |
| Trams Project as approved by Council in Sept 2011 (not detailed in CIP) | 5,246 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total General Services Capital Expenditure** | **139,313** | **146,091** | **195,404** | **92,333** | **49,339** | **65,140** | **41,392** |

Note that the 2016-2021 CIP includes slippage / acceleration brought forward based on projected capital expenditure reported at the nine month stage.

| | ---------- Capital Expenditure Housing Revenue Account ---------- | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** |
| | **Actual** | **Estimate** | **Estimate** | **Estimate** | **Estimate** | **Estimate** | **Estimate** |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Housing Revenue Account | 37,308 | 38,253 | 48,508 | 65,708 | 76,500 | 84,794 | 85,022 |

**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 2014/15 are:

| | Ratio of Financing Costs to Net Revenue Stream | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2014/15** | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2019/20** | **2020/21** |
| | **Actual** | **Estimate** | **Estimate** | **Estimate** | **Estimate** | **Estimate** | **Estimate** |
| | **%** | **%** | **%** | **%** | **%** | **%** | **%** |
| General Services | 11.60 | 12.03 | 11.98 | 11.95 | 11.67 | 11.56 | N/A |
| HRA | 36.01 | 35.40 | 36.64 | 39.33 | 40.73 | 42.49 | 44.60 |

Note: Figures for 2017/18 onwards are indicative as the Council has not set a General Services or HRA budget for these years. The figures for General Services are based on the current long term financial plan that ends to 2019/20. HRA figures are based on the current business plan.

The estimates of financing costs include current commitments and the proposals in this budget.

**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 2015 are:

| | ----- Capital Financing Requirement ----- | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2014/15 Actual £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m |
| General Services | 1,358 | 1,318 | 1,298 | 1,260 | 1,192 | 1,133 | 1,064 |
| HRA | 368 | 374 | 378 | 388 | 407 | 437 | 475 |

he 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**

| | 2014/15 Actual £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m |
|---|---|---|---|---|---|---|---|
| Gross Debt | 1,629 | 1,576 | 1,516 | 1,454 | 1,441 | 1,410 | 1,377 |
| Capital Financing requirements | 1,726 | 1,692 | 1,676 | 1,648 | 1,599 | 1,571 | 1,539 |
| (Over) / under limit by: | 97 | 115 | 159 | 194 | 158 | 161 | 162 |

The Council's Capital Financing Requirement (CFR) is projected to reduce by £34m during 2015/16 as repayments for previous capital advances are higher than advances for in year expenditure. At 31/03/15, the authority was under borrowed by £97m. Current projections suggest that the authority will be under borrowed by approximately £115m at 31/03/16, 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, the repayment of the outstanding capital advance on the EICC - additional function space project following future receipt settlement, assumptions around cash balances and the proposals in this budget.

**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. Previously, the definition of long term liabilities was used to include funding required in respect of finance leases and PFI assets. In light of proposed changes to Financing Regulations which are likely to come into force from 1 April 2016, the definition of 'credit arrangements' has been used to calculate the authorised and operational limits requiring both the short and long term liabilities relating to finance leases and PFI assets to be considered rather than solely long term liabilities as before. 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 under credit arrangements including finance leases and PFI assets. Council is asked to approve these limits and to delegate authority to the Acting Executive Director of Resources / Head of Finance, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and credit arrangements, 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**

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m |
| Borrowing | 1,591 | 1,617 | 1,631 | 1,559 | 1,508 |
| Credit Arrangements | 227 | 216 | 205 | 196 | 188 |
| | 1,818 | 1,833 | 1,836 | 1,755 | 1,695 |

These authorised limits are consistent with the authority’s current commitments, existing plans and the proposals in this budget 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 credit arrangements are separately identified. The Council is also asked to delegate authority to the Acting Executive Director of Resources / Head of Finance, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and credit arrangements, 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**

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|
| | Estimate £m | Estimate £m | Estimate £m | Estimate £m | Estimate £m |
| Borrowing | 1,491 | 1,487 | 1,521 | 1,479 | 1,457 |
| Credit Arrangements | 227 | 216 | 205 | 196 | 188 |
| | 1,718 | 1,703 | 1,726 | 1,675 | 1,645 |

The Council's actual external debt at 31st March 2015 was £1,430.711m, comprising borrowing (including sums repayable within 12 months). Of this sum, £21.454m relates to borrowing carried out by the Council on behalf of the former Police and Fire Joint Boards.

In taking its decisions on this budget, the Council is asked to note that the estimate of capital expenditure determined for 2015/16 (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, 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

| 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| **£** | **£** | **£** | **£** | **£** |
| 2.46 | 9.19 | 13.69 | 18.05 | N/A |

b) for average weekly housing rents

| 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|
| **£** | **£** | **£** | **£** | **£** |
| -0.19 | -0.68 | -0.50 | 0.55 | 3.50 |

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 the Limited Liability Partnerships (LLPs) 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 2016/17 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 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21 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 2016/17, 2017/18, 2018/19, 2019/20 and 2020/21 of 75% of its net outstanding principal sums;

-This means that the Acting Executive Director of Resources / 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.

Treasury Management Policy Statement – The City of Edinburgh Council

# 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 and other government bodies
- Loans from the European Community institutions
- Long-Term Market Loans
- Bonds
- Stock Issues
- Negotiable Bonds
- Internal (such as Capital Receipts, capital income from third parties 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* where the lowest of their long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch is the equivalent of A- or above *up to a maximum of £10 million per institution*

(e) *building societies* where the lowest of their long term ratings from the three main Credit ratings agencies, S&P, Moodys and Fitch is the equivalent of A- or above *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, 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.<br><br>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.<br><br>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<br><br>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.<br><br>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.<br><br>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<br>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.<br>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.<br>On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence. |
| k. Bonds<br>**(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.<br>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 | The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short maturity. |

| | | |
|---|---|---|
| | held. | |
| n. Secured Investments **(relatively low risk due to dual recourse)** | These include Reverse Purchase Agreements (Repo) and Covered Bonds issued by banks and building societies. | Both Repo and Covered Bonds provide opportunities to lower credit risk by having any exposure supported by an enhanced level of high quality collateral such as Gilts in the case of Repo. The lower credit risk is reflected in the Cash Fund being able to invest larger % or value amounts as shown in the criteria for financial institutions in (k). |