The City of Edinburgh Council

10:00am, Thursday 14 March 2019

Annual Treasury Management Strategy 2019-2020 - referral from the Finance and Resources Committee

Item number	8.4
Executive/routine	
Wards	
Council Commitments	

1. For Decision/Action

1.1 The City of Edinburgh Council is requested to approve the Annual Treasury Management Strategy 2019-2020 and the change to the Treasury Management Cash Fund Policy Statement and subsequent referral to the Governance, Risk and Best Value Committee for scrutiny.

Laurence Rockey

Head of Strategy and Communications

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Referral Report

Annual Treasury Management Strategy 2019-2020 – referral from the Finance and Resources Committee

1.1 On 7 March 2019, the Finance and Resources Committee considered a report by the Executive Director of Resources which set out a proposed Treasury Management Strategy for the Council for 2019-2020. The Strategy included estimates of funding requirements, an economic forecast and borrowing and investment strategies.

1.2 Details were also provided of a proposal to make a change in the Treasury Management Cash Fund Policy Statement to remove the no limit criteria on placing deposits with local authorities and replace it with a monetary limit of £50m with a single authority.

1.3 The Finance and Resources Committee agreed:

1.3.1 To note the Annual Treasury Management Strategy 2019-2020.

1.3.2 To note that the Council's total capital expenditure was forecast to be £2.039bn between 2018/2019 and 2023/2024 with an underlying need to borrow at 31 March 2024 forecast to be £1.913bn.

1.3.3 To note that the Council would continue to fund its Capital Financing Requirement from temporary investment balances over the next year.

1.3.4 To note that the opportunity to mitigate future interest rate risk with alternatives to the Public Works Loan Board (PWLB) would continue to be sought and the risk locked out where appropriate.

1.3.5 To refer the report to The City of Edinburgh Council for approval of the Annual Treasury Management Strategy 2019-2020 and the change to the Treasury Management Cash Fund Policy Statement and subsequent referral to the Governance, Risk and Best Value Committee for scrutiny.

2. Background Reading/ External References

2.1 **Webcast of Finance and Resources Committee – 7 March 2019**

3. Appendix

Annual Treasury Management Strategy 2019-2020 - report by the Executive Director of Resources

Finance and Resources Committee

10am, Thursday, 7 March 2019

Annual Treasury Management Strategy 2019/20

Item number	7.4
Executive/routine	
Wards	
Council Commitments	

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 Notes the Annual Treasury Strategy 2019/20 and refers the report to the City of Edinburgh Council for approval of the report and the change to the Cash Fund Treasury Management Policy Statement and subsequent remit by the City of Edinburgh Council to the Governance Risk and Best Value Committee for scrutiny

1.1.2 Notes the following key points in the report:

- The Council's total capital expenditure is forecast to be £2.039bn between 2018/19 and 2023/24 with an underlying need to borrow at 31 March 2024 is forecast to be £1.913bn;
- The Council will continue to fund its Capital Financing Requirement from temporary investment balances over the next year; and
- The opportunity to mitigate future interest rate risk with alternatives to the Public works Loan Board (PWLB) will continue to be sought and the risk locked out where appropriate.

Stephen S. Moir

Executive Director of Resources

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Report

Annual Treasury Management Strategy 2019/20

2. Executive Summary

2.1 The report proposes a Treasury Management Strategy for the Council for 2019/20, comprising an Annual Investment Strategy and a Debt Management Strategy. There is a statutory requirement for Council to approve this in advance of the new financial year.

3. Background

3.1 This report sets out a Treasury Management Strategy for 2019/20 including estimates of funding requirements, an economic forecast and borrowing and investment strategies.

3.2 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.

3.3 Treasury Management is undertaken with regard to the CIPFA 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 7 gives details of the capital investment programme and prudential indicators which were approved by Council as part of the budget process.

4. Main report

Capital Expenditure

4.1 Tables A1.1 and A1.2 in Appendix 1 show the anticipated expenditure on capital assets for both General Services and the Housing Revenue Account. The Council's total capital expenditure is forecast to be £2.039bn between 2018/19 and 2023/24. Tables A1.3 and A1.4 detail how this capital expenditure is going to be funded by the Council, showing a total of £1.073bn of new capital advances to be funded from borrowing over the current and next 5 years.

4.2 Members should note that no provision has been made for Trams expenditure in the figures within this report.

Economic Outlook

4.3 Appendix 2 gives an overview of the current economic and market outlook. European and US economies appear weak with market expectations that the expected US interest rate rises this year have been put on hold. In the UK, inflation is around the Bank of England's target rate and although there is some evidence of wage inflation picking up, the course of UK rates is heavily dependent on the outcome of Brexit.

Treasury Management Strategy – Debt

Loans Fund Borrowing Requirement

4.4 Table A1.5 in Appendix 1 shows that the Council's underlying need to borrow (shown as the Cumulative Capital Expenditure funded by borrowing) projected at 31 March 2023 is £1,913m up £540m from the projected out-turn for the current financial year.

4.5 Current projections show that the Council's under-borrowed position is projected to increase from £139m to £174m at the end of the current financial year with the increase being funded by reducing the Council's short term deposits. It is anticipated that the Council can continue to fund its total borrowing requirement in 2019/20 by reducing cash deposits further.

4.6 On top of the £540m increase in capital advances, there is a further £299m in debt maturing by 2024 which will also require to be funded. Even after the committed and planned borrowing shown above, Table A1.5 shows that there is still a substantial level of funding which will require to be secured. Further this only includes capital expenditure which has been approved by Council and not other projects where the business case has yet to be approved.

4.7 The proposed Debt Management Strategy is shown in Appendix 3. Discussions are continuing with banks and other institutions over a range of borrowing options which might assist in mitigating the interest rate risk on the Council's borrowing requirements including forward starting market loans, private placements with delayed draw down, bonds and other products.

4.8 To address the borrowing requirement it is intended, subject to appropriate rates being available, to:

- Fund the 2019/20 requirement by reducing cash deposits further;
- Borrow for each tranche of LLP housing subject to with meeting the viability test for the tranche;
- Seek to mitigate risk on major projects as the requirement becomes more certain.

Loans Fund Repayment Policy

4.9 The Council operates a consolidated loans fund under the terms of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016, and one of the requirements of the Regulations is to report the Council's Loan Fund Repayment Policy. The Policy for 2019/20 is contained in Appendix 4, with appendix 6 setting out debt maturity of existing loans.

Treasury Management – Annual Investment Strategy

4.10 Appendix 5 shows the proposed Annual Investment Strategy. It is intended to continue the current investment strategy which is centred around the security of the investments, taking advantage of longer rates where liquidity allows. Investment will continue to be made via the Cash Fund arrangement.

4.11 Given the significant financial pressure on local authorities and the substantial speculative commercial purchases funded by borrowing made by some authorities, some additional Operational Investment Restrictions in relation to investment with other local authorities have been implemented under the Council's Treasury Management Practices. One of these restrictions has been to limit the maximum amount lent to any individual authority.

4.12 However, it is now considered appropriate to formalise this as a limit in the Policy Statement. It is therefore proposed to remove the no limit criteria on placing deposits with local authorities and replace it with a monetary limit of £50 million with a single authority in Appendix 9. Appendices 8 and 9 show the proposed Treasury Management Policy Statements for The City of Edinburgh and the Cash Fund.

Treasury Management Indictors

4.13 Appendix 7 shows the Indicators required by the Prudential Code which were approved by Council on 21 February.

4.14 Members may be aware that there will be a separate report on the tram considered at the Council meeting in March, at which the Treasury Strategy will also be recommended for approval. The indicators set out in Appendix 7 do not include any implications arising from the tram report and Members are therefore asked to note, that depending on the decision in relation to the tram report, the indicators set out in this report may be superseded.

5. Next Steps

5 1 The success of the Treasury team can be measured by the out-performance of the Treasury Cash Fund against its benchmark of 7-day London Interbank Bid Rate (LIBID) and managing the Council's debt portfolio to minimise the cost to the Council while mitigating risk.

6. Financial impact

6.1 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.

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

7. Stakeholder/Community Impact

7.1 There are no adverse stakeholder/community impacts arising from this report.

8. Background reading/external references

8.1 None

9. Appendices

Appendix 1 – Capital Expenditure and Funding Requirement

Appendix 2 - Economic and Market Outlook

Appendix 3 – Treasury Management – Debt Management Strategy

Appendix 4 – Loans Fund Repayment Policy

Appendix 5 – Treasury Management – Annual Investment Strategy

Appendix 6 – Debt Maturity Profile (January 2019)

Appendix 7 – Prudential Indicators

Appendix 8 – Treasury Management Policy Statement – The City of Edinburgh Council

Appendix 9 – Treasury Management Policy Statement – Treasury Cash Fund

Appendix 1

Summary of
Capital Expenditure and Funding Requirement

	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000	Forecast 2021/22 £000	Forecast 2022/23 £000	Forecast 2023/24 £000
General Fund						
Lending for affordable housing	41,365	18,118	75,424	55,104	76,692	22,266
Contingency - Meadowbank Stadium	0	0	0	0	0	7,000
Communities and Families	31,778	116,193	37,667	1,707	165	165
Edinburgh Integration Joint Board	182	239	5,000	5,000	0	0
Place	113,044	141,766	103,314	29,963	31,785	19,835
Resources	3,965	11,706	0	0	0	0
Resources - Asset Management Works	16,081	31,498	30,000	25,516	20,450	14,000
Capital Expenditure as per CIP	206,415	319,520	251,405	117,290	129,092	63,266
Project Phasing Adj (5% of programme) c/fwd	-5,789	-13,376	-8,799	-3,109	-2,620	-2,050
Project Phasing Adj (5% of programme) b/fwd	0	5,789	13,376	8,799	3,109	2,620
Total Capital Expenditure	200,626	311,933	255,982	122,980	129,581	63,836

Table A1.1 - Capital Expenditure on General Services

Note that the Capital Expenditure on General Services includes slippage/acceleration forecasts through to financial year 2023/24 as previously reported

Capital Expenditure - Housing Revenue Account	**Forecast 2018/19 £000**	**Estimate 2019/20 £000**	**Estimate 2020/21 £000**	**Estimate 2021/22 £000**	**Estimate 2022/23 £000**	**Estimate 2023/24 £000**
Housing Revenue Account						
Capital Expenditure (Incl Early Action)	**80,199**	**108,954**	**142,251**	**177,531**	**171,392**	**273,984**

Table A1.2 - Capital Expenditure on the Housing Revenue Account

	Forecast 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Receipts -:						
Central Government Grants -:						
Government Capital Grants	49,405	58,675	38,000	38,000	38,000	38,000
Shovel ready grant funding	691	834	0	0	0	0
Cycling, Walking and Safer Streets	49,269	33,877	0	0	0	0
Development Funding	12,400	14,500	10,000	0	0	0
Other Specific Government Grants	765	0	0	0	0	0
Total Central Government Grants	112,530	107,886	48,000	38,000	38,000	38,000
Use of Capital Receipts	18,338	16,318	3,000	3,000	3,000	3,000
Use of Capital Receipts - Transfer to Capital fund for trams	-809	0	0	0	0	0
Other Capital Contributions	7,007	585	0	0	0	0
Draw down of capital fund - per budget update	14,782	6,311	0	0	0	0
Capital Grants Unapplied (CGUA)	958	11,297	0	0	0	0
Capital Grants Unapplied (CGUA) - Transfer to CGUA	-7,306	0	0	0	0	0
Total Receipts	145,500	142,397	51,000	41,000	41,000	41,000
Balance to be funded	55,126	169,536	204,982	81,980	88,581	22,836

Table A1.3 - Funding for General Services Capital Expenditure

	Forecast 2018/19 £000	Estimate 2019/20 £000	Estimate 2020/21 £000	Estimate 2021/22 £000	Estimate 2022/23 £000	Estimate 2023/24 £000
Receipts -:						
Central Government Grants -:	11,349	6,810	24,698	16,249	8,848	39,751
Central Government Grant - LLP Homes	4,400	1,716	5,962	3,938	0	0
Total Central Government Grants	**15,749**	**8,526**	**30,660**	**20,187**	**8,848**	**39,751**
Use of Capital Receipts / Grants	5,923	4,517	8,720	9,840	6,500	5,000
CFCR	33,162	23,000	7,200	2,200	2,200	2,200
Capital Receipt from EL	9,156	13,400	71,382	55,104	76,692	22,266
Capital Receipt from EL (future assumptions)	0	0	0	0	0	21,884
Total Receipts	**63,990**	**49,443**	**117,962**	**87,331**	**94,240**	**91,101**
Balance to be Funded	**16,209**	**59,511**	**24,289**	**90,200**	**77,152**	**182,883**

Table A1.4 - Funding for HRA Capital Expenditure

Capital Funding v. External Debt	**2017/18 Actual £000**	**2018/19 Forecast £000**	**2019/20 Forecast £000**	**2020/21 Forecast £000**	**2021/22 Forecast £000**	**2022/23 Forecast £000**	**2023/24 Forecast £000**
Debt b/fd	1,299,901	1,245,546	1,199,742	1,159,561	1,235,376	1,241,515	1,269,929
Cumulative Capital Expenditure b/fd	1,413,521	1,384,533	1,373,387	1,525,286	1,670,232	1,749,552	1,813,880
Over/underborrowed b/fd	-113,620	-138,987	-173,645	-365,725	-434,856	-508,037	-543,951
GF Capital Financed by borrowing	14,516	55,126	169,536	204,982	81,980	88,581	22,836
HRA Capital Financed by borrowing	35,077	16,209	59,511	24,289	90,200	77,152	182,883
less scheduled repayments by GF	-58,259	-60,791	-54,495	-58,602	-63,925	-66,298	-67,273
less scheduled repayments by HRA	-17,841	-20,115	-21,976	-24,754	-27,326	-32,622	-36,650
less scheduled repayments by Joint Boards	-2,481	-1,575	-517	-544	-556	-589	-623
less scheduled repayments by LLPs	0	0	-159	-426	-1,052	-1,897	-1,897
Underlying Need to Borrow	**-28,988**	**-11,146**	**151,899**	**144,946**	**79,321**	**64,327**	**99,276**
plus total maturing debt	54,355	54,960	53,581	55,567	48,965	48,278	37,570
Total Borrowing Requirement	**25,367**	**43,814**	**205,480**	**200,513**	**128,286**	**112,605**	**136,846**
Committed market borrowing	0	0	0	60,000	0	0	0
Planned PWLB borrowing for EL advances	0	9,156	13,400	71,382	55,104	76,692	22,266
Debt at end of the year	**1,245,546**	**1,199,742**	**1,159,561**	**1,235,376**	**1,241,515**	**1,269,929**	**1,254,625**
Cumulative Capital Expenditure	**1,384,533**	**1,373,387**	**1,525,286**	**1,670,232**	**1,749,552**	**1,813,880**	**1,913,156**
Cumulative Over/Under Borrowed	**-138,987**	**-173,645**	**-365,725**	**-434,856**	**-508,037**	**-543,951**	**-658,531**

Table A1.5 - Capital Funding v. External Debt

Appendix 2

Economic and Market Outlook

Overview

The UK Economy is growing but only modestly, inflation is very close to the Bank of England's target, and wage growth is picking up. The major shadow over the UK economy continues to be the Brexit negotiations with the EU.

World Economy

While the US economy had been performing well in 2018, it is facing significant short term headwinds. It is likely that US GDP will be affected by the longest government shut down in history following the budget impasse between Congress and the President over the demand for funding a wall along the US-Mexico border. The US and China are also locked in a trade battle with the US imposing tariffs on some Chinese products in 2018 with China doing the same to the US. Following their increase in December the consensus from the Federal Reserve Open Market Committee (FOMC) was that there would probably be a further two interest rate rises in 2019. This is down from an expectation of 3 rises during 2019 at their September meeting. However, a combination of equity market weakness, the likelihood of an inverted Treasury yield curve and a more tempered 'data dependent' Fed outlook, not to mention a US President openly criticising Fed Policy, led to markets taking a much more negative outlook. Figure A2.1 shows a snap shot of the Eurodollar spreads taken in December following the FOMC meeting. It implies that the market has gone from anticipating more than 2 increases in 2019 to less than one and was also pricing in the probability of even that being reversed in 2020.

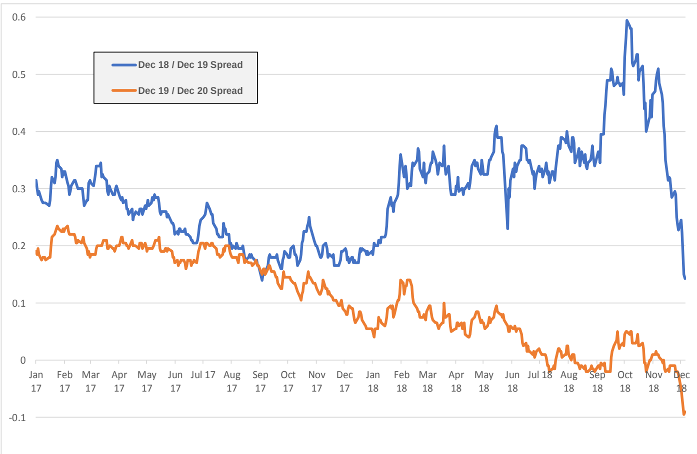

Figure A2.1 – Eurodollar Spreads

Source: Reuters

Mario Draghi, President of the European Central Bank (ECB), has described the outlook as becoming more overcast for the Eurozone economy. Data had been weaker than expected and risks to growth have increased.

UK Inflation Outlook

Figure A2.2 below shows CPI and RPI since March 2004 and CPIH (CPI including owner occupier housing costs), which was reinstated as a national statistic in July 2017, since 2009.

Figure A2.2 – CPIH, CPI and RPI

Source: ONS

The Government's preferred measure of inflation, CPI, was 2.1% in December 2018 down from the 2.3% the previous month. With inflation being very close to the MPC's target of 2%, there is further scope for the Bank of England to keep interest rates on hold until it is clearer how Brexit will affect the economy.

As can be seen in Figure A2.3 above transport costs declined due to lower fuel costs as petrol hit its lowest price since April 2018. Air fares also contributed with seasonal prices not rising as much as they did the previous year.

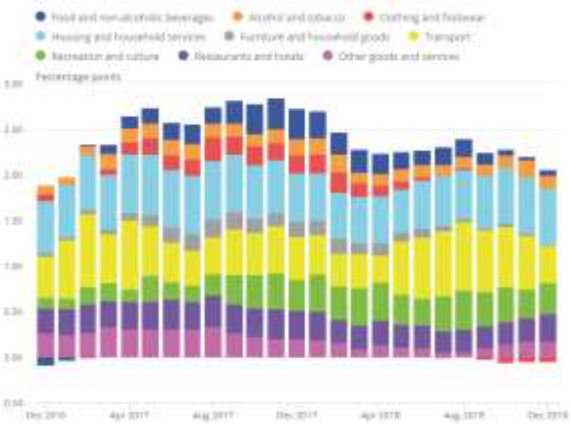

Figure A2.3 – Contributions to CPIH Dec 16 to Dec 18

Source: ONS

Interest Rate Outlook

Table A2.1 below shows the Reuters poll of up to 68 economists, taken 14 January, showing their forecasts for UK Bank Rate until Quarter 2 2020. This indicates most economists polled believe that the UK Bank Rate will increase to 1% during Quarter 3 2019 and then another increase through Quarter 1 2020.

	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20
Median	0.75	0.75	1	1	1.25	1.25
Mean	0.76	0.87	0.94	1.03	1.15	1.23
Mode	0.75	0.75	1	1	1.25	1.25
Min	0.75	0.75	0.75	0.75	0.75	0.75
Max	1	1	1.25	1.25	1.50	1.75
Count	68	65	63	65	50	41

Table A2.1 – Economic Forecasts for UK Bank Rate

Source: Reuters

The Treasury section hold the view that there may be an increase in UK Bank Rate towards the Summer which would be extremely dependant on how Brexit plans affect the economic situation over that time.

The European Central Bank (ECB) maintained its benchmark interest rate at 0% since March 2016 and its overnight deposit rate also remained at -0.40%. The Bank has also confirmed it would stop buying government bonds nearly four years after announcing the quantitative easing programme. Annualised inflation in the Euro Area for the year to December is expected to be 1.6%, below market expectations of 1.8% and below the ECB's target of close to 2%. GDP growth in the 3rd quarter of 2018 was 0.2% which is a reduction from the previous quarters growth of 0.4% and the weakest growth since the 2nd quarter of 2014.

Appendix 3

Treasury Management Strategy – Debt Management

Overview

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

Table A1.5 in Appendix 1 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 A1.1 to A1.4 (Appendix 1).

Table A1.5 shows that the Council's underlying need to borrow (shown as the Cumulative Capital Expenditure funded by borrowing) projected at 31 March 2023 is £1,913m up £540m from the projected out-turn for the current financial year. A significant amount of this is represented by the anticipated lending to the LLPs for affordable housing. The lending will be backed by the income stream to the LLPs from rents as well as surety over the properties. The planned PWLB borrowing above assumes that CEC will undertake back to back external PWLB borrowing to mitigate the Council's interest rate risk on the capital advances in relation to the LLPs' acquisition of housing. The £60m committed market borrowing is the forward starting loan agreed with PBB which was agreed in August 2018 with the monies to be drawn down in October 2020. It should be noted that PBB have notified the Council of their withdrawal from providing further forward loans.

Current projections show that the Council's under-borrowed position is projected to increase from £139m to £174m at the end of the current financial year with the increase being funded by reducing the Council's short term deposits. It is anticipated that the Council can continue to fund its total borrowing requirement in 2019/20 by reducing cash deposits further. However, on top of the £540m increase in capital advances, there is a further £299m in debt maturing by 2024 which will also require to be funded. Even after the committed and planned borrowing shown above, Table 1.5 shows that there is still a substantial level of funding which will require to be secured. Further this only includes capital expenditure which has been approved by Council and not other projects where the business case has yet to be approved.

The Council has completed borrowing to lock out interest rate exposure on funding required for Edinburgh Living LLP. As set out in the 2018/19 Treasury Strategy the borrowing was carried out as the loan to the LLP was completed to mitigate interest rate risk. This borrowing from the PWLB was the first undertaken since mid-December 2012. Figure A3.1 below shows the interest rates for borrowing new maturity loans from the Government via the Public Works Loans Board since 2009.

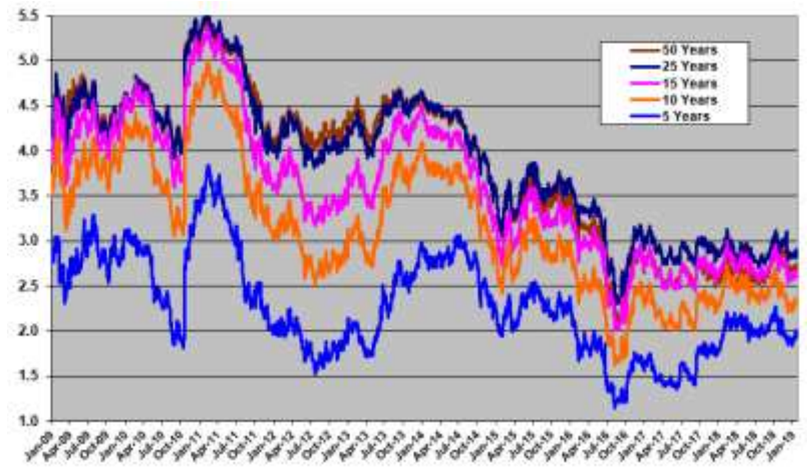

Figure A3.1 – PWLB Borrowing Rates

Source: PWLB

Figure A3.1 shows that although the PWLB borrowing rates have been volatile since the start of 2018, in line with bond yields globally. The UK economy is only growing moderately and there are significant risks due to Brexit, there is also significant risk to the upside on borrowing rates. Discussions are therefore continuing with banks and other institutions over a range of borrowing options which might assist in mitigating the interest rate risk on the Council's borrowing requirements including forward starting market loans, private placements with delayed draw down, bonds and other products.

To address the borrowing requirement it is intended, subject to appropriate rates being available, to:

- Fund the 2019/20 requirement by reducing cash deposits further;
- Borrow for each tranche of LLP housing subject to with meeting the viability test for the tranche;
- Seek to mitigate risk on major projects as the requirement becomes more certain.

Appendix 6 lists the maturity of the Council's debt as of January 2019.

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	0

Table A3.1 – Upper and Lower Limits on Borrowing

The Council currently has no investments over 365 days. The maximum total principal sum which may be invested with a maturity of up to 3 years is £100m.

In relation to Gross and Net Debt, the Council will continue its current practice of monitoring throughout the year that the projected Gross Debt position for the financial year does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

Appendix 4

Loans Fund Repayment Policy

The Council operates a consolidated loans fund under the terms of the Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016. Capital payments made by services are financed by capital advances from the loans fund.

With the exception of advances in relation to Edinburgh Living LLPs, all advances from the loans fund in the current year have a repayment profile set out using Option 1 – the statutory method. These capital advances along with previous years' advances from the loans fund are being repaid using the previous hybrid annuity structure with fixed principal repayments.

For capital advances for loans to Edinburgh Living LLPs, all advances from the loans fund in the current year have a repayment profile set out using Option 4 – the funding/income method and these capital advances will be repaid using an annuity structure with fixed interest rate and principal repayments.

The business cases brought forward for other projects involving major capital expenditure funded by borrowing will consider the appropriate repayment method depending on the structure of the business case.

The Council operates the loans fund to manage historic debt and the balance therefore represents historic borrowing for capital spend. Table A1.5 (Appendix 1) shows the cumulative, current and projected capital advances from the loans fund.

Appendix 5

Treasury Management – Annual Investment Strategy

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.

The Council's cash balances are pooled and invested via the Treasury Cash Fund subject to the limits set out in the Cash Fund Treasury Management Policy Statement. The Cash Fund's Investment Strategy continues to be based around the security of the investments. Figure A5.1 below shows the distribution of Cash Fund deposits since inception.

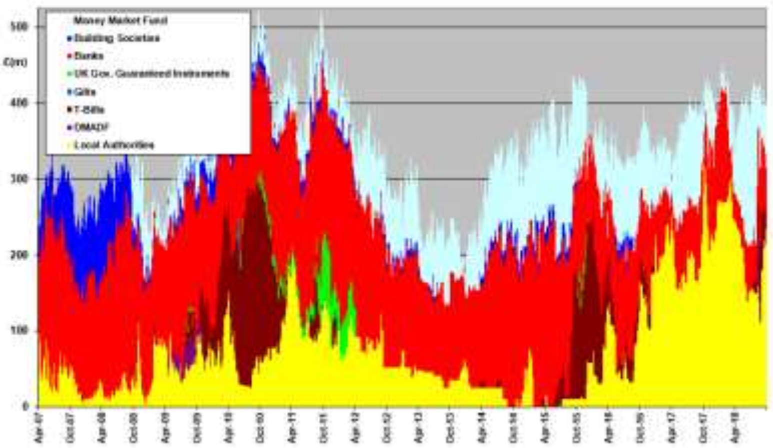

Figure A5.1 – Counterparty Analysis of Cash Fund Monies

As can be seen in Figure A5.1 above the bulk of investments within the Cash Fund is currently invested in Local Authority deposits.

In considering cash fund investment, consideration has to be given to the level of risk that is being taken on to generate the investment return. Figure A5.2 below is taken from a presentation by the Council's Treasury Advisors and shows the Council's position amongst their client on Credit Risk v. return at the end of the quarter. It shows that the Cash Fund had slightly above average return but with almost a full standard deviation less credit risk. It also indicates more generally that taking additional credit risk doesn't in itself necessarily generate additional return.

Figure A5.2 – Cash Fund Risk v Return

Sou rce: Arlingclose

It is intended to continue the current investment strategy centred around the security of the investments, taking advantage of longer rates where liquidity allows. Investment will continue to be made via the Cash Fund arrangement.

Treasury Policy Statement - Investments with other Local Authorities

As noted above, the Council has placed a significant level of investments as loans to other local authorities. The Council has generally taken the view that investment with another local authority represents pseudo-sovereign investment, and in any case the loans are secured against all the revenues of the borrowing authority. This has helped significantly in delivering the relative outperformance in risk / return chart in Figure A5.2.

We continue to believe that it is extremely unlikely that a local authority would be allowed to fail. However, given the significant financial pressure on authorities and the substantial speculative commercial purchases funded by borrowing made by some authorities, some additional Operational Investment Restrictions in relation to investment with other local authorities have been introduced under the Council's Treasury Management Practices. One of these restrictions was to limit the amount lent to any individual authority. It is now considered appropriate to formalise this as a limit in the Cash Fund Treasury Management Policy Statement.

It is therefore proposed to remove the no limit criteria on placing deposits with local authorities in the Policy Statement and replace it with a monetary limit of £50 million with a single authority.

Appendix 6

Debt Maturity Profile as at January 2019

Market Debt (non LOBO)

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
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
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
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
01/02/2008	M	01/02/2078	10,000,000.00	3.95	395,000.00
			62,500,000.00		

Market Debt (LOBO)

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
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	7.373	562,228.77
25/02/2011	M	25/02/2060	10,000,000.00	7.373	374,819.18
26/02/2010	M	26/02/2060	5,000,000.00	7.343	183,930.82
26/02/2010	M	26/02/2060	10,000,000.00	7.343	367,861.64
01/07/2005	M	01/07/2065	10,000,000.00	3.86	386,000.00
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
23/12/2005	M	23/12/2065	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
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
			212,400,000.00		

PWLB

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
14/03/1994	M	11/03/2019	2,997,451.21	7.625	228,555.65
18/10/1993	M	25/03/2019	5,000,000.00	7.875	393,750.00
30/03/2009	M	30/03/2019	5,000,000.00	3.46	173,000.00
21/04/2009	M	21/04/2019	10,000,000.00	3.4	340,000.00
23/04/2009	M	23/04/2019	5,000,000.00	3.38	169,000.00
12/11/2008	A	12/11/2019	548,774.19	3.96	37,454.51
23/03/1994	M	15/11/2019	5,000,000.00	8	400,000.00
07/12/1994	M	15/11/2019	10,000,000.00	8.625	862,500.00
01/12/2008	A	01/12/2019	541,108.45	3.65	34,080.14
01/12/2009	M	01/12/2019	5,000,000.00	3.77	188,500.00
14/12/2009	M	14/12/2019	10,000,000.00	3.91	391,000.00
15/02/1995	M	25/03/2020	5,000,000.00	8.625	431,250.00
21/04/2009	M	21/04/2020	10,000,000.00	3.54	354,000.00
12/05/2009	M	12/05/2020	10,000,000.00	3.96	396,000.00
21/10/1994	M	15/05/2020	5,000,000.00	8.625	431,250.00
07/12/1994	M	15/05/2020	5,000,000.00	8.625	431,250.00
21/11/2011	M	21/05/2020	15,000,000.00	2.94	441,000.00
16/08/1995	M	03/08/2020	2,997,451.21	8.375	251,036.54
09/12/1994	M	15/11/2020	5,000,000.00	8.625	431,250.00
10/05/2010	A	10/05/2021	1,288,737.50	3.09	51,171.00
21/10/1994	M	15/05/2021	10,000,000.00	8.625	862,500.00
10/03/1995	M	15/05/2021	11,900,000.00	8.75	1,041,250.00
12/06/1995	M	15/05/2021	10,000,000.00	8	800,000.00
02/06/2010	M	02/06/2021	5,000,000.00	3.89	194,500.00
16/08/1994	M	03/08/2021	2,997,451.21	8.5	254,783.35
28/04/1994	M	25/09/2021	5,000,000.00	8.125	406,250.00
23/04/2009	M	23/04/2022	5,000,000.00	3.76	188,000.00
12/06/1995	M	15/05/2022	10,200,000.00	8	816,000.00
14/06/2010	M	14/06/2022	10,000,000.00	3.95	395,000.00
31/03/1995	M	25/09/2022	6,206,000.00	8.625	535,267.50
16/02/1995	M	03/02/2023	2,997,451.21	8.625	258,530.17
24/04/1995	M	25/03/2023	10,000,000.00	8.5	850,000.00
05/12/1995	M	15/05/2023	5,200,000.00	8	416,000.00
20/09/1993	M	14/09/2023	2,997,451.21	7.875	236,049.28
20/09/1993	M	14/09/2023	584,502.98	7.875	46,029.61
08/05/1996	M	25/09/2023	10,000,000.00	8.375	837,500.00
13/10/2009	M	13/10/2023	5,000,000.00	3.87	193,500.00
05/12/1995	M	15/11/2023	10,000,000.00	8	800,000.00
10/05/2010	M	10/05/2024	10,000,000.00	4.32	432,000.00
28/09/1995	M	28/09/2024	2,895,506.10	8.25	238,879.25
14/05/2012	M	14/11/2024	10,000,000.00	3.36	336,000.00
14/12/2009	A	14/12/2024	4,660,747.41	3.66	189,384.93
17/10/1996	M	25/03/2025	10,000,000.00	7.875	787,500.00
10/05/2010	M	10/05/2025	5,000,000.00	4.37	218,500.00
16/11/2012	M	16/05/2025	20,000,000.00	2.88	576,000.00
13/02/1997	M	18/05/2025	10,000,000.00	7.375	737,500.00

20/02/1997	M	15/11/2025	20,000,000.00	7.375	1,475,000.00
01/12/2009	A	01/12/2025	7,633,241.52	3.64	303,629.98
21/12/1995	M	21/12/2025	2,397,960.97	7.875	188,839.43
21/05/1997	M	15/05/2026	10,000,000.00	7.125	712,500.00
28/05/1997	M	15/05/2026	10,000,000.00	7.25	725,000.00
29/08/1997	M	15/11/2026	5,000,000.00	7	350,000.00
24/06/1997	M	15/11/2026	5,328,077.00	7.125	379,625.49
07/08/1997	M	15/11/2026	15,000,000.00	6.875	1,031,250.00
13/10/1997	M	25/03/2027	10,000,000.00	6.375	637,500.00
22/10/1997	M	25/03/2027	5,000,000.00	6.5	325,000.00
13/11/1997	M	15/05/2027	3,649,966.00	6.5	237,247.79
17/11/1997	M	15/05/2027	5,000,000.00	6.5	325,000.00
13/12/2012	M	13/06/2027	20,000,000.00	3.18	636,000.00
12/03/1998	M	15/11/2027	8,677,693.00	5.875	509,814.46
06/09/2010	M	06/09/2028	10,000,000.00	3.85	385,000.00
14/07/2011	M	14/07/2029	10,000,000.00	4.9	490,000.00
14/07/1950	E	03/03/2030	2,906.90	3	92.90
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
15/06/1951	E	15/05/2031	2,929.45	3	93.16
06/09/2010	M	06/09/2031	20,000,000.00	3.95	790,000.00
15/12/2011	M	15/06/2032	10,000,000.00	3.98	398,000.00
15/09/2011	M	15/09/2036	10,000,000.00	4.47	447,000.00
22/09/2011	M	22/09/2036	10,000,000.00	4.49	449,000.00
10/12/2007	M	10/12/2037	10,000,000.00	4.49	449,000.00
08/09/2011	M	08/09/2038	10,000,000.00	4.67	467,000.00
15/09/2011	M	15/09/2039	10,000,000.00	4.52	452,000.00
06/10/2011	M	06/10/2043	20,000,000.00	4.35	870,000.00
09/08/2011	M	09/02/2046	20,000,000.00	4.8	960,000.00
23/01/2006	M	23/07/2046	10,000,000.00	3.7	370,000.00
23/01/2006	M	23/07/2046	10,000,000.00	3.7	370,000.00
19/05/2006	M	19/11/2046	10,000,000.00	4.25	425,000.00
07/01/2008	M	07/01/2048	5,000,000.00	4.4	220,000.00
27/01/2006	M	27/07/2051	1,250,000.00	3.7	46,250.00
16/01/2007	M	16/07/2052	40,000,000.00	4.25	1,700,000.00
30/01/2007	M	30/07/2052	10,000,000.00	4.35	435,000.00
13/02/2007	M	13/08/2052	20,000,000.00	4.35	870,000.00
20/02/2007	M	20/08/2052	70,000,000.00	4.35	3,045,000.00
22/02/2007	M	22/08/2052	50,000,000.00	4.35	2,175,000.00
08/03/2007	M	08/09/2052	5,000,000.00	4.25	212,500.00
30/05/2007	M	30/11/2052	10,000,000.00	4.6	460,000.00
11/06/2007	M	11/12/2052	15,000,000.00	4.7	705,000.00
12/06/2007	M	12/12/2052	25,000,000.00	4.75	1,187,500.00
05/07/2007	M	05/01/2053	12,000,000.00	4.8	576,000.00
25/07/2007	M	25/01/2053	5,000,000.00	4.65	232,500.00
10/08/2007	M	10/02/2053	5,000,000.00	4.55	227,500.00
24/08/2007	M	24/02/2053	7,500,000.00	4.5	337,500.00
13/09/2007	M	13/03/2053	5,000,000.00	4.5	225,000.00
12/10/2007	M	12/04/2053	5,000,000.00	4.6	230,000.00
05/11/2007	M	05/05/2057	5,000,000.00	4.6	230,000.00
15/08/2008	M	15/02/2058	5,000,000.00	4.39	219,500.00

25/01/2019	A	25/01/2059	2,734,495.00	2.65	72,206.89
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
			930,189,902.52		

SALIX

Start Date	Loan Type	Maturity Date	Principal Outstanding	Interest Rate	Annual Interest
			£	%	£
07/01/2015	E	01/09/2021	236,871.42	0	0.00
31/03/2015	E	01/04/2023	811,303.83	0	0.00
22/09/2015	E	01/10/2023	219,799.70	0	0.00
			1,267,974.95		

Appendix 7
PRUDENTIAL INDICATORS
Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2017/18 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						
	2017/18 Actual £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Rolled Forward Capital Investment Programme							
Council Wide / Corporate Projects	364	0	0	0	0	0	0
Estimated slippage / acceleration in total programme	0	-5,789	0	0	0	0	0
Lending	6,470	41,365	18,118	75,424	55,104	76,692	22,266
Communities and Families	35,989	31,778	86,757	37,667	1,707	165	165
Edinburgh Integrated Joint Board	496	182	4,239	5,000	5,000	0	0
Place	85,267	113,044	141,766	103,314	29,963	31,785	19,835
Resources							
General	3,503	3,965	11,706	0	0	0	0
Asset Management Works	10,990	16,081	31,498	30,000	25,516	20,450	14,000
Contingency - Meadowbank Stadium	0	0	0	0	0	0	7,000
Budget Motion Recommendations							
Local Development Plan (LDP) - allocations							
Rising School Rolls	0	0	6,000	0	0	0	0
New LDP Primary Schools - design and enabling works	0	0	525	0	0	0	0
Contingency - Darroch	0	0	6,000	0	0	0	0
New / Amended Projects							
Reduction in Care Home budget	0	0	-4,000	0	0	0	0
St Catherine's PS replacement	0	0	12,802	0	0	0	0
Rising School Rolls	0	0	609	0	0	0	0
New LDP Primary Schools - design and enabling works	0	0	3,500	0	0	0	0
Total General Services Capital Expenditure	**143,079**	**200,626**	**319,520**	**251,405**	**117,290**	**129,092**	**63,266**

Note that the 2019-2024 Capital Investment Programme includes slippage / acceleration brought forward based on projected capital expenditure reported at the nine month stage.

	Capital Expenditure - Housing Revenue Account (HRA)						
	2017/18 Actual £000	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Housing Revenue Account	72,816	80,199	108,954	142,251	177,531	171,392	273,984

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 2017/18 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2017/18 Actual %	**2018/19 Forecast** %	**2019/20 Estimate** %	**2020/21 Estimate** %	**2021/22 Estimate** %	**2022/23 Estimate** %	**2023/24 Estimate** %
General Services	11.63	11.44	10.44	10.28	9.76	9.60	n/a
Housing Revenue Account (HRA)	37.88	40.48	42.08	44.64	46.96	49.41	n/a

Note: Figures for 2020/2 onwards 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. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 1 February 2019.

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 31 March 2019 are:

	Capital Financing Requirement						
	2017/18 Actual £m	**2018/19 Forecast £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
General Services	1,128	1,209	1,347	1,403	1,351	1,287	1,211
Housing Revenue Account (HRA)	381	378	415	415	478	522	669
NHT LLPs	67	99	104	108	108	108	108
Edinburgh Living LLPs	-	9	22	93	147	222	241

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 consequences of all of 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 over 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						
	2017/18 Actual £m	**2018/19 Forecast £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**	**2023/24 Estimate £m**
Gross Debt	1,439	1,523	1,516	1,583	1,580	1,600	1,577
Capital Financing Requirements	1,576	1,695	1,888	2,019	2,084	2,139	2,229
(Over) / under limit by:	137	172	372	436	504	539	652

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This takes into account current commitments, existing plans and assumptions around cash balances and the proposals in this budget. The figures do not include any expenditure and associated funding requirements, other than projects specifically approved by Council, for the Local Development Plan (LDP) or City Deal.

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. "Credit Arrangements" as defined by Financial Regulations, 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. 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 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				
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,843	1,935	1,979	1,966	2,039
Credit Arrangements	362	349	335	322	308
	2,205	2,284	2,314	2,288	2,347

These authorised limits are consistent with the authority's current commitment, 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 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 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				
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**	**£m**
Borrowing	1,557	1,703	1,780	1,844	1,939
Credit Arrangements	362	349	335	322	308
	1,919	2,052	2,115	2,166	2,247

The Council's actual external debt at 31 March 2018 was £1,476.439m, comprising borrowing (including sums repayable within 12 months). Of this sum, £12.759m 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 2019/20 (see paragraph 1 above) will be the statutory limit determined under section 35(1) of the Local Government (Scotland) Act 2003.

Indicator 6 - Loans Charges Associated with net Capital Investment expenditure plans

Under the changes to the Prudential Code which came into force in December 2017, the requirement to measure and report on the incremental impact on the Council Tax / rents was removed from the Code. The authority can set its own local indicators to measure the affordability of its capital investment plans. The Head of Finance considers that Council should be advised of the loans charges cost implications which will result from the spending plans being considered for approval. These cost implications have been included in the Council's Revenue and HRA budgets for 2018/19 and in the longer term financial frameworks.

	Loans Charges Liability				
	2019/20 Estimate £000	**2020/21 Estimate £000**	**2021/22 Estimate £000**	**2022/23 Estimate £000**	**2023/24 Estimate £000**
Loans Fund Interest Rate 5.05%					
General Services					
Loans Fund Advances in year	159,005	124,981	116,444	33,258	11,400
Year 1 - interest only	4,019	3,159	2,972	849	291
Year 2 - principal and interest	12,812	10,071	9,422	2,691	922
Housing Revenue Account (HRA)					
Loans Fund Advances in year (excluding borrowing for LLP programme **)	59,511	24,289	90,200	77,152	182,883
Year 1 - interest only	1,504	614	2,280	1,950	4,623
Year 2 - principal and interest	4,312	2,137	6,306	5,463	12,387

* From 2021/22 loans charges will not automatically be calculated on an annuity basis. The Year 2 figures show are the maximum loans charge implications in any financial year.

** The loans charges associated with the borrowing required for the house building programme for onward transferred to the LLPs will be met from the LLPs and does therefore not have a net impact on the HRA revenue budget.

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 or 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.

Appendix 8

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 Head of Finance, the Council's Statutory Section 95 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, as the Council's Statutory Chief Financial Officer, may invest monies in accordance with the Council's requirements only by using the following instruments:

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

(b) Money Market Funds

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

(d) Investment Properties

(e) Loans to Other Organisations

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

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

(h) Investment in Shared Equity Housing Schemes

(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 rating from the three main Credit ratings agencies, S&P, Moody's and Fitch, equivalent to A- or above up to a maximum of £10 million per institution.

(e) building societies where the lowest of their long term rating from the three main Credit ratings agencies, S&P, Moody's and Fitch, equivalent to 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 Head of Finance, as the Statutory Section 95 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

Appendix 9

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 Head of Finance, as the Council's Statutory Section 95 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 up to a maximum of £50 million per authority.

(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 £10m	10% or £20m
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, as the statutory Section 95 Chief Financial Officer, will report to the Council as follows:

(a) A Treasury Strategy prior to the commencement of the financial year.

(b) A mid-term report during the financial year.

(c) A Treasury Annual Report as soon as practicable after the end of the financial year.

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. UK Treasury Bills **(Very Low Risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. Maturity at issue is only 1, 3 or 6 months so will be used mainly in the 1 to 3 month period to provide a high level of security but a better return than the DMADF in (a).	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
c. UK Gilts **(Very Low Risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. There is a risk to capital if the Gilt needed to be sold, so should only be used on a hold to maturity basis as a proxy for a slightly longer maturity Treasury Bill	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. Would only be used on a hold to maturity basis at the very short end of the yield curve.
d. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value.	Little mitigating controls required for local authority deposits, as this is a quasi UK Sovereign Government investment.
e. Money Market Funds (MMFs) **(low/medium risk)**	Pooled cash investment vehicle which provides short term liquidity.	Funds will generally be used to provide liquidity for the Cash Fund.
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**	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	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured

depending on period & credit rating)	investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	primarily by credit ratings from Fitch, Moody's and Standard and Poors On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
i. Certificates of deposits with financial institutions **(risk dependent on credit rating)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a) to (d) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
j. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) **(Low to medium risk depending on period & credit rating)**	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.
k. Bonds **(Low to medium risk depending on period & credit rating)**	This entails a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to movements in market prices of assets held.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. Bonds may also carry an explicit Government Guarantee.
l. Floating Rate Notes **(Low to medium risk depending on credit rating)**	These are Bonds on which the rate of interest is established periodically with reference to short term interest rates.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. Will be used in an increasing interest rate environment but only for a limited proportion of the portfolio.
m. Commercial Paper **(Low to medium risk depending on credit rating)**	These are short term promissory notes issued at a discount par. They entail a higher level of risk exposure than gilts and the aim is to achieve a higher rate of return than normally available from gilts. They do have an exposure to movements in market prices of assets held.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, on a hold to maturity basis. They are relatively short maturity.

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).