Finance and Resources Committee

10.00am, Tuesday, 23 February 2017

Annual Treasury Strategy 2017/18

Item number	7.9
Report number	
Executive/routine	
Wards	

Executive summary

The report proposes a Treasury Management strategy for the Council for 2017/18, including an Annual Investment Strategy and a Debt Management strategy.

Links

Coalition Pledges	P30
Council Priorities	CP13
Single Outcome Agreement	SO1

Report

Annual Treasury Strategy 2017/18

1. Recommendations

1.1 It is recommended that the Committee:

1.1.1 notes the Treasury Management Strategy for 2017/18; and

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

2. Background

2.1 This report sets out a Treasury Management Strategy for 2017/18 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.

3. 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 £973m between 2017/18 and 2021/22;
- The Council's underlying need to borrow at 31 March 2022 is forecast to be £1.463bn, down from the 31 March 2015 figure of £1.510bn;
- Between 1 April 2016 and 31 March 2022, £318m 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; and
- Investment return is forecast to remain low in absolute terms as no increase in UK Bank Rate is anticipated in 2017/18.

3.2 Capital Expenditure

Overview

3.2.1 This section summarises the Council's anticipated capital expenditure in the period to March 2022 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

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
General Services							
Children and Families	48,181	0	0	0	0	0	0
Corporate Governance	7,407	0	0	0	0	0	0
Economic Development	42	0	0	0	0	0	0
Health and Social Care	5,680	0	0	0	0	0	0
Services for Communities (SFC)	77,149	0	0	0	0	0	0
SFC - Asset Management Programme	14,516	0	0	0	0	0	0
Other Capital Projects	3,014	0	0	0	0	0	0
Chief Executive	0	15,789	1,125	0	0	0	0
Communities and Families	0	44,308	27,278	12,984	6,709	165	165
Edinburgh Integrated Joint Board	0	4,532	108	0	0	0	0
Place	0	89,210	125,659	32,154	72,698	19,835	19,835
Resources	0	0	0	0	0	0	0
Resources - Asset Management Works	0	16,307	11,132	7,229	27,107	14,000	14,000
Recommended Expenditure Priorities	0	0	4,202	11,889	17,369	7,020	450
Unallocated	0	0	2,278	0	0	0	0
Unallocated - indicative 5 year plan funding	0	0	0	0	0	0	7,000
Total General Services Capital Expenditure	**155,989**	**170,146**	**171,782**	**64,256**	**123,883**	**41,020**	**41,450**

Table 1 - Capital Expenditure on General Services

Capital Expenditure - Housing Revenue Account

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
HRA Core Programme	28,513	29,550	37,320	39,951	35,985	34,655	32,057
21st Century Homes	7,113	10,258	42,139	60,982	61,429	71,194	115,331
Total Housing Revenue Account Cap. Ex.	**35,626**	**39,808**	**79,459**	**100,933**	**97,414**	**105,849**	**147,388**

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.

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
General Services Capital Expenditure	**155,989**	**170,146**	**171,782**	**64,256**	**123,883**	**41,020**	**41,450**
Receipts -:							
Central Government Grants -:							
Government Capital Grants	57,461	41,626	53,708	44,500	48,264	38,000	38,000
Cycling, Walking and Safer Streets	729	540	683	0	0	0	0
Development Funding	31,663	29,248	29,115	0	0	0	0
Trams Funding (Scot Govt grant and 3rd party)	-350	0	0	0	0	0	0
Total Central Government Grants	**89,503**	**71,414**	**83,506**	**44,500**	**48,264**	**38,000**	**38,000**

Use of Capital Receipts	107,572	14,412	28,111	4,538	9,318	3,000	3,000
Use of Capital Receipts - Transfer to Capital fund	-51,889	0	-5,559	0	0	0	0
Other Capital Contributions	18,354	13,846	174	0	585	0	0
Draw down of capital fund - per budget update	6,600	0	0	9,161	10,369	20	450
Total Receipts	**170,140**	**99,672**	**106,232**	**58,199**	**68,356**	**41,020**	**41,450**
GF Cap Ex to be funded by Borrowing	**-14,151**	**70,474**	**65,550**	**6,057**	**55,347**	**0**	**0**

Table 3 - Funding for General Services Capital Expenditure

	2015/16 Actual £000	2016/17 Estimate £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
HRA Core Programme	**28,513**	**29,550**	**37,320**	**39,951**	**35,985**	**34,655**	**32,057**
CFCR	0	0	12,500	13,000	11,000	11,000	10,500
Receipts from other HRA Assets	0	1,607	1,560	2,250	0	0	0
Capital Receipts and other income	24,087	12,400	3,800	2,800	2,800	2,800	2,800
Total Funded	24,087	14,007	17,860	18,050	13,800	13,800	13,300
HRA Core to be funded by Prudential Borrowing	**4,426**	**15,543**	**19,460**	**21,901**	**19,935**	**18,605**	**16,507**
21st Century Homes	**7,113**	**10,258**	**42,139**	**60,982**	**61,429**	**71,194**	**115,331**
Strategic Housing Investment Fund	0	0	9,500	17,740	2,000	7,500	15,480
HRA Reserves – CFCR	2,298	3,533	0	0	0	0	0
21st Century Homes Receipts	1,527	2,332	0	0	0	0	0
Capital Grant Drawdown	2,000	0	0	0	0	0	0
Developers Contributions	0	0	1,439	1,541	332	3,848	6,972
Scottish Government Subsidy	1,288	4,247	8,215	5,821	5,871	16,701	22,537
Total Funded	7,113	10,112	19,154	25,102	8,203	28,049	44,989
21st C H to be funded by Prudential Borrowing	**0**	**146**	**22,985**	**35,880**	**53,225**	**43,145**	**70,342**
Total HRA Cap Ex to be funded by Borrowing	**4,426**	**15,689**	**42,445**	**57,781**	**73,160**	**61,750**	**86,849**

Table 4 - Funding for HRA Capital Expenditure

3.3 Economic and Market Outlook

Overview

3.3.1 The major influence on the UK and global economy will be the UK's progress in triggering Article 50 and negotiating a smooth exit from the European Union. Negotiations will start after the UK formally triggers exit, which is widely expected to be in early 2017, and will last for at least two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

World Economy

3.3.2 The Global environment continues to be riddled with uncertainty, with repercussions for financial market volatility and long term interest rates. Events such as the unexpected result of the UK's EU Brexit referendum and the result at the US polls electing Donald Trump as the 45th President of the United States will continue to create uncertainty.

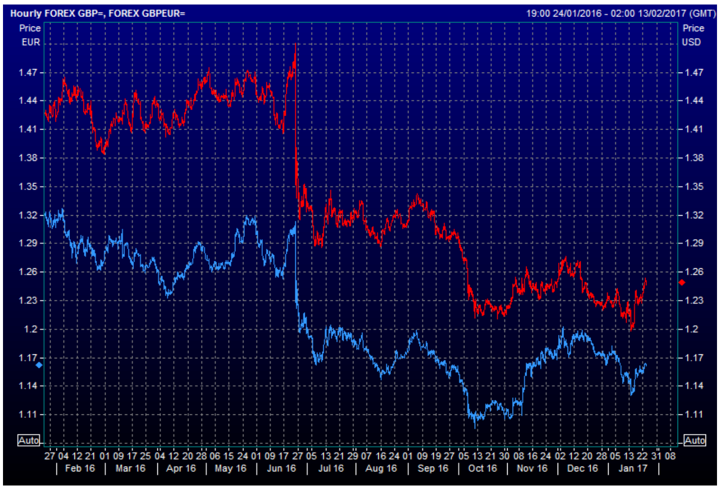

Figure 1 – EUR and USD V GBP - 2016

Source: Reuters

3.3.3 Figure 1 shows the continuing depreciation of Sterling against both the Euro and the US Dollar following the result of the EU Referendum and after the announcement of a Brexit press conference from PM Theresa May Sterling hit a new 31 year low against the USD. The fall and continuing weakness in Sterling and near doubling in price of oil in 2016, from a low base, have combined to drive inflation expectations higher. On the 24 January it was announced at the Supreme Court that Parliament must vote on whether the government can start the Brexit process meaning Theresa May cannot begin talks with the EU until MPs and peers give their backing.

UK Inflation Outlook

3.3.4 Figure 2 below shows CPI and RPI since March 2004.

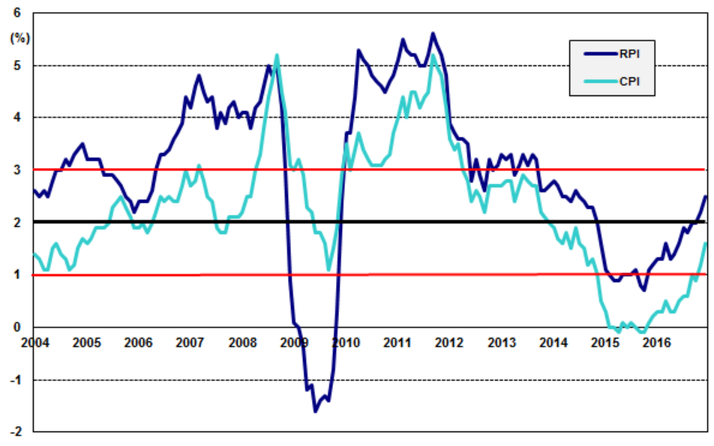

Figure 2 – CPI and RPI

Source: ONS

3.3.5 The Government's preferred measure of inflation, CPI, was at 1.6% in December 2016. At 1.6% the annual rate of inflation (CPI) is at the highest it has been for over two years and is within the Bank of England's target range of 2% +/- 1.

3.3.6 CPI inflation will continue to increase and is expected to overshoot its target range in 2017 and through 2018. The Bank of England have forecast that growth will slow in 2017 as a result of the higher inflation weighing down on consumer spending.

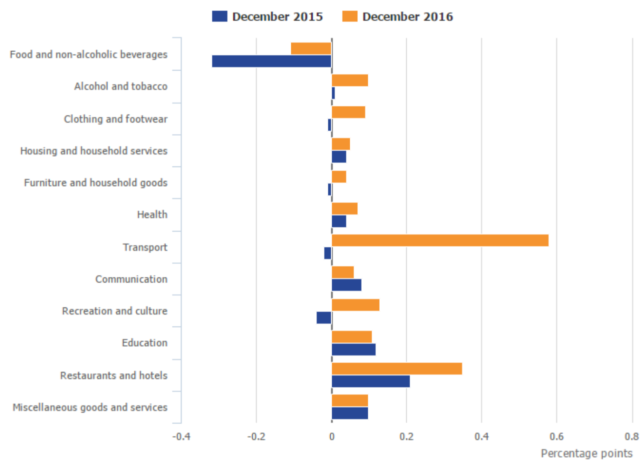

Figure 3 – Contributions to CPI

Source: ONS

3.3.7 As can be seen in figure 3 above, the increase in CPI to 1.6% in December was due mainly to the effect of transport and increased food costs as well as the depreciation in sterling. Increasing inflation may have a knock on to GDP growth. Companies such as Next and Premier Foods (owner of Mr Kipling, Bachelors and Bisto brands) have warned of lower profits due to rising costs. The weaker pound has pushed up prices on costs and will have an effect on prices at the tills. If spending slows then growth may follow suit.

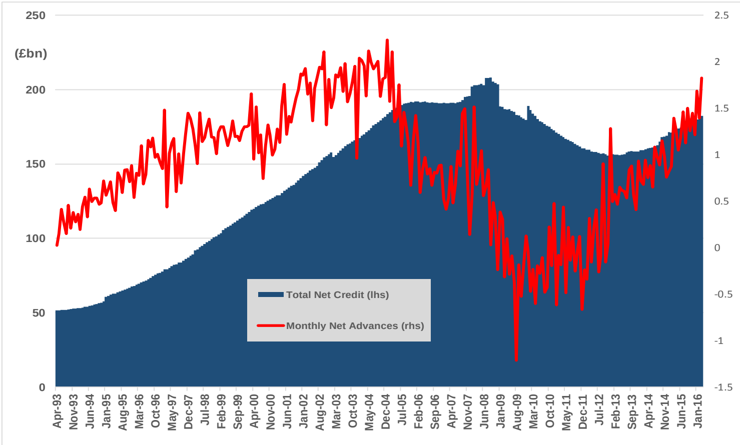

Figure 4 – UK Net Consumer Credit

Source: Bank of England

3.3.8 Figure 4 shows the total net UK Consumer Credit Outstanding (ex-Student Loans and Seasonally Adjusted) along with the net monthly advances. Net new advances are nearly back to pre-Global Financial Crisis (GFC) levels. However, it is interesting to note that the balance of the new advances has changed. Of the net £1.926bn credit advanced in November 2016, £0.558bn was in credit card loans, £0.495bn was in loans from banks / other financial institutions, and £0.873bn was in other unsecured consumer lending. This compares with the pre-GFC peak in January 2005 where net advances were £2.234bn, made up of £0.942bn in credit card loans, £0.813bn in loans from banks / other financial institutions, and £0.479bn in other unsecured consumer lending. Although banks have stepped back from personal unsecured lending (other than via credit cards), other options such as “Personal Contract Purchase” allowing individuals to take out contract hire style leasing contracts for vehicle acquisition have filled the gap.

Interest Rate Outlook

3.3.9 Table 5 below, the Reuters poll of up to 53 economists, taken 7 December, shows their forecasts for UK Bank Rate until Quarter 1 2018. This shows most economists polled believe that the UK Bank Rate will remain at 0.25% through to Q1 2018. This is in line with our long standing forecast.

		2017			2018
	Q1/17	Q2/17	Q3/17	Q4/17	Q1/18
Median	0.25	0.25	0.25	0.25	0.25
Mean	0.24	0.23	0.23	0.24	0.26
Mode	0.25	0.25	0.25	0.25	0.25
Min	0.05	0.05	0.05	0.05	0
Max	0.25	0.5	0.75	1	1.25
Count	53	53	53	52	38

Table 5 – Economic Forecasts for UK Bank Rate

Source: Reuters

3.3.10 At its December meeting the US Federal Reserve Board (FED) opted to raise its interest rate to between 0.50% and 0.75% and indicated three more rate hikes in 2017, followed by three hikes in each of 2018 and 2019. The minutes of the December meeting said “the upside risks to their forecasts for economic growth had increased as a result of prospects for more expansionary fiscal policies in coming years” which may mean the central bank might be forced to quicken the pace of interest rate increases due to higher inflation. Uncertainty surrounds whether President Trump will make good on the fiscal, regulatory and policy initiatives and changes which were central to his campaign and, if so, their timing, size and effect on growth, employment and inflation both domestically and globally.

3.3.11 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%. Annualised inflation in the Euro Area for the year to December was 1.1%, the highest rate in more than 3 years. This was a sharp rise from 0.6% in November and the highest rate since September 2013, which was also 1.1%. It remains under the 2% target of the ECB. GDP growth grew a modest 0.3% in the second and third quarter of 2016 and is expected to grow by 0.5% in quarter four. Germany ended the year with its strongest growth in five years expanding in quarter 4 by 0.5% and in 2016 by 1.9%.

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 6 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.

Capital Funding v. External Debt	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000	£000	£000
Debt b/fd	1,412,998	1,369,745	1,317,761	1,263,406	1,258,446	1,304,865	1,299,298
Cumulative Capital Expenditure b/fd	1,510,154	1,424,417	1,432,579	1,460,742	1,444,683	1,493,319	1,469,548
Over/underborrowed b/fd	-97,156	-54,672	-114,818	-197,335	-186,237	-188,454	-170,250
GF Capital Financed by borrowing	-14,151	70,474	65,550	6,057	55,347	0	0
HRA Capital Financed by borrowing	16,705	15,689	42,446	57,781	73,161	61,750	86,849
less scheduled repayments by GF	-57,883	-58,454	-59,077	-58,206	-57,058	-60,008	-65,959
less scheduled repayments by HRA	-27,156	-16,585	-18,275	-20,116	-22,297	-24,969	-27,069
less scheduled repayments by Joint Boards	-3,252	-2,962	-2,481	-1,575	-517	-544	-556
Underlying Need to Borrow	**-85,737**	**8,162**	**28,162**	**-16,059**	**48,636**	**-23,771**	**-6,734**
plus total maturing debt	43,605	51,984	54,355	54,960	53,581	55,567	47,238
Total Borrowing Requirement	**-42,132**	**60,146**	**82,517**	**38,901**	**102,217**	**31,796**	**40,504**
Planned PWLB or short borrowing for year	352	0	0	50,000	100,000	50,000	60,000
Debt at end of the year	**1,369,745**	**1,317,761**	**1,263,406**	**1,258,446**	**1,304,865**	**1,299,298**	**1,312,060**
Cumulative Capital Expenditure	**1,424,417**	**1,432,579**	**1,460,742**	**1,444,683**	**1,493,319**	**1,469,548**	**1,462,814**
Cumulative Over/Under Borrowed	**-54,672**	**-114,818**	**-197,335**	**-186,237**	**-188,454**	**-170,250**	**-150,754**

Table 6 - Capital Funding v. External Debt

3.4.3 Table 6 shows that the Council's underlying need to borrow (shown as the Cumulative Capital Expenditure funded by borrowing) projected at 31 March 2022 is £1,463m, down from the figure at 31 March 2015. Current projections show that the Council's under-borrowed position is projected to increase from £55m to £115m at the end of the 2016/17 financial year. The Council's investments are therefore projected to reduce by £60m to temporarily fund capital expenditure in the current financial year. Based on the projections in the table, the Council can continue to fund its borrowing requirement by reducing investments further during 2017/18.

3.4.4 The underlying need to borrow is forecast to increase by £28m in 2017/18 and thereafter is forecast to be a total of £2m in the next four years. In addition, there is around £50m of debt maturing each year. Some of this was borrowed at much higher interest rates in the 1990s, and some of it is more recent and was designed to give some flexibility in a period when the level of the Council's underlying need to borrow was unclear. However, within the underlying need to borrow there is a substantial net HRA funding requirement for the HRA Core Programme and more specifically, the 21st Century Homes programme for affordable housing.

3.4.5 On top of the projects included in the Capital Investment Programme, there are other projects which will require significant funding if they go ahead, in particular the Edinburgh and East of Scotland City Region Deal, Edinburgh Homes, and the extension of the Trams network. However, the quantum and tenure of the borrowing requirement for these is still being developed as part of the business cases.

3.4.6 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 5 below shows the interest rates for borrowing new maturity loans from the Government via the Public Works Loans Board since April 2005.

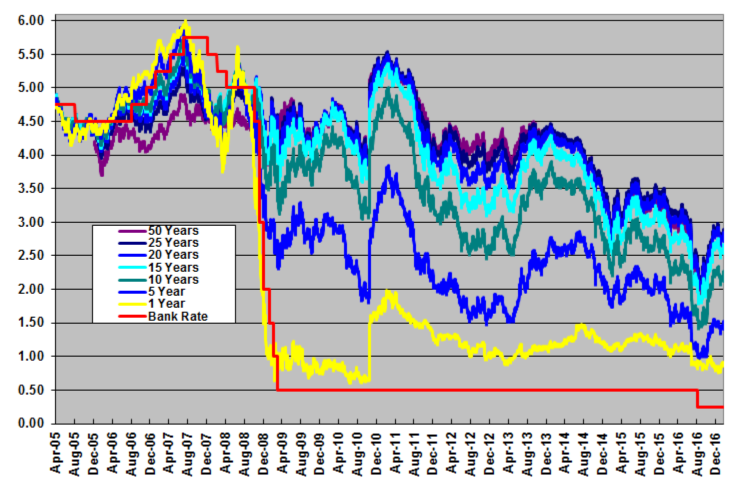

Figure 5 – PWLB Borrowing Rates

Source: PWLB

3.4.7 Figure 5 shows the sharp reduction in yields immediately after the result of the UK's EU referendum in June, and their reversal over the course of the following few months. Consideration was given to taking some debt in the period following the referendum result. However in light of the significant cost of carry along with the uncertainty over the Council's potential future borrowing requirement it was decided to continue with the existing strategy. It is proposed to continue to fund the borrowing requirement by reducing investments further at present. Discussions are continuing with external organisations to explore all the alternatives to PWLB borrowing.

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.

3.4.9 Appendix 1 lists the maturity of the Council's debt as of January 2016.

Loans Fund Repayment Policy

3.4.10 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. All advances from the loans fund in the current year have a repayment profile set out using Option 1 – the statutory method. All capital advances from the loans fund are being repaid using the previous hybrid annuity structure with fixed principal repayments.

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

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 6 below shows the distribution of Cash Fund deposits since inception.

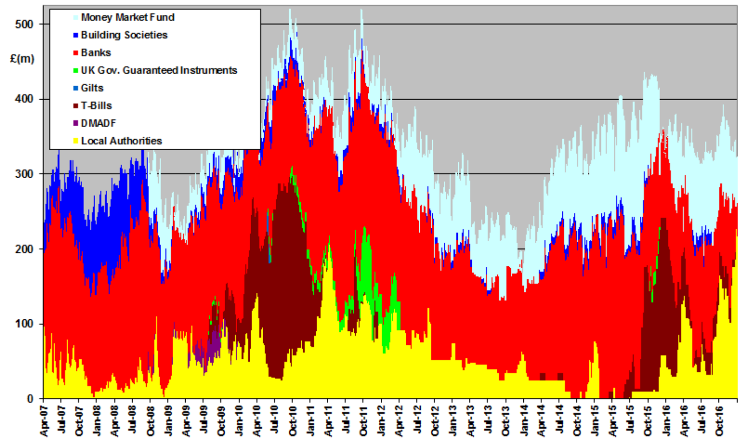

Figure 6 – Counterparty Analysis of Cash Fund Monies

3.5.3 As can be seen in Figure 6 above the large amount invested in UK Treasury Bills at the end of 2015 has been replaced at the end of 2016 by a large amount of fixed deposits with Local Authorities. Yields available on UK Treasury Bills reduced greatly and in December 2016 with both 1 and 3 month Treasury Bills being priced at negative yields in two successive auctions. Investing in fixed deposits with Local Authorities has provided the Council with a higher yield whilst retaining a pseudo sovereign exposure. Figure 7 below shows the lowest and highest accepted yields in the Treasury Bill auctions since 2010. This clearly shows the drop in UK Treasury Bill yields into negative territory in December 2016.

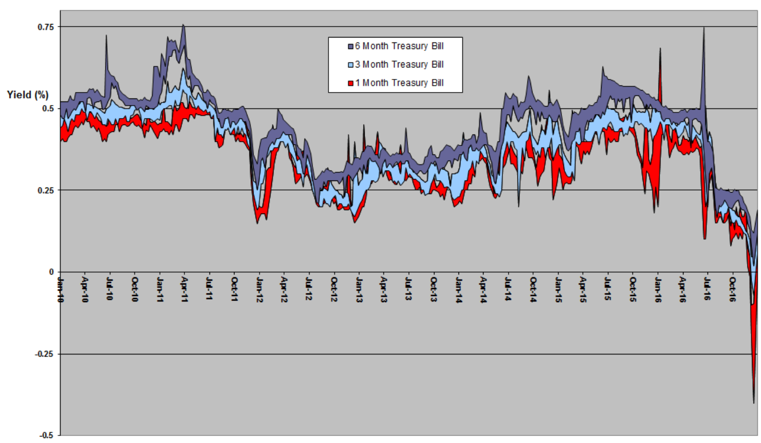

Figure 7 – UK Treasury Bill Yields since 2010

Source: DMO

3.5.4 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 and there are no major changes to the investment instruments or counterparty limits in the Cash Fund Treasury Policy Statement.

3.6 Other Issues

New Borrowing Regulations

3.6.1 A new set of regulations governing local authority borrowing came into force on 1 April 2016, with Scottish Government Guidance on them issued later in the year. Changes to the old regulations, which dated from 1975, were required to support City Deal structures in Scotland. Following the perceived success of the 2010 Investment Regulations, the Scottish Government took a similar "prudential" approach to the regulations. The old list of what types of borrowing could be undertaken and what constituted capital expenditure have been replaced with a general borrowing power and capital defined by proper accounting practice, subject to appropriate governance and risk management.

3.6.2 One of the key changes is that there are now a number of options available to repay the principal on capital advances. The options now available to a Council for the Prudent Repayment of loans fund advances are:

- Option 1: The Statutory Method
  (only until 31 March 2021);
- Option 2: The Depreciation Method;
- Option 3: The Asset Life Method; and
- Option 4: The Funding / Income Method.

3.6.3 The major implications for the Council are twofold. Firstly, Option 4 gives the Council the ability to sculpt capital advance repayments to the income that will be generated by the expenditure or other future funding. This is essential to the Council for the delivery of the Edinburgh and South East of Scotland City Region Deal and is likely to be very helpful in designing the business cases of other CEC projects. However, given the risks regarding future income streams, robust business cases will be required to justify any borrowing. Secondly, it is likely that the Council will use Option 3 for most of its capital advances. However, the presumption is that this option would use Equal Instalments of Principal (EIP) rather than the previous "Annuity" repayments, which will result in increase costs to the Council in the early years of loan repayments, unless the benefits of the expenditure can be shown to be weighted towards the latter part of the project. This is why it was agreed that there would be a five year period where the existing repayment arrangements could be used for new advances up until 2021 (Option 1).

MiFID II

3.6.4 The Financial Conduct Authority (FCA) has undertaken a third consultation on the introduction of the EU Directive “Markets in Financial Instruments Directive” (MiFID) II. The directive originates in the EU’s concern over the mis-selling of derivate products to some local authorities in continental Europe which resulted in some Municipalities incurring large losses during the financial crisis. As a result, it is the FCA’s intention under the new directive that local authorities are classified as Retail rather than Professional Investors. There will be an option for local authorities to choose to opt up but subject to certain qualitative and quantitative criteria and the process would be administratively burdensome. The case has been made to the FCA that large authorities such as the City of Edinburgh Council should automatically be treated as Professional Investors as we are at present using a principles based approach, but we await the outcome of the consultation.

Review of the Prudential Code

3.6.5 CIPFA is going to undertake a review of the Prudential Code for Capital Finance in Local Authorities during 2017. They are therefore undertaking a consultation on the Code and the associated Prudential Indicators early in the year. Any comments from Elected Members on the Code or Indicators would be welcome.

4. 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.

5. 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.

6. 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.

7. Equalities impact

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

8. Sustainability impact

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

9. Consultation and engagement

9.1 None.

10. Background reading / external references

10.1 None.

Hugh Dunn

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Links

Coalition pledges	P30 - Continue to Maintain a sound financial position including long-term financial planning
Council priorities	CP13 – Deliver lean and agile Council services
Single Outcome Agreement	SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all
Appendices	Appendix 1 – Maturing Debt Profile as at January 2017 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

Debt January 2017

Market Debt (non LOBO)

Start Date	Loan Type	Maturity Date	Principal Outstanding £	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
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
			64,500,000.00		

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
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
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
03/04/2006	M	01/04/2066	10,000,000.00	4.875	487,500.00
07/04/2006	M	07/04/2066	10,000,000.00	4.75	475,000.00
06/03/2006	M	04/03/2066	5,000,000.00	4.625	231,250.00
17/03/2006	M	17/03/2066	10,000,000.00	5.25	525,000.00
05/06/2006	M	07/06/2066	20,000,000.00	5.25	1,050,000.00
05/06/2006	M	07/06/2066	16,500,000.00	5.25	866,250.00
26/02/2010	M	26/02/2060	5,000,000.00	8.2	410,000.00
26/02/2010	M	26/02/2060	10,000,000.00	8.2	820,000.00
25/02/2011	M	25/02/2060	15,000,000.00	8.245	1,236,750.00
25/02/2011	M	25/02/2060	10,000,000.00	8.245	824,500.00
			212,400,000.00		

PWLB

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
15/06/1951	E	15/05/2031	3,398.21	3	107.22
14/07/1950	E	03/03/2030	3,412.54	3	108.06
27/03/1992	M	25/09/2017	10,000,000.00	10.625	1,062,500.00
03/04/1992	M	25/03/2018	30,000,000.00	10.875	3,262,500.00
17/09/1992	M	15/05/2018	8,496,500.00	9.75	828,408.75
17/09/1993	M	15/11/2018	5,000,000.00	7.875	393,750.00
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
18/10/1993	M	25/03/2019	5,000,000.00	7.875	393,750.00
14/03/1994	M	11/03/2019	2,997,451.21	7.625	228,555.65
23/03/1994	M	15/11/2018	5,000,000.00	8	400,000.00
23/03/1994	M	15/11/2019	5,000,000.00	8	400,000.00
28/04/1994	M	25/09/2021	5,000,000.00	8.125	406,250.00
16/08/1994	M	03/08/2021	2,997,451.21	8.5	254,783.35
21/10/1994	M	15/05/2020	5,000,000.00	8.625	431,250.00
21/10/1994	M	15/05/2021	10,000,000.00	8.625	862,500.00
07/12/1994	M	15/11/2019	10,000,000.00	8.625	862,500.00
07/12/1994	M	15/05/2020	5,000,000.00	8.625	431,250.00
09/12/1994	M	15/11/2020	5,000,000.00	8.625	431,250.00
15/02/1995	M	25/03/2020	5,000,000.00	8.625	431,250.00
16/02/1995	M	03/02/2023	2,997,451.21	8.625	258,530.17
10/03/1995	M	15/05/2021	11,900,000.00	8.75	1,041,250.00
31/03/1995	M	25/09/2022	6,206,000.00	8.625	535,267.50
24/04/1995	M	25/03/2023	10,000,000.00	8.5	850,000.00
12/06/1995	M	15/05/2022	10,200,000.00	8	816,000.00
12/06/1995	M	15/05/2021	10,000,000.00	8	800,000.00
16/08/1995	M	03/08/2020	2,997,451.21	8.375	251,036.54
28/09/1995	M	28/09/2024	2,895,506.10	8.25	238,879.25
05/12/1995	M	15/05/2023	5,200,000.00	8	416,000.00
05/12/1995	M	15/11/2023	10,000,000.00	8	800,000.00
21/12/1995	M	21/12/2025	2,397,960.97	7.875	188,839.43
08/05/1996	M	25/09/2023	10,000,000.00	8.375	837,500.00
29/08/1997	M	15/11/2026	5,000,000.00	7	350,000.00
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
27/01/2006	M	27/07/2051	1,250,000.00	3.7	46,250.00
19/05/2006	M	19/11/2046	10,000,000.00	4.25	425,000.00
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

PWLB contd

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
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
10/12/2007	M	10/12/2037	10,000,000.00	4.49	449,000.00
07/01/2008	M	07/01/2048	5,000,000.00	4.4	220,000.00
15/08/2008	M	15/02/2058	5,000,000.00	4.39	219,500.00
09/10/2008	M	09/10/2017	5,000,000.00	4.39	219,500.00
12/11/2008	A	12/11/2019	1,583,825.88	3.96	77,256.58
01/12/2008	A	01/12/2019	1,566,340.12	3.65	70,501.07
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
21/04/2009	M	21/04/2020	10,000,000.00	3.54	354,000.00
23/04/2009	M	23/04/2018	15,000,000.00	3.24	486,000.00
23/04/2009	M	23/04/2019	5,000,000.00	3.38	169,000.00
23/04/2009	M	23/04/2022	5,000,000.00	3.76	188,000.00
12/05/2009	M	12/05/2020	10,000,000.00	3.96	396,000.00
09/06/2009	M	09/06/2018	5,000,000.00	3.75	187,500.00
13/10/2009	M	13/10/2023	5,000,000.00	3.87	193,500.00
01/12/2009	M	01/12/2019	5,000,000.00	3.77	188,500.00
01/12/2009	A	01/12/2025	9,482,868.43	3.64	369,162.00
14/12/2009	M	14/12/2019	10,000,000.00	3.91	391,000.00
14/12/2009	A	14/12/2024	6,002,174.17	3.66	237,165.61
10/05/2010	M	10/05/2024	10,000,000.00	4.32	432,000.00
10/05/2010	M	10/05/2025	5,000,000.00	4.37	218,500.00
10/05/2010	A	10/05/2021	2,250,909.52	3.09	80,227.02
02/06/2010	M	02/06/2021	5,000,000.00	3.89	194,500.00
14/06/2010	M	14/06/2022	10,000,000.00	3.95	395,000.00
06/09/2010	M	06/09/2028	10,000,000.00	3.85	385,000.00
06/09/2010	M	06/09/2031	20,000,000.00	3.95	790,000.00
14/07/2011	M	14/07/2029	10,000,000.00	4.9	490,000.00
14/07/2011	M	14/07/2030	10,000,000.00	4.93	493,000.00
09/08/2011	M	09/02/2046	20,000,000.00	4.8	960,000.00
08/09/2011	M	08/09/2038	10,000,000.00	4.67	467,000.00
15/09/2011	M	15/09/2036	10,000,000.00	4.47	447,000.00
15/09/2011	M	15/09/2039	10,000,000.00	4.52	452,000.00

PWLB contd

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
22/09/2011	M	22/09/2036	10,000,000.00	4.49	449,000.00
06/10/2011	M	06/10/2043	20,000,000.00	4.35	870,000.00
21/11/2011	M	21/05/2020	15,000,000.00	2.94	441,000.00
02/12/2011	M	02/06/2017	5,000,000.00	2.28	114,000.00
02/12/2011	M	02/12/2061	5,000,000.00	3.98	199,000.00
15/12/2011	M	15/06/2032	10,000,000.00	3.98	398,000.00
14/05/2012	M	14/11/2024	10,000,000.00	3.36	336,000.00
16/11/2012	M	16/05/2025	20,000,000.00	2.88	576,000.00
13/12/2012	M	13/06/2027	20,000,000.00	3.18	636,000.00
17/10/1996	M	25/03/2025	10,000,000.00	7.875	787,500.00
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
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
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
12/03/1998	M	15/11/2027	8,677,693.00	5.875	509,814.46
			1,022,166,390.97		

SALIX INTEREST FREE

Start Date	Loan Type	Maturity Date	Principal Outstanding £	Interest Rate %	Annual Interest £
07/01/2015	E	01/09/2021	394,785.70	0	0.00
31/03/2015	E	01/04/2023	1,171,883.31	0	0.00
22/09/2015	E	01/10/2023	307,719.58	0	0.00
			1,874,388.59		

Appendix 2

PRUDENTIAL INDICATORS

Indicator 1 - Estimate of Capital Expenditure

The actual capital expenditure that was incurred in 2015/16 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						
	2015/16 Actual £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Children and Families	48,181	0	0	0	0	0	0
Corporate Governance	7,407	0	0	0	0	0	0
Economic Development	42	0	0	0	0	0	0
Health and Social Care	5,680	0	0	0	0	0	0
Services for Communities (SFC)	77,149	0	0	0	0	0	0
SFC - Asset Management Programme	14,516	0	0	0	0	0	0
Other Capital Projects	3,014	0	0	0	0	0	0
Chief Executive	0	15,789	1,125	0	0	0	0
Communities and Families	0	44,308	27,278	12,984	6,709	165	165
Edinburgh Integrated Joint Board	0	4,532	108	0	0	0	0
Place	0	89,210	125,659	32,154	72,698	19,835	19,835
Resources	0	0	0	0	0	0	0
Resources - Asset Management Works	0	16,307	11,132	7,229	27,107	14,000	14,000
Recommended Expenditure Priorities (Appendix 3)	0	0	4,202	11,889	17,369	7,020	450
Recommended Expenditure Priorities (SG grant)	0	0	2,278	0	0	0	0
Unallocated - indicative 5 year plan funding	0	0	0	0	0	0	7,000
Total General Services Capital Expenditure	**155,989**	**170,146**	**171,782**	**64,256**	**123,883**	**41,020**	**41,450**

Note that the 2017-2022 CIP includes slippage / acceleration brought forward based on projected capital expenditure reported at the nine month stage.

	Capital Expenditure Housing Revenue Account						
	2015/16 Actual £000	**2016/17 Estimate £000**	**2017/18 Estimate £000**	**2018/19 Estimate £000**	**2019/20 Estimate £000**	**2020/21 Estimate £000**	**2021/22 Estimate £000**
Housing Revenue Account	35,626	39,808	79,459	100,933	97,414	105,849	147,388

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 2015/16 are:

	Ratio of Financing Costs to Net Revenue Stream						
	2015/16 Actual %	**2016/17 Estimate %**	**2017/18 Estimate %**	**2018/19 Estimate %**	**2019/20 Estimate %**	**2020/21 Estimate %**	**2021/22 Estimate %**
General Services	11.51	12.16	11.78	11.84	11.73	11.53	N/A
HRA	36.35	34.51	37.61	39.58	42.28	44.79	46.76

Note: Figures for 2018/19 onwards are indicative as the Council has not set a General Services or HRA has set a budget for these years. The figures for General Services are based on the current long term financial plan that ends to 2025/26. HRA figures are based on the business plan which was reported to Finance and Resources Committee on 19 January 2017.

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 2016 are:

	Capital Financing Requirement						
	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
General Services	1,275	1,276	1,272	1,211	1,240	1,171	1,095
HRA	358	357	381	418	469	506	566

The capital financing requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:

"In order to ensure that the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

	Gross Debt and the Capital Financing Requirement						
	2015/16 Actual £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Gross Debt	1,578	1,518	1,456	1,393	1,332	1,268	1,212
Capital Financing requirements	1,633	1,633	1,653	1,629	1,709	1,677	1,661
(Over) / under limit by:	55	115	197	236	377	409	449

The authority does not currently envisage borrowing in excess of its capital financing requirement over the next few years. This view takes into account current commitments, existing plans and 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. Previously, the definition of long term liabilities was used to include funding required in respect of finance leases and PFI assets. Under the changes to Financing Regulations which came into force on 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				
	2017/18	2018/19	2019/20	2020/21	2021/22
	£m	£m	£m	£m	£m
Borrowing	1,970	1,960	1,990	1,900	1,800
Credit Arrangements	220	200	200	230	220
	2,190	2,160	2,190	2,130	2,020

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				
	2017/18	2018/19	2019/20	2020/21	2021/22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Borrowing	1,580	1,570	1,610	1,600	1,590
Credit Arrangements	220	200	200	230	220
	1,800	1,770	1,810	1,830	1,810

The Council's actual external debt at 31st March 2016 was £1,396.210m, comprising borrowing (including sums repayable within 12 months). Of this sum, £18.203m 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 2016/17 (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:

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
	£	**£**	**£**	**£**	**£**
a) for the band "D" Council Tax	-0.27	-0.75	-0.50	-0.93	N/A
b) for average weekly housing rents	0.27	1.22	2.39	3.19	4.97

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 2017/18 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 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22 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 2017/18, 2018/19, 2019/20, 2020/21 and 2021/22 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.

Appendix 3

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. 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

Treasury Management Policy Statement – Treasury Cash Fund

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	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 will report to the Council as follows:

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

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

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

(d) Ad hoc reports according to need.

Type of Investment	Treasury Risks	Mitigating Controls
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
b. UK Treasury Bills **(Very Low Risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. Maturity at issue is only 1, 3 or 6 months so will be used mainly in the 1 to 3 month period to provide a high level of security but a better return than the DMADF in (a).	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.
c. UK Gilts **(Very Low Risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates unless held to maturity. There is a risk to capital if the Gilt needed to be sold, so should only be used on a hold to maturity basis as a proxy for a slightly longer maturity Treasury Bill	As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments. Would only be used on a hold to maturity basis at the very short end of the yield curve.
d. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value.	Little mitigating controls required for local authority deposits, as this is a quasi UK Sovereign Government investment.
e. Money Market Funds (MMFs) **(low/medium risk)**	Pooled cash investment vehicle which provides short term liquidity. It is difficult to effectively monitor the underlying counterparty exposure, so will be used for only a small proportion of the Fund	Funds will only be used where the MMFs are Constant Net Asset Value (CNAV), and the fund has a "AAA" rated status from either Fitch, Moody's or Standard & Poors.
f. Bond Funds **(low/medium risk)**	AAA Rated Pooled cash investment vehicle investing in a range of Government, Financial Institutions and Government Bonds.	Fairly liquid vehicle investing in Bonds with a high average credit rating, will only be used for a relatively small proportion of the fund.
g. Call account deposit accounts with financial institutions (banks and building societies) **(Risk is dependent on credit rating)**	These tend to be moderately low risk investments, but will exhibit higher risks than the categories (a) to (d) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice. These will be used to provide the primary liquidity source for Cash Management	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poors. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.

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

	movements in market prices of assets 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).